STRATEGIC GLOBAL FUND

ARSN 613 886 392   APIR OMF0027AU

MONTHLY UPDATE — October 2020

FUND FACTS

Structure	Global Equity Fund
Fund Manager	JBS Investments
Currency	AUD, Unhedged
Unit Valuation	Monthly
Minimum Investment	$20,000
Investment Strategy	Event Driven Global Value
Distribution Frequency	Annually at 30 June

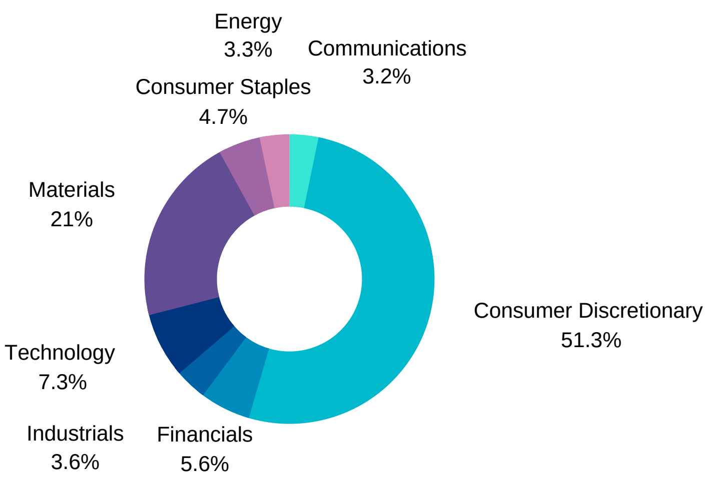
TOP TEN HOLDINGS

Company	Sector
Betterware	Consumer Discretionary
BHG Group	Consumer Discretionary
Evolution Gaming	Consumer Discretionary
Nautilus Group	Consumer Discretionary
Fiji Kava	Consumer Staples
Deterra Royalties	Energy
Stonex Group	Financials
Sandstorm Gold	Materials
Crown Holdings	Materials
Endor	Technology

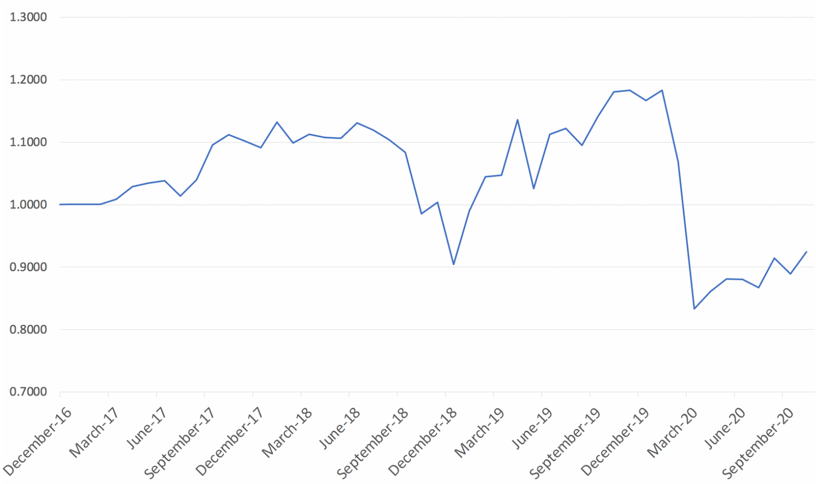
FUND FEATURES

- Specialised Global Equity Fund
- Invests Globally in Strong, Dominant Businesses with Sustainable Competitive Advantages
- Benchmark Unaware
- Relatively Concentrated Portfolio
- Maintains Long-Term Investment Horizon

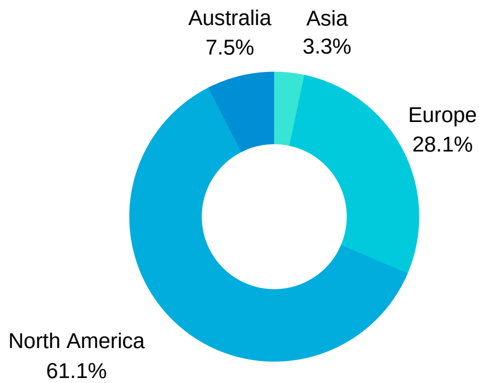
INDUSTRY EXPOSURE



PERFORMANCE CHART



GEOGRAPHICAL EXPOSURE



NET PERFORMANCE

1 Month	3.94%
3 Months	6.61%
6 Months	7.33%
1 year	-21.71%

SGF October Monthly Update

We don't have much to add to the US election results other than a sigh of relief perhaps. Many market commentators feared that a Biden win would be terrible for markets (not market friendly) whilst others feared that a Trump win would not be good (unpredictable governance). In the end, perhaps the results of an event that the world knew was coming for four years was not enough to surprise anyone in the scheme of such a year of unpredictability.

The current period is probably one of the greatest momentum markets since the dotcom bubble at the turn of the century. A momentum market is where the top performing stock in the preceding month is also the stock that does the best in the following month and so on and so on. Absent a dramatic change in business conditions which investors are slow to catch up with, this doesn't usually make rational sense. After all, as the price rises, all things being equal, a business should be a less attractive investment than prior to the price rise. What we see today is a frenzy of share trading in the favoured parts of the market. There is a lot of FOMO (fear of missing out) as investors have chased stocks that, with the benefit of hindsight, would have been fantastic to have owned months ago (think Tesla, Nio or Zoom as examples). This behaviour does not typically tend to end well.

Bubbles are, of course, not a new phenomenon. After the South Sea bubble burst, the UK Parliament was so incensed at the resulting losses that it sought to stop the scourge of stock market bubbles at the source - going so far as to ban the issuing of shares altogether for the next 105 years!

There is always the question of whether this time is different? Answering this is made more complicated by the fact that a select group of companies are reporting incredible growth. The question then becomes - how sustainable are the results? Is the super-charged growth merely a one-off event caused by consumers adapting to working from home in the pandemic that will pass as the pandemic fades. Or has there been a meaningful shift in behaviour that will last beyond the pandemic? The additional, and vital, question is what expectations the market has priced into the stock price.

Many investors that had bought heavily into work from home champion stocks were forced to question their underlying assumptions behind these positions as positive news emerged regarding the vaccine trials. As news of more vaccines with strong results has come out, many of these very favoured (and expensive) businesses have declined as investors begin to contemplate a post-pandemic world.

Portfolio holding **Nautilus**, a maker of exercise equipment, illustrates the investor's dilemma in these circumstances. Nautilus has undoubtedly received a large boost from customers stuck at home buying its exercise bikes and treadmills. Its latest quarterly results showed an increase in revenue of 152% as compared to last year. Unfortunately, Nautilus happened to report results just as Pfizer released its positive vaccine news. This caused Nautilus' shares to decline from around $27 back to near our average purchase price of $20 as investors bailed out of a range of companies that they viewed as likely to suffer a decline in demand from a widespread vaccine. We have a more long term and positive view of the company's prospects. At the current price, Nautilus trades at around 10x its forward earnings, in contrast to growth market darling Peloton, which trades closer to 270x earnings. The reason for the valuation difference is that investors are excited about the recurring subscription revenue Peloton generates from its subscribers, who pay each month to get access to fitness classes from online instructors. Nautilus has an enticing value proposition as the maker of the cheapest good quality connected exercise bike which can still subscribe to the Peloton app. Nautilus is currently in the process of rolling out its own app, known as JRNY, which the market is yet to meaningfully price in. Although the stock is mispriced on a normalised basis in our view without taking into account the potential of JRNY, any additional earnings from its digital subscribers could lead to a significant repricing upwards of Nautilus's earnings multiple.