



# Quarterly Investor Report

31 March 2019

# STRATEGIC GLOBAL FUND

ARSN 613 886 392 APiR OMF0027AU

## QUARTERLY REPORT

MARCH 2019

### FUND FACTS

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

### 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

### PERFORMANCE CHART



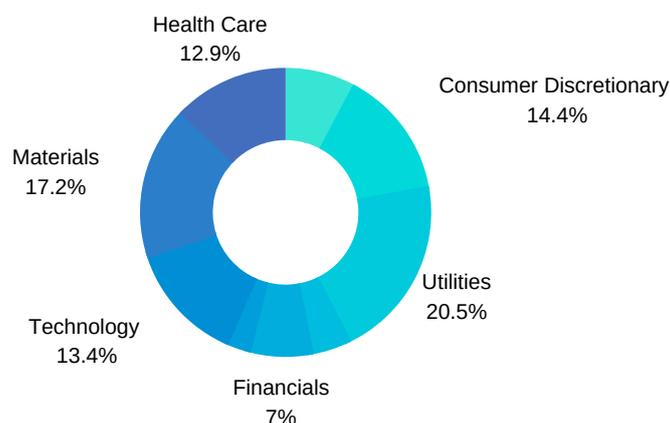
### NET PERFORMANCE

<b>1 Month</b>	0.24%
<b>3 Months</b>	15.80%
<b>6 Months</b>	-3.37%
<b>1 Year</b>	-5.90%

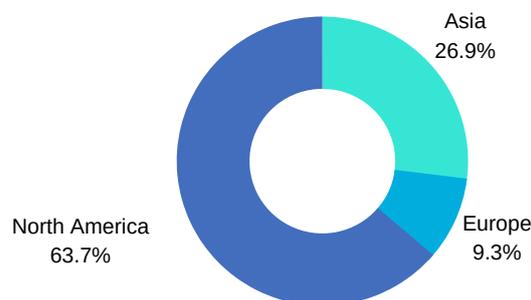
### TOP TEN HOLDINGS

Company	Sector
<b>Vistra Energy</b>	Utilities
<b>Magnachip</b>	Technology
<b>Crown Holdings</b>	Materials
<b>3SBIO</b>	Health Care
<b>Graphic Packaging</b>	Materials
<b>Nexstar Media Group</b>	Telecommunication
<b>Sberbank Of Russia</b>	Financials
<b>LKQ</b>	Consumer Discretionary
<b>Bausch Health</b>	Health Care
<b>China Oilfield</b>	Energy

### INDUSTRY EXPOSURE



### GEOGRAPHICAL EXPOSURE



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# Market Observations

The Fund made a strong start to the year, returning 15.8% (net of all fees) for the quarter. The events that caused such strong headwinds to share markets in 2018 took a back seat as investors focussed on attractive stock valuations. Global trade uncertainties are now more baked into investor expectations and Central Banks have largely adopted a more measured tone to the prospect of interest rate rises. China is now stimulating its economy and there is the possibility of the trade wars abating. The Fund benefited from strong showings by various portfolio holdings with Crown Holdings, MagnaChip, Nexstar, LKQ and 3SBIO all performing strongly.

## Marshmallows and Delayed Gratification

One of the most famous experiments into the concept of delayed gratification (resisting the temptation of an immediate reward in preference for a later bigger reward) is known as the Stanford Marshmallow Experiment, which took place in the late 1960s and early 1970s. In these studies, a child was offered the choice between one marshmallow reward provided immediately or, if they waited another 15 minutes, two marshmallow rewards. In follow-up studies, researchers found that children who were able to wait longer for the preferred rewards tended to have better life outcomes.

Our portfolio can sometimes feel like we are being given a delayed gratification/ marshmallow test as we wait for our portfolio of investments to play out in order to receive a greater reward in the future.

Delayed gratification isn't easy even when fully grown. At times, being a value investor is an uncomfortable position to be in. It requires having the discipline to stick with investment decisions while the majority of investors are going in a different direction for short term reasons. We know, however, that there is a large reward for delaying our gratification. As we wait for our delayed gratification (and extra marshmallows) we have found that the waiting process is easier by concentrating our efforts on the valuation of individual companies as compared to the discounted market price of those companies. In that respect, there was much progress to report from a number of key portfolio holdings.

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# Our Portfolio Companies

Our investment approach gives us the freedom to make investments across a broad spectrum of industries, wherever we see the most compelling opportunity.

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Vistra Energy  
NYSE Symbol: VST

Vistra Energy is a large, integrated power company based in Texas with about 5,400 employees. Vistra's retail brands serve approximately 2.9 million residential, commercial, and industrial customers and its generation fleet totals approximately 41,000 megawatts of highly efficient generation capacity.

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Sberbank  
LSE Symbol: SBER

Sberbank is the largest bank in Russia and a leading international financial institution. It is Russia's most valuable brand. Sberbank has a more than 30% share of the aggregate Russian banking sector assets. As the holder of around 45% of the country's retail deposits, it acts as the key lender to the Russian economy and private clients. Sberbank provides more than 41% of consumer loans. It has an almost 34% share of the corporate lending market and a 56% share in mortgage lending.

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LKQ Corp  
NASDAQ Symbol: LKQ

LKQ Corp is a leading provider of alternative and specialty parts to repair cars. It generates annual revenues of \$11.9B from its 1,750 facilities worldwide and it has 49,000 employees.

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Adient  
NYSE Symbol: ADNT

Adient is the world's largest automotive seating supplier with approximately 33% global share. It has nearly double the market share of its closest competitor. It makes one in three car seats globally. The company generates over \$17 billion in annual revenue.

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Crown Holdings  
NYSE Symbol: CCK

Founded in 1892, Crown is one of the largest packaging companies in the world, being the #1 producer of food cans and #2 producer of beverage cans in the world. It operates in 36 countries. Employees: 24,000. Revenue: \$8.7 billion.

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Nexstar  
NASDAQ Symbol: NXST

Nexstar Media Group is one of the largest local TV station operators in the US with the reach of 174 television stations in 100 markets addressing nearly 38.7% of US television households. Nexstar generates over \$2.3 billion in revenue.

# Portfolio Highlights

*SGF's portfolio contains a mix of businesses which serve a broader range of customer bases across a range of different geographies.*

## 3SBIO

Starting in Asia, our holding in 3SBIO, a leading Chinese biotechnology company released its 2018 annual results, with excellent business growth and strong financial results. Revenue increased by approximately 23% and net profit advanced by 29%. Our interest in 3SBIO arose from the fact that the Company produces one of the top selling drugs in Australia, an arthritis treatment called Enbrel. The drug is also a top selling treatment in a number of other developed countries. However, sales of Enbrel barely register in its home market of China. This lack of China sales of such an excellent product is due to the underdeveloped state of the Chinese healthcare market. Over time, however, this provides a large unaddressed market for 3SBIO to address. As healthcare insurance coverage expands in China and the sector develops, we expect that the Company will enjoy a very long pathway of sustainable growth. 3SBIO is up 41% from our purchase price to the time of writing.

## Vistra Energy

The Fund's largest holding, Vistra Energy, reported annual free cash flow of \$1.6 billion, well above the high-end of the Company's previous guidance range. Encouragingly, Vistra reaffirmed its free cash flow outlook for 2019 of between \$2.1 to \$2.3 billion. The Company has continued to extract meaningful synergies following its merger with Dynegy. These recent results highlight the Company's significant earnings power and impressive power assets.

Despite these results, the share price remains depressed relative to similar peer companies. We believe this is due to the makeup of its shareholder base. Vistra

# Portfolio Highlights cont.

Energy went through a bankruptcy process after private equity took the company private with too heavy a debt load. The Company shed much of its debt as part of the bankruptcy process and now holds a very low debt level. As part of the bankruptcy process previous bondholders had their bonds converted to shares. These reluctant shareholders continue to sell their shares. Over time, the shareholder base will rotate to more long-term oriented shareholders. As that occurs, we expect the shares to increase in value. In the interim, the Company is undertaking shareholder friendly actions by returning much of its free cash flow to its owners in the form of dividends and share buybacks. Over the past year, it has bought back more than 7% of its outstanding shares at a cost of \$937 million. We expect that the Company will continue to buy back shares. Given the cheap valuation of the Company such share buybacks serve to shrink the share count leaving the remaining shares more valuable.

Our target price for Vistra is significantly above the current share quote.

## MagnaChip

Our MagnaChip thesis remains on track as industry wide OLED adoption continues with the Company reporting record OLED revenue of \$188.0 million, up 300% year-on-year. This OLED revenue growth is obscured by the Company's more challenged foundry segment. Our view is that the best thing that could happen to the shares of MagnaChip is for the foundry segment to be sold. The Company lacks the necessary scale to compete against larger competitors in the foundry space. A sale at even a modest industry price would likely eliminate all of the Company's debt. We recently reviewed a report in the Korean financial press that suggested that the Company is in talks to sell the foundry segment for up to \$700m (relative to its current market capitalisation of around \$250m). We are unsure how accurate this report is, but time will tell. Even at a far reduced price, MagnaChip has the potential to significantly increase in value from the current price.

# Portfolio Highlights cont.

## Summary

Our investment approach embodies a long-term view coupled with original, rigorous research to identify great companies with the ability to grow their earnings over time. We invest in such companies when we can purchase them for less than a reasonable valuation. We then wait for the market to recognise the value of these companies. Time and patience are necessary as we wait for our investments to play out in order to receive a greater reward in the future (and more marshmallows).



## **STRATEGIC GLOBAL FUND**

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