

# Selector Australian Equities Fund

Monthly report – February 2019

## Market insights

Markets continued to surge during February as negative sentiment and concerns of a deterioration in global economic conditions abated. The All Ordinaries Accumulation Index rose 6.1%. News of positive progress towards a China-U.S. trade deal and a postponement in the implementation of the next round of protectionist measures buoyed markets. Globally, the performance of the Shanghai Composite was a standout rising 13.8% and making up almost all the ground given up since June 2018.

The tightening in credit and the fears that seized markets in the final quarter of 2018 have largely been extinguished since the start of the year. Reports and commentary from central bankers suggest that their inclination to raise interest rates had been tempered by risks to the global economy. Reserve Bank of Australia Governor Philip Lowe now has a neutral rate outlook, in contrast to December where he indicated the next move in interest rates was more likely to be an increase.

Markets in Australia were driven primarily by results released during reporting season, however, the financial sector also received a boost as investors digested the findings of the financial services Royal Commission. Although some recommendations will have material impacts on participants, notably the mortgage broking industry, the major banks and wealth managers escaped relatively unscathed with little in the way of increased regulation or penalties.

We prefer to consider the results of reporting season on a company by company basis and avoid making sweeping generalisations, but one worth noting is the divergence in performance between offshore and onshore earners. The businesses which dominate the Australian indices, such as Woolworths and Coles, QBE, and the four major banks face the prospect of grinding out growth in a saturated market. Doubts about the Australian economy's ability to continue its extended period of expansion in the face of a declining housing market have obviously weighed on these domestic businesses.

In contrast, a glance at the companies that make up our portfolio reveals a host of businesses with strong franchises offshore. From CSL to James Hardie and Altium to ResMed, those businesses that have built a strong competitive advantage and taken their offering offshore have been able to continue growing into large addressable markets where they might otherwise have run out of room in Australia. We make this point not because we have a particularly strong view on the economic outlook either domestically or abroad but because our bottom up approach has led us to these businesses which we believe possess superior economic earnings power and will deliver strong returns for shareholders over a long period.

We continue to seek businesses with:

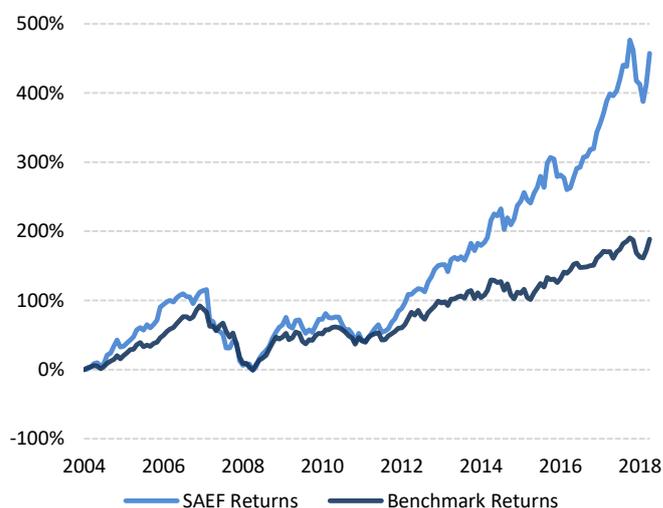
1. Competent management teams
2. Business leadership qualities
3. Strong balance sheets
4. A focus on capital management

## Performance as at 28 February 2019\*

	FYTD	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Inception Annualised
Fund (Net of fees)	2.18	8.68	8.41	(4.01)	10.08	15.45	13.47	15.22	9.80
Fund (gross of fees)	3.16	8.80	8.79	(3.31)	11.80	17.83	16.57	18.86	12.83
All Ords Accumulation Index	2.26	6.05	9.79	(0.68)	6.56	12.74	7.39	11.26	7.73
Difference (gross of fees)	0.90	2.75	(1.00)	(2.63)	5.24	5.09	9.18	7.60	5.10

\*Performance figures are historical percentages, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns.

## Cumulative returns since inception



Inception Date: 07/12/2004

Before fees, costs and tax, and assuming reinvestment of distributions

## Top holdings

Company name	Code	Weight (%)
Jumbo Interactive	JIN	6.57
Altium	ALU	6.55
Infomedia	IFM	4.60
ResMed	RMD	4.29
Seek	SEK	4.10
Flight Centre Travel Group	FLT	3.96
IRESS	IRE	3.95
Reliance Worldwide Corporation	RWC	3.93
Aristocrat Leisure	ALL	3.74
Nanosonics	NAN	3.63

## Unit prices as at 28 February 2018

Entry price	\$2.0879
Mid price	\$2.0827
Exit price	\$2.0775

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## Portfolio commentary

### Altium (ALU:ASX)

In February, electronic design software specialist Altium delivered a strong set of numbers for the six months to December 2018. Revenue increased by 24% to US\$78.1m and net profit after tax increased 58% to US\$23.4m. The performance at a group level was a product of solid momentum through most of the business' divisions.

Revenue from the board and systems division grew by 11% in the Americas, 16% in EMEA and 49% in China where a methodical approach to license compliance is proving successful. Revenue from Altium's enterprise product, Nexus, grew by 20%, while the parts search business, Octopart, grew 80%. Finally, the embedded software development tool, Tasking, which has been a beneficiary of the success of their partner Infineon's Aurix automotive microcontroller grew revenue 20%.

Altium revealed a new aspirational goal of delivering US\$500m of revenue by 2025 at the most recent results presentation, a great deal larger than their previous goal of delivering US\$200m of revenue by 2020 with EBITDA margins of at least 35%. Neither will be easy to achieve and delivering on the new goal will require Altium to be a key participant in the transformation of the electronic design, parts and manufacturing industry. At the AGM last year CEO Aram Mirkazemi expressed confidence in his view that the PCB design software market will become a winner takes all domain. Like Microsoft in desktop productivity tools, and Adobe in graphic design, the company that provides a solution for the issues engineers face will end up with the lion's share of the market and the profit pool. The presentations at the AGM focused on the lack of interoperability of systems used by participants up and down the supply chain and demonstrated how their products are solving these challenges. Altium is well placed to provide the solutions the industry needs.

### Jumbo Interactive (JIN:ASX)

In February, online lotteries retailer Jumbo Interactive presented its results for the six months to December 2018. Total transaction volumes (TTV) processed by Jumbo rose by 66% to \$147.9m as a result of strong customer acquisitions and above average jackpot activity which stimulated increased spend per customer. Changes to the rules of the important Powerball game have been a driver of the higher level of jackpot activity.

Jumbo collects a margin on the TTV and larger volumes pushed revenue 57.9% higher to \$30.5m. More important was the operating leverage demonstrated by the business, which saw net profit before tax rise 136% to \$18.2m.

For FY19, Jumbo management expects the business will deliver net profit before tax of \$35.0m and net profit after tax of \$24.2m, up 107% compared with FY18. Although the level of jackpot activity is volatile from year to year, the level of penetration of digital sales of lotteries tickets in Australia is estimated to be around 22%, well short of the level achieved in a number of other markets around the world. The opportunity to increase digital sales of lotteries in the Australia market alone provides Jumbo with a long runway for TTV, revenue and profit growth.

## About Selector

Selector Funds Management ("Selector") specialises in high conviction, index agnostic, concentrated portfolio management (AFSL 225316). The investment team have a high level of experience, are owners of the business and invest in the funds alongside clients. Selector has a long-term track record of performance.

## Performance contributors

Top five	Contribution (%)
Altium	1.68
Jumbo Interactive	1.65
IOOF Holdings	0.97
Infomedia	0.96
Nanosonics	0.74
Bottom five	Contribution (%)
Blackmores	(0.97)
Cochlear	(0.34)
Domino's Pizza Enterprises	(0.30)
Reliance Worldwide Corporation	(0.26)
CSL	(0.02)

## Industry exposure

Industry group	Weight (%)
Consumer Services	21.50
Software & Services	18.36
Health Care Equipment & Services	13.42
Capital Goods	7.53
Commercial & Professional Services	7.51
Diversified Financials	6.12
Materials	5.95
Pharmaceuticals, Biotechnology & Life Sciences	3.46
Insurance	3.39
Media & Entertainment	2.90
Household & Personal Products	2.40
Automobiles & Components	2.36
Cash & Other	2.35
Energy	1.94
Retailing	0.81

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