

Selector High Conviction Equity Fund

Monthly report – March 2021

Market insights

Markets maintained their positive momentum over the month as global vaccination efforts accelerated, world GDP growth rates improved, inflation expectations rose, and yield curves steepened. All signs that the V-shaped recovery few foresaw a year ago, is now firmly cemented. In the local market, the All Ordinaries Index closed up 1.10% to 7,017 points; well within reach of 7,290, the all-time high set in February last year.

During March, the U.S. Biden Government got the green light to fulfil its electoral promise of providing relief in response to the worst economic crisis since the Great Depression. The US\$1.9t coronavirus funding bill, known as the 'American Rescue Plan' authorises amongst other measures, the payment of US\$1,400 to millions of low to middle income Americans.

President Biden's 2021 stimulus package, passed by the U.S. Senate with a 50-49 one vote majority, enables one of the largest rescue measures in U.S. history and easily surpasses the 2008 Global Financial Crisis Troubled Asset Relief Program (TARP) of US\$700b adopted to bail out banking institutions.

In addition, a third fiscal package is planned to follow this, earmarked for infrastructure that could take the whole fiscal outlay to circa US\$4.2t. It should be remembered that these funding measures come on top of the US\$2.2t Coronavirus Relief Bill (CARES Act) introduced by former President Donald Trump in March 2020.

Ultimately, the sugar hit from fiscal stimulus will pass and businesses will once again be judged on their individual merits rather than a stampede from one asset class to another.

The Chinese Government unveiled its 14th five-year plan during March, this time focusing on self-reliance through science and technology. In a break from tradition, no formal GDP growth rate was set, replaced instead by other specific targets, including maintaining an urban unemployment rate below 5.5% and a 7% growth rate in annual research and development (R&D) spend. The country's leaders have also signalled an intent to tackle China's growing private and public debt levels, now sitting at 280% of GDP.

Locally, at The Australian Financial Review Banking Summit held during the month, ANZ's institutional banking boss Mark Whelan commented that cybersecurity is "the biggest single issue... or threat if you like, in banking today". This came as the bank saw the number of cyber-attacks escalate during the pandemic from 8 million to 10 million per month.

The sudden shift to working from home, brought on by the health crisis, has introduced additional complexity to network security. Australian Prudential Regulation Authority (APRA) chair, Wayne Byres noted that while, "No APRA-regulated bank, insurer or superannuation fund has suffered a material cyber breach yet [however] it's only a matter of time until an incident occurs". Unfortunately, businesses do fall prey to these attacks; Nine Entertainment serves as a recent example of how disruptive they can be to operations.

We continue to seek businesses with:

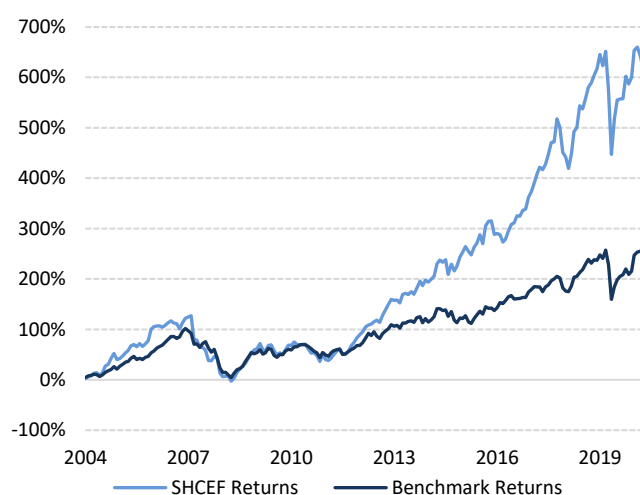
1. Competent management teams
2. Business leadership qualities
3. Strong balance sheets
4. A focus on capital management

Performance as at 31 March 2021*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	3.31	(2.31)	7.99	33.78	10.88	13.36	13.79	8.47	10.90
Fund (gross of fees)	3.45	(1.91)	8.52	36.28	13.00	15.48	15.92	10.46	13.01
All Ords Accumulation Index	1.84	3.61	18.56	41.14	10.09	10.57	7.97	6.48	8.22
Difference (gross of fees)	1.61	(5.52)	(10.04)	(4.86)	2.91	4.91	7.95	3.98	4.79

*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. For periods greater than one year, returns are annualised. Performance can be volatile and future returns can vary from past returns.

Cumulative returns since inception



Inception Date: 30/10/2004

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

Top holdings

Company name	Code	Weight (%)
Domino's Pizza Enterprises	DMP	6.68
James Hardie Industries	JHX	6.39
Aristocrat Leisure	ALL	5.69
Reece	REH	5.50
TechnologyOne	TNE	4.97
SEEK	SEK	4.68
Cochlear	COH	4.48
ResMed	RMD	4.21
carsales.com	CAR	3.79
CSL	CSL	3.74

Unit prices as at 31 March 2021

Entry price	\$3.1579
Mid price	\$3.1500
Exit price	\$3.1421

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Portfolio commentary

Computershare (CPU:ASX)

Global registry service provider Computershare has announced the asset acquisition of Wells Fargo Corporate Trust Services (CTS). CTS provides trust and agency services for corporate and government capital markets in the U.S. This acquisition will accelerate the company's Corporate Trust strategy within the U.S., catapulting them into the fourth largest player.

CTS commenced operations over 80 years ago and now administers a portfolio of 26,000 mandates. With a strong reputation and high client retention rates, recurring revenues make up more than 75% of total income. For calendar year 2020, CTS reported revenues of US\$477m and an operating profit (EBITDA) of US\$84m. Historic EBITDA margins have been significantly higher than the core EBITDA margins of the registry business. For these reasons the acquisition is highly strategic, it comes at a low point in the interest rate cycle, and is financially accretive for Computershare.

While CTS alone will cost the company US\$750m, the additional investment in technology, regulatory capital and liquidity, will lift the total purchase cost to US\$1b. The company is targeting a return on capital of greater than 15% by year four. Funding for the deal is a combination of debt and equity, with the company seeking a capital injection of \$835m (US\$634m) through a 1:8.8 pro rata entitlement offer.

Computershare has a current market capitalisation of \$8.9b.

TechnologyOne (TNE:ASX)

In March, TechnologyOne announced its first "Tier 1" agency, the Department of Agriculture (DAWE), would be moving its finance system to the company's SaaS offering. DAWE's new solution will be deployed onto TechnologyOne's IRAP PROTECTED solution, providing materially higher cyber security at no additional cost. The migration from the on-premise environment has already commenced, with the process expected to be completed by mid-year.

TechnologyOne has a current market capitalisation of \$3.1b.

PolyNovo (PNV:ASX)

PolyNovo, a medical device company that develops and manufactures dermal regeneration solutions, announced the execution of its third U.S. group purchasing agreement. PolyNovo has partnered with Premier Inc, a major U.S. group purchasing organisation (GPO), to allow Premier member hospitals to access BTM on special pricing and terms.

Managing Director Paul Brennan explained, "This signing with Premier, the second largest GPO in the US, is a major milestone... GPO agreements put our disruptive BTM on a much larger list of hospitals than our sales team can get around in the short-term. We will continue expanding our sales team into new markets to support hospitals and surgeons but now also to match the geographical footprint of the GPOs. We look forward to demonstrating improved health economic benefits for Premier hospital members and their patients".

Premier services roughly 4,100 health facilities and hospital members. Of particular interest to PolyNovo are the more than 2,000 acute care facilities of which 100 are designated as trauma centres.

PolyNovo has a current market capitalisation of \$1.9b.

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.

The information presented in this fact sheet is not intended to be advice. It has not been prepared taking into account any particular investor or class of investors investment objectives, financial situation or needs, & should not be used as the basis for making investment, financial or other decisions. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. SFML does not guarantee the repayment of capital, payment of income or performance.

Performance contributors

Top five	Contribution (%)
Aristocrat Leisure	0.67
James Hardie Industries	0.55
SEEK	0.48
TechnologyOne	0.45
Domino's Pizza Enterprises	0.45
Bottom five	Contribution (%)
Nanosonics	(0.17)
Megaport	(0.16)
OFX	(0.16)
Nearmap	(0.15)
Jumbo Interactive	(0.15)

Industry exposure

Industry group	Weight (%)
Software & Services	22.84
Consumer Services	18.21
Health Care Equipment & Services	14.29
Media & Entertainment	9.84
Capital Goods	8.68
Materials	6.39
Diversified Financials	4.48
Pharmaceuticals, Biotech & Life Sciences	4.16
Cash & Other	2.93
Household & Personal Products	2.49
Insurance	2.13
Automobiles & Components	2.12
Consumer Durables & Apparel	1.42

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