

# Selector High Conviction Equity Fund

Monthly report – April 2021

## Market insights

Markets maintained their positive trajectory over the month with the local All Ordinaries Index closing in record territory up 3.9% to 7,291 points. While the prevalence of COVID-19 has accelerated in countries such as India, global vaccination efforts have succeeded in curbing its advance across many nations. This month, we highlight the fiscal efforts of the U.S. and Australia as governments pursue an investment led pandemic recovery.

Following the US\$1.9t coronavirus relief bill signed into law last month, U.S. President Joe Biden has turned his sights to infrastructure, unveiling a US\$2.3t, 15-year plan centred on repairing roads and bridges, expanding broadband internet access, and increasing research and development funding, which Biden dubbed a “once-in-a-generation investment in America”. In addition, the Biden administration has proposed the American Families Plan, which calls for an allocation of US\$1.8t towards childcare, education and paid leave for workers.

To fund this, Biden has proposed tax reform aimed at ensuring corporations and wealthy Americans “pay their fair share”. This reform would see corporate tax rates rise to 28% from 21%, partially nullifying former President Trump’s reduction from 35%. For individuals, the top marginal income tax rate is slated to increase to 39.6% from 37% and capital gains taxes will almost double to 39.6% for people earning more than \$1,000,000 per annum.

Domestically, Treasurer Josh Frydenberg has reset fiscal expectations ahead of the upcoming Federal Budget to be released in May. Prior to the COVID-19 pandemic, the Coalition was focused on ensuring the budget returned to surplus. But faced with the forced closure of businesses and an economic recession, the Government has chosen an alternative path. Frydenberg confirmed that while the Government will look to repair the national balance sheet, there will be no short-term drastic changes to do so; “Looking further ahead, our challenge once we recover from this crisis, is to again rebuild our fiscal buffers... But we won’t be undertaking any sharp pivots towards ‘austerity’.”

With climate change continuing to dominate investor concerns, Rio Tinto, Santos, and Woodside are providing shareholders with an advisory vote on climate change policies at upcoming Annual General Meetings. Despite the “say on climate” vote being non-binding, the requirement for companies to engage stakeholders in important issues is setting a strong precedent which others are likely to follow.

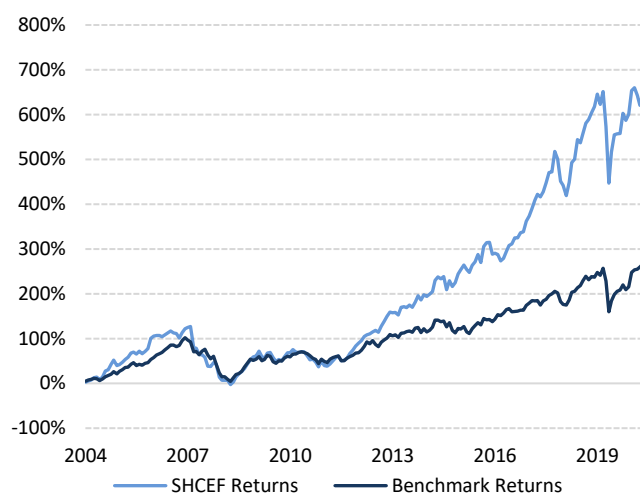
We recently reiterated our position on climate change in the SFML ESG & Voting Policy 2021<sup>1</sup>. We firmly believe that investors cannot ignore environmental issues, “When we consider our investment process from an environmental perspective, the research is compelling. At the extreme, some assets will become stranded by the impacts of climate change, while other companies may become uninvestable, due to a set of business risks that can no longer be quantified.”

We continue to seek businesses with:

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

<sup>1</sup> Available at <https://www.selectorfund.com.au/esg>

## 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	6.85
James Hardie Industries	JHX	6.42
Reece	REH	5.95
Aristocrat Leisure	ALL	5.78
TechnologyOne	TNE	4.74
SEEK	SEK	4.73
Cochlear	COH	4.44
ResMed	RMD	4.09
CSL	CSL	4.01
carsales.com	CAR	3.97

## Unit prices as at 30 April 2021

Entry price	\$3.3797
Mid price	\$3.3713
Exit price	\$3.3629

## Performance as at 30 April 2021\*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	7.03	7.13	13.44	27.73	12.66	14.44	14.55	8.87	11.30
Fund (gross of fees)	7.16	7.55	14.04	29.63	14.81	16.58	16.69	10.86	13.42
All Ords Accumulation Index	3.92	7.34	20.69	33.89	10.24	10.71	8.44	6.59	8.43
Difference (gross of fees)	3.24	0.21	(6.65)	(4.26)	4.57	5.87	8.25	4.27	4.99

\*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.

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## Portfolio commentary

### NIB Holdings (NHF:ASX)

Private health insurer nib holdings provided a business update and full year outlook after a period of withholding guidance due to COVID-19 related uncertainty.

The company has observed positive performance in the Australian Residents Health Insurance (ARHI) business with policy holders increasing 3.7% to 641,804 while claims and risk equalisation, whereby claims are subsidised across health insurers, have remained lower than expected. The extent of the predicted claims “catch up” for healthcare deferred throughout the COVID-19 period, was lower than expected. As a result, unaudited group underlying operating profit for the nine months to date was \$140.9m.

If current conditions persist, noting uncertainty around future “catch-up”, nib expects group underlying operating profit for FY21 be within the range of \$200m to \$225m.

NIB has a current market capitalisation of \$2.8b.

### Reliance Worldwide Corporation (RWC:ASX)

Specialist plumbing fittings manufacturer Reliance Worldwide Corporation provided a strong third quarter trading update highlighting sales momentum in residential repairs and remodelling. The company reported net sales for the quarter of \$359.4m, an increase of 14% against the prior corresponding period (pcp). This reported figure was negatively impacted by currency fluctuations, with net sales increasing 27% on a constant currency (cc) basis.

Taking a look at the company’s primary markets, the Americas saw net sales improve 39% cc against the pcp with at least half of this increase driven by the recent deep freeze in Texas. A winter storm, coupled with a major power failure caused a surge in burst water pipes throughout the state. APAC and EMEA saw sales improve 11% cc and 13% cc against the pcp with both markets buoyed by exports and remodelling activity.

The company is also continuing to pass through price rises for products affected by increased copper and zinc costs. Large customers with indexed pricing arrangements further reduce the risk of rising commodity prices.

Reliance has a current market capitalisation of \$3.8b.

### Blackmores (BKL:ASX)

This month, complementary vitamins and dietary supplements manufacturer Blackmores held a shareholder briefing to detail the business transformation underway. After 18 months of rebuilding the foundations of the business and simplifying operations, Blackmores will continue to invest in digital capabilities and supply chain efficiencies. It will also pursue strategic M&A opportunities.

These actions are necessary to offset an estimated sales headwind of \$200m in ANZ. Challenges include travel restrictions reducing the daigou sales channel, a softer flu season, and competitor discounting in a concentrated marketplace.

Blackmores has a current market capitalisation of \$1.4b.

## 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 (%)
Reece	1.00
Domino's Pizza Enterprises	0.73
James Hardie Industries	0.50
Aristocrat Leisure	0.47
Altium	0.44
Bottom five	Contribution (%)
Blackmores	(0.23)
Flight Centre Travel Group	(0.19)
Computershare	(0.11)
Breville	(0.04)
Appen	(0.01)

## Industry exposure

Industry group	Weight (%)
Software & Services	22.83
Consumer Services	18.22
Health Care Equipment & Services	15.57
Media & Entertainment	10.14
Capital Goods	9.24
Materials	6.42
Pharmaceuticals, Biotech & Life Sciences	4.58
Diversified Financials	4.43
Insurance	2.37
Automobiles & Components	2.26
Household & Personal Products	2.10
Consumer Durables & Apparel	1.29
Cash & Other	0.56

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