

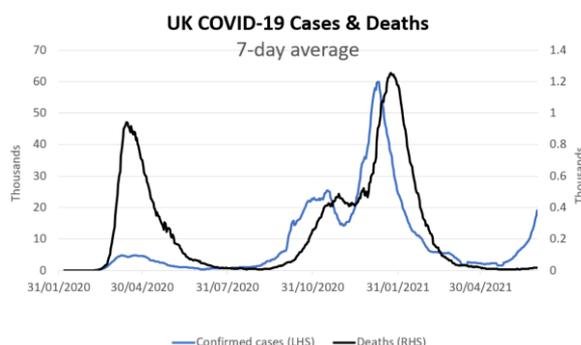
# Selector High Conviction Equity Fund

Monthly report – June 2021

## Market insights

June ended with large parts of Australia back under lockdown due to recent outbreaks of the COVID-19 Delta variant. First identified in India and now detected in over 80 countries, the Delta variant is believed to be twice as contagious as the original virus. The local market largely looked past these developments with the All Ordinaries Index closing 2.4% stronger to 7,585. Over the 2021 financial year, the local market recorded a total gain of 26.4% and finished in record territory.

The global COVID-19 vaccination effort has continued at pace with more than 3b doses administered and over 23% of the world's population having now received at least one dose. Recent data from the U.K. shows the significant impact vaccines play in curbing fatalities associated with the virus. With 85% of the U.K. adult population having received at least one vaccine dose, the recent uptick in case numbers has not transpired to an increase in deaths when compared to last year (see graph below). While the situation remains fluid, the early signs bode well for managing the virus long-term.



Source: Our World in Data

Domestically, with the vaccine rollout impacted by constant bickering among our State Premiers, businesses remain in a state of flux and at risk of falling behind our international partners.

In June, U.S. Federal Reserve Chair Jerome Powell noted, *“The economy is growing at a very healthy rate. Since March, people have grown more confident that these strong outcomes will be achieved.”* This has given rise to a possible rate rise in 2022, followed by a further rise in 2023, well ahead of earlier indications.

While some lift in rates is likely based on present economic data, the conundrum for all governments remains, how do you lift interest rates while keeping the servicing of debt under control, especially with a growing government debt pile? It might be sensible to move on rates, but is it realistic considering that any loss in economic momentum will directly impact government revenues and exacerbate the overall budget position? We think greater consideration will be given on this last point.

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 30 June 2021\*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	8.18	16.47	13.78	30.46	13.02	16.52	16.84	9.42	11.75
Fund (gross of fees)	8.31	16.92	14.69	32.63	15.17	18.69	19.01	11.42	13.87
All Ords Accumulation Index	2.56	8.66	12.58	30.24	10.30	11.54	9.40	7.09	8.64
Difference (gross of fees)	5.75	8.26	2.11	2.39	4.87	7.15	9.61	4.33	5.23

\*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	6.64
Reece	REH	5.81
James Hardie Industries	JHX	5.74
Aristocrat Leisure	ALL	5.68
ResMed	RMD	4.63
Cochlear	COH	4.53
carsales.com	CAR	4.52
SEEK	SEK	4.39
Altium	ALU	4.37
TechnologyOne	TNE	4.20

## Unit prices as at 30 June 2021\*

Entry price	\$3.6780
Mid price	\$3.6688
Exit price	\$3.6596

\*There was no cash distribution recorded for FY21. Non-cash distributions including franking credits of 1.25c per unit were made for the year.

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## Portfolio commentary

### Altium (ALU:ASX)

Over recent months, Australian listed businesses, operating in the technology and financial services sectors have been on the receiving end of offshore corporate interest. Electronic printed circuit board (PCB) designer Altium, was the target of an unsolicited offer from U.S. based software competitor Autodesk. The proposed cash bid of \$38.50 per share valued Altium at \$5b.

Despite the bid representing a 41% premium to its last traded price, Altium's Board rejected the proposal, believing it significantly undervalued the company. CEO, Executive Director and major shareholder Aram Mirkazemi explained, "Altium software and cloud services provide the unique bridges that connect the product design world to electronic design and, subsequently, to the electronic supply chain and the manufacturing of electronics products". He continued, "any M&A activity by a single strategic partner would, in my view, need to include a significant premium in recognition of the scarcity of this asset and the opportunity cost for shareholder value creation foregone with other strategic partners."

Despite confirming revenue would likely be at the low end of the US\$190m to US\$195m guidance range for FY21, management remains firmly committed to its 2025 goals of US\$500m in revenue and 100,000 subscribers.

Altium has a current market capitalisation of \$4.8b.

### Iress (IRE:ASX)

This month Iress responded publicly to media speculation regarding possible corporate interest. Having already commenced a comprehensive Board-level review of its operations, focused specifically on accelerating earnings per share growth, Iress reinforced "the quality of [the company's] recurring revenue, the strength of its targeted growth strategies and its significant addressable markets and revenue pathways". In addition, the Board confirmed the possible divestment of its U.K. Mortgage Sales & Origination software business, acknowledging that a different owner may be better placed to manage the business into the future.

Iress has a current market capitalisation of \$2.5b.

### Domino's Pizza Enterprises (DMP:ASX)

Domino's Pizza Enterprises announced a binding agreement to enter Taiwan, its 10<sup>th</sup> market, through the acquisition of Domino's Taiwan. At present, Domino's Taiwan operates 157 stores, of which 138 are franchised, making it the second largest pizza chain in the region (after Pizza Hut). Domino's is acquiring the business for \$79m, to be funded from existing cash and debt facilities. The transaction is expected to be 2% earnings per share (eps) accretive on a FY2020 pro-forma basis excluding integration, reorganisation, and transaction costs.

The acquisition represents a strategically important addition, and along with the Japanese operations, the newly renamed 'Asia' division will be led by executive Josh Kilimnik. Longer term, Domino's is targeting a 400+ store footprint and leadership in the local market. The group is expecting an uplift in performance as Taiwan adopts the learnings from Japan across marketing and operations.

Domino's has a current market capitalisation of \$10.1b.

## 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 (%)
Altium	1.10
Reece	0.87
ResMed	0.86
Iress	0.80
Jumbo Interactive	0.68
Bottom five	Contribution (%)
OFX Group	(0.09)
CSL	(0.06)
Flight Centre Travel Group	(0.05)
Medical Developments International	(0.02)
Appen	0.01

## Industry exposure

Industry group	Weight (%)
Software & Services	23.89
Consumer Services	17.80
Health Care Equipment & Services	15.44
Media & Entertainment	10.29
Capital Goods	8.98
Materials	5.74
Diversified Financials	4.63
Pharmaceuticals, Biotech & Life Sciences	4.24
Insurance	2.52
Automobiles & Components	2.25
Household & Personal Products	1.94
Consumer Durables & Apparel	1.34
Cash & Other	0.95

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