

Selector Australian Equities Fund

Monthly report – July 2021

Market insights

In July, the international stage saw renewed Chinese intervention into public markets. We flagged this in our December 2020 monthly commentary when the Ant Financial IPO was withdrawn; these events are neither new nor surprising. They are in fact consistent.

In 2004, to encourage buyers on its e-commerce marketplace to trust third-party sellers, Alibaba Group created Alipay, an online payment platform that held funds in escrow until the buyer received goods and was satisfied with the purchase. This idea worked and helped foster Alibaba's breakneck growth. In 2005, Yahoo took a 40% stake in Alibaba. The Japanese technology investment giant SoftBank bought around 37%. Both had seats on its board. In 2010, The People's Bank of China issued new rules governing third-party online payment companies, stipulating that they must apply for and receive licenses from the PBoC by Sept 2011, in order to operate. In early 2011, then Alibaba CEO Jack Ma spun off Alipay, the forerunner to Ant Financial, granting himself a 46% stake. In May 2011 Yahoo disclosed to its shareholders that Alibaba had spun off Alipay to comply with the PBoC rules, causing its shares to drop 12%, and that CEO Ma, had only informed Yahoo about the spinoff five weeks after it had happened. A gobsmacked Softbank had no recourse.

On the domestic front we can't ignore the elephant in the room. If you had to describe July in one word, it would be 'lockdown'. Today we stand as a dysfunctional and divided nation doing unprecedented damage to small businesses, the backbone of our economy.

An outspoken critic of the lockdowns, University of NSW economist Gigi Foster, suggested the Government's actions had cost the economy at least \$60b, with policymakers responsible for the "greatest economic policy debacle in a generation" and having succumbed to COVID 'mania'. The enormity of this loss takes on even greater significance when compared to the nation's forecasted FY22 budget deficit of \$107b.

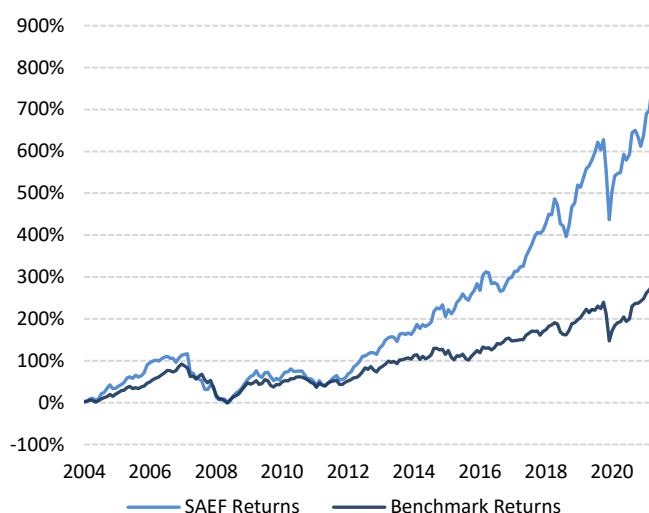
As we have often discussed, great companies, the long-term compounders we seek to invest in, have the following common traits; their leaders are genuine, humble, instil confidence, act with honesty and transparency, and focus on long term outcomes that include the best interests of all stakeholders. Importantly they take accountability seriously. We struggle to include any of our elected political leaders in this mix.

As our elected leaders imposed draconian measures on a financially dependent and uninformed community, and with freedoms removed, we have witnessed a new level of state control. The economist reports that 90c of every dollar of lost productivity in the pandemic has been provided by governments, who also control vaccines and pandemic related information. Blindly, electorates applauded, however when elected leaders abdicate responsibilities to unelected health professionals, who have power with no accountability, good governance breaks down and democracy is weakened.

As we prepare to enter the annual reporting season, the message from our business leaders will likely reflect the backdrop of lockdown; one that is variable and decidedly unclear.

We continue to seek businesses with competent management teams, business leadership qualities, strong balance sheets, and a focus on capital management.

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 (%)
Domino's Pizza Enterprises	DMP	6.45
Aristocrat Leisure	ALL	5.87
James Hardie Industries	JHX	5.84
carsales.com	CAR	5.01
Reece	REH	5.00
ResMed	RMD	4.92
Iress	IRE	4.44
Cochlear	COH	4.39
Altium	ALU	4.37
TechnologyOne	TNE	4.24

Unit prices as at 31 July 2021

Entry price	\$2.8584
Mid price	\$2.8513
Exit price	\$2.8442

Performance as at 31 July 2021*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception Annualised
Fund (net of fees)	(0.94)	7.67	15.55	29.63	14.05	13.94	15.02	8.66	10.72
Fund (gross of fees)	(0.81)	8.09	16.42	31.67	15.97	16.19	18.45	11.79	13.75
All Ords Accumulation Index	1.06	5.67	13.43	30.38	10.24	10.42	9.90	7.27	8.39
Difference (gross of fees)	(1.87)	2.42	2.99	1.29	5.73	5.77	8.55	4.52	5.36

*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.

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Portfolio commentary

Iress (IRE:ASX)

Following media speculation regarding possible corporate interest in financial services software provider Iress, the company confirmed it has rejected a non-binding and indicative proposal from Private Equity firm EQT Funds Management for up to \$15.50 cash per share. While the Board unanimously concluded that the proposal did not represent compelling value for shareholders, discussions are ongoing.

At its investor strategy day hosted this month, Iress outlined plans for accelerating growth and returns out to 2025. The five key focuses for the company are to:

1. Continue the transition to a single, cloud native technology platform
2. Disrupt markets by offering industry-wide investment infrastructure
3. Accelerate adoption of products in the U.K.
4. Transform the superannuation industry through automation
5. Expand its offering as an international data vendor

Underpinned by an assumption of modest market share gains and adoption of a single technology platform enabling scale benefits, Iress is targeting a doubling of profits from its 2020 base of \$59m to \$120m by 2025, with potential upside to \$180m. To facilitate this, a one-off investment of \$30m is expected, spread across the 2022 and 2023 years.

A \$100m on-market share buy-back was also announced, with management further reiterating its intention to distribute surplus proceeds to shareholders from the sale of the U.K. mortgages business expected in early 2022.

Iress has a current market capitalisation of \$2.7b.

Nearmap (NEA:ASX)

Aerial imagery leader Nearmap released its headline FY21 results confirming that the company's key growth metric, Annual Contracted Value (ACV), was expected to close the period at \$133.8m on a constant currency basis, representing 26% annual growth that exceeded the upgraded guidance provided in May.

North American operations contributed over 83% of total growth, ending the period with an ACV of US\$44.5m. This represented annual ACV growth of 54%, validating the North American revised go-to-market strategy. This region is now approaching critical operating scale and comprises 46% of Group ACV, up from 36% in 2020.

The more mature Australian and New Zealand market saw ACV growth of 7% to \$69.1m.

From a balance sheet perspective, the company finished the year well-funded with cash of \$123.4m. Ongoing R&D investment saw Nearmap complete design works and commenced testing of its next generation camera system, the HyperCamera3. According to management this latest iteration offers unparalleled capture efficiency and improved image resolution.

Nearmap also confirmed the engagement of patent litigators to lead its defence against U.S. competitor Eagleview Technologies and Pictometry International, maintaining, "that the allegations are fundamentally without merit and is well prepared to vigorously defend against the claims."

Nearmap has a current market capitalisation of \$1.0b..

About the Fund

The Selector Australian Equities Fund is distributed by DDH Graham, who is the Responsible Entity and Administrator for this fund. The product disclosure statement, distributed by DDH Graham, can be found below, <https://ddhgraham.com.au/managed-funds/australian-shares/selector-australian-equities-fund/>

Selector Funds Management ("Selector") specialises in high conviction, index agnostic, concentrated portfolio management. The investment team have a high level of experience, are owners of the business and invest in the funds alongside clients.

Performance contributors

Top five	Contribution (%)
carsales.com	0.49
ResMed	0.46
Iress	0.32
NIB Holdings	0.27
ARB Corporation	0.24
Bottom five	Contribution (%)
SEEK	(0.55)
Appen	(0.33)
Altium	(0.33)
PolyNovo	(0.27)
Nanosonics	(0.27)

Industry exposure

Industry group	Weight (%)
Software & Services	23.14
Consumer Services	18.15
Health Care Equipment & Services	14.92
Media & Entertainment	10.45
Capital Goods	8.03
Materials	5.84
Diversified Financials	4.83
Pharmaceuticals, Biotech & Life Sciences	4.03
Automobiles & Components	3.23
Insurance	3.04
Consumer Durables & Apparel	1.89
Household & Personal Products	1.72
Cash & Other	0.73

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