

Selector High Conviction Equity Fund

Monthly report – August 2021

Market insights

Markets maintained their positive trajectory during August with many companies delivering strong performances. Investor's willingness to look through the near-term impact of lockdowns helped lift markets to record highs with the local All Ordinaries Index up 2.1% to 7,823 points.

Locally, reporting season reflected themes associated with COVID. A tale of two halves was apparent as global businesses negotiated reopening and Delta. While record low rates, stimulus, better access to customers, digital channels and zoom proficiency, drove the demand side, supply chain was the key call out, characterised by significant delays in sourcing, shipping, unloading and delivery of inventory. Some wage inflation emerged as the playing field for talent shifted from local to global, thanks to work from home. We have been impressed by the ability of our businesses to navigate this operating environment. Pleasingly revenue and profit performance has been strong, driving improved financial metrics, while R&D and capital expenditure has continued to be prioritised.

The benefits are set to flow into the broader investment community as more than \$38b in declared dividends, over \$15b in share buybacks and \$34b in cash takeovers take effect. Should all these transactions complete, investors are set to pocket \$87b, a figure that equates to over 4% of Australia's annual Gross Domestic Product (GDP) at \$2.05t.

Chief executives from over 80 businesses have put their names to an open letter calling on state premiers to stick to the national reopening plan and, "chart a path out of the current lockdowns". Representing more than one million Australian employees, companies including the major banks, Wesfarmers, Woolworths and Uber have called for a reopening of society as vaccination rates increase; "We can also see the impact of lockdowns on our people, on our customers, on our small business suppliers, and on communities and families right across the country. Australia is juggling a mental health emergency at the same time as a global pandemic. Some of the impacts of current lockdowns are hidden, and the effects will be long lasting."

With COVID national vaccination rates improving, alongside growing public pressure for a reopening of local economies and state borders, the country is set to enter another period of adjustment.

Overseas, the U.S. Federal Reserve (Fed) Chairman Jay Powell has suggested that the US\$120b monthly asset purchase program that has aided the historic rebound in financial markets will be scaled back this year. The Fed has maintained that it would continue the current pace of bond-buying until it observes substantial further progress on its goals of achieving average 2% inflation and maximum employment. While speaking at the Jackson Hole symposium in August, Powell declared the first of these thresholds met, with clear progress on the second. Time will tell.

We continue to seek businesses with:

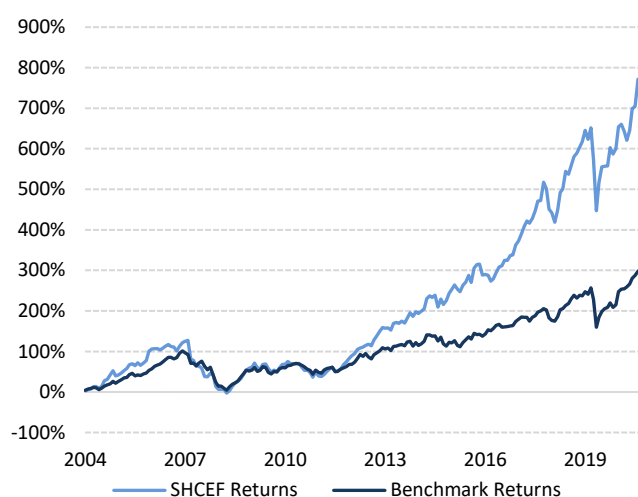
1. Competent management teams
2. Business leadership qualities
3. Strong balance sheets
4. A focus on capital management

Performance as at 31 August 2021*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	7.76	15.39	28.35	30.83	12.58	15.47	18.04	9.94	12.05
Fund (gross of fees)	8.27	16.25	29.81	33.17	14.84	17.68	20.27	11.98	14.20
All Ords Accumulation Index	2.60	6.34	14.75	29.00	10.56	11.29	10.40	7.23	8.78
Difference (gross of fees)	5.67	9.91	15.06	4.17	4.28	6.39	9.87	4.75	5.42

*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	7.79
James Hardie Industries	JHX	6.13
Aristocrat Leisure	ALL	5.50
carsales.com	CAR	5.22
ResMed	RMD	5.21
Reece	REH	4.71
TechnologyOne	TNE	4.03
Iress	IRE	3.98
SEEK	SEK	3.96
Cochlear	COH	3.84

Unit prices as at 31 August 2021*

Entry price	\$3.9234
Mid price	\$3.9136
Exit price	\$3.9038

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Portfolio commentary

Appen (APX:ASX)

In August, Appen, a leading provider of data and solutions for use in artificial intelligence (AI) and machine learning (ML), reported its first half 2021 results. At a group level, revenue declined 2% to US\$196.6m and underlying operating earnings (EBITDA) fell 14.3% to US\$27.7m. Appen is a business in transition and is focused on shifting to a product based recurring offering. While growth in the core has undoubtedly slowed, Appen is experiencing growth in non-ad related new projects which need to ramp. In addition, strong growth is apparent in its new markets segment and in China. The true profitability of Appen is masked by losses in these early-stage businesses which will power the future.

Costs associated with the acquisition of Quadrant reduced guidance to underlying EBITDA of between US\$81m-US\$88m. CEO Mark Brayan's 2H weighted confidence in achieving the lower end of this range is underpinned by the group's high-quality pipeline and strengthening order book.

Appen's acquisition of Quadrant highlights the group's strategic intent to continue broadening its data capabilities and product offering. With an upfront cost of US\$25m and potential earnouts of US\$20m in equity, Appen has acquired expertise in mobile location and point of interest data. Quadrant, based in Singapore, uses local crowds for data verification. Combining Quadrant with Appen's platform of over one million crowd workers in over 170 countries, who have the ability collect relevant local information across the globe, delivers immediate and significant scale to this location data offering.

The company operates a capital light business and generates high cash conversion. Appen has a market capitalisation of \$1.3b and net cash of US\$66m.

Nanosonics (NAN:ASX)

Global leader in infection control solutions Nanosonics reported an annual performance reflective of two very distinct periods. With the COVID-19 pandemic heavily restricting access to hospitals in the first half, the company experienced a significant step up in sales as restrictions eased. Half-on-half revenue increased 39%. For the year, Nanosonics' installed base increased by 13% to 26,750 and reported revenue of \$103.1m, an increase of 3% (or 11% in constant currency).

The benefit of the group's ongoing R&D investment, averaging 17% of revenue since 2015, became evident with the unveiling of Coris, a technology platform targeting the autonomous cleaning of flexible endoscopes. While we are disappointed that the company succumbed to market pressure in releasing details of this product before approval, Coris could fulfil a significant unmet clinical need. Over 60m endoscopic procedures are conducted annually, while current cleaning of endoscopes, a flexible tubed camera lens that is inserted into the body, is a largely manual process involving 50 to 200 steps. Biofilm contamination of flexible endoscopes have been associated with chronic patient infections. Coris, potentially a new standard of care, has demonstrated significant superiority in decontamination of biofilm.

Nanosonics ended the period with a net cash balance of \$96m and has a current market capitalisation of \$2.0b.

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 (%)
Domino's Pizza Enterprises	2.16
James Hardie Industries	0.91
carsales.com	0.72
Blackmores	0.68
Nanosonics	0.66
Bottom five	Contribution (%)
Reece	(0.57)
Altium	(0.44)
Jumbo Interactive	(0.21)
Cochlear	(0.19)
NIB Holdings	(0.12)

Industry exposure

Industry group	Weight (%)
Software & Services	22.15
Consumer Services	18.10
Health Care Equipment & Services	15.24
Media & Entertainment	10.38
Capital Goods	7.93
Materials	6.13
Diversified Financials	4.93
Pharmaceuticals, Biotech & Life Sciences	4.17
Automobiles & Components	2.47
Household & Personal Products	2.41
Insurance	2.40
Cash & Other	2.39
Consumer Durables & Apparel	1.31

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