

# Selector High Conviction Equity Fund

Monthly report – September 2021

## Market insights

In September over \$30b in dividends hit investor's bank accounts, while the All Ordinaries Index closed down 2.5% to 7,630 points, the first monthly decline since last September. As domestic businesses prepared for an expected easing in pandemic restrictions, international headlines were dominated by dislocations in Chinese property and energy markets.

In his continued push toward social equality, Chinese President Xi Jinping has now introduced measures to curb market forces in entertainment, education, and technology. In September the property market came into focus, as the central government's efforts turned to reducing property speculation while making housing more affordable under the banner of "common prosperity". As a result, and unable to raise new debt, the world's most indebted property developer Evergrande faced the threat of default on its US\$300b in liabilities, without the backing of the central communist party. While headlines screamed of the systemic risk posed, unlike Lehman's, this event came as no surprise to Chinese authorities. The near-term impact in China will be felt through lower economic growth and longer term the loss of entrepreneurial spirits. The property market is currently the single largest driver of the country's economy. Andy Xie, an economist, notes, "Few options for decoupling economic growth from housing exist. China should have focused more of its construction on megacities, which tend to have diverse sources of funding and competent administrators... For the economy to end its unhealthy dependence on property development, it may be necessary for many local governments to cease to exist."

As the world's largest emitter of carbon dioxide, China's ability to curb emissions is critical in the global effort to tackle climate change. In 2020 the country announced its intention to reduce carbon emissions by 65% before 2030. These new environmental targets have increased the cost of producing electricity from coal. Coupled with increasing global demand, which in turn has driven coal prices higher, Chinese energy providers have been squeezed from both sides. A largely regulated pricing regime, has left energy providers unable to pass on higher costs and incapable of meeting demand. Power rationing is underway in 20 of 31 provinces and regions has seen factories forced to close or face shorter operating hours potentially creating another economic headwind, for the centrally planned Chinese economy, unless the current energy crisis is resolved in short order.

Data released in September included U.S. home prices for July which surged 19.7%, once again posting the biggest jump in more than 30 years. The record gain in the S&P CoreLogic Case-Shiller index of property values nationwide followed a 18.7% jump in June and was the 14th straight month of accelerating price increases.

In late September the U.S. Federal Reserve prepared markets for the strong possibility that it will start to taper its pandemic-programme asset purchases in November. The central bank also hinted at an interest rate rise next year.

We continue to seek businesses with:

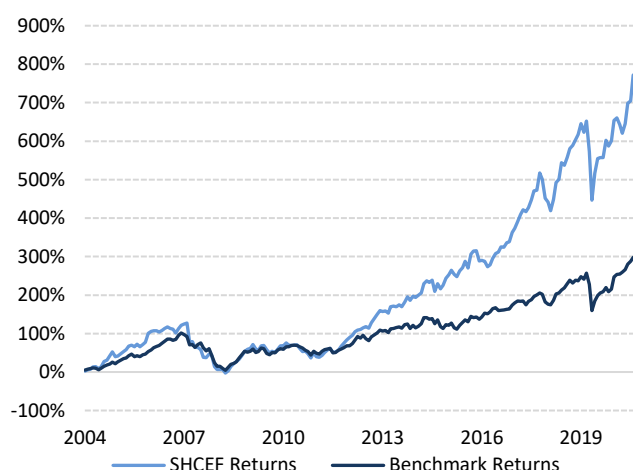
1. Competent management teams
2. Business leadership qualities
3. Strong balance sheets
4. A focus on capital management

## Performance as at 30 September 2021\*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	(1.22)	5.37	22.72	32.53	13.23	15.18	18.84	9.60	11.91
Fund (gross of fees)	(1.04)	6.20	24.17	34.75	15.52	17.40	21.09	11.65	14.05
All Ords Accumulation Index	(1.58)	2.05	10.88	31.46	10.37	10.84	10.94	7.03	8.63
Difference (gross of fees)	0.54	4.15	13.29	3.29	5.15	6.56	10.15	4.62	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	7.80
James Hardie Industries	JHX	5.86
Aristocrat Leisure	ALL	5.71
carsales.com	CAR	5.32
Altium	ALU	5.28
ResMed	RMD	4.87
TechnologyOne	TNE	4.68
Reece	REH	4.35
Cochlear	COH	4.02
SEEK	SEK	3.82

## Unit prices as at 30 September 2021\*

Entry price	\$3.8755
Mid price	\$3.8658
Exit price	\$3.8561

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## Portfolio commentary

### TechnologyOne (TNE:ASX)

Leading enterprise Software as a Service (SaaS) provider TechnologyOne announced the acquisition of Scientia Resource Management (Scientia), a U.K. company servicing the higher education sector. Scientia provides Syllabus Plus, a market leading timetabling and resource scheduling product, to over 150 leading Universities across the U.K. and Australia.

Despite entering the U.K. in 2006, TechnologyOne is yet to reap the full benefits, having just turned a small profit in the first half of 2021. With the U.K. total addressable market estimated at three times that of Australia, this acquisition confirms CEO Edward Chung's confidence, *"This acquisition forms part of our strategic focus to deliver the deepest functionality for Higher Education and it will accelerate our growth and competitive position in the U.K. as well as have significant benefits in the Australian Higher Education market."*

The acquisition is expected to cost £12m, with £6m paid upfront. The remaining £6m will be dependent on progressive earnout milestones out to FY23, fully funded from existing cash reserves.

TechnologyOne has a current market capitalisation of \$3.6b.

### FINEOS Corporation Holdings (FCL:ASX)

FINEOS undertook an equity placement, raising a total of \$74m of new capital at the issue price of \$4.30 per share. The funds will be used to capitalize on the significant global cloud adoption opportunity evident in the group's addressable insurance market of Life, Accident and Health.

CEO Michael Kelly explained; *"Our growth expectations for FY22 are underpinned by a pipeline of cross-sell and up-sell opportunities with existing clients in addition to new name opportunities. The equity raising ensures FINEOS has the balance sheet strength and financial flexibility to aggressively pursue those opportunities and accelerate growth."*

For 2022, the company is guiding to revenues of €125m-€130m, up 20% at the top end of the range. Post the raising CEO Kelly controls 170m shares, or 56% of total capital, having lifted his holding during the period.

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

### Flight Centre Travel Group (FLT:ASX)

Flight Centre Travel Group has continued its strategic expansion within the Asian corporate travel sector with the launch of its leading FCM travel management business in Japan. This will be undertaken via a joint venture (JV) with Tokyo-based NSF Engagement Corporation. As the fourth largest corporate travel market, access to Japan will significantly enhance Flight Centre's ability to win new local and multi-national accounts and provide existing customers with an improved offering.

Flight Centre has a current market capitalisation of \$4.7b.

### Iress (IRE:ASX)

Iress announced discussions with Swedish Private Equity firm EQT concluded with EQT withdrawing its non-binding offer for the business. As a result, Iress incurred estimated pre-tax costs of \$4m-\$5m while also confirming the launch of a \$100m on-market share buy-back program.

Iress has a current market capitalisation of \$2.2b.

## 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.

## Performance contributors

Top five	Contribution (%)
Altium	0.77
Flight Centre Travel Group	0.66
TechnologyOne	0.60
Medical Developments International	0.22
Domino's Pizza Enterprises	0.19
Bottom five	Contribution (%)
Iress	(0.85)
Reece	(0.39)
ResMed	(0.38)
Reliance Worldwide Corporation	(0.34)
James Hardie Industries	(0.32)

## Industry exposure

Industry group	Weight (%)
Software & Services	23.93
Consumer Services	19.21
Health Care Equipment & Services	15.00
Media & Entertainment	10.40
Capital Goods	7.23
Materials	5.86
Diversified Financials	4.60
Pharmaceuticals, Biotech & Life Sciences	4.37
Insurance	2.49
Automobiles & Components	2.36
Household & Personal Products	2.32
Consumer Durables & Apparel	1.19
Cash & Other	1.03

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