

# Selector High Conviction Equity Fund

Monthly report – November 2021

## Market insights

Markets ended November in a state of flux, as countries assessed the potential impacts of a new COVID variant, Omicron, overshadowing earlier headlines centered on inflation, supply chain constraints and interest rates. While markets were volatile, the All-Ordinaries Index finished the month broadly flat.

In the U.S., inflation and interest rates remained key topics of concern. With the consumer price index rising in October to an annual reading of 6.2%, the Federal Reserve (Fed) declared its intention to taper its US\$120b a month bond purchase program by US\$15b a month starting in November. At current rates, this program could be phased out by June 2022, providing flexibility to raise interest rates if required. The Fed may accelerate this timeline with Chair Jerome Powell noting *“our policy will adapt, and has already adapted, to the changing understanding of inflation, and of bottlenecks and the whole supply-side story, which is also partly a demand story.”*

Despite this change, Chairman Powell remains of the view that current inflationary pressures should in time normalise within the 2% to 2.5% range objective. His reappointment for a second term by the Biden administration points to an ongoing commitment to full employment policies.

A similar view on inflation is shared in New Zealand, however, a *‘hawkish’* response has been implemented with the central bank raising cash rates for the second time in as many months to 0.75%. Expectations are for rates to progressively lift to levels that maintain price stability and support maximum employment.

The U.S. fiscal response accelerated with President Biden signing into law a US\$1.2t infrastructure bill, the largest federally directed investment in a decade. A further US\$1.7t healthcare, education and climate-change package is also under Congressional review. With government debt sitting at all-time highs, the question remains whether the economy can sustain interest rate rises. Investors continue to bet against this with the yield on U.S. 30-year Treasury inflation-protected securities at all time low levels.

The 2021 United Nations Climate Change Conference, known as COP26 was held in November aiming to slow global warming. A global reduction in methane and reliance on fossil fuels are seen as priorities. Although more than 140 countries pledged commitments to reach net-zero emissions, current estimates will limit global warming by 1.8 degrees by end of the century. These ambitions fall short of the 1.5 degree target set in the Paris Agreement.

Finally, the rise of cryptocurrencies caught the attention of many industry players including banks, industry funds and regulators. While CBA has welcomed the trading of cryptocurrencies on its platform, Australian Securities and Investments Commission (ASIC) Chairman Joe Longo shared an opposing view noting, *“consumers should approach investing in crypto with great caution”*. While cryptocurrencies remain a topical area, the underlying blockchain technology has gained widespread support.

We continue to seek businesses with:

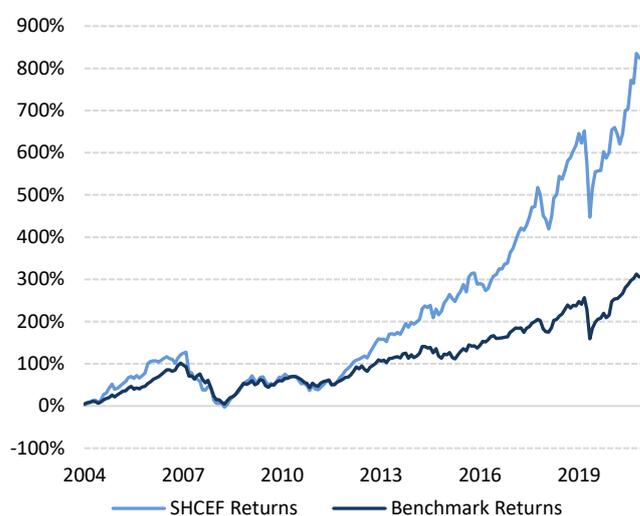
1. Competent management teams
2. Business leadership qualities
3. Strong balance sheets
4. A focus on capital management

## Performance as at 30 November 2021\*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	1.79	0.03	15.43	22.26	17.77	16.97	18.73	8.64	11.87
Fund (gross of fees)	2.30	0.71	17.07	24.99	20.24	19.27	20.99	10.68	14.02
All Ords Accumulation Index	(0.33)	(1.76)	4.47	16.69	13.64	10.75	10.54	6.51	8.53
Difference (gross of fees)	2.63	2.47	12.60	8.30	6.60	8.52	10.45	4.17	5.49

\*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 (%)
James Hardie Industries	JHX	6.08
Domino's Pizza Enterprises	DMP	5.91
Altium	ALU	5.89
Aristocrat Leisure	ALL	5.27
Reece	REH	4.99
carsales.com	CAR	4.96
TechnologyOne	TNE	4.77
ResMed	RMD	4.44
SEEK	SEK	4.00
Cochlear	COH	3.91

## Unit prices as at 30 November 2021\*

Entry price	\$3.9245
Mid price	\$3.9147
Exit price	\$3.9049

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## Portfolio commentary

### Fisher & Paykel Healthcare Corporation (FPH:ASX)

In November, leading medical device manufacturer Fisher & Paykel Healthcare reported its half year 2022 result. Noting peak hospitalisations in the prior comparative period, the result was ahead of market consensus, with revenue largely unchanged at NZ\$900m and operating profits down 2% to NZ\$302.4m.

Within the Hospital segment, new application consumables revenue rose 20% while hardware sales declined 10%. Management expects hardware sales to normalise further, as current demand levels remain elevated due to COVID. Despite this, the business remains well positioned, with a growing body of clinical evidence and real-world use cases for nasal high flow (NHF) supporting an increase in adoption across the entire hospital setting. Fisher & Paykel Healthcare has a market capitalisation of \$18b and net cash of NZ\$216m.

### OFX Group (OFX:ASX)

Global foreign exchange and payments firm OFX Group delivered a record half year result with clear momentum evident across the business. At a group level, net operating income rose 27.3% to \$68.6m while underlying operating profits lifted 88% to \$20.3m, representing an underlying EBITDA margin of 29.5%.

OFX's technology offering combined with its superior customer service has resonated well within the company's target markets of High Value Consumer, Corporate and Enterprise. Revenue across these segments grew at 28.1%, 16.2% and 40.5% respectively. The half also marked a return to growth for Enterprise, which excludes meaningful contribution from recent deals with the ATO, Pearler, Douugh and WiseTech Global. The healthy Enterprise pipeline provides significant earnings latency. OFX has a market capitalisation of \$485m and net cash of \$63.1m.

### TechnologyOne (TNE:ASX)

Global enterprise resource planning (ERP) software provider TechnologyOne reported its full year 2021 result with revenue rising 4% to \$312m and net profit before tax lifting 19% to \$97.8m. SaaS annual recurring revenue (ARR), seen as a better indicator of management execution, delivered organic growth of 43% to \$192.3m. At balance date ARR was \$257m.

TechnologyOne has now reached a tipping point for SaaS, with the company announcing an end to its on-premise offering by October 2024. Described as a 'watershed' moment, the company expects most legacy customers to shift to the cloud, joining the 637 enterprise customers that have moved to date.

While near term growth will be driven by migration to SaaS, the U.K. and Digital Experience Platform (DXP) are poised to contribute meaningfully longer-term. Research and development spend remains a high priority, rising 13% to \$77m, representing 24% of revenue. Management confirmed its target of achieving \$500m in ARR by FY26 with minimum operating margins of 35%, remains on track. TechnologyOne has a market capitalisation of \$3.7b and net cash of \$142.9m.

### PolyNovo (PNV:ASX)

In November, Paul Brennan announced his resignation as CEO of PolyNovo following seven years in the role. The Board recognises this as a catalyst to appoint an experienced leader to drive further growth in the U.S. and Europe.

## 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	0.78
Reece	0.76
James Hardie Industries	0.51
OFX Group	0.48
Megaport	0.30
Bottom five	Contribution (%)
Nearmap	(0.45)
Aristocrat Leisure	(0.30)
Domino's Pizza Enterprises	(0.29)
Flight Centre Travel Group	(0.28)
IOOF Holdings	(0.25)

## Industry exposure

Industry group	Weight (%)
Software & Services	25.18
Consumer Services	16.28
Health Care Equipment & Services	14.01
Media & Entertainment	10.17
Capital Goods	8.20
Materials	6.08
Diversified Financials	4.78
Pharmaceuticals, Biotech & Life Sciences	4.20
Cash & Other	3.10
Automobiles & Components	2.41
Insurance	2.35
Household & Personal Products	2.09
Consumer Durables & Apparel	1.16

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