

# Selector High Conviction Equity Fund

Monthly report – December 2021

## Market insights

Despite enjoying stretches of relative normality over 2021, we ended the year largely where we began, in the grip of COVID as domestic markets looked past the acceleration of Omicron, with December recording a positive return of 2.53%. The All Ordinaries Index recorded a double-digit gain of 13.55% over the past twelve months, to finish the year at 7,779.

The Federal Reserve (Fed) has recognised that inflation is proving more structural and less 'transitory' than originally expected. This has led to an accelerated taper of its quantitative easing program, which is now set to complete in March 2022, rather than in June as originally planned. Fed Chair Jerome Powell commented, "We are phasing out our purchases more rapidly because with elevated inflation pressures in a rapidly strengthening labour market, the economy no longer needs increasing amounts of policy support." Consumer prices in the U.S. rose 6.8% in the year through to November, marking the fastest pace of increase since 1982.

To restrain demand and restore price stability, new Fed projections are indicating three 0.25% increases in the Federal Funds rate next year. According to policymakers, this could be followed by an additional three increases in 2023 and two more in 2024, bringing the Funds rate to 2.1%.

Also reacting to inflationary pressures, the Bank of England surprised markets by increasing interest rates to 0.25% up from 0.1%; the first increase in three years. Domestically, the Reserve Bank Board is not expecting rates to change in 2022 as inflation is still below the 2%-3% target range.

With the domestic pool of superannuation assets exceeding \$3.4t, Treasurer Josh Frydenberg has introduced proxy advice reform, seeking increased accountability in the influential and highly concentrated industry. The reform seeks to institute additional oversight, ensure companies are provided with advice relevant to them, and require independence between advisors and institutional clients. These changes are aimed at improving governance, reducing factual errors and minimising the risk that a small number of investors could wield disproportionate influence over investor voting. Having previously expressed our views of the shortcomings in this area, these reforms are a welcome development.

While today's focus remains fixated on inflation and interest rates, the structural impacts brought on by the pandemic require deeper appreciation. Exacerbated by skill shortages and strong demand in new industry arenas, career transitions are becoming increasingly commonplace. The 'Great Resignation' has continued to accelerate over 2021 with a record 4.4m Americans leaving their jobs in September alone. In our opinion, herein lies the biggest risk to any enterprise; the loss of key personnel impacting the cultural setting of an organisation. It also highlights why founder-led businesses are more highly sought, as they allow for the focused pursuit of aspirational long-range targets.

We continue to seek businesses with:

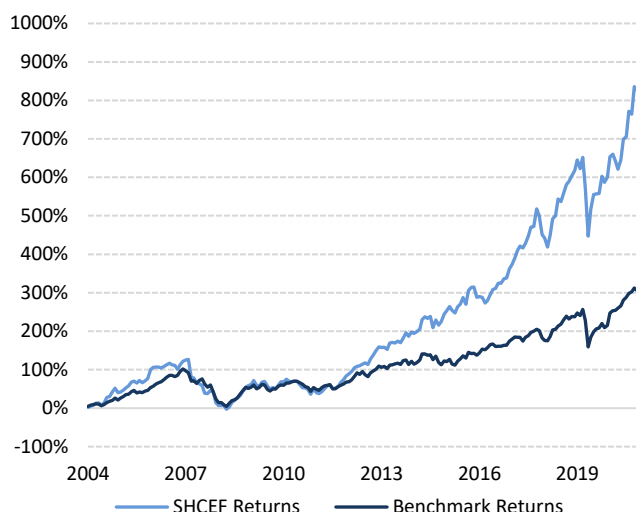
1. Competent management teams
2. Business leadership qualities
3. Strong balance sheets
4. A focus on capital management

## Performance as at 31 December 2021\*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	1.77	3.05	8.59	23.56	20.24	17.56	19.12	8.73	11.92
Fund (gross of fees)	1.72	3.52	9.94	26.09	22.68	19.82	21.36	10.76	14.06
All Ords Accumulation Index	2.67	2.48	4.58	17.74	14.82	10.43	11.01	6.45	8.66
Difference (gross of fees)	(0.95)	1.04	5.36	8.35	7.86	9.39	10.35	4.31	5.40

\*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 (%)
Altium	ALU	6.07
James Hardie Industries	JHX	5.83
Reece	REH	5.56
Domino's Pizza Enterprises	DMP	5.18
Aristocrat Leisure	ALL	5.02
carsales.com	CAR	4.95
TechnologyOne	TNE	4.77
ResMed	RMD	4.23
CSL	CSL	4.00
Cochlear	COH	3.74

## Unit prices as at 31 December 2021

Entry price	\$3.9939
Mid price	\$3.9839
Exit price	\$3.9739

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## Portfolio commentary

### CSL (CSL:ASX)

This month, leading global biotechnology company CSL announced its intention to acquire Vifor Pharma, a Swiss specialty pharmaceuticals company. Vifor develops, manufactures, and markets leading products in iron deficiency, renal, and cardio-renal therapies. Strategically, the acquisition offers an expanded product and R&D portfolio with the potential to leverage CSL's global infrastructure to grow Vifor's renal franchise. Key to the acquisition is Vifor's partnership with Fresenius Medical Care, the global leader in dialysis. This partnership positions CSL for global leadership in nephrology providing access to 350,000 kidney disease patients, over 54m dialysis treatments and 4,000 dialysis clinics.

The all-cash public tender offer at a 40% premium to its recent trading price values Vifor at \$16.4b and will be funded through a \$6.3b institutional placement, along with existing cash and new debt facilities. While the offer is subject to a minimum acceptance rate of 80%, the transaction has received unanimous approval from Vifor's board and is supported by Patinex AG who represent 23.2% of Vifor's issued capital.

The acquisition is expected to be earnings accretive in the first full year of ownership. CSL confirmed its FY22 NPAT guidance of between US\$2.15b–US\$2.25b in constant currency.

CSL has a current market capitalisation of \$135.8b.

### Nearmap (NEA:ASX)

Leading aerial imagery and location intelligence company Nearmap announced that its key growth metric Annualised Contract Value (ACV) for its North American (NA) operation is on track to surpass the established Australian and New Zealand (ANZ) business by the end of 2021. This is a milestone given image capture in North America commenced only eight years ago, compared to the 14 years of domestic operation, and speaks to both the scale of opportunity and go-to market strategy in that market.

Nearmap has committed to continued investment in this strategic market, expecting to double the capture footprint in FY22 to cover circa 80% of the population, up to three times a year. The company confirmed its FY22 ACV guidance range of between \$150m–\$160m, an increase of between 17%–25%.

Nearmap has a current market capitalisation of \$763m.

### OFX Group (OFX:ASX)

Global international payment services supplier OFX Group announced that it has entered into an agreement to acquire corporate foreign exchange business Firma Foreign Exchange Corporation. Based in Edmonton, Canada, Firma has 194 employees and services over 9,600 corporate customers.

Firma is a profitable business recording revenues of \$51.9m in FY21 and \$10.9m in operating profits (EBITDA). The \$98m cash and debt funded acquisition is expected to complete in Q1 FY23 subject to customary approvals. For OFX, this acquisition is equivalent to 5 years of organic growth, increasing Corporate and North American revenue by 93% and 121% respectively.

At completion, OFX will have net debt to pro-forma EBITDA of around 1.5x, with the ability to de-leverage by FY26 through strong cash flow generation.

OFX has a current market capitalisation of \$570m.

## 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 (%)
Reece	0.75
Nanosonics	0.48
Altium	0.40
Jumbo Interactive	0.31
OFX Group	0.29
Bottom five	Contribution (%)
Domino's Pizza Enterprises	(0.53)
Megaport	(0.24)
SEEK	(0.23)
CSL	(0.14)
Fisher & Paykel Healthcare Corporation	(0.06)

## Industry exposure

Industry group	Weight (%)
Software & Services	25.93
Consumer Services	15.41
Health Care Equipment & Services	14.10
Media & Entertainment	9.78
Capital Goods	8.70
Materials	5.83
Diversified Financials	4.84
Pharmaceuticals, Biotech & Life Sciences	4.65
Cash & Other	3.03
Automobiles & Components	2.28
Insurance	2.27
Household & Personal Products	2.01
Consumer Durables & Apparel	1.17

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