

Selector Australian Equities Fund

Monthly report – January 2022

Market insights

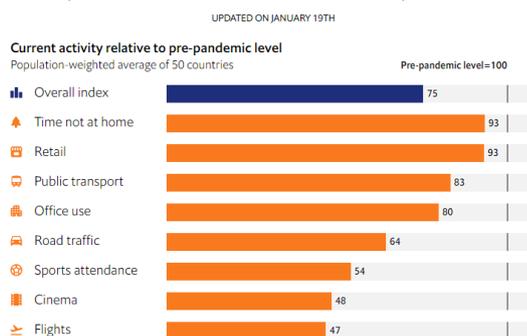
Markets were roiled in January with the local All Ordinaries Index falling 6.6% to 7,268. The turbulence reflected broader macroeconomic shifts in inflation, employment, and interest rates expectations. We are mindful that investors are currently at the furthest point from the truth as we await company updates during February reporting season.

With headline inflation in the U.S. nearing a 40 year high at 7%, the Federal Reserve (Fed) have signalled their intention to raise the cash rate in March to tackle sharply rising prices. As San Francisco Fed President Mary Daly explained, “we definitely are poised for a March increase ... but after that, I want to see what the data brings us ... let's get through Omicron, let's look at this and let's see”.

Domestically, the Reserve Bank of Australia (RBA) believes that local price pressures are milder and more temporary when compared to the U.S. While wages have jumped in the U.S. due to labour shortages, that dynamic is yet to play out locally. In Australia, the unemployment rate has fallen to its lowest level in more than thirteen years (4.2%) without stoking a wage-price spiral. The central bank held rates unchanged at its February meeting noting they are ‘prepared to be patient [while] it monitors how the various factors affecting inflation in Australia evolve’.

Overall, the local economy fared better than the official RBA forecasts for 2021 with GDP growth of 5% against an expected 3.5%. Globally, the IMF has predicted that the world economy will grow by 4.4% this year, a downward revision from its October projection of 4.9%. The forecast reflects ongoing U.S. supply-chain issues and monetary tightening as well as a resurgence of COVID-19 and financial stress in China.

Finally, we circle back to a question many have been asking themselves for the past two years – when (if ever) will the world return to normal post COVID-19? The Economist have created a ‘Normalcy Index’ comprised of eight indicators across transport and travel; recreation and entertainment; and retail and work. While the index indicates that activity is only 75% of pre-pandemic levels across the 50 countries measured, the variance between categories is significant as depicted below (Source: *The Economist, The Global Normalcy Index*):



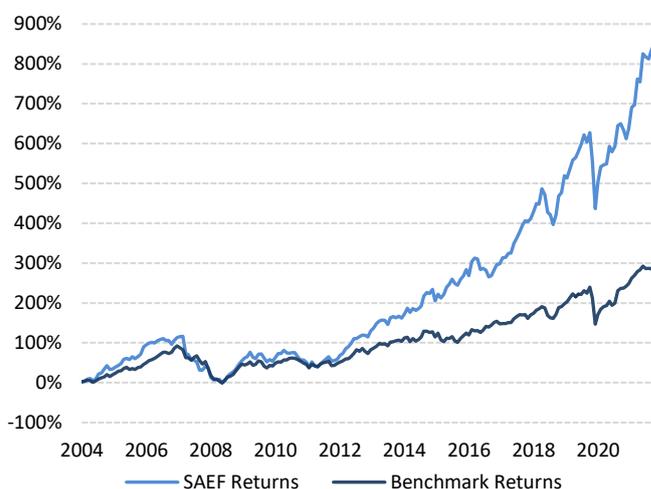
We continue to seek businesses with; 1. Competent management teams, 2. Business leadership qualities, 3. Strong balance sheets, 4. Focus on capital management.

Performance as at 31 January 2022*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception Annualised
Fund (net of fees)	(12.11)	(8.92)	(3.54)	11.46	14.85	15.70	15.71	6.89	10.16
Fund (gross of fees)	(12.59)	(9.01)	(2.87)	13.07	16.74	17.83	18.98	9.90	13.12
All Ords Accumulation Index	(6.56)	(4.39)	(3.30)	9.68	10.79	9.11	9.70	5.82	7.92
Difference (gross of fees)	(6.03)	(4.62)	0.43	3.39	5.95	8.72	9.28	4.08	5.20

*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.

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 (%)
Aristocrat Leisure	ALL	5.85
James Hardie Industries	JHX	5.53
Domino's Pizza Enterprises	DMP	5.36
Altium	ALU	5.31
carsales.com	CAR	5.02
Reece	REH	4.74
TechnologyOne	TNE	4.59
ResMed	RMD	4.37
CSL	CSL	4.17
Cochlear	COH	4.00

Unit prices as at 31 January 2022

Entry price	\$2.7574
Mid price	\$2.7505
Exit price	\$2.7436

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Portfolio commentary

James Hardie Industries (JHX:ASX)

James Hardie Industries notified shareholders in January that the Board had found cause to terminate CEO Jack Truong after a three-year tenure. The reasons for his dismissal have been well articulated by the Chairman, that Jack's behaviour '*extensively and materially breached the James Hardie Code of Conduct*'. We fully support the reasoning behind the decision.

From an outsider's perspective, it was hard to fault Truong in terms of operations or execution. The financial track record under his watch has been impressive. We make no apologies for our admiration of the way Truong took the best of what James Hardie had to offer and made improvements, some basic and others profound. The business alignment, global employee engagement and operational excellence were the hallmarks of a re-energised organisation.

Along with the news of Truong's dismissal notice, management provided a trading update, lifting FY22 earnings guidance from a previous range of US\$580m-US\$600m to US\$605m-US\$625m. Board and management reconfirmed their confidence heading into 2023 and announced the appointment of Sean Gadd as the group's new North American President. Gadd and CFO Jason Miele, have been part of the executive leadership team integral to the group's development since 2004 and 2007 respectively.

The company will update investors further at the upcoming third quarter earnings call in February. James Hardie Industries has a current market capitalisation of \$20.4b.

Jumbo Interactive (JIN:ASX)

Online lottery operator Jumbo Interactive has announced that it has entered into an agreement to acquire UK lottery manager StarVale Group for up to £21.5m (~A\$40.6m), conditional on approval by the UK Gambling Commission. This purchase is significant in expanding Jumbo's footprint and scale in the U.K not-for-profit sector and follows the acquisition of Gatherwell in 2019.

Lancaster-based StarVale provides services to over 850,000 active lottery players across 45 charities and not-for-profit organisations. During 2021, StarVale processed ~A\$119m in ticket sales, generating revenue of ~A\$9.8m and net profit before tax of ~A\$3.8m. StarVale also comprises of DDPay Ltd, a wholly owned subsidiary and digital payments company that facilitates Direct Debit payments which is expected to provide cost efficiencies for the UK operations.

Jumbo Interactive has a current market capitalisation of \$1.1b.

ResMed (RMD:ASX)

In January, leading out-of-hospital medical device, mask, and software provider, ResMed reported its second quarter 2022 result. Over the period, the company navigated ongoing supply chain constraints, the recovery of sleep patient flow returning to near pre-pandemic levels, and '*an almost unlimited demand*' associated with the expanded Phillips product recall. Revenue grew 13% in constant currency to US\$894.9m and operating profits rose 5% to US\$267.7m.

For the quarter, ResMed recorded incremental device revenue earned from the Phillips recall of US\$45m to US\$55m. While the company expects supply shortages to persist, these pressures are expected to ease toward the fourth quarter and into FY23 pointing to record device sales and continued momentum.

ResMed has a market capitalisation of US\$34.0b and net debt of US\$486m. The company declared a quarterly dividend of US42c per share.

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.

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 (%)
OFX Group	0.00
Medical Developments International	(0.03)
Infomedia	(0.04)
Insignia Financial	(0.06)
Computershare	(0.07)
Bottom five	Contribution (%)
Altium	(1.25)
Reece	(1.02)
TechnologyOne	(0.91)
James Hardie Industries	(0.85)
Nanosonics	(0.66)

Industry exposure

Industry group	Weight (%)
Software & Services	24.37
Consumer Services	17.49
Health Care Equipment & Services	14.00
Media & Entertainment	10.24
Capital Goods	7.56
Diversified Financials	5.62
Materials	5.53
Pharmaceuticals, Biotech & Life Sciences	4.90
Automobiles & Components	3.18
Insurance	2.64
Household & Personal Products	1.92
Consumer Durables & Apparel	1.66
Cash & Other	0.90

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