

Selector High Conviction Equity Fund

Monthly report – February 2022

Market insights

Company reporting season remains an important barometer in determining the progress of businesses and on the general health of the economy. This year has proven to be no exception. We entered this interim reporting season with mounting geopolitical unrest, COVID-19 induced labour constraints, rising inflation, and ongoing supply chain complexities. However, management teams continue to impress in their ability to adapt and navigate the everchanging macroeconomic landscape. For the month, the All Ordinaries Index closed up 0.76% to 7,323 points.

Yet beneath the surface, share price action across several sectors and stocks was volatile. In many instances our assessment of performance differed to the market's interpretation. As we noted above, reporting season is a chance to measure progress. Whereas some are fixated on companies hitting guidance, we prefer leaders who balance performance with reinvestment. This is a long-term pursuit, rather than a short-term sprint. Maintaining long-term growth alongside sustainable profitability is a constant challenge, but it has been brought to the fore over recent years. The need to reinvest to meet longer term business aspirations often runs counter to hitting current earnings expectations that draws the market's focus.

Not surprisingly, supply chain and labour constraints were dominant talking points during the month. The war for talent has been particularly aggressive across technology and financial services with companies reporting wage increases, particularly for new hires, and difficulty in filling positions. With the national jobless rate running at a 13-year low of 4.2%, and set to decline further, companies are fighting hard to not only attract but also retain current staff.

After months of denying the prospect of war, Russia invaded Ukraine to overthrow a democratically elected government. While the West have avoided direct military intervention, the aggressor has been hit with a series of economic sanctions while financial support and munitions are bound for Ukraine. The U.S. and its European allies have blocked Russia's access to the SWIFT international payments network to paralyse the assets of its central bank. Russia's central bank has raised its key interest rate from 9.5% to 20% to shore up the rouble after it plunged 30% to an all-time low against the U.S. dollar. Global financial ramifications will play out overtime.

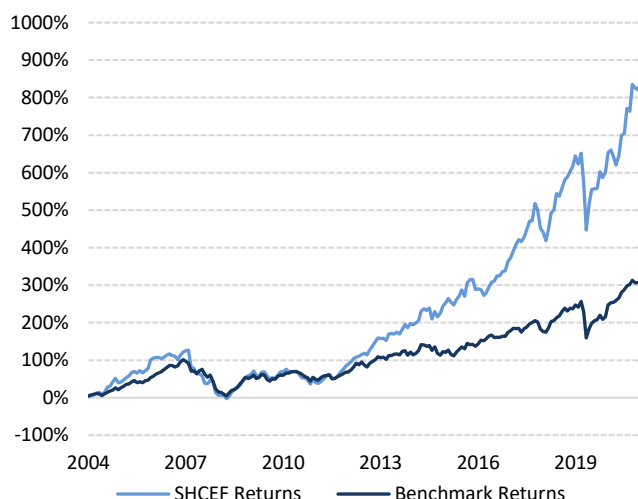
The invasion has highlighted sovereign risk amongst our superannuation industry with Treasurer Josh Frydenberg confirming his expectation that *"every fund will review their holdings and where consistent with their legal duties seek to divest any Russian holdings"*.

While the U.S. Federal Reserve is expected to raise rates in March, the local Reserve Bank maintained the cash rate of 0.10%. Noting concerns around raising inflation, Governor Philip Lowe added *"There are uncertainties about how persistent the pick-up in inflation will be [domestically] given recent developments in global energy markets and ongoing supply-side problems."*

We continue to seek businesses with:

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

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	5.68
Altium	ALU	5.32
Aristocrat Leisure	ALL	5.18
Cochlear	COH	5.05
ResMed	RMD	4.99
carsales.com	CAR	4.88
Reece	REH	4.80
CSL	CSL	4.49
TechnologyOne	TNE	4.43
Domino's Pizza Enterprises	DMP	4.28

Unit prices as at 28 February 2022

Entry price	\$3.3134
Mid price	\$3.3051
Exit price	\$3.2968

Performance as at 28 February 2022*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	(5.31)	(15.57)	(15.55)	8.39	8.21	13.85	15.97	7.51	10.61
Fund (gross of fees)	(5.18)	(15.77)	(15.18)	10.11	10.23	15.93	18.09	9.47	12.69
All Ords Accumulation Index	1.73	(2.41)	(4.13)	10.00	9.27	9.03	9.62	5.83	8.25
Difference (gross of fees)	(6.91)	(13.36)	(11.05)	0.11	0.96	6.90	8.47	3.64	4.44

*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.

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Portfolio commentary

Three notable results from reporting season have been included below. A compressive reporting season update will be available in the March Quarterly Newsletter.

Cochlear (COH:ASX)

Leading global bionic ear manufacturer Cochlear delivered a strong first half 2022 result with revenue increasing 12% to \$815m and underlying net profit up 20% to \$157m in constant currency (cc).

Sales performance varied across geographic regions due to intermittent COVID-related restrictions and reduced operating theatre capacity. Cochlear implant units increased 7% to 18,598 units, led by a stronger than expected emerging market recovery.

Services (32% of revenue) increased 21% to \$256m in cc, supported by the growing recipient base. Acoustics (12% of revenue) increased 40% to a record \$101m in cc, representing strong demand for new products and a recovery from COVID-related surgery delays.

Cochlear has net cash of \$506m and a current market capitalisation of \$14.9b.

Domino's Pizza Enterprises (DMP:ASX)

In February, Domino's Pizza Enterprises reported its half year 2022 result. The group navigated full and partial temporary store closures brought on by COVID-19 to deliver increased network sales of 11% to \$2b while operating earnings (EBIT) decreased 6% to \$145m.

Customer behaviour in Japan rapidly changed following the lifting of a nationwide State of Emergency in October 2021. This saw a rebasing of same store sales down 12.4% in Q2. Locally, Domino's reinvested \$6m in Project Ignite, which focuses on network improvement as high-quality franchisees purchase underperforming stores.

Resolute on the company's approach, CEO Don Meij noted, "COVID-19 has not changed our shared business strategy but instead reinforced the importance of it. Having experienced franchisees open stores closer to customers reduces delivery times and costs, increases customer satisfactions and sales, and makes our marketing and technology investments more efficient."

Domino's has a market capitalisation of \$6.8b and net debt of \$491m.

Nanosonics (NAN:ASX)

Global leader in infection control solutions Nanosonics reported a strong first half 2022 result, with total revenues of \$60.6m, up 41% alongside operating earnings (EBIT) of \$3.4m.

At the group level, new Trophon unit sales and product upgrades led to capital revenues doubling to \$19m. Consumable revenues increased 23% to \$42m, highlighting the attractiveness of this recurring earnings stream. Despite COVID-19 impacting hospital access, the business lifted the total installed base by 1,410 to 28,160.

The company also announced a revision to the current GE Healthcare (GE) distribution agreement in favour of a 'pass through' model. Under the new arrangement, GE will continue to sell on behalf of the company, however, Nanosonics will be responsible for inventory management, shipping, installation, and the training of new customers. The company expects a one-off revenue impact of \$13-\$16m in FY22 because of this transition.

Nanosonics has a market capitalisation of \$1.3b and net cash of \$92m.

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 (%)
Cochlear	0.67
Computershare	0.39
Insignia Financial	0.23
ResMed	0.22
Flight Centre Travel Group	0.13
Bottom five	Contribution (%)
Domino's Pizza Enterprises	(1.28)
Nanosonics	(0.60)
Reece	(0.56)
Altium	(0.53)
Appen	(0.53)

Industry exposure

Industry group	Weight (%)
Software & Services	26.20
Health Care Equipment & Services	15.61
Consumer Services	15.44
Media & Entertainment	9.58
Capital Goods	7.59
Diversified Financials	5.99
Materials	5.68
Pharmaceuticals, Biotech & Life Sciences	5.02
Insurance	2.55
Automobiles & Components	2.28
Household & Personal Products	2.20
Consumer Durables & Apparel	1.20
Cash & Other	0.67

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