Selector High Conviction Equity Fund

Monthly report – April 2019

Market insights

A strong lead from the U.S. saw the benchmark S&P 500 and Nasdaq Composite Index end in record territory, driving local markets higher. By month end, the All Ordinaries Index closed at a near decade high of 6,418.

Domestically, events were dominated by the government handing down the annual budget and the subsequent calling of the next federal election earmarked for 18 May. With a return to a budget surplus now forecast for 2020, the Morrison Government has put forward its case for re-election. That said, the Labor party remains firm favourite to take office and implement a host of new policies surrounding the treatment of negative gearing, capital gains and wage tax reform.

The release of a weak inflation reading for March took many by surprise. While Labor Leader Bill Shorten maintains that "*everything is going up in Australia except people's wages*", it doesn't seem to apply to our cost of living. In fact, Australia's headline inflation rate softened during the March quarter to record a rise of just 0.1%, pushing the annual rate down to 1.3%. The Reserve Bank, using a slightly different measure, recorded inflation at 1.6%, still lower than the 1.8% expected. Many now expect the Reserve Bank to cut the official interest rate from the current 1.5% level.

Offshore, Brexit remains unresolved some three years since voting to leave the European Union (EU). As a compromise, European leaders have agreed to grant Britain a six-month extension, with the deadline now towards the end of October.

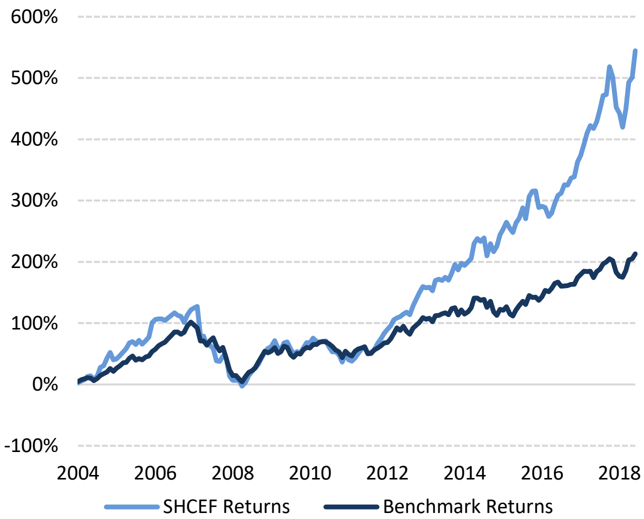
While investors continue to grapple with the current state of world markets, Jamie Dimon, Chairman and CEO of the U.S.'s largest bank JPMorgan Chase, provided investors some input on the U.S. recovery since 2008 stating "*There's no law that says it has to stop. We do make a list, and look at all the other things, geopolitical issues, lower liquidity. So, there may be a confluence of events that somehow causes the recession, but it may not be in 2019, 2020, 2021. If you look at the American economy, the consumer's in good shape, the balance sheet's in good shape, people are going back to the workforce. Companies have plenty of capital, and capital expenditure is still up year-on-year. Business and consumer confidence are both rather high.*" The biggest short-term risk nominated by Dimon was China.

To that end, discussions surrounding trade outcomes between the world's two largest economies, the U.S. and China have now entered their ninth month. Both nations have imposed tit-for-tat tariffs on $US250b worth of goods with each leader reluctant to give ground, suggesting a compromise deal is the most likely outcome.

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 (%)
Jumbo Interactive	JIN	5.83
Altium	ALU	5.82
IRESS	IRE	4.89
Aristocrat Leisure	ALL	4.85
Infomedia	IFM	4.48
Flight Centre Travel Group	FLT	4.06
Technology One	TNE	4.04
Nanosonics	NAN	3.93
Reliance Worldwide Corporation	RWC	3.91
ResMed	RMD	3.81

Unit prices as at 30 April 2019

Entry price	$3.0045
Mid price	$2.9970
Exit price	$2.9895

Performance as at 30 April 2019*

	FYTD	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Inception
Fund (Net of fees)	10.79	6.57	16.42	15.32	19.42	17.92	16.88	16.69	11.58
Fund (gross of fees)	12.77	7.21	17.41	16.71	21.91	20.16	19.05	18.88	13.71
All Ords Accumulation Index	5.59	2.54	9.51	10.83	10.23	11.02	7.75	10.10	8.19
Difference (gross of fees)	7.18	4.67	7.90	5.88	11.68	9.14	11.30	8.78	5.52

*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.

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Portfolio commentary

Blackmores (BKL:ASX)

Complementary vitamins group Blackmores unveiled a weaker third quarter, with net revenues down 4% to $141m and net profit falling 43% to $10m. The company is undergoing a significant restructure while navigating a tougher retail environment. In addition, the search for a new CEO is ongoing with the board expressing a clear preference for an external appointment.

While the headline numbers are disappointing, making comparisons on a quarter by quarter basis is difficult. Gross margins rose 4% driven by less promotional rebates while a firmer handle on operational costs saw increases limited to just 1%. Brand awareness remains a key priority for management, with the lift in marketing spend maintained. Longer term, a cost out program is gaining traction and is currently targeting $60m in savings over three years.

Despite the weaker result, interim CEO Marcus Blackmore noted, "*we firmly believe that this result does not reflect the long-term growth potential of the business.*" The appointment of a new CEO comes at a critical junction for the business. The changes underway will go some way to better positioning the company to navigate a more challenging environment. In the short term this will impact internal culture however, the removal of business complexity and the streamlining of operations are necessary.

For the full year the company is forecasting modest revenue growth while net profits in the second half are expected to fall short of the first half net profits of $34m. The balance sheet remains in good shape with low levels of debt, allowing the company to undertake the initiatives announced.

Flight Centre Travel Group (FLT:ASX)

Flight Centre amended the group's full year 2019 earnings outlook following weaker trading conditions in its key market of Australia. This has resulted in management reducing the expected profit before tax trading range from $390m-$420m to $335m-$360m. At the mid-point this represents a 15% reduction and is disappointing in the context of the company's excellent performance in offshore markets.

We discussed this positive development in our March 2019 Quarterly Newsletter with the U.S. market maturing into a significant earnings region. Specifically, the group's corporate (SME) travel segment is enjoying strong annual growth in excess of 20%, in a global market segment that remains underpenetrated. CEO Graham Turner confirmed as much noting, "*The USA business, which is now poised to become our second largest business behind Australia in both profit and Total Transaction Value (TTV) terms, is on a strong trajectory.*"

We remain positive on the business transition that is currently underway and, while the short-term results are below expectations, we would highlight that the weaker performance is masking a number of long-term positive developments. The group has a market capitalisation of $3.9b, coupled with a debt free balance sheet.

Performance contributors

Top five	Contribution (%)
Jumbo Interactive	2.21
Infomedia	0.69
Nearmap	0.61
Nanosonics	0.48
Reliance Worldwide Corporation	0.47
Bottom five	**Contribution (%)**
Flight Centre Travel Group	(0.39)
OFX Group	(0.18)
Sims Metal Management	(0.08)
Domino's Pizza Enterprises	(0.04)
Oil Search	(0.03)

Industry exposure

Industry group	Weight (%)
Software & Services	21.19
Consumer Services	20.22
Health Care Equipment & Services	11.24
Cash & Other	8.36
Commercial & Professional Services	6.84
Capital Goods	6.82
Materials	4.84
Diversified Financials	4.77
Energy	3.67
Pharmaceuticals, Biotechnology & Life Sciences	3.27
Insurance	3.13
Household & Personal Products	2.49
Media & Entertainment	2.27
Retailing	0.88

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.

Contact Us
Telephone: +61 2 8090 3610
Email: admin@selectorfund.com.au
Address: Level 8, 10 Bridge Street
Sydney NSW 2000
www.selectorfund.com.au

John Maragiannis | Managing Director
jmaragiannis@axiuspartners.com
Telephone: +61 419 689 503