

Selector Australian Equities Fund

Monthly report – July 2019

Market insights

Our local market maintained its positive trajectory during July, supported in large part by a U.S. market that continues to set new highs. By month end the All Ordinaries Index surpassed its previous peak set in 2007, closing up 2.9% to 6,897. While share markets are hitting new heights, global monetary policy settings point to weaker economic conditions. For the second consecutive month, our Reserve Bank (RBA) cut official interest rates by 0.25% to a new record low of 1.00%.

The RBA's actions reflect its long-held commitment to target inflation within a 2-3% range and an unemployment rate below 5%. To date, neither are within sight, prompting the RBA's clear response. Similar moves are underway in other global markets, including the U.S., where the ongoing trade war impasse is feeding through into slower economic activity. This was evident in the U.S., with the economy's June gross domestic product coming in at a weaker than expected rate of 2.1%.

Governments of all persuasions are struggling to deal with the current conundrum of low interest rates, low growth, low inflation. While the RBA Governor may want to blame globalisation on this outcome, the reality is that we are having to deal with a world that is in transition. On one hand you have industries that are struggling to deal with structural decline, while on the other you have industries experiencing rapid growth and expansion driven by the digital economy. The danger is in believing these two divergent paths can co-exist without some fallout.

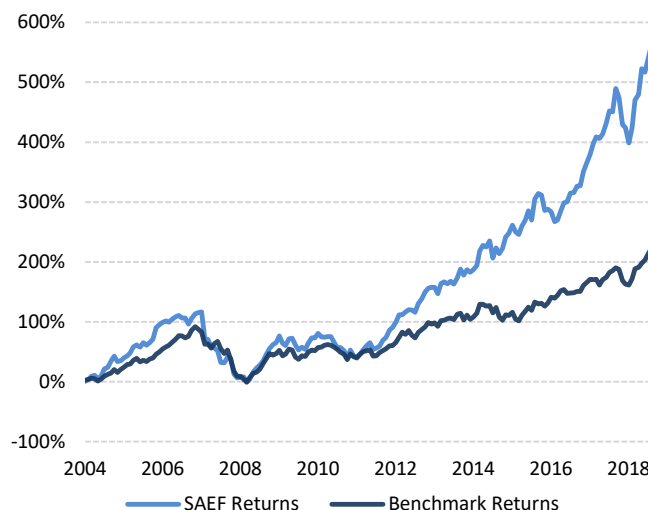
Rather than relying on past measures, Governments need to acknowledge the shift occurring within respective economies and adjust accordingly. A prime example being the need to foster and encourage greater research and development expenditure within businesses, supported by sensible tax reform. Unfortunately, most of our elected officials are still wedded to the traditional mechanisms of monetary and fiscal policies. Of these two options, monetary is still the preferred course of action despite its apparent lack of success that is most evident in the global bond market. Having skirted with negative interest rates during the European crisis, we now have a host of countries including, Germany, France, Austria, Denmark, Netherlands, Sweden, Switzerland and Japan offering 10-year government bonds with a negative yield. In Australia, 10-year bonds are trading at 1.18%.

Many commentators are expressing concern that these settings are leading us into uncharted economic waters. We would agree but note that this is a by-product of economies in transit and the resultant business dislocation that is underway in many industries. Further, we would add that as a result of this dislocation, the opportunity set open to newer and more contemporary business owners has never been greater. To this end, the share market remains a compelling area of investment, where the real skill will be in avoiding the many and selecting the very few that have the qualities and the game plan to prosper.

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: 07/12/2004

Before fees, costs and tax, and assuming reinvestment of distributions

Top holdings

Company name	Code	Weight (%)
Altium	ALU	5.67
Jumbo Interactive	JIN	5.56
Aristocrat Leisure	ALL	4.91
Infomedia	IFM	4.69
IRESS	IRE	4.40
ResMed	RMD	4.37
Cochlear	COH	4.31
Seek	SEK	3.99
Flight Centre Travel Group	FLT	3.77
Nanosonics	NAN	3.75

Unit prices as at 31 July 2019

Entry price	\$2.2835
Mid price	\$2.2778
Exit price	\$2.2721

Performance as at 31 July 2019*

	FYTD	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Inception Annualised
Fund (net of fees)	3.37	3.37	5.87	25.28	18.33	15.29	16.35	13.52	10.57
Fund (gross of fees)	3.47	3.47	6.28	26.23	20.18	17.74	19.31	17.26	13.76
All Ords Accumulation Index	2.96	2.96	8.27	18.57	12.94	11.44	8.70	9.51	8.32
Difference (gross of fees)	0.51	0.51	(1.99)	7.66	7.24	6.30	10.61	7.75	5.44

*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. Performance can be volatile and future returns can vary from past returns.

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Portfolio commentary

Nearmap (NEA:ASX)

During July aerial imagery leader Nearmap, provided investors with their preliminary results for 2019. Nearmap's key growth metric of Annualised Contract Value (ACV), rose 36% from \$66.2m to \$90.2m for the year. This was driven by a continued improvement in the local Australian market, which lifted 19% to \$58m and record annual ACV growth in the U.S. market, up 76% to \$22.7m. North America now represents 36% of the group's portfolio.

Focusing specifically on the U.S. market, other key metrics include the sales contribution ratio remaining at 100%, highlighting the positive traction the business is enjoying as it continues to scale its sales operation. Management have targeted key cities and commercial business verticals to prove out the model. This has led to the opening of its second North American sales office, located in New York.

The update also confirmed that New Zealand and Canadian capture programs are well advanced, while sales of both the recently launched online 3D and Artificial Intelligence content offering took place during the quarter. Nearmap also flagged accounting changes relating to the amortisation treatment of capture costs. Historically the group has capitalised these costs and amortised them on a straight-line basis over 5 years. Effective from January 2019, these costs will be amortised over a more conservative time frame of 2 years.

Nearmap has a current market capitalisation of \$1.5b and cash of \$76m.

ResMed (RMD:ASX)

Sleep apnea global leader ResMed, delivered its fourth quarter earnings release during July. The company, profiled in our June quarterly newsletter, completed a frantic year of strong organic growth coupled with acquisitions, including MatrixCare and HEALTHCAREfirst.

Financially, the business generated a strong final quarter, underpinned by the group's U.S. region, with both devices and masks growing solidly. This saw total sleep and respiratory care operations rise 11% to US\$385m while Rest of World grew 4% on a constant currency basis to US\$234m. The company's Software as a Service (SaaS) division recorded revenues totalling US\$85.2m for the final quarter.

For the 2019 year, total sleep and respiratory revenues rose 7% to US\$2.33b while SaaS revenues grew to US\$275m. All up, revenues hit the US\$2.6b mark while underlying operating profits (EBITA) lifted to US\$711m, up 17%, with margins improving from 25.9% to 27.3%. A highlight has been the company's strong performance in the mask category, reporting market share gains on the back of strong top line group growth of 10% to US\$969m. Devices grew 4% to US\$1.4b, with softer Rest of World growth, offsetting solid gains in the U.S.

The business is focused on providing an end to end solution, combining medical equipment with market leading digital health technology solutions. While the offering is still in its infancy, the acquisitions noted above are addressing industry needs to provide a more streamlined, accurate record of patient engagement and treatment adherence.

ResMed has a current market capitalisation of US\$19b and net debt of US\$1.1b.

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 (%)
Infomedia	0.80
ResMed	0.43
Altium	0.40
Flight Centre Travel Group	0.38
IOOF Holdings	0.34
Bottom five	Contribution (%)
Nearmap	(0.42)
Jumbo Interactive	(0.21)
TechnologyOne	(0.09)
Nanosonics	(0.08)
Seek	(0.05)

Industry exposure

Industry group	Weight (%)
Consumer Services	18.71
Software & Services	17.82
Health Care Equipment & Services	15.92
Commercial & Professional Services	7.43
Cash & Other	6.68
Capital Goods	5.83
Diversified Financials	5.06
Materials	4.91
Pharmaceuticals, Biotechnology & Life Sciences	4.13
Insurance	3.64
Media & Entertainment	3.14
Household & Personal Products	2.68
Automobiles & Components	2.01
Energy	1.28
Retailing	0.77

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