

Selector High Conviction Equity Fund

Monthly report – December 2019

Market insights

In a year marked by global political unrest, our share market delivered a stellar investment performance for 2019. Despite a muted finish, with December recording a negative return of 2.1%, our main All Ordinaries Index clocked up a double-digit gain of 19.1% for the past twelve months, to finish the year at 6,802.

Investors have had to weather a series of global macro headwinds throughout the course of 2019, culminating in an eventful month end. After an inquiry into whether U.S. President Donald Trump abused his power in withholding military aid to unduly pressure a foreign government, the U.S. House of Representatives voted along party lines to impeach the incumbent President on two counts. While the vote has successfully passed through the House, it is considered largely symbolic as gaining the requisite two thirds majority in a primarily Republican Senate is seen as highly unlikely. As a result, President Trump is expected to remain in power as the country enters an election year.

After much posturing, China and the U.S. have announced an in-principle 'phase one' trade agreement, to wind back tariffs. While details have been scant, this joint announcement provides the first concrete steps to a trade war resolution. Considering the length of the trade war impasse, stretching nineteen months, its eventual impact was expected to show up in slowing U.S. employment growth. However, the November U.S. payroll report reflected quite the opposite, with the economy adding over 266,000 jobs, leading to a drop in the unemployment rate from 3.6% to 3.5%. Interestingly, employment numbers for both September and October were revised up also, underlying the economy's robustness.

These numbers add weight to the view that the trade impact on manufacturing had not spilled over into other industries including housing and technology. For 2019 U.S. average monthly jobs growth has come in at 180,000, compared to 230,000 in 2018. Average hourly earnings ended November at US\$28.79, an increase of 3.1% for the year to date.

The U.S. Federal Reserve's final policy setting meeting in December concluded in keeping the benchmark rate in the range of 1.5% to 1.75%. More importantly, the Committee of Fed officials indicated a willingness in leaving rates unchanged through next year. Confidence in leaving things as they are was reflected in the Committee's policy statement, "*The Committee judges that the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong hiring conditions and stable prices.*"

While the general view in the market is for the U.S. economy to enter recession in the near term, the real surprise will come if this is not the case. We rate this as a real possibility and an important inflection outcome should it translate. This could see cash rates raised rather than cut. Under this scenario, investors are more likely to initially react negatively to the possibility of further rises in rates and its impact on asset prices. More broadly though, it would signal a positive backdrop that earnings growth would be underway, driving improved company profitability and higher economic outputs.

We continue to seek businesses with:

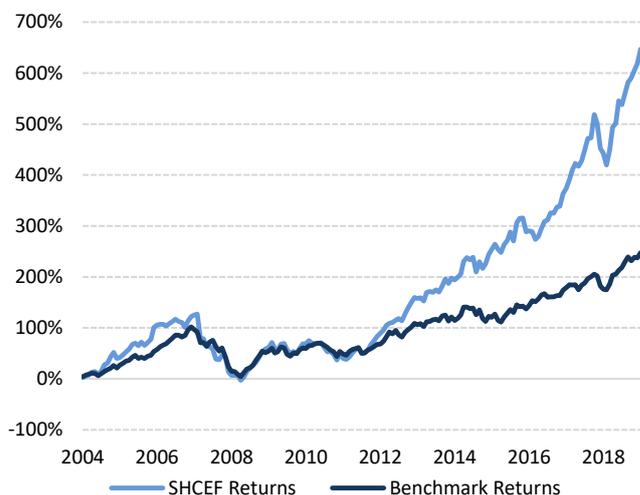
1. Competent management teams
2. Business leadership qualities
3. Strong balance sheets
4. A focus on capital management

Performance as at 31 December 2019*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	(3.11)	1.55	7.65	35.32	20.47	16.94	13.27	11.52	11.75
Fund (gross of fees)	(3.05)	2.63	9.88	39.28	23.06	19.29	15.48	13.69	13.93
All Ords Accumulation Index	(1.90)	0.75	3.59	24.06	10.41	9.30	7.86	7.98	8.42
Difference (gross of fees)	(1.15)	1.88	6.29	15.22	12.65	9.99	7.62	5.71	5.51

*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: 30/10/2004

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

Top holdings

Company name	Code	Weight (%)
Aristocrat Leisure	ALL	6.33
James Hardie Industries	JHX	5.22
Altium	ALU	5.01
Seek	SEK	4.99
ResMed	RMD	4.86
Cochlear	COH	4.59
Infomedia	IFM	4.47
Flight Centre Travel Group	FLT	4.44
Nanosonics	NAN	4.32
CSL	CSL	3.88

Unit prices as at 31 December 2019

Entry price	\$3.1178
Mid price	\$3.1100
Exit price	\$3.1022

Selector High Conviction Equity Fund

Monthly report – December 2019

Portfolio commentary

Altium (ALU:ASX)

Electronic Printed Circuit board (PCB) designer Altium hosted their annual Technology Presentation in December. This serves as an opportunity for management to highlight the success of their current product offering as well as outline their intentions for the company.

CEO Aram Mirkazemi provided a timeline of progress stretching over eight years with the current era, between 2018-2020, focused on Altium striving for market leadership in the PCB global arena. To this end, Altium continues to invest heavily in product innovation with the recently released Altium Designer 20 (AD20) proclaimed as a 'game changer' within the PCB user community. Based on its features, AD20 has been described as the best product while retaining the best value available on the market.

In addition, the company's cloud based Altium 365 offering is undergoing a pilot release. This product is set to transform how PCBs are designed, with greater collaboration across organisations, enabling clearer insights from inception at the PCB design level, all the way through to the manufacturing phase.

To facilitate the drive for market leadership, the company unveiled a new strategy, dubbed the "Rule of 50", which requires that the annual percentage revenue growth plus net operating (EBITDA) margin going forward must together sum to be greater than 50. For the current financial year Altium confirmed expected revenues of US\$205m-US\$215m, with operating margins of a minimum of 37%. This compares to the group's original guidance of delivering revenues of US\$200m set in 2016.

Jumbo Interactive (JIN:ASX)

Leading internet lottery operator Jumbo Interactive provided a first half trading update for 2020 which guided to revenue of \$37.8m and net profit after tax of \$14.3m, an increase of 27% and 13% respectively compared to the previous corresponding period (pcp). Despite being a relatively strong performance from the company, the guidance fell short of market expectations.

Jumbo has guided for the Total Transaction Value (TTV) processed through their platform to reach \$187.6m, a comparative increase of 27%. The growth of online lottery play, particularly for younger demographics continues to present an opportunity for the company. However, TTV remains dependent on large jackpot activity which is by nature unpredictable.

Jumbo's recently rolled out software, "Powered by Jumbo" is not expected to drive a material revenue contribution over 1H20. However, as this business continues to scale, the company is expecting this to be an important driver of revenue into the future. Powered by Jumbo already has three customers signed, most recently with leading Australian charity lottery operator Deaf Services and is targeting to add at least two new customers per year to the platform.

The company has taken the opportunity to increase its level of business investment, including higher marketing spend whilst incurring additional costs associated with the increase in corporate activity. Management is taking a sensible long-term approach which comes at the expense of short-term profits.

Jumbo has a current market capitalisation of \$980m, with cash of \$84.6m.

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	0.27
PolyNovo	0.12
Blackmores	0.08
OFX Group	0.07
Carsales.com	0.03
Bottom five	Contribution (%)
Jumbo Interactive	(1.30)
TechnologyOne	(0.40)
Nanosonics	(0.21)
NIB Holdings	(0.21)
James Hardie Industries	(0.20)

Industry exposure

Industry group	Weight (%)
Software & Services	21.52
Consumer Services	20.34
Health Care Equipment & Services	16.26
Materials	7.13
Capital Goods	6.20
Diversified Financials	5.93
Commercial & Professional Services	4.99
Pharmaceuticals, Biotech & Life Sciences	3.88
Energy	2.92
Household & Personal Products	2.88
Insurance	2.84
Media & Entertainment	2.39
Automobiles & Components	1.27
Cash & Other	0.77
Consumer Durables & Apparel	0.68

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 | Executive Director
jmaragiannis@axiuspartners.com
 Telephone: +61 419 689 503

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.