

Selector High Conviction Equity Fund

Monthly report – September 2020

Market insights

With Australia entering its first technical recession in 30 years, investors remain focused on the efforts of governments and world leaders to bring stability to global economies. Of particular note, the Bank of England has confirmed that its monetary policy committee is considering the technicalities of cutting interest rates below zero while the U.S. is on track for its debt to exceed the size of its economy for the first time since World War II. Over the month, our local market declined 3.79% to 6,009.

The irony of our regulatory system was on full display during September as policy decisions bowed to broader economic pressure. First, Westpac Banking Corporation felt the full force of the law agreeing to settle a lengthy legal case with money laundering agency AUSTRAC to the tune of \$1.3b. This came after the bank admitted to 23m breaches of the law involving a failure to report international transactions of a suspicious nature. The penalty dealt out far exceeded the bank's \$900m provision and compares with the \$702m penalty levied against Commonwealth Bank in 2018 for similar transgressions.

Some twenty-four hours later, the Federal Government succumbed to the pressures of a softer economic backdrop, by axing responsible lending laws. The fact that the banks (including Westpac) were tarred by the likes of ASIC for providing loans that could go bad now appears forgotten, with the onus shifting back to a 'borrower beware' rather than a 'lender beware' situation.

The simplification will see a revert to old fashioned banking, where risk is assessed knowing full well that some bad loans will be written. As Reserve Bank Governor Philip Lowe noted, *"we can't have a world in which, if a borrower can't repay the loan, it's always the banks fault. On a portfolio basis, we want banks to make some loans that actually go bad, because if a bank never makes a loan that goes bad it means it's not extending enough credit."*

Why it takes a COVID-19 type of event to have bureaucracy and red tape removed and common-sense to prevail, one will never know.

Another major shift in rhetoric has come as the Government prepares to release the 2020-21 Federal Budget early next month. No longer are we expecting a focus on *"budget repair"* or returning to surplus, but rather on *"boosting business and consumer confidence and promoting jobs and growth"* Treasurer Josh Frydenberg confirmed; at least until the jobless rate falls below 6%.

The Government is prepared to intervene in the energy market by building a gas-fired power station unless energy companies can deliver on the target of replacing the 1000 megawatts of capacity that will be lost when the Liddell coal-fired power station is closed in 2023. Prime Minister Scott Morrison explained, *"as we turn to our economic recovery from COVID-19, affordable gas will play a central role in re-establishing the strong economy we need for jobs growth, funding government services and opportunities for all."*

We continue to seek businesses with:

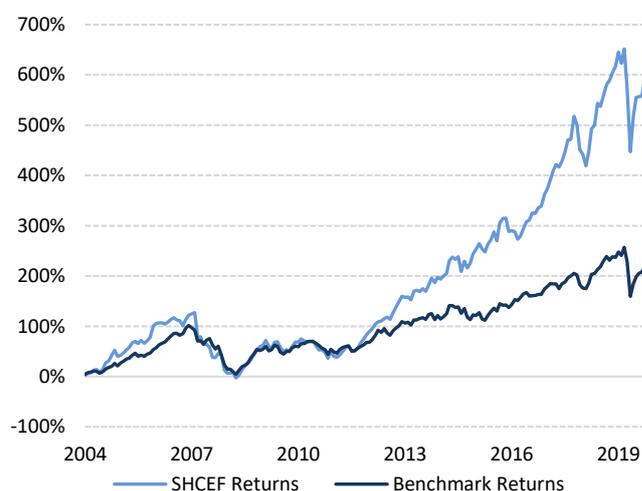
1. Competent management teams
2. Business leadership qualities
3. Strong balance sheets
4. A focus on capital management

Performance as at 30 September 2020*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	(2.49)	3.73	23.88	(4.56)	13.83	13.92	13.54	8.55	10.73
Fund (gross of fees)	(2.20)	4.53	25.58	(2.45)	16.16	16.14	15.71	10.58	12.86
All Ords Accumulation Index	(3.43)	1.10	19.05	(8.76)	5.46	7.73	7.00	6.15	7.34
Difference (gross of fees)	1.23	3.43	6.53	6.31	10.70	8.41	8.71	4.43	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. For periods greater than one year, returns are annualised. 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 (%)
James Hardie Industries	JHX	6.11
Domino's Pizza Enterprises	DMP	6.04
Altium	ALU	5.23
Carsales.com	CAR	5.05
Aristocrat Leisure	ALL	5.01
Cochlear	COH	4.83
Reece	REH	4.77
ResMed	RMD	4.57
Iress	IRE	4.20
Seek	SEK	4.02

Unit prices as at 30 September 2020

Entry price	\$2.9242
Mid price	\$2.9169
Exit price	\$2.9096

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Portfolio commentary

Iress (IRE:ASX)

In July, financial services software provider Iress announced a bid to acquire leading managed fund and superannuation member administration provider OneVue (ASX:OVH). The initial offer of \$0.40 per share was raised to \$0.43 per share, on the 28th September, which is at the top end of the independent expert's appraisal and values OneVue at \$115m. This acquisition fits neatly within Iress' strategy of providing seamless and integrated technology solutions to the financial services industry.

OneVue is the largest single third-party fund registry in Australia with circa \$490b funds under administration (FUA) across 1,383 funds. This segment is highly automated using proprietary technology and presents a significant growth opportunity. As owners of the financial advisor platform Xplan, Iress intends to integrate this platform with the unit registry system to enable straight through processing creating notable efficiencies for advisors.

OneVue directors continue to unanimously recommend that shareholders support the acquisition with a vote being held in early October. Iress is well capitalised to complete the transaction having raised \$170m by way of an institutional placement and share purchase plan (SPP) alongside securing further debt facilities of \$105m.

Iress has a market capitalisation of \$1.9b.

Nearmap (NEA:ASX)

In September, Nearmap undertook a surprise capital raise for \$72.1m at \$2.77 per share via an institutional placement with the prospect of raising an additional \$20m under a SPP. The raise is slated to accelerate growth opportunities in core verticals, support investment in the HyperCamera3 system and build out the operational foundations to support future growth.

While the raising has strengthened the company's balance sheet and provided avenues for further growth, it has also led to questions of credibility regarding management's recent backflip on the need to raise new capital which is reflected in the company current trading below the raise price. We made this view known to management.

Nearmap has a market capitalisation of \$1.2b.

Jumbo Interactive (JIN:ASX)

Leading internet lottery business, Jumbo Interactive signed a binding Term Sheet with Lotterywest, the state government-owned and operated lottery of Western Australia. While this is a precursor to a formal agreement, the parties are working to complete software integration in December this year.

Under the agreement, Jumbo will provide a white labelled platform and will receive a service fee for customer transactions processed. The initial term of the agreement is for three years, with options to extend for a further seven.

As the first government entity utilising the 'Powered by Jumbo' platform, this agreement presents a significant milestone for the company. Prior to going live, certain conditions are required to be met including Lotterywest effecting necessary legislative amendments and obtaining regulatory approvals.

Jumbo has a market capitalisation of \$782m.

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.

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 (%)
James Hardie Industries	0.43
Reece	0.28
Aristocrat Leisure	0.27
Cochlear	0.15
Seek	0.12
Bottom five	Contribution (%)
IOOF Holdings	(1.00)
Nearmap	(0.50)
Iress	(0.44)
Nib Holdings	(0.23)
Nanosonics	(0.23)

Industry exposure

Industry group	Weight (%)
Software & Services	25.19
Consumer Services	18.26
Health Care Equipment & Services	15.00
Media & Entertainment	10.29
Capital Goods	7.89
Materials	6.11
Diversified Financials	4.47
Pharmaceuticals, Biotech & Life Sciences	3.73
Household & Personal Products	2.26
Automobiles & Components	1.96
Insurance	1.91
Consumer Durables & Apparel	1.52
Cash & Other	1.42

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