Selector Australian Equities Fund

Monthly report – October 2020

Market insights

International markets fluctuated throughout October, as the U.S. readied for the Presidential election. Investors contemplated the growing number of confirmed COVID-19 cases across the U.S. and Europe along with the U.S. fiscal stimulus impasse against a stronger than anticipated U.S. third quarter earnings season. The local All Ordinaries Index closed 2.06% higher at 6,133 with a host of companies providing positive trading updates at their Annual General Meetings. In terms of the big picture, we remain cognisant of the seismic shift to cloud computing, mounting debt levels as the Government attempts to stimulate economic activity, and the increasing internalisation of responsibility for climate change.

One of the megatrends throughout the COVID-19 period has been the accelerating adoption of cloud computing and Software-as-a-Service (SaaS). While this has been a boon for some of the world's largest technology companies, SAP has largely held on to its more traditional sales model. However, the world's dominant supplier of enterprise resource planning software shocked investors in October by pushing its forecast revenue and profit number for 2023 out to 2025 as they fast-tracked their shift to the cloud. Importantly, this move by an industry leader strengthens our conviction that businesses need to show technology leadership, online capability, a reinvestment ethos, and ultimately scale to succeed in this dynamic environment.

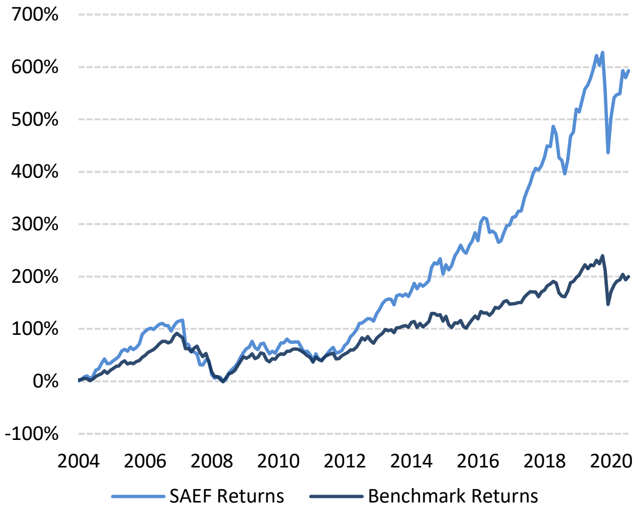
Domestically, Governor of the RBA, Philip Lowe, confirmed that based on the local economy's current outlook, the cash rate is not expected to increase for at least three years. With interest rates at historic lows, government spending has had to do more of the heavy lifting in stimulating economic activity throughout the COVID-19 period. The Federal Budget is attempting to deliver this stimulus by establishing $507b in tax cuts, cash payments and wage subsidies to drive business investment and protect the health of Australians in a bid to restore confidence and create almost a million jobs by 2024. The budget is forecast to see a deficit of $214b in 2020 dropping to $66b by 2023-24. In total, net debt is expected to peak at $966b in 2024 (44% of GDP).

Only one month after the repeal of responsible lending practices, the ANZ Bank has taken aim at carbon emitters, implementing emission tests for loans. As the bank ramps up support for the Paris Agreement's goal of net zero emissions by 2050, ANZ will impose low-carbon deadlines for the agriculture, food and beverage, building, energy and transport sectors. ANZ has joined the other three major banks in stepping up their focus on climate change commitments, confirming their intention to *"move away from working with customers that don't have clear and public transition plans"*. It has become increasingly clear that sensitivity to environmental concerns are a fact of doing business and will present an increasingly imposing barrier to market entry.

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 (%)
James Hardie Industries	JHX	6.15
Domino's Pizza Enterprises	DMP	5.68
Aristocrat Leisure	ALL	5.03
ResMed	RMD	4.96
Altium	COH	4.95
Cochlear	ALU	4.95
Carsales.com	CAR	4.58
TechnologyOne	TNE	4.52
Reece	REH	4.27
CSL	CSL	4.06

Unit prices as at 31 October 2020

Entry price	$2.3335
Mid price	$2.3277
Exit price	$2.3219

Performance as at 31 October 2020*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception Annualised
Fund (net of fees)	1.93	5.82	13.72	(2.71)	13.27	12.70	11.39	8.49	9.85
Fund (gross of fees)	2.02	6.75	15.05	(0.67)	15.53	15.31	14.87	11.61	12.94
All Ords Accumulation Index	2.08	2.24	10.94	(6.51)	4.78	7.21	6.99	6.58	7.15
Difference (gross of fees)	(0.06)	4.51	4.11	5.84	10.75	8.10	7.88	5.03	5.79

*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

ResMed (RMD:ASX)

While analysts expected a weaker first quarter 2021 result, ResMed exceeded expectations across a range of metrics. At a group level, quarterly revenue rose 10% to US$751.9m, while underlying operating profits increased 24% to US$237.1m and underlying net profits increased 37% to US$185.4m.

COVID has emphasised the need for better health care solutions and accelerated the shift to digital. These are two areas ResMed has invested significantly, having differentiated its mask and device offering by integrating cloud solutions that leverage technology, big data and advanced analytics to improve patient and clinician outcomes while also lowering costs.

Penetration remains low across a global opportunity of 936m sleep apnea sufferers, 380m chronic obstructive pulmonary disease sufferers (COPD) and over 340m people living with asthma. In addition, for the first time in many years ResMed has the tailwind of price certainty as competitive bidding has been put on hold until 2024.

ResMed has a market capitalisation of US$27.8b and net debt of US$635m. The company also declared a quarterly dividend of US39c per share.

James Hardie Industries (JHX:ASX)

Following global fibre cement manufacturer James Hardie's first quarter results ending June 2020, we noted that flat profits hid the significant progress underway as the company transformed its operations under the leadership of CEO Jack Truong and CFO Jason Miele. Prior to the release of second quarter results due in November, the company updated investors noting that strong customer demand, market share gains and transformation benefits flowing from the company's LEAN manufacturing program had provided the business with a positive backdrop. This led management to lifting net operating profit (NOPAT) guidance for FY21, from the previously guided range of US$330m-US$390m to US$380m-US$420m.

For the upcoming second quarter, the company is guiding towards group net sales of between US$735m and US$740m and operating profits (adjusted EBIT) in the range of US$160m and US$165m; a record quarter on both measures. CEO Truong commented, "*This is the sixth consecutive quarter that we have delivered growth above market with strong returns. We continue to achieve these results by executing better every day against our strategic imperatives and seamlessly serving our customers, while improving working capital for our customers and for the company*."

As at 30 September 2020, the company had liquidity of circa US$890m and a current market capitalisation of $16.1b.

Seek (SEK:ASX)

Blue Orca Capital has taken aim at leading online employment group Seek by releasing a short report on the company. In the report, Blue Orca questions the legitimacy of posts hosted on Zhaopin, the Chinese recruiting platform 61% owned by Seek, and certain accounting decisions made by the company. Seek has given the report little credence noting that it is "*self-serving and unsubstantiated*".

Performance contributors

Top five	Contribution (%)
ResMed	0.70
TechnologyOne	0.51
Domino's Pizza Enterprises	0.36
Cochlear	0.32
ARB Corporation	0.32
Bottom five	**Contribution (%)**
Flight Centre Travel Group	(0.52)
Jumbo Interactive	(0.42)
Megaport	(0.30)
Nanosonics	(0.29)
Aristocrat Leisure	(0.22)

Industry exposure

Industry group	Weight (%)
Software & Services	22.67
Consumer Services	17.62
Health Care Equipment & Services	16.52
Media & Entertainment	9.87
Capital Goods	7.21
Materials	6.15
Pharmaceuticals, Biotech & Life Sciences	4.06
Diversified Financials	3.58
Cash & Other	3.30
Automobiles & Components	2.78
Household & Personal Products	2.16
Insurance	2.09
Consumer Durables & Apparel	1.99

About the Fund

The Selector Australian Equities Fund is distributed by DDH Graham, who is the Responsible Entity and Administrator for this fund. The product disclosure statement, distributed by DDH Graham, can be found below, https://ddhgraham.com.au/managed-funds/australian-shares/selector-australian-equities-fund/

Selector Funds Management ("Selector") specialises in high conviction, index agnostic, concentrated portfolio management. The investment team have a high level of experience, are owners of the business and invest in the funds alongside clients.

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