Selector Australian Equities Fund

Monthly report – November 2020

Market insights

November surprised on many fronts, not the least of these being the U.S. Presidential election and the Reserve Bank of Australia cutting cash rates to a historic low of 0.10%. The bigger and more unexpected development came by way of updates on COVID vaccine trials. While many were predicting positive progress, the release of interim data from two trials, the Pfizer-BioNTech (BNT162b2) and Moderna (COVE study) surprised to the upside. In both instances, putting the small patient subsets aside, the efficacy or effectiveness was shown to be above 90%. While not a cure, the early expectations going into this process was at best for 50%-60% efficacy.

The Pfizer-BioNTech and Moderna vaccines are remarkable in that they represent a new vaccine delivery system, relying on Messenger Ribonucleic Acid (mRNA). Unlike conventional methods in which patients are injected with a weakened version of a virus, as is the case for influenza and measle vaccines, mRNA delivers a piece of genetic coding that instructs human cells to produce components of a targeted virus. These cells, which by themselves cannot cause disease, then stimulate the patient's immune system as though the target virus was present. As such, mRNA serves as a carrier of genetic instructions. mRNA does not change the host DNA, and it can be altered quickly as a target virus mutates, a significant scientific breakthrough.

The second topic of note centred on the area of Environmental, Social and Governance (ESG). This was particularly evident in relation to Crown Resorts and their appearance at the NSW Casino Inquiry. Without delving too deeply into the myriad of concerning events that have occurred over the years, Crown's hand was forced into detailing its disastrous governance shortcomings. The failings littered across the board, management and major shareholder have left 'real' shareholders dumb struck, but it should not have come as a surprise to those that have consistently questioned the moral ethics of this group. And yet some high-profile value investors with significant shareholdings have expressed surprise and dismay. Perhaps ESG does not play a role in their investment process much to our dismay.

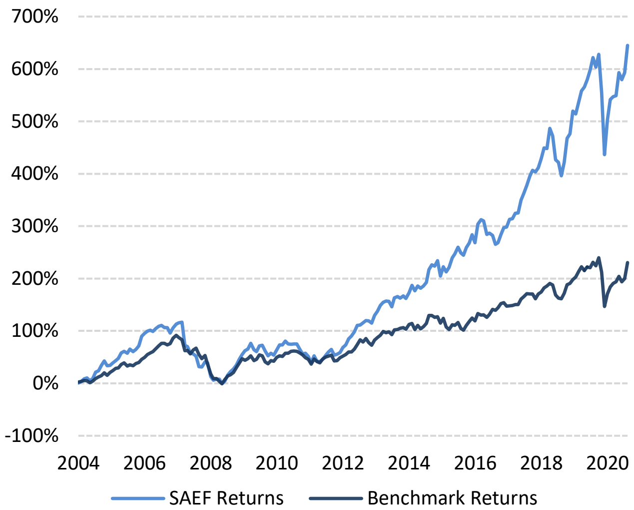
In China, the shock and awe continued but, in this case, it involved a local - Ant Group, an affiliate of Alibaba. Having sought new capital of US$34b, prospectively valuing the group at US$313b, this payment behemoth had its public debut cut short two days before its official listing date. Chinese regulatory authorities took umbrage at the group's powerful payment network and the risk it posed to the Government's banking system. Its postponement illustrates the country risk, where the interest of Government is held above all else. Those who have invested in China based businesses without considering the ESG risks attached should duly take note.

At month's end the local share market closed 9.9% higher to 6742, the biggest percentage rise for a single month since 1988.

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	6.75
Aristocrat Leisure	ALL	5.40
Domino's Pizza Enterprises	DMP	5.14
Cochlear	COH	4.76
Altium	ALU	4.71
ResMed	RMD	4.65
Seek	SEK	4.63
TechnologyOne	TNE	4.28
Carsales.com	CAR	4.15
Reece	REH	3.90

Unit prices as at 30 November 2020

Entry price	$2.5163
Mid price	$2.5100
Exit price	$2.5037

Performance as at 30 November 2020*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception Annualised
Fund (net of fees)	7.83	7.41	15.46	1.65	15.06	14.02	12.27	8.99	10.31
Fund (gross of fees)	7.50	7.53	16.11	3.25	17.16	16.53	15.72	12.09	13.38
All Ords Accumulation Index	10.16	8.60	16.35	(0.08)	7.54	9.46	8.11	6.96	7.76
Difference (gross of fees)	(2.66)	(1.07)	(0.24)	3.33	9.62	7.07	7.61	5.13	5.62

*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

Aristocrat Leisure (ALL:ASX)

Leading global gaming operator Aristocrat Leisure delivered a better than expected full year result despite COVID-19. The company reported operating revenues of $4.1b, down 5.9% due to the negative impact casino closures and distancing requirements had on the group's land-based operations. Aristocrat's digital offering largely offset this decline with revenue growing 29% to $2.4b, highlighting the importance of the group's operational diversity.

The digital segment was a standout with bookings increasing 31% to US$1.6b, led by strong growth in the Social Casino and Strategy & RPG categories. A shift towards higher quality user acquisition was evident as Daily Active Users (DAU) declined 10.7% while Average Bookings Per Daily Active User (ABPDAU) grew 43.9% to US0.59c. Management believes this trend will continue as they focus on monetising high-value customers.

Aristocrat Leisure has a current market capitalisation of $20.6b and net debt of $1.6b. The company reinstated its dividend at 10c per share.

Fisher & Paykel Healthcare (FPH:ASX)

In November, leading respiratory care manufacturer Fisher & Paykel Healthcare reported its half year 2021 financial results. The group delivered operating revenues of NZ$910.2m, up 59% for the half, along with an 86% increase in net profits to NZ$225.5m.

Within Fisher & Paykel's two product segments, the Hospital division drove exceptional growth off the back of COVID-19 fuelled demand, with revenue increasing 93% to NZ$681.0m, while the Homecare division segment reported a gain of 5% to NZ$226.2m. The uplift is reflective of the significant efforts across the organisation, as management overcame supply constraints and pressures from the hiring of more than 1,700 manufacturing staff to ensure orders were fulfilled to a network of global hospitals.

The opportunity ahead for Fisher & Paykel is to displace conventional oxygen therapy with Optiflow Nasal High Flow (NHF). The total addressable opportunity is significant with the company estimating the market within the hospital setting across emergency and surgical departments, intensive care units and wards to be approximately 50m patients, of which 4m were treated by the group in FY20.

Fisher & Paykel has a market capitalisation of NZ$19.1b and net cash of NZ$78.1m. The company also declared an interim dividend of 16c per share, which represents a 33% increase and a conservative payout ratio of 41%.

TechnologyOne (TNE:ASX)

Leading enterprise technology solution provider TechnologyOne delivered a strong operational performance for the year ending September 2020. The business remains focused on migrating the traditional on-premise service to a cloud SaaS offering.

The change in revenue mix, underscores the quality of the performance, with recurring subscription revenues now representing 86% of total revenues. As more of the 1,200 customer base switches over, the company's expectations are for the annual recurring revenue base (ARR), which ended the year at $134m, to hit $200m by 2026, while total recurring revenues, which includes annual licence fees, are expected to exceed $500m.

Performance contributors

Top five	Contribution (%)
Flight Centre Travel Group	1.20
James Hardie Industries	0.88
Seek	0.84
Nanosonics	0.80
Jumbo Interactive	0.73
Bottom five	**Contribution (%)**
Domino's Pizza Enterprises	(0.67)
FINEOS Corporation Holdings	(0.33)
ARB Corporation	(0.24)
Altium	(0.21)
Breville Group	(0.13)

Industry exposure

Industry group	Weight (%)
Software & Services	22.58
Consumer Services	19.03
Health Care Equipment & Services	16.69
Media & Entertainment	10.26
Materials	6.75
Capital Goods	6.65
Diversified Financials	4.19
Pharmaceuticals, Biotech & Life Sciences	3.89
Insurance	2.39
Automobiles & Components	2.32
Household & Personal Products	2.28
Consumer Durables & Apparel	1.70
Cash & Other	1.26

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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