

Selector High Conviction Equity Fund

Monthly report – January 2021

Market insights

Markets maintained their positive momentum into the new year, as investors readied themselves for what is expected to be an eventful February reporting season. Offshore, headlines were mixed as the U.S. inaugurated their 46th president, COVID-19 vaccine rollouts accelerated, and retail investors forced short squeezes on Wall Street. In the local market, the All Ordinaries Index closed up 0.30% to 6,871 points.

Hamstrung by the low cash rate, the Reserve Bank of Australia has doubled its current quantitative easing program with the commitment to purchase a further \$100b in bonds. The measure is aimed at lifting and sustaining actual inflation within the 2% to 3% target range before any consideration will be given to increasing the cash rate from its current level of 0.10%. This will require significant gains in employment and a return to a tight labour market which is not expected until at least 2024.

President Joe Biden has announced a US\$1.9t package aimed at stimulating economic activity in the U.S. alongside expanding support for those impacted by COVID-19. With U.S. debt of US\$21.6t already exceeding the annual national gross domestic product, the country's debt capacity continues to be tested. There is no simple answer, but with U.S. debt on track to double by 2050, the country remains captive to serious long-term economic challenges.

In an effort to keep China's financial system under control, regulators are now allowing inefficient companies to fail. An increasing number of firms requiring cash have been unable to rely on the implicit guarantees of the state as bond defaults rose to a record US\$30b in 2020. This trend is set to accelerate this year. The move comes after China's central bank tightened financial conditions, making it harder for both state-owned and private firms with inadequate cash flow to survive.

The market is nothing but consistent in repeating itself. The recent episodes in the U.S. where heavily shorted stocks were purchased by predominantly retail investors to trigger a short squeeze may sound novel, but the outcomes are invariably the same. In this instance to avoid unwinding positions at a substantial loss, the short hedge funds that have been caught flat footed have been forced to raise funds to meet higher margin calls, with some also needing to offload other portfolio holdings.

Rather than heralding a new paradigm we suspect it to be a temporary distraction to the main game. One in which the long-term rewards for investors will come, not from chasing the latest investment fad or undertaking tactical portfolio manoeuvres, but by staying the course. Keeping the winners may challenge conventional wisdom of locking in profits and seeking greener pastures elsewhere but this makes little to no sense when they are proven performers.

We continue to seek businesses with:

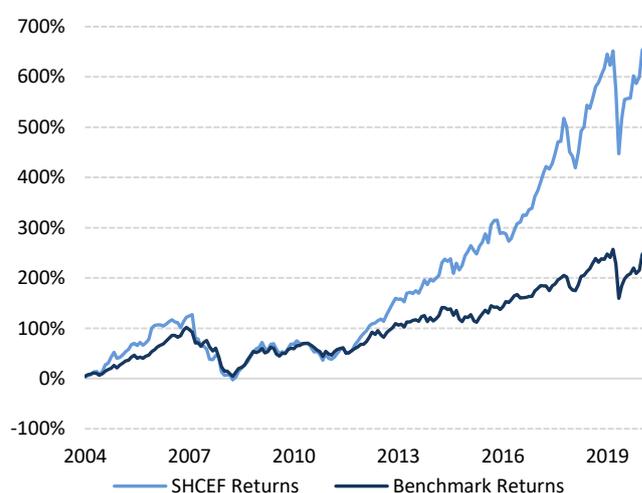
1. Competent management teams
2. Business leadership qualities
3. Strong balance sheets
4. A focus on capital management

Performance as at 31 January 2021*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	(2.40)	5.89	12.00	(2.92)	11.26	13.85	13.78	9.08	11.01
Fund (gross of fees)	(2.27)	6.03	12.96	(1.19)	13.40	15.98	15.91	11.10	13.12
All Ords Accumulation Index	0.30	12.43	14.95	(0.71)	7.67	10.55	7.92	6.64	8.09
Difference (gross of fees)	(2.57)	(6.40)	(1.99)	(0.48)	5.73	5.43	7.99	4.46	5.03

*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 (%)
Domino's Pizza Enterprises	DMP	6.38
James Hardie Industries	JHX	6.17
Reece	REH	5.36
Aristocrat Leisure	ALL	5.18
Seek	SEK	4.81
ResMed	RMD	4.74
Cochlear	COH	4.38
Carsales.com	CAR	4.36
Altium	ALU	4.23
TechnologyOne	TNE	4.11

Unit prices as at 31 January 2021

Entry price	\$3.1549
Mid price	\$3.1470
Exit price	\$3.1391

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Portfolio commentary

Heading into the February reporting season, some companies provided trading updates over the course of the month.

Altium (ALU:ASX)

Leading electronic printed circuit board (PCB) designer Altium experienced a challenging first half with revenue declining 3% to US\$89.6m. Prevailing economic conditions across the U.S. and Europe from the ongoing COVID-19 pandemic impacted performance alongside challenges enforcing licence compliance at the lower end of the market in China. Despite these issues, the company reaffirmed full year revenue guidance of \$US200m-\$US212m, noting an improving outlook.

Altium has a current market capitalisation of \$4.0b.

ARB Corporation (ARB:ASX)

Four-wheel drive equipment manufacturer ARB achieved unaudited sales of \$284m for the half, an increase of 21.6% against the prior corresponding period (pcp). Profit before tax is expected to be in the range of \$70m-\$72m, inclusive of non-recurring government benefits of \$9.8m, significantly above the \$34.3m recorded in the pcp. ARB maintains a positive short-term outlook based on a strong customer order book and record sales in December.

ARB Corporation has a current market capitalisation of \$2.8b.

Fisher & Paykel Healthcare Corporation (FPH:ASX)

Leading respiratory care group Fisher & Paykel Healthcare reported a rise in operating revenue for the nine months to 31 December 2020 of 73% in constant currency compared to the pcp. This has been driven by hospital hardware sales, up 446%, and hospital consumables sales, up 54%, as a result of elevated hospitalisations levels. Previous revenue assumptions provided in November are now outdated, prompting management to offer no guidance for 2021.

Fisher & Paykel has a current market capitalisation of \$18.6b.

PolyNovo (PNV:ASX)

Manufacturer of bio-resorbable polymer solutions PolyNovo, provided a market update detailing a 31% lift in net sales to \$11m for the half despite lower than expected sales in October and November. The onboarding of new customers remains a priority with 109 new accounts opened in 2020, an 89% increase on the previous year. The company has scaled its distribution network with new agreements covering Finland, Taiwan, Greece, Poland, Turkey and Italy.

PolyNovo has a current market capitalisation of \$1.8b.

Reliance Worldwide Corporation (RWC:ASX)

Specialist plumbing fittings manufacturer Reliance Worldwide Corporation provided a strong trading update, noting a 13% increase in net sales to \$642m while operating earnings (EBITDA) in the range of \$164m-\$167m represents a lift of 30%. The improvement in profitability and operating margins resulted from operational leverage derived from higher volumes alongside cost reduction initiatives. Net debt reduced by \$76m over the half with the company's leverage ratio decreasing from 1.57x to 0.88x.

Reliance Worldwide Corporation has a current market capitalisation of \$3.4b.

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	0.39
Domino's Pizza Enterprises	0.38
ARB Corporation	0.28
TechnologyOne	0.21
Cochlear	0.19
Bottom five	Contribution (%)
PolyNovo	(0.73)
Nanosonics	(0.63)
Altium	(0.42)
IOOF Holdings	(0.37)
Flight Centre Travel Group	(0.30)

Industry exposure

Industry group	Weight (%)
Software & Services	24.27
Consumer Services	17.32
Health Care Equipment & Services	15.65
Media & Entertainment	10.66
Capital Goods	8.53
Materials	6.17
Diversified Financials	4.42
Pharmaceuticals, Biotech & Life Sciences	3.92
Household & Personal Products	2.39
Insurance	2.35
Automobiles & Components	2.26
Consumer Durables & Apparel	1.60
Cash & Other	0.47

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