

Selector High Conviction Equity Fund

Monthly report – October 2023

Market insights

Equity markets continued their retracement in October as investors reacted negatively to rising bond yields and geopolitical events. Sentiment has shifted, with government and investment grade debt providing a viable alternative, albeit subject to heightened volatility. For the month, the local All Ordinaries Index fell 3.9% to 6,967 points while the U.S. Nasdaq fell 2.8% to 12,851.

The recession that was widely predicted has yet to arrive, with Q3 U.S. GDP rising 4.9% amid strong consumer and government spending. However, these drivers could be short-lived as consumer saving rates decline from 5.2% to 3.8%, while facing tighter lending conditions and higher interest payments. The charts below depict this dynamic, with mortgage applications at the lowest levels since 1995 and government interest payments continuing to grow. Former Fed Vice Chair Don Kohn acknowledges the predicament, *“The U.S. is fiscally loopy (and) on an unsustainable fiscal trajectory.”* The question remains when will the Fed be forced to pivot.

Chart 1: US Mortgage Applications



Source: The Macro Strategy Partnership

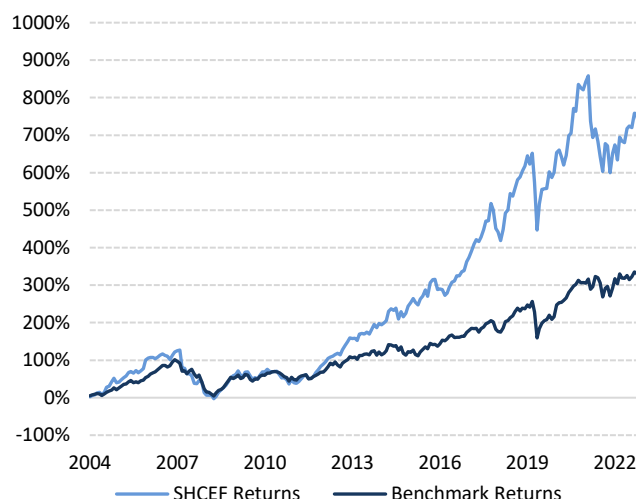
Chart 2: U.S. government interest payments as % of tax receipts



Source: The Macro Strategy Partnership

Business leaders and investors are rethinking direct investment into China following investigations into Foxconn, the nation's largest foreign company. Chinese expert Liu Meng-Chun comments that, *“We have entered the age of deglobalisation, where global supply chains are replaced by regional ones”* and where we *“can no longer use China as a main production base because foreign customers demand them to be in South-East Asia, Mexico and elsewhere”*. 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: 30/10/2004

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

Top holdings

Company name	Code	Weight (%)
CAR Group	CAR	8.40
Altium	ALU	7.88
TechnologyOne	TNE	7.27
Cochlear	COH	6.23
Aristocrat Leisure	ALL	5.49
James Hardie Industries	JHX	5.42
CSL	CSL	4.91
Reece	REH	4.56
Computershare	CPU	4.01
Domino's Pizza Enterprises	DMP	3.70

Unit prices as at 31 October 2023

Entry price	\$2.8565
Mid price	\$2.8494
Exit price	\$2.8423

Performance as at 31 October 2023*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	(6.91)	(11.85)	(7.78)	(0.48)	1.22	4.77	9.40	11.47	9.23
Fund (gross of fees)	(6.77)	(11.49)	(7.03)	1.12	2.75	6.63	11.35	13.50	11.26
All Ords Accumulation Index	(3.85)	(7.26)	(5.19)	2.89	8.58	7.40	6.79	8.21	7.62
Difference (gross of fees)	(2.92)	(4.23)	(1.84)	(1.77)	(5.83)	(0.77)	4.56	5.29	3.64

*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.

Selector High Conviction Equity Fund

Monthly report – October 2023

Portfolio commentary

Computershare (CPU:ASX)

In October, Computershare entered into a definitive agreement to sell its U.S. Mortgage Services business to Rithm Capital Corp for an estimated consideration of US\$720m. The transaction is anticipated to complete in early Q4 FY24 with no material impact on FY24 EPS guidance of around US116 cents per share. The deal is expected to be EPS accretive in FY25 and deliver improved financial metrics including ROIC of 30% (pre-divestment 23%) and Free Cash Flow of US\$545m (pre-divestment US\$511m).

CEO Stuart Irving emphasises the benefits of a simplified strategy along with better quality and consistency of earnings post sale, *“The divestment of US Mortgage Services allows us to focus our efforts on our core businesses which have high levels of recurring revenues, long term growth runways, low capital intensity and attractive returns through the cycle. The proceeds from the sale will enhance Computershare’s flexibility to pursue strategic investments and consider further capital management opportunities.”* Computershare has a market capitalisation of \$15b and net debt of \$1.2b.

Cochlear (COH:ASX)

This month, SFML attended the Cochlear Capital Markets Day. The presentation reiterated the significant long-term opportunity to support those with severe to profound hearing loss. While the company is the clear market leader for Cochlear implants with 60% share, they remain underpenetrated with only 4% share in its targeted category that is dominated by hearing aid providers.

Although the evidence shows superior outcomes compared to hearing aids, Cochlear needs to overcome various barriers to greater adoption. Cochlear has numerous initiatives to drive awareness, improve referral pathways, and increase guidelines, in addition to consistent research & development spend to deliver innovation within its connected product portfolio. As a result, Cochlear has set annual financial targets for 10% revenue growth and stable underlying profit margins of 18%, with any leverage being reinvested. Cochlear has a market capitalisation of \$15.8b and net cash of \$556m.

ResMed (RMD:ASX)

Digital health provider ResMed reported a solid 1Q24 result with revenue rising 16% to US\$1.1b and adjusted net income increasing 9% to US\$241.2m. Gross margins rose sequentially to 56%, although it remains below historical levels due to manufacturing inefficiencies and higher component costs.

Recent concerns around obesity drugs known as GLP-1s have impacted sentiment, as investors weigh the long-term outcomes for sleep apnea. To date, the company has not observed any discernible change in patient adherence rates, supported by strong mask and accessories resupply rates. In addition, the sleep apnea market remains largely underpenetrated, with ResMed forecasting a global total addressable opportunity of 1.1b patients in 2050, of which only 10% is projected to be on the company’s therapy.

ResMed also announced a workforce reduction of 5% and has reduced discretionary spend to align its cost base for long-term profitable growth. ResMed has a market capitalisation of US\$20.2b and net debt of US\$1.2b. The company also announced a US\$50m quarterly buyback program and a dividend of US48cps, reflecting a 32% payout ratio.

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 (%)
Medical Developments International	(0.01)
Appen	(0.02)
nib holdings	(0.06)
Breville Group	(0.06)
Fisher & Paykel Healthcare Corporation	(0.08)
Bottom five	Contribution (%)
Altium	(0.71)
TechnologyOne	(0.47)
Nanosonics	(0.39)
FINEOS Corporation Holdings	(0.37)
CSL	(0.36)

Industry exposure

Industry group	Weight (%)
Software & Services	24.18
Health Care Equipment & Services	15.45
Consumer Services	15.20
Media & Entertainment	14.43
Capital Goods	6.44
Materials	5.42
Pharmaceuticals, Biotech & Life Sciences	5.13
Commercial & Professional Services	4.01
Insurance	2.39
Financial Services	2.29
Automobiles & Components	2.27
Consumer Durables & Apparel	1.76
Cash & Other	1.05

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