

# Selector High Conviction Equity Fund

Monthly report – November 2023

## Market insights

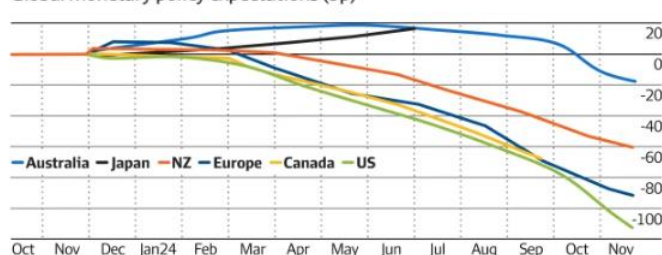
Australian equities rallied in November with the All-Ordinaries Index increasing 4.74% to 7,297.7. Those who have been preaching higher interest rates for longer may want to have a closer look at the events that unfolded during the month. The Reserve Bank of Australia (RBA) succumbed to its own internal misreading of data and raised rates in November, just as the U.S. was hitting peak rates. The credibility of the RBA's actions was further questioned when the local economy reported a softer-than-expected 4.9% Consumer Price Index (CPI) reading for October, falling short of the anticipated 5.2%.

The Organisation for Economic Co-operation and Development (OECD) responded quickly, indicating that Australia is on track for inflation below 3% by 2025, accompanied by a GDP slowdown to 1.4% in 2024. All up, a suggested cash rate outlook of 3.6% is now expected, down from the current 4.35%.

Elsewhere, the U.S. reported an inflation increase of 3.2% from a year earlier, a far cry from the 9.1% peak annual rate recorded in June 2022. Core inflation came in at a lower rate of 2.8% for the initial five months of the current financial year, emphasizing its steep decline. The 12-month inflation rate is poised to register its most rapid annual deceleration in over 40 years.

The implications are clear, as the U.S. 10-year bond yield sharply retreated from its recently struck 16-year high of 5.02%, ending November at 4.27%. Market sentiment has shifted quickly with rate cuts now expected as early as May 2024. The U.S. Fed cash rate is now forecast to be 1.00% lower than the current cash rate of 5.50% during 2024. The accompanying chart illustrates current interest rate expectations across global economies during 2024, with all pointing to declines, apart from Japan, which continues to operate with a negative cash rate.

Global monetary policy expectations (bp)



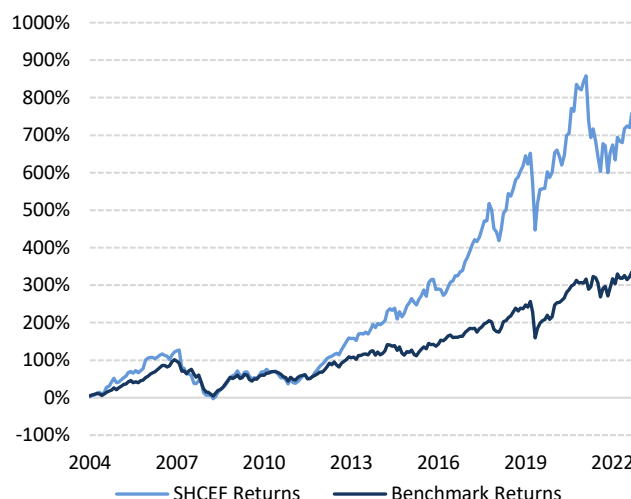
Source: Australian Financial Review, 27 November 2023.

The U.S. Federal Reserve and all central bankers will likely take comfort in the recent aggressive actions taken to cool things down, but the true outcome of these decisions will only be properly measured in the forward years. To us, this further illustrates the fickle nature of heavy-handed responses to events that are invariably much shorter in duration than many think.

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 (%)
Altium	ALU	8.15
CAR Group	CAR	7.67
TechnologyOne	TNE	7.13
Cochlear	COH	6.41
James Hardie Industries	JHX	6.13
Aristocrat Leisure	ALL	5.25
CSL	CSL	5.04
Reece	REH	4.59
Domino's Pizza Enterprises	DMP	3.55
Computershare	CPU	3.46

## Unit prices as at 30 November 2023

Entry price	\$3.1208
Mid price	\$3.1130
Exit price	\$3.1052

## Performance as at 30 November 2023\*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	9.25	(3.42)	0.06	5.75	1.69	7.04	10.46	12.61	9.69
Fund (gross of fees)	9.30	(3.10)	0.79	7.36	3.29	8.91	12.42	14.66	11.73
All Ords Accumulation Index	5.19	(1.71)	2.42	1.68	6.93	8.99	7.48	9.12	7.87
Difference (gross of fees)	4.11	(1.39)	(1.63)	5.68	(3.64)	(0.08)	4.94	5.54	3.86

\*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.

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## Portfolio commentary

November has proven to be a mini reporting season with strong results delivered across a range of businesses. A summary of key updates has been included below.

### Aristocrat Leisure (ALL:ASX)

Aristocrat Leisure reported robust financial results for FY23. With strong performances in North America Gaming Operations and global outright unit sales group revenues grew 13% to \$6.3b, while net profit after tax (NPAT) increased 24.4% to \$1.2b. Strong free cash flow generation funded organic growth and business acquisitions, while \$811m was returned to shareholders through dividends and on market share buy-backs. Aristocrat has a current market capitalisation of \$26.2b and net cash of \$809m. The acquisition of NeoGames is expected to close in CY24.

### Fisher & Paykel Healthcare (FPH:ASX)

Fisher & Paykel Healthcare released its 1H FY24 results reporting total operating revenue of NZ\$803.7m, up 16%, and net profit after tax of NZ\$107.3m, a 22% increase in constant currency. With freight costs and manufacturing inefficiencies continuing to ease, gross margins improved 0.65% to 60.5%. CEO Lewis Gradon confirmed that the company remains confident in its ability to return to the long-term gross margin target of 65% within 3 - 4 years. Fisher & Paykel has a current market capitalisation of \$12.6b and net debt of \$172.7m.

### Iress (IRE:ASX)

While not a result, this month Iress provided a business strategy update alongside earnings guidance. A refreshed leadership team has been put in place by CEO Marcus Price with a focus on increased operational transparency and accountability. The transformation program has resulted in FY23 underlying EBITDA guidance being upgraded to \$123m - \$128m (previously \$118m - \$122m). Iress has a current market capitalisation of \$1.4b and net debt of \$308m.

### James Hardie Industries (JHX:ASX)

Despite sales remaining flat at US\$998.8m for 2Q FY24, leading fibre cement home siding and exterior design solutions provider James Hardie, achieved record operating profits (adjusted EBITDA) of US\$285.5m, up 9%. Having completed its initial US\$200m share buyback, the company announced a new US\$250 million buyback program. James Hardie has a market capitalisation of \$21.2b and net debt of US\$803m (0.79x leverage ratio).

### OFX Group (OFX:ASX)

While turnover was subdued in the half, down 3.5% to \$19.2b, OFX saw its Net Operating Income (NOI) improve 9.4% to \$115.1m supported by improved pricing. Weaker corporate business confidence in Canada, resulted in OFX reducing the top end of its previous FY24 guidance range for NOI to between \$225m and \$238m (previously \$243m) and an underlying EBITDA range of \$63m to \$70m (previously \$74m). OFX has a market capitalisation of \$338m and net cash of \$38.1m.

### TechnologyOne (TNE:ASX)

Enterprise software provider TechnologyOne delivered a strong FY23 result with revenue increasing 19% to \$441.4m and profit after tax up 16% to \$102.9m. The company brought forward its FY26 Annual Recurring Revenue target of \$500m+ to FY25 and aspires to double ARR every five years (15% CAGR). Long term, this growth will be led by increased product and market penetration alongside geographic expansion. TechnologyOne has a market capitalisation of \$5b and net cash of \$223.3m.

## 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	1.31
Altium	1.08
Cochlear	0.81
Iress	0.77
TechnologyOne	0.66
Bottom five	Contribution (%)
Computershare	(0.18)
OFX Group	(0.15)
Jumbo Interactive	(0.05)
Flight Centre Travel Group	(0.04)
Medical Developments International	(0.01)

## Industry exposure

Industry group	Weight (%)
Software & Services	24.84
Health Care Equipment & Services	16.18
Consumer Services	14.25
Media & Entertainment	13.90
Capital Goods	6.49
Materials	6.13
Pharmaceuticals, Biotech & Life Sciences	5.22
Commercial & Professional Services	3.46
Insurance	2.30
Automobiles & Components	2.26
Financial Services	1.97
Consumer Durables & Apparel	1.82
Cash & Other	1.18

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