

Selector High Conviction Equity Fund

Monthly report – December 2023

Market insights

In 2023 we started the year with one war and ended with two. We were dealt the highest inflation rate readings in three decades but ended with talk of imminent deflation. Equities endured continuous interest rate rises, the fastest pace in 40 years, finishing at its peak. Economists braced for consumers to lower their spending, yet it remained strong, much to the surprise of central bankers. We were warned of recession, though it failed to arrive.

Talking heads told us to prepare for tougher markets but watched the U.S. Dow Jones Industrial Average post all-time highs, up 13.7% whilst the Nasdaq Composite ended the year up 43.4%. Locally, the All Ordinaries finished the year up 8.4%, buoyed by a strong December which delivered 7.3% for the month.

The things that occupied the greatest attention over the last year will be less relevant in 2024. The fear of inflation will ultimately prove 'transitory', as we have argued all along, and will be replaced with the quest for economic growth.

The 'higher for longer' predictions on interest rates will also prove short-lived.

We include recent comments from Macquarie Capital Head of Global Desk Strategy Viktor Shvets, who has called this right from the get-go and follows the 13 December 2023 U.S. Fed statement, *'This leads us to yesterday's FOMC statement. Not only has the Fed meaningfully lowered its policy rate estimates, but it also rapidly shifted the debate from the "length of the pause" to "when and how much to cut" while its projections are now firmly imbedding an "immaculate disinflation". Considering Fed's super hawkishness over the prior two months (which single-handedly drove 10Y to 5%), the shift is breathtaking and illustrates how CB's reaction time has gone from months to days and seconds.'*

Anyone who thinks the U.S. Fed is unlikely to again 'pivot', should perhaps think again.

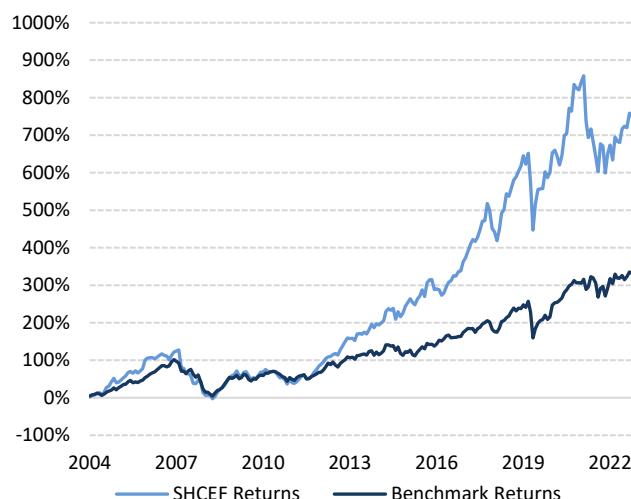
Domestically, the Federal Budget is on track for a second successive surplus this financial year following a tax revenue surge of almost \$65b since May, and a \$7.4b delay in infrastructure spending. Despite an improving debt position (\$909b gross debt), the sharp increase in long-term bond yields means the interest bill is forecast to be the federal government's fastest growing expense with an additional \$80b expected to be spent over the next decade.

This year we travelled far and wide, engaging with businesses in their respective domains. Overall, the year proved an eventful one, testing the strength and calibre of each of the Fund's respective management teams. That the portfolio ended in solid shape, is a testament to the enduring qualities of many of the businesses held.

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 | 8.00 |
| Altium | ALU | 7.90 |
| James Hardie Industries | JHX | 6.62 |
| Cochlear | COH | 6.52 |
| TechnologyOne | TNE | 6.50 |
| CSL | CSL | 5.12 |
| Reece | REH | 4.94 |
| Aristocrat Leisure | ALL | 4.91 |
| Domino's Pizza Enterprises | DMP | 3.64 |
| Seek | SEK | 3.51 |

Unit prices as at 31 December 2023

| | |
|-------------|----------|
| Entry price | \$3.3647 |
| Mid price | \$3.3563 |
| Exit price | \$3.3479 |

Performance as at 31 December 2023*

| | 1 Month | 3 Months | 6 Months | 1 Year | 3 Years | 5 Years | 10 Years | 15 Years | Since Inception |
|-----------------------------|---------|----------|----------|--------|---------|---------|----------|----------|-----------------|
| Fund (net of fees) | 7.82 | 9.65 | 8.52 | 20.33 | 4.03 | 9.64 | 11.27 | 13.19 | 10.08 |
| Fund (gross of fees) | 8.00 | 10.05 | 9.35 | 22.21 | 5.68 | 11.56 | 13.25 | 15.24 | 12.12 |
| All Ords Accumulation Index | 7.44 | 8.67 | 7.95 | 12.98 | 8.88 | 10.66 | 8.16 | 9.64 | 8.24 |
| Difference (gross of fees) | 0.56 | 1.38 | 1.40 | 9.23 | (3.20) | 0.90 | 5.09 | 5.60 | 3.88 |

*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

CAR Group (CAR:ASX)

This month, CAR Group announced that its wholly-owned South Korean subsidiary, Encar, withdrew the Eligibility Review Application (ERA) it had lodged with the Korea Stock Exchange (KRX). An ERA is the first step in exploring the possibility of conducting an Initial Public Offering (IPO) and this decision was made due to unfavourable equity market conditions. CAR Group remains a committed long-term owner of the Encar business and is excited about the ongoing growth opportunities it has in a large and highly attractive Korean automotive market.

CAR Group has a current market capitalisation of \$11.6b.

nib holdings (NHF:ASX)

In December, an independent National Disability Insurance Scheme (NDIS) Review Report was issued. The Report focused on restoring trust in and ensuring the sustainability of the NDIS as well as delivering an improved experience for participants. The report includes 26 recommendations and 139 supporting actions.

The investment strategy for nib Thrive, a NDIS plan manager, was premised upon a long-term vision for a more integrated and seamless experience for NDIS participants. CEO Mark Fitzgibbon commented that *‘nib is very much aligned with the recommendations of the Review. As significant a role as it plays in supporting participants today, we expect plan management will evolve in a way anticipated by the Review’*.

nib has a current market capitalisation of \$3.6b.

PolyNovo (PNV:ASX)

PolyNovo, a medical device company that develops and manufactures dermal regeneration solutions, announced record monthly sales of \$A8.8m for November. The growth was driven by the U.S. business which saw sales of \$A6.1m (unaudited), up circa 74% on the same time last year.

CEO Swami Raote commented, *‘NovoSorb BTM continues to redefine healing across the world. Clinicians are taking advantage of its simplicity and versatility to manage complex wounds effectively. We are grateful to our surgeons, for their support in driving innovation and education as evidenced by over 237 publications across multiple indications. We are gaining momentum, with over 34,900 patients treated so far. As proud as we are of our progress, we are working hard to reach and touch many more lives with this disruptive technology platform.’*

PolyNovo has a market capitalisation of \$1.1b.

WiseTech Global (WTC:ASX)

WiseTech Global has appointed Lisa Brock and Fiona Pak-Poy as independent Non-Executive Directors (NED), effective 1 February 2024. Lisa Brock, a chartered accountant with over 20 years of experience, will join the Audit & Risk Committee and is anticipated to become its Chair later in 2024. Fiona Pak-Poy, a professional NED with over 25 years of experience, currently serves as Chair and Non-Executive Director at Tyro Payments Limited (ASX: TYR). These appointments bring diverse skills in technology, logistics, business growth, finance, and corporate governance, expanding the WiseTech Board to nine members, with seven being independent.

WiseTech has a market capitalisation of \$25.0b.

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 | 0.96 |
| CAR Group | 0.94 |
| Reece | 0.73 |
| Cochlear | 0.64 |
| REA Group | 0.49 |
| Bottom five | Contribution (%) |
| TechnologyOne | (0.17) |
| Infomedia | (0.08) |
| nib Holdings | (0.05) |
| Fisher & Paykel Healthcare | (0.01) |
| Medical Developments International | 0.00 |

Industry exposure

| Industry group | Weight (%) |
|--|------------|
| Software & Services | 24.17 |
| Health Care Equipment & Services | 16.03 |
| Media & Entertainment | 14.64 |
| Consumer Services | 13.99 |
| Capital Goods | 6.99 |
| Materials | 6.61 |
| Pharmaceuticals, Biotech & Life Sciences | 5.29 |
| Commercial & Professional Services | 3.25 |
| Automobiles & Components | 2.41 |
| Insurance | 2.10 |
| Consumer Durables & Apparel | 1.94 |
| Financial Services | 1.93 |
| Cash & Other | 0.65 |

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