

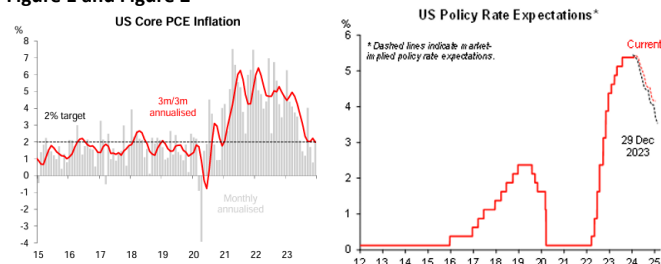
# Selector Australian Equities Fund

Monthly report – January 2024

## Market insights

It is now two years since the world's central banks began one of the most aggressive interest rate hikes in recent history. **Figure 1** and **Figure 2** puts into perspective the two big economic outputs that have dominated discussions over this period, namely, inflation and interest rate settings.

**Figure 1 and Figure 2**



Source: Macquarie Research

Global economic data points released in January suggest an inflection point, with interest rate expectations, inflation readings and Gross Domestic Product (GDP) all pointing down. Most notably, latest annualised inflation readings in the U.S. and Australia came in at 2.9% and 4.1% respectively and are much lower on a 6-month annualised basis. GDP in the December quarter remained above trend in the U.S. at 3.3% and ahead of forecasts, but in New Zealand and Europe, namely Germany and the U.K., the regions contracted.

Elsewhere, Evergrande, China's previously largest property developer, was ordered by Hong Kong's High Court on 29 January to file for bankruptcy, having initially defaulted on bond repayments in December 2021. With more than US\$300b in debt the group will now undertake an orderly liquidation process, although, the broader economic impact, within country and overseas is still to play out as China continues to derate.

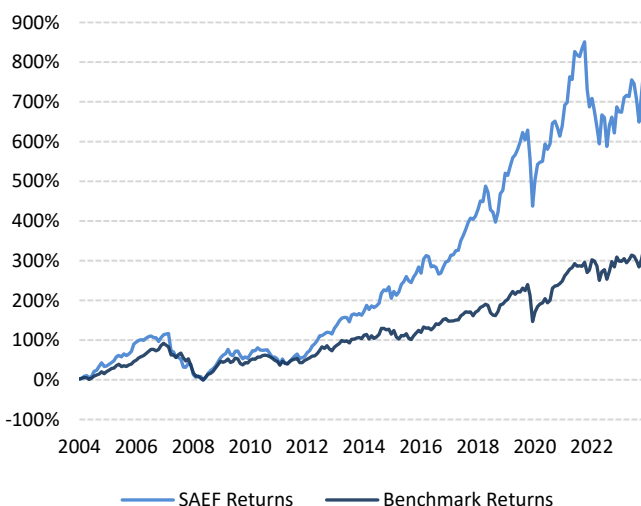
The U.S. Securities and Exchange Commission, in a widely anticipated decision, approved the listing of 11 bitcoin exchange traded funds (ETFs) on 11 January. The introduction of publicly traded ETFs is likely to draw further attention to this investment, although for what it offers investors, apart from a public platform to speculate, is harder to quantify as Gary Gensler, the U.S. Securities and Exchange Commission (SEC) chairman alluded to when approving the ETF's, "we did not approve or endorse bitcoin".

The pain being felt across the mineral landscape escalated during the month, with both nickel and lithium operators having to adjust to the changing circumstances. Importantly, as Ambrose Evans-Pritchard writing in the AFR in January 2024 commented, "None of this was on the radar screen when Tesla's Elon Musk issued his plea for more nickel in July 2020." Less than four years on, several key plays in the energy transition are now under business review.

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, Benchmark: S&P ASX All Ordinaries Accumulation Index Before fees, costs and tax, and assuming reinvestment of distributions

## Top holdings

Company name	Code	Weight (%)
CAR Group	CAR	7.34
Altium	ALU	6.89
James Hardie Industries	JHX	6.54
Cochlear	COH	5.89
CSL	CSL	5.53
TechnologyOne	TNE	5.41
ResMed	RMD	5.34
Aristocrat Leisure	ALL	5.06
Seek	SEK	4.66
REA Group	REA	4.33

## Unit prices as at 31 January 2024

Entry price	\$2.8506
Mid price	\$2.8435
Exit price	\$2.8364

## Performance as at 31 January 2024\*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception Annualised
Fund (net of fees)	0.53	19.24	4.04	12.21	5.27	9.66	11.34	12.04	9.31
Fund (gross of fees)	0.63	19.43	4.60	13.66	6.76	11.35	13.78	15.12	12.12
All Ords Accumulation Index	1.07	14.23	5.94	7.28	9.16	10.03	8.58	10.09	8.02
Difference (gross of fees)	(0.44)	5.20	(1.34)	6.38	(2.40)	1.32	5.20	5.03	4.10

\*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. Returns greater than 1 year are annualised.

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## Portfolio commentary

### Domino's Pizza Enterprises (DMP:ASX)

Domino's Pizza Enterprises reported a soft 1H24 trading update, with network sales up 1.3% to \$2.1b and net profit before tax (NPBT) of \$87-\$90m, down 16% compared to the prior comparative period (pcp). France and Japan fell short of expectations. CEO Don Meij called out poor country execution and a weaker value proposition for consumers. Europe same store sales (SSS) rose 0.6% while Asia SSS fell 8.9%. The priority is to transfer initiatives and know-how from successful markets to these underperforming regions.

Australia & New Zealand (ANZ) delivered a strong result with SSS up 8.2%. The region has benefited from reinvestment to improve the franchisee base, product offering and pricing. ANZ's standout result highlights the momentum that can be achieved when management gets the value proposition right. During the period, Domino's reduced net debt by \$68.7m to \$770m and is operating comfortably within covenant thresholds. Domino's has a market capitalisation of \$3.7b.

### Nanosonics (NAN:ASX)

In January, Nanosonics provided a 1H24 trading update with revenue down 2.4% to \$80m and profit before tax of \$4.9m compared to \$11.4m in the pcp. Sales of new Trophon units and upgrades declined by 23% and 13% respectively, as hospital budgetary pressures extended purchasing timeframes. Capital unit sales have historically been lumpy in nature, with management confident the underlying opportunity in North America remains unchanged. CEO Michael Kavanagh notes that, *"over the longer term, the company remains positive about the underlying growth opportunity of the Trophon ultrasound business and its broader long term strategic growth agenda."*

Nanosonics provided some updated comments on its FY24 outlook. This includes revenue growth in 2H over the 1H, higher gross margins due to product mix and operating expenses at the bottom of the previously disclosed range of 17-22%. Nanosonics has a current market capitalisation of \$890m and net cash of \$112m.

### ResMed (RMD:ASX)

ResMed delivered a strong 2Q24 result, with revenue rising 12% to US\$1.2b and net income up 13% to US\$277.3m. The company reported solid growth across the segments, with Global Device sales up 10%, Masks and other consumables rising 16% and SaaS increasing 28%.

Gross margins rose 90 basis points over the prior quarter to 56.9%, benefiting from lower freight, positive foreign exchange rates and price increases. Management remains cautiously optimistic on delivering an improving gross margin profile. ResMed's focus on profitable growth has led to three new global leadership positions, designed around product leadership, enabling a *"customer centric and brand enhanced organisation"*. The company's focus on digital health, targeting out-of-hospital care for indications such as sleep apnea is being supported by global megatrends across big tech and pharma driving awareness.

ResMed is the clear market leader in a large, underpenetrated market. During the period, its nearest competitor Philips, reached an agreement with the U.S. FDA on a consent decree, that restricts the selling of new devices until manufacturing conditions are met. This is expected to be a multi-year period in which no new devices can be sold in the U.S. This leaves ResMed as the only player of scale, supplying sleep apnea devices in the market. ResMed has a market capitalisation of US\$28b and net debt of US\$1b.

## About the Fund

Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the Selector Australian Equities Fund ("the Fund"). Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT).

The Investment Manager, 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.

This update has been prepared by Selector to provide you with general information only. In preparing this update, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither Selector, Equity Trustees nor any of its related parties, their employees or directors, provide and warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product. Selector does not guarantee the repayment of capital, payment of income or performance.

Selector's Target Market Determination is available [here](#). A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

## Performance contributors

Top five	Contribution (%)
ResMed	0.68
Aristocrat Leisure	0.42
CAR Group	0.42
Altium	0.40
CSL	0.28

Bottom five	Contribution (%)
Domino's Pizza Enterprises	(1.44)
Nanosonics	(1.18)
Seek	(0.25)
ARB Corporation	(0.15)
WiseTech Global	(0.13)

## Industry exposure

Industry group	Weight (%)
Software & Services	22.77
Health Care Equipment & Services	17.71
Media & Entertainment	16.28
Consumer Services	13.07
Materials	6.52
Capital Goods	5.68
Pharmaceuticals, Biotech & Life Sciences	5.63
Commercial & Professional Services	2.71
Consumer Durables & Apparel	2.68
Automobiles & Components	2.29
Insurance	1.79
Financial Services	1.67
Cash & Other	1.21

### Contact Us

Telephone: +61 2 8090 3610  
Email: [admin@selectorfund.com.au](mailto:admin@selectorfund.com.au)  
Address: Level 8, 10 Bridge Street  
Sydney NSW 2000  
[www.selectorfund.com.au](http://www.selectorfund.com.au)

**John Maragiannis | Executive Director**  
[jmaragiannis@axiuspartners.com](mailto:jmaragiannis@axiuspartners.com)  
Telephone: +61 419 689 503