

# Selector High Conviction Equity Fund

Monthly report – February 2024

## Market insights

Reporting season is always a good barometer to judge the health of businesses and the general economy. Over the past few years, this period has repeatedly been overshadowed by broader macroeconomic events. This February, however, we saw our portfolio rewarded for the strong performances delivered by the companies we invest in. Those that disappointed were few.

For the month, the local All Ordinaries Index closed at 7,960 points, an increase of 0.6%. The technology sector was the best-performing of the ASX's 11 industry groups, rallying 19.5%. Consumer discretionary also outperformed up 8.2%. Energy and Materials lagged the broader market, declining 6.8% and 5.4% respectively.

The market witnessed heightened levels of M&A activity with Altium, CSR and Boral all receiving takeover offers, that belied the softening economic backdrop.

Moderating inflation and softer demand in local operations has made revenue growth more difficult, resulting in cost-cutting as companies pivot to sure up profits.

A notable aspect of the portfolio's top holdings is the increasing level of business reinvestment. This reflects the internal confidence of management teams to allocate capital to build out on future revenue streams. Specifically, we would call out Cochlear, CAR Group and WiseTech as illustrative of this reinvestment bias.

The Reserve Bank of Australia (RBA) left cash rates unchanged at 4.35%, signaling that reductions are not anticipated soon, despite market projections indicating otherwise. Reserve Bank governor Michele Bullock said she was 'unfazed' by the market's expectations noting that the RBA is poised to reduce rates only when there's a clear trajectory towards achieving their inflation target of 2% - 3%, which it did not expect until late 2025.

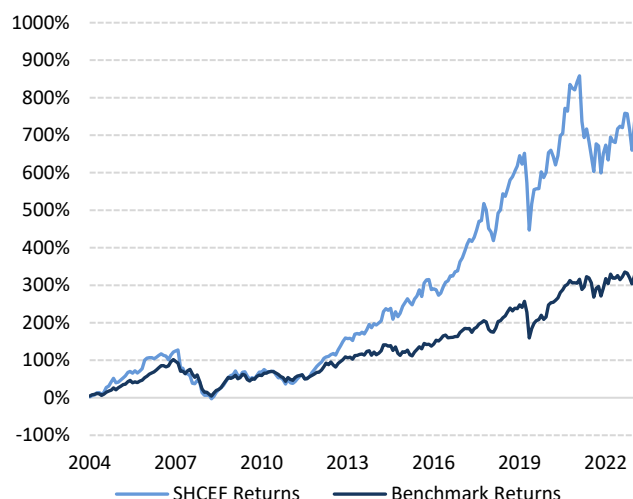
This reflects Federal Reserve chairman Jerome Powell's message that there is no rush to cut interest rates. Powell noted, the 'danger of moving too soon is that the job's not quite done, and that the really good readings we've had for the last six months somehow turn out not to be a true indicator of where inflation's heading'.

Amid ongoing concerns surrounding China's economic outlook, the government has taken steps to bolster its stock market. According to UBS estimates, state-backed funds have injected more than US\$57b into onshore shares this year. In addition to the purchases, Beijing has introduced a slew of measures to support the market and the economy, including tighter scrutiny on quantitative trading and shorting along with additional funding support for property developers.

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	8.05
Cochlear	COH	6.94
TechnologyOne	TNE	6.50
James Hardie Industries	JHX	6.46
Reece	REH	5.38
Aristocrat Leisure	ALL	4.95
CSL	CSL	4.47
WiseTech Global	WTC	4.27
ResMed	RMD	4.18
Altium	ALU	4.15

## Unit prices as at 29 February 2024

Entry price	\$3.6929
Mid price	\$3.6837
Exit price	\$3.6745

## Performance as at 29 February 2024\*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
Fund (net of fees)	8.49	18.33	14.29	23.98	9.32	8.84	11.88	14.63	10.52
Fund (gross of fees)	8.61	18.81	15.12	25.87	11.04	10.74	13.86	16.70	12.56
All Ords Accumulation Index	1.17	9.86	7.97	11.30	9.07	9.00	8.19	10.50	8.29
Difference (gross of fees)	7.44	8.95	7.15	14.57	1.97	1.74	5.67	6.20	4.27

\*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

Three notable updates have been included below. A comprehensive reporting season commentary will be available in the March Quarterly Newsletter.

### Altium (ALU:ASX)

In February, Japanese semiconductor leader Renesas announced its intention to acquire Altium at \$68.50 per share valuing the company at \$9.1b, a 39% premium to prior trading. The transaction has been unanimously approved by the boards of both companies and, if successful, is expected to close in the second half of 2024.

Together, Renesas and Altium, aim to build an integrated and open electronics system design and lifecycle management platform. The acquisition brings together Altium's cloud platform capabilities with Renesas' strong portfolio of embedded offerings, and connectivity to deliver a complete semiconductor solution.

In its 1H24 results, Altium reported revenue growth of 15.9% to US\$138.6m with operating profits (EBITDA) up 3.2% to \$44.7m. The company delivered a strong performance in Enterprise sales, up 61% to US\$20.4m.

Altium has a current market capitalisation of \$8.5b, US\$180m in cash and no debt.

### CAR Group (CAR:ASX)

CAR Group posted a strong half-year performance with pro-forma revenue up 18% to \$531m and EBITDA increasing 19% to \$277m.

CEO Cameron McIntyre commented, *'Our financial results reflect the significant progress that has been made in delivering on our key strategic priorities and the resilience of our business through economic cycles. We have achieved double digit revenue and earnings growth in all of our key markets, demonstrating the strength of our business model as customers continue to prioritise our premium advertising products in a more challenging macro environment.'*

The company re-iterated FY24 guidance for 'Good' revenue and EBITDA growth. Management anticipates strong growth in dealer revenue, driven by greater lead volumes, broader adoption of premium products, including depth and dealer finance, and improvements in yields.

CAR Group reported net debt of \$978m, resulting in a leverage ratio of 1.81x, down from 2.50x in the pcp. The group's market capitalisation sits at \$13.4b.

### FINEOS Corporation Holdings (FCL:ASX)

In its 2H23 results, FINEOS, a leading provider of core systems for life and health insurance carriers, reported its net operating loss improving from €14.6m to €6.9m despite revenue declining 0.6% to €61.1m. Importantly, the company's shift from one-off services to recurring subscription revenues continued during the period, with SaaS revenues up 10.5% to €33.0m, representing 54% of group revenues.

Despite operational efficiencies driving margin improvements, FINEOS is experiencing a longer sales cycle in its pipeline, delaying the timing of revenue growth. Additionally, in response to client churn at Limelight Health, a business acquired in 2020, the company has completely rearchitected the product into a modern, cloud native SaaS solution, with its release expected in calendar year 2024.

The company has maintained its FY24 revenue guidance of between €130m - €135m, reduced costs and double-digit growth in subscription revenue.

FINEOS has net cash of €28.1m with no debt and a current market capitalisation of \$580m.

## 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 (%)
Altium	2.60
Cochlear	1.01
CAR Group	0.89
Reece	0.87
WiseTech Global	0.84
Bottom five	Contribution (%)
ResMed	(0.43)
FINEOS Corporation Holdings	(0.42)
CSL	(0.29)
nib holdings	(0.22)
Nanosonics	(0.18)

## Industry exposure

Industry group	Weight (%)
Software & Services	21.33
Health Care Equipment & Services	17.83
Media & Entertainment	14.30
Consumer Services	13.31
Capital Goods	7.72
Materials	6.46
Pharmaceuticals, Biotech & Life Sciences	4.64
Cash & Other	3.45
Commercial & Professional Services	2.91
Automobiles & Components	2.55
Insurance	1.91
Consumer Durables & Apparel	1.79
Financial Services	1.79

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