

# Selector Australian Equities 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.

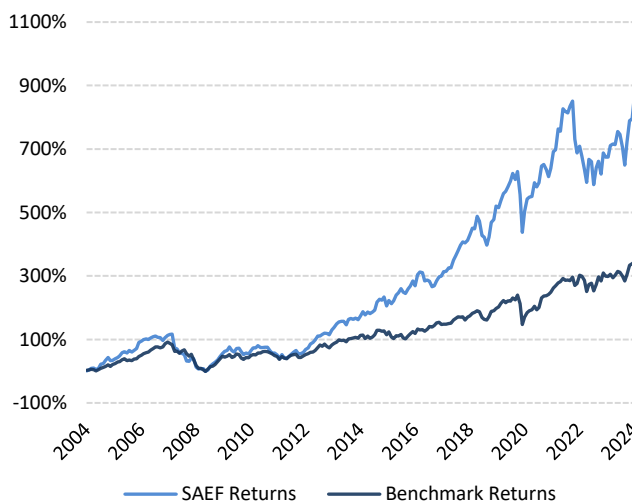
This reflects Federal Reserve chairman Jerome Powell's message that there is no rush to cut interest rates. Powell noted, the 'danger of moving too soon is that the job's not quite done, and that the really good readings we've had for the last six months somehow turn out not to be a true indicator of 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: 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	7.43
James Hardie Industries	JHX	6.21
Cochlear	COH	6.16
TechnologyOne	TNE	5.43
Aristocrat Leisure	ALL	4.87
CSL	CSL	4.77
Reece	REH	4.59
ResMed	RMD	4.56
Seek	SEK	4.37
WiseTech Global	WTC	4.36

## Unit prices as at 29 February 2024

Entry price	\$3.0696
Mid price	\$3.0619
Exit price	\$3.0542

## Performance as at 29 February 2024\*

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception Annualised
Fund (net of fees)	7.68	17.15	13.37	22.88	9.04	9.46	11.44	13.26	9.70
Fund (gross of fees)	7.76	17.37	13.93	24.42	10.56	11.14	13.86	16.36	12.50
All Ords Accumulation Index	1.17	9.86	7.97	11.30	9.07	9.00	8.19	10.50	8.05
Difference (gross of fees)	6.59	7.51	5.96	13.12	1.49	2.14	5.67	5.86	4.45

\*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

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 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 (%)
Altium	2.25
WiseTech Global	1.08
Cochlear	0.90
CAR Group	0.83
Reece	0.75
Bottom five	Contribution (%)
ResMed	(0.46)
FINEOS Corporation Holdings	(0.45)
CSL	(0.30)
Nanosonics	(0.21)
nib holdings	(0.17)

### Industry exposure

Industry group	Weight (%)
Software & Services	19.96
Health Care Equipment & Services	17.72
Media & Entertainment	15.92
Consumer Services	12.84
Capital Goods	6.24
Materials	6.20
Cash & Other	5.76
Pharmaceuticals, Biotech & Life Sciences	4.86
Automobiles & Components	2.55
Commercial & Professional Services	2.52
Consumer Durables & Apparel	2.44
Financial Services	1.52
Insurance	1.46

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