Selector High Conviction Equity Fund Quarterly Newsletter No.63

March 2019

In this quarterly edition, we review performance and attribution for the quarter. We visit CSL, James Hardie and Flight Centre in the U.S. along with a road trip through Texas. We also revisit Domino’s in Japan. We profile Infomedia, and we consider the importance of culture. Photo. Kilian Jornet leading the way. Everest is a pinnacle we all try to reach.

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Selector is a boutique fund manager. Our team, combined, have over 150 years of experience in financial markets. We believe in long-term wealth creation and building lasting relationships with our investors.

We focus on stock selection, the funds are high conviction, concentrated and index unaware. As a result, the portfolios have low turnover and produce tax effective returns.

Selector has a 15-year track record of outperformance and we continue to seek businesses with leadership qualities, run by competent management teams, underpinned by strong balance sheets and with a focus on capital management.

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IN BRIEF – MARCH QUARTER

Dear Investor,

A sharp decline in global stock markets in the final months of 2018 proved temporary, with investors enjoying a solid rebound during the first quarter of 2019. This dramatic turnaround illustrates the folly of those who aim to time markets.

Determining whether we are late in the economic cycle, as some are apt to describe current conditions, or deciphering what our Reserve Bank Governor's next move on interest rates will be, are fruitless exercises.

Macroeconomic impacts are just that, they influence consumer behaviour and ultimately affect business outcomes. As it stands, the show stoppers include the ongoing trade wars between the U.S. and China and the future direction of U.S. interest rates.

Domestically, the upcoming Federal election, alongside a slowdown in housing activity, is providing sufficient evidence that an economic slowdown is upon us. In the short term, these are all pain points for investors to endure and are equally hard to avoid.

However, over the medium to long term, it is the businesses that have successfully adapted and re-invested in their respective operations, which ultimately thrive.

In the most recent reporting season, which is always a great leveller, the evidence confirming a domestic slowdown was most evident. In contrast, the divergence in performance between offshore and onshore earners was just as glaringly obvious. To this end, the companies that make up our portfolio reveal a host of businesses with strong franchises growing offshore.

From CSL to James Hardie and Altium to ResMed, businesses that have built a strong competitive advantage and taken their offering overseas have been able to continue growing into new and larger addressable markets, where they might otherwise have had limitations in Australia.

We make this point not because we have a particularly strong view on the economic outlook either domestically or abroad. Rather, our bottom up investment approach has led us to select businesses based on their superior economic earnings power and ability to deliver strong returns for shareholders over an extended period.

In this Quarterly Newsletter, we expand on this narrative in our article *"Growing offshore – the long road"*. We then provide a detailed review of a long-held stock, Infomedia, following our attendance at the company's inaugural investor day held in March.

We take a deep dive into global plasma leader CSL, focusing on their smaller but equally important influenza business, housed in the Seqirus division. This is followed by a review of James Hardie management post retirement of long-standing CEO Louis Gries and appointment of successor Jack Truong. Management succession can be a tricky path for any business to navigate and particularly, in this instance, if the company has enjoyed considerable success over a long period.

Finally, we provide some general feedback on the companies we visited offshore late in the final quarter and our drive through the U.S. state of Texas.

For the March quarter, the Fund delivered a gross positive return of **15.68%** compared to the All Ordinaries Accumulation Index which posted a gain of **11.06%**. For the financial year to date, the Fund has returned **5.09%** compared to the Index return of **2.97%**.

We trust you find the report informative.

Regards,

Selector Investment Team

“There needs to be someone who is the keeper and reiterator of the vision.... A lot of times, when you have to walk a thousand miles and you take the first step, it looks like a long way, and it really helps if there's someone there saying, ‘Well we're one step closer.... The goal definitely exists; it's not just a mirage out there.’”

Steve Jobs speaking about leadership and the importance of setting an example.

Steve Jobs
Co-founder of Apple

PORTFOLIO OVERVIEW

Table 1: Performance as at 31 March 2019*

	FYTD	3 Month	6 Month	1 Year	3 Year	5 Year	10 Year	Since Inception
Fund (net of fees)	3.96	15.28	(0.81)	14.32	16.22	15.19	17.10	11.15
Fund (gross of fees)	5.09	15.68	(0.09)	15.96	17.88	16.96	19.11	13.20
All Ords. Acc. Index	2.97	11.06	1.09	11.25	11.27	7.49	10.48	8.02
Difference (gross of fees)	2.12	4.62	(1.18)	4.71	6.61	9.47	8.63	5.18

Inception Date: 30/10/2004
**Performance figures are historical percentages. Returns are annualised and assume the reinvestment of all distributions.*

Figure 1: Gross value of $100,000 invested since inception

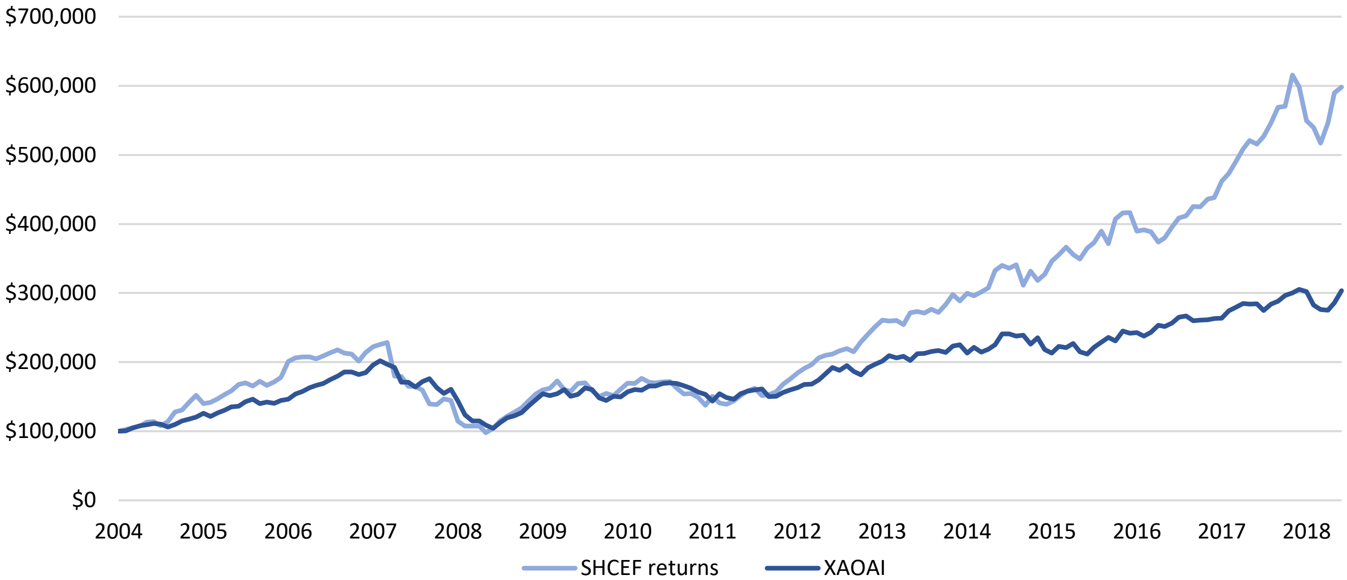


Table 2: Fund's Top 10 Holdings

Top 10 March 2019	%	Top 10 December 2018	%
Jumbo Interactive	7.26	ResMed	5.53
Altium	5.97	Aristocrat Leisure	5.44
Aristocrat Leisure	4.89	Jumbo Interactive	5.00
IRESS	4.78	Altium	5.00
Flight Centre Travel Group	4.31	Reliance Worldwide Corporation	4.58
Infomedia	4.09	Oil Search	4.51
ResMed	4.03	CSL	4.08
Oil Search	3.97	Infomedia	3.95
Technology One	3.94	Flight Centre Travel Group	3.83
Domino's Pizza Enterprises	3.87	Technology One	3.78
Total	**47.11**	**Total**	**45.70**

Table 3: Unit prices as at 31 March 2019

Unit Prices	Entry Price	Mid Price	Exit Price
	$2.8192	$2.8122	$2.8052

Selector employs a high conviction, index unaware, stock selection investment strategy, which typically targets 15-25 stocks for the Fund. As shown above, the Fund's top 10 positions usually represent a high percentage of its equity exposure. Current and past portfolio composition has historically been very unlike that of your average "*run-of-the-mill index hugging*" fund manager. Our goal remains focused on truly differentiated broad-cap businesses rather than the closet index hugging portfolios offered by most large fund managers.

Table 4: ASX sector performance – March 2019 quarter

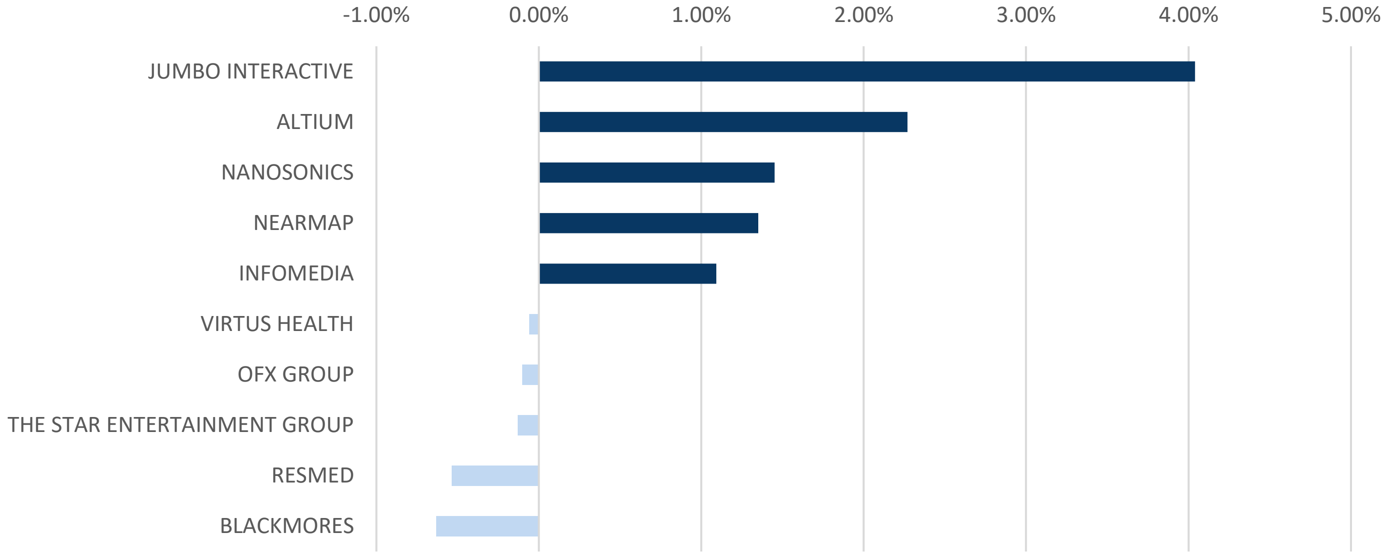
S&P ASX Industry Sectors	Quarter Performance (%)
Information Technology	20.00
Materials	15.72
Telecommunications	14.51
Energy	12.95
Industrials	10.75
Consumer Discretionary	10.46
Health Care	5.51
Financials	4.80
Consumer Staples	4.04

Table 5: Fund's industry weightings

Industry group	March 2019 (%)	December 2018 (%)
Consumer Services	23.97	21.42
Software & Services	20.81	21.29
Health Care Equipment & Services	11.23	12.77
Capital Goods	6.69	8.33
Commercial & Professional Services	6.55	4.68
Diversified Financials	5.12	5.46
Materials	5.09	4.83
Cash & Other	4.97	3.96
Energy	3.97	4.51
Pharmaceuticals, Biotechnology & Life Sciences	3.45	4.08
Insurance	3.06	2.78
Media & Entertainment	2.29	1.94
Household & Personal Products	2.02	3.30
Retailing	0.80	0.65

PORTFOLIO CONTRIBUTORS

Figure 2: Contributors and Detractors – March 2019 quarter



Top contributors

1. Jumbo Interactive (ASX:JIN)

In February, online lotteries retailer Jumbo Interactive presented its results for the six months to December 2018. Total transaction volumes (TTV) processed by Jumbo rose by 66% to $147.9m as a result of strong customer acquisitions and above average jackpot activity which stimulated increased spend per customer. Changes to the rules of the important Powerball game has been a key driver of the increased jackpot activity.

Jumbo collects a margin on the TTV and larger volumes pushed revenue 57.9% higher to $30.5m. More important was the operating leverage demonstrated by the business, which saw net profit before tax rise 136% to $18.2m.

For FY19, Jumbo's management expects the business to deliver net profit of $24.2m, up 107% compared with FY18. Although the level of jackpot activity is volatile from year on year, the level of penetration of digitally sold lotteries tickets in Australia is estimated to be around 22%, well short of the level achieved in other markets around the world. The opportunity to increase digital sales of lotteries in the Australian market alone provides Jumbo with a long runway for TTV, revenue and profit growth.

2. Altium (ASX:ALU)

In February, electronic design software specialist Altium delivered a strong set of numbers for the six months to December 2018. Revenue increased by 24% to US$78.1m and net profit increased 58% to US$23.4m. The performance at a group level was a product of solid momentum in most of the business' divisions.

Revenue from the Board and Systems division grew by 11% in the Americas, 16% in EMEA and 49% in China where a methodical approach to license compliance is proving successful. Revenue from Altium's enterprise product, Nexus, grew by 20%, while the parts search business, Octopart, grew by 80%. Finally, the embedded software development tool, Tasking, which has been a beneficiary of the success of their partner Infineon's Aurix automotive microcontroller, grew revenue by 20%.

Altium revealed a new aspirational goal of delivering US$500m of revenue by 2025 at the results presentation, a great deal larger than their previous goal of delivering US$200m of revenue by 2020 with EBITDA margins of at least 35%. In order to deliver on this new goal, Altium will need to realise its intentions of becoming the key participant in the transformation of the electronic design, parts and manufacturing industry.

At the AGM last year, CEO Aram Mirkazemi expressed confidence in the view that the PCB design software market will become a winner takes all domain. Like Microsoft in desktop productivity tools, and Adobe in graphic design, the company that provides a solution for the issues facing engineers will end up with the lion's share of the market and the profit pool. The presentations at the AGM focused on the lack of interoperability of systems used by participants up and down the supply chain and demonstrated how their products are solving these challenges. Altium is well placed to provide the solutions the industry requires.

3. Nanosonics (ASX:NAN)

Infection prevention specialist Nanosonics posted a robust result for the first half of the 2019 financial year. The install base of the company's ultrasound probe disinfection devices (Trophon and Trophon2) rose from 17,740 to 19,310 at the end of December. Revenue from capital sales rose 11% and revenue from consumables used in the devices rose 59% and now represent 60% of group revenue. As of July 2019, Nanosonics will also benefit from a change in the distribution agreement with GE Healthcare in the U.S., resulting in a material uplift in consumables revenue and gross margins.

The company is benefiting from tailwinds, largely due to the release of a raft of clinical practice guidelines around the world, which encourage or mandate high level disinfection of probes used in critical and semi-critical procedures. Penetration in the U.S., which is far more advanced than most markets, sits at 43%, while markets such as the U.K., France and Germany are all sub 5%. Recent guidelines in the U.K. and Germany, as well as the imminent release of guidelines in France, are all expected to help drive adoption.

Given the lack of practical alternatives for hospitals and clinical practices to comply with the new guidelines, we feel confident about the long-term prospects of Nanosonics.

4. Nearmap (ASX:NEA)

Aerial imagery specialist Nearmap released a strong set of results for the first half of the 2019 financial year in February. Specifically, the company reported strong growth in their key performance metric, Annualised Contract Value (ACV). ACV measures the annualised value of all active subscriptions at a point in time, thus it is a leading indicator of future revenue and cash receipts. Group ACV rose to $78.3m, up 42% from the $55.3m posted 12 months earlier. Australian ACV rose 23% to $53.3m while the less mature, U.S. operation recorded a 107% jump in ACV to US$17.6m. The robust growth from the domestic business is pleasing, but the traction of the U.S. business is arguably more important given the size of the addressable market.

Management confirmed the company's Sales Team Contribution Ratio (STCR), which measures the ratio of incremental ACV to the direct cost of the sales team, remained over 100% in both regions. The company targets a ratio of around 100%, which means the sales cost of acquiring a customer has a one-year payback period. As customer churn is less than 10%, the company can expect to earn more than 10x the cost of the sale in revenue over the life of the customer. As a fixed cost, high margin business, investing now to acquire customers is an appropriate course of action.

CEO Rob Newman confirmed that the company is on track to meet cash flow breakeven for the full year, excluding any impact from the group's $70m capital raise and associated initiatives.

5. Infomedia (ASX:IFM)

See newsletter article.

Bottom contributors

1. Blackmores (ASX:BKL)

Vitamins and supplements manufacturer Blackmores posted a disappointing result for the first half of 2019, recording revenue growth of 11%. However, profits were flat compared with the prior period at $34m. Sales to China were down 11%, as a result of the discontinuation of relationships with six of nine daigou trading partners.

Blackmores' largest client MyChemist continued to sell to a number of these partners. This explains why revenue continued to grow during the period, albeit at a lower rate of profitability due to MyChemist's favourable pricing.

Post the result, Blackmores CEO Richard Henfrey resigned, having been in the role for just over a year and a half post his predecessor's resignation in September 2017. The Blackmores Board of Directors are running a search for a replacement and founder Marcus Blackmore has stepped in as interim CEO until this search is complete.

2. ResMed (ASX:RMD)

In January, ResMed released their results for the second quarter of the 2019 financial year, with revenue rising 8% to $651m and underlying net profit lifting 15% to $144.5m. ResMed shares fell from $16.50 to $13.00 in the days following the result, as disappointing sales growth in Europe, Asia and the other market segments meant top line sales growth fell short of analysts' expectations.

In this period, regulatory changes drove a rapid replacement cycle of old sleep apnea devices with new connected care enabled devices. Consequently, markets such as France and Japan, which experienced strong growth in prior periods, saw reduced sales as the replacement cycle slowed to more normal levels.

This aberration notwithstanding, momentum through the rest of the core sleep apnea business is consistent with prior periods. High single digit revenue growth and operating leverage is allowing margins to expand and earnings to grow at a robust rate.

Investments in a number of SaaS initiatives have posed a drag on bottom line results. The company's strategy of building out a portfolio of services to help manage and treat sleep disorder breathing and respiratory care is one which will take more than a few quarters to play out.

ResMed has a market capitalisation of US$14.5b and net debt of US$1.04b.

3. The Star Entertainment Group (ASX:SGR)

Trading at casino operator The Star Entertainment Group continues to be robust. New assets in the Gold Coast precinct are performing well, with visitation up 11.8% for the first half of the 2019 financial year compared to the same period in 2018.

Further expansions of the Gold Coast assets and the upgrades at the Sydney Sovereign room for VIP clients are progressing as planned. The consortium for the development of the Brisbane Queens Wharf Development expect to sign a fixed price construction contract shortly.

Positive momentum in domestic revenue growth is expected to continue in the second half of 2019, although VIP trading trends are difficult to predict.

During the period, news of an expression of interest process allowing companies to put forward proposals for a second casino and integrated resort license on the Gold Coast weighed on The Star's share price. Despite these concerns, we forecast that growth in inbound tourism will be supportive of integrated entertainment precinct operators and this expectation remains unchanged despite the prospect of additional operators.

4. OFX Group (ASX:OFX)

Money service bureau operator OFX Group provided updated guidance at their investor day in March. The company expects to deliver EBITDA between $30.9m and $32.0m. Growth in corporate turnover has exceeded 10% in all markets for the year to date and the relatively immature U.S. business is growing revenue in excess of 20%.

The company is still transitioning from their original focus on retail customers, towards small to medium enterprise businesses, who transact more regularly, albeit at lower margins. After a period of investment and high turnover in the executive team, the business appears to now be generating momentum. When the company reports their full year results in May, their progress with this strategy should be easier to evaluate.

5. Virtus Health (ASX:VRT)

Virtus Health continues to weather structural headwinds within the invitro fertilisation market in Australia. Pricing competition has forced Virtus to reposition their offering. We continue to evaluate our investment in Virtus.

GROWING OFFSHORE – THE LONG ROAD

Local investors have grappled with companies who choose to expand offshore. The inherent risk of splashing shareholder cash on expensive acquisitions in new and exotic locations is not lost on those who have long term memories.

It is true that some endeavours have been truly awful and financially painful and thus investor concerns aren't without warrant. Take for example the case of Wesfarmers $1.7b U.K. Homebase hardware debacle; a retail acquisition gone terribly wrong. Despite years of experience running the very successful Bunnings chain in Australia, their total miscalculation of its product and service offering and lack of local knowledge, brought the business undone.

Wesfarmers should have known better, their mistakes only heightened by their initial upfront cheque to enter the U.K. market. Inevitably the odds remained high of something going wrong.

Similarly, the collapse of Slater & Gordon's litigation business can be largely attributed to its ill-timed decision to buy into the U.K. market. This was despite a number of red flags highlighting the pitfalls with its targeted purchase, the troubled Quindell operation. Already operating a local business with poor operating cash flow, the risk was only heightened by aggressively expanding offshore, which not surprisingly ended poorly.

There are many more situations one could choose from. On a more significant scale, there is BHP Billiton's circa US$20b write-off of its U.S. shale gas assets and Rio-Tinto's US$30b impairment, following its top of the cycle purchase of Canadian aluminium operator Alcan in 2007. On the other end of the scale, but still significant is National Australia Bank, which dropped US$2b following its ill-fated move to acquire the United States' largest mortgage service operator, HomeSide back in 1997.

With this backdrop, it's little wonder investors are nervous when executives enter offshore markets. Within our own portfolio of investments, we have highlighted companies that have recently outlaid big sums to push into new territories or business segments.

This includes global gaming leader Aristocrat Leisure's US$1.5b purchase of online social gaming operators, Big Fish and Plarium, as well as push-to-connect (PTC) plumbing group Reliance Worldwide's $1.2b acquisition of U.K. based John Guest and fellow plumbing operator Reece Group's entry into the U.S. market, via its $1.9b buyout of Texas based Morsco.

So why the impulse to venture offshore?

There is no one answer but in many ways the world has, figuratively speaking, gotten smaller with advancements in technology continuing to be the key enabler. We would suspect that anyone perusing our top ten portfolio holdings would be genuinely surprised at the level of international contribution.

With the exception of a couple of domestically focused businesses, the vast majority are earning an increasing proportion of their revenues and profits from offshore endeavours. Many are backed by company founders and boards that have shown a commitment to prudent investment and the need for sensible risk taking. They have, in large, taken their intellectual property, commercialised it and opened it to a wider global audience.

It's important to note, we are not seeking international exposure for the sake of it. Rather, it reflects a natural progression of boards and management teams looking to build beyond the local market with a product or service offering that justifiably resonates with a larger audience. In the ideal world, taking baby steps into newer markets is probably the most sensible and conservative route, but this isn't always possible nor practical.

What is clear however is the need for patience. For better or worse we have invested in and followed the progress of many businesses, in their efforts to first establish and then execute on a chosen offshore strategy.

In 2007, Flight Centre Travel Group spent $135m to enter the U.S. leisure travel market. In hindsight, it was the worst possible time to enter the market and until recently there was little to show for it except impairments.

Fast forward to 2019 and the story has progressed. In their most recent interim update in February, Flight Centre Travel Group announced a record first half profit from their U.S. operations, with total transaction values

(TTV) rising 23% to $1.7b and operating profits accelerating from $2.6m to $22m. It's expected this trend will continue, with management anticipating the U.S. market to be the biggest growth driver over the short to medium term.

More specifically, the company has taken the learnings from prior years and is focusing on building out its corporate offering. While the leisure market in servicing the general consumer remains very competitive in the U.S., the opportunity to tailor travel solutions for small to medium (SME) enterprises remains largely untapped. Currently, the group commands a 2% market share in a highly fragmented sector.

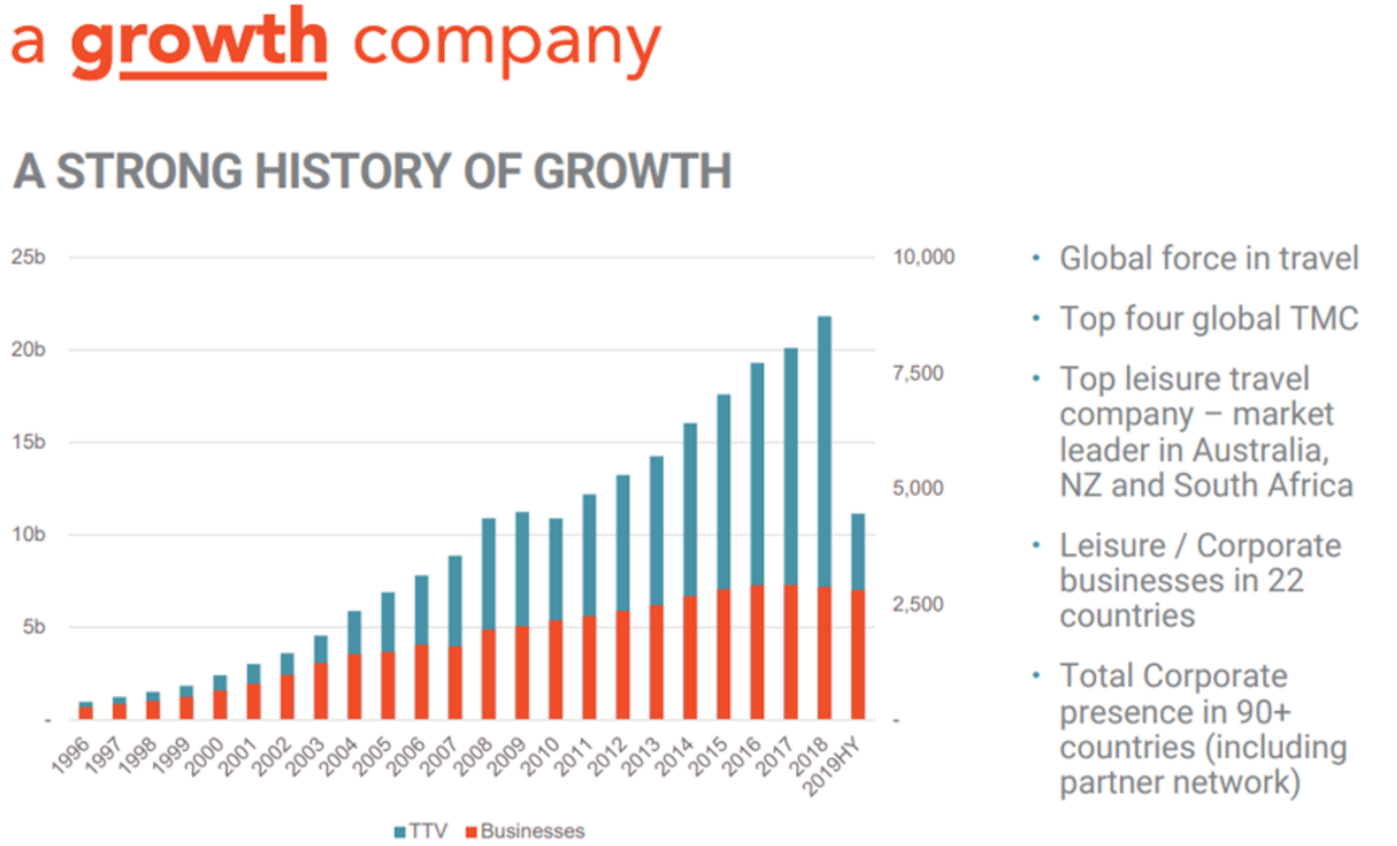
Globally, Flight Centre has risen to a top four corporate player in terms of market share, with first half (TTV) or booking revenues from corporate clients running at $4.2b or roughly 37% of the group's total TTV of $11.2b. To put this into some context, when the company first listed onto the Australian Stock Exchange (ASX) in 1995, the majority of their revenue and profits were derived solely from Flight Centre travel agent stores, servicing retail customers. Today, while the retail portion of TTV has continued to grow, the shift to both corporate and offshore is gaining significant traction.

TTV now flowing from offshore geographies exceeds 52%, similar to operating profits, underscoring management's foresight and preparedness to look beyond domestic shores in building a stronger, more competitive and diversified earnings group. The opportunity here is significant. Since these newer markets are larger in size, the company can tap into a growing pool of customers, powered by a scalable business model that requires less capital intensity.

In a not too dissimilar fashion, Domino's Pizza Enterprises has also taken its business offshore. Following a company visit last year, our June 2018 Quarterly Newsletter profiled the group's Japanese operations.

First and foremost, it is important to appreciate the significant progress the company has made over a relatively short number of years. Having entered the Japanese market as the new Domino's Pizza franchisor in 2013, there were many learnings to be had and several false starts.

Figure 3: Flight Centre Travel Group TTV and business path



Source: Flight Centre FY19 Half Year Results Presentation

As we commented in June, *"There are some subtleties between the rigid nature of Japanese culture and the need for change within the business itself. Kilimnik notes it's important to change the culture at DPJ rather than attempting to change Japanese culture which would be an arrogant approach, destined for failure. The 'Kaizen concept' is a Japanese approach to continuous improvement. The DPJ management team are taking this approach to the development of stretch targets that can drive the Domino's high-volume sales mentality required for scale."*

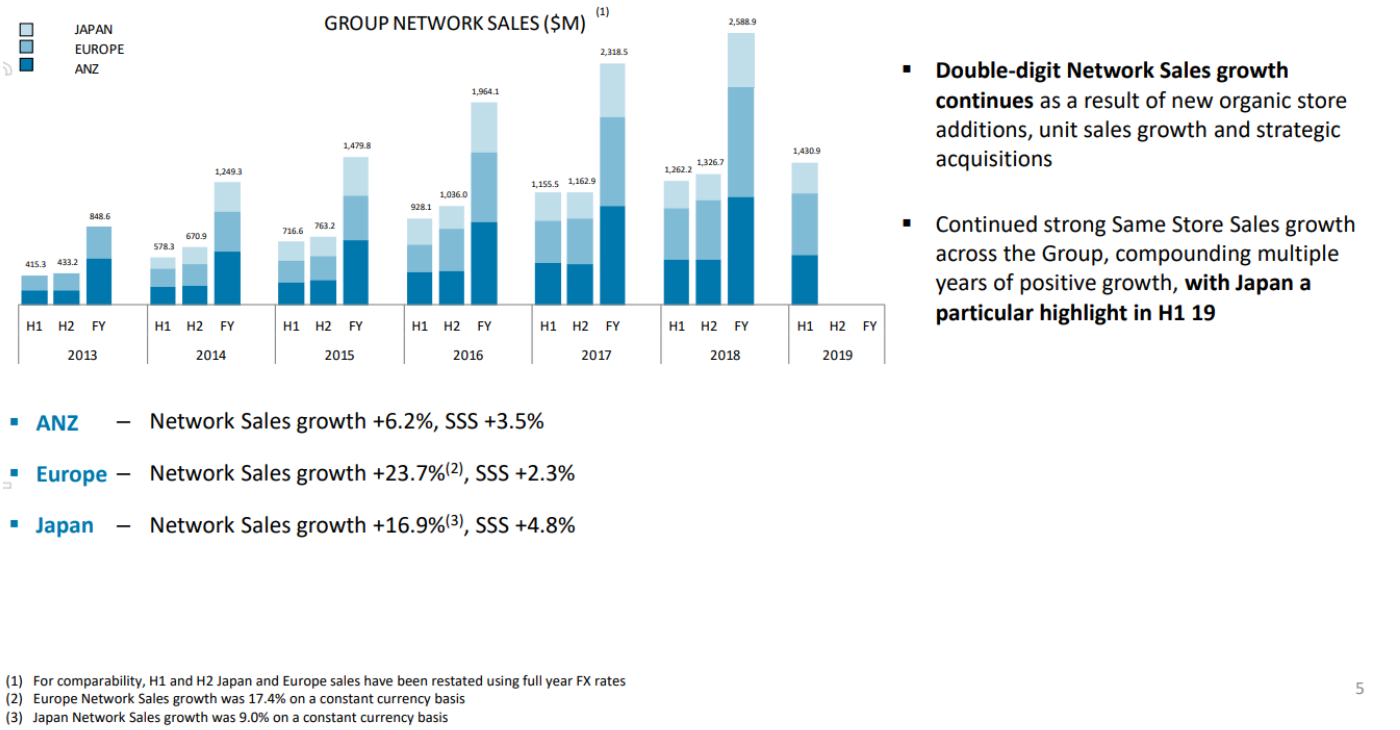
The appointment of Josh Kilimnik as new country President in 2018 has achieved the desired impact. A well-qualified, hands on executive with franchisee experience and deep corporate knowledge that drives the Domino's business ethos, his approach can be characterised as being long term and customer driven.

Investors have, until recently, questioned the ability of the Japan operations to deliver sustainable growth. Anaemic sales growth and flat operating profits have dominated recently reported numbers. Whilst this has not been as fast as some would like, our initial observations of Kilimnik reflected a sensible style, combined with a hard work ethic within Domino's employee base that pointed to future success.

In February 2019, Domino's handed down its interim result. The standout performer was Japan, while the usually strong Australian operations delivered slower comparable sales growth for the period. Total revenues lifted 10%, while like for like sales, which removes the contribution of new and refurbished store openings, rose an encouraging 4.8%, marking its strongest performance since 2014. In turn, stronger operational performance drove operating profits up 34% to $31.6m, delivering record EBITDA margins of 13.8%.

The business now has a very clear roadmap, with the current 550 store footprint expected to lift to 1,000 by 2025-2028. The Japanese operations, along with the group's expanding European presence, is providing growth beyond the Australian home base. For the half year, these combined operations recorded operating profits of $71.0m, in comparison to the Australian and New Zealand profits of $66.2m. It is a trend that is likely to be maintained as the group expands towards its overall 4,950 store target footprint by 2025-28.

Figure 4: Domino's Pizza Enterprises network sales growth



Source: Domino's Pizza Enterprises Half Year 2019 Market Presentation

Financial services operator IRESS, is another example of a company expanding offshore. In our September 2013 Quarterly Newsletter, we profiled this business and noted its entry into the U.K. financial services market, *"in 2011, in keeping with the group's chosen method of expansion, management took another small but important step by launching into the UK wealth management industry. Conservative in nature, IRESS teamed up with the Sesame Bankhall Group – the UK's largest single distributor of financial services and advice – to roll out the group's XPLAN offering. Such an endeavour comes at a cost, where shareholders are asked to endure short term pain for long term gain. During this initial investment phase, management has kept a tight rein on costs, with losses contained to $2.6 million during 2012 and $1.2 million in the most recent half."*

Our comments in 2013 illustrate the importance of businesses wishing to expand without undoing all the good work beforehand. In the case of IRESS, the U.K. market represented a natural progression, but the path to success is often slow and lacklustre, and requires significant human input. By 2013, with clear direction and confidence in the operating environment, the company backed its commitment to the U.K., with the $360m acquisition of the country's leading financial services technology provider, Avelo Financial Services Holdings.

In the February 2019 full year results release, IRESS illustrated the substantial benefits the company is reaping from management decisions and capital investments made years prior. As the accompanying Figure 5 and Figure 6 highlight, the U.K. business which is made up of two divisions headed U.K. and Lending, increased reported revenues by 13% and 20% respectively over the year. The combined, U.K. revenues of $148m are now the largest contributor to group sales which total $464m, while operating profits of $100m are similar to those earned from the company's dominant wealth management business in Australia.

Figure 5: IRESS business mix, segment summary

Segment ($AUDm)	2017	2018	Reported Currency Change	Constant Currency Change
Revenue				
APAC FM	115.1	115.6	-	-
ANZ WM	125.1	136.4	+9%	+9%
UK	105.5	119.0	+13%	+7%
Lending	23.8	28.6	+20%	+15%
South Africa	42.8	46.5	+9%	+4%
Canada	17.7	18.5	+5%	+1%
Total Revenue	**430.0**	**464.6**	**+8%**	**+6%**
Direct contribution				
APAC FM	83.8	81.6	-3%	-3%
ANZ WM	93.9	100.7	+7%	+7%
UK	67.3	78.4	+16%	+11%
Lending	18.6	21.6	+16%	+10%
South Africa	32.8	35.3	+8%	+3%
Canada	9.0	9.6	+7%	+3%
Total Direct Contribution	**305.4**	**327.2**	**+7%**	**+5%**
Functional Segments				
Product & Technology	(108.3)	(114.2)	+5%	+3%
Operations	(38.7)	(39.7)	+3%	-
Corporate	(33.0)	(35.6)	+8%	+6%
Segment Profit	**125.4**	**137.7**	**+10%**	**+8%**

- Key contributors to constant currency revenue growth of +6% were ANZ WM, UK and Lending.
- ANZ WM, UK and Lending all delivered strong revenue growth against pcp.
- Increase in functional segment costs of +3% (constant currency) due to lower bonuses in 2017 (to reflect results), salary increases and investment in office premises
- Constant currency Segment Profit growth of +8% highlights positive operating leverage achieved in 2018.

Note: Constant Currency Change reflects AUD movement from 2018 to 2017 assuming 2018 results are converted at average 2017 exchange rates

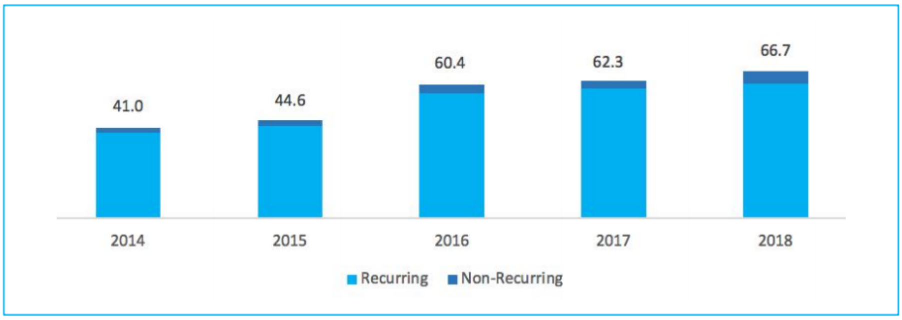
Source: IRESS FY18 Results Investor Presentation

Figure 6: IRESS U.K. contribution

- Good progress on a number of key client projects delivered +7% revenue growth, with increased momentum in the second half.
- XPLAN represents ~24% of total 2018 UK segment revenue (2017: 20%) reflecting momentum with new clients and conversions from Adviser Office.
- Strong demand for additional data and distribution products leveraging scale of Sourcing
- Margin growth reflects scale and improving operational leverage from team and process improvement.
- 2019 annual revenue growth rate, and half on half profile, expected to be similar to 2018.
- Given the predominantly domestic focus of our UK clients we don't expect a significant direct impact from Brexit. We are exposed to indirect economic impacts which are harder to predict and closely monitored.

GBP (m)	1H17	2H17	2017	1H18	2H18	2018	2018/2017
Operating Revenue	30.7	31.7	62.3	32.4	34.3	66.7	+7%
Direct Contribution	19.5	20.2	39.7	20.7	23.2	43.9	+11%
Margin	**64%**	**64%**	**64%**	**64%**	**68%**	**66%**	

Consistent revenue growth over time and is highly recurring.



Source: IRESS FY18 Results Investor Presentation

These few examples help illustrate the changing fortunes of businesses that have transitioned beyond Australia. While a growing number have chosen offshore expansion, many successful and dominant businesses have remained domestically focused. This strategy has its advantages, but in an increasingly competitive environment, natural constraints to growth carries longer term consequences.

In short, these businesses have outgrown their respective fields of endeavour locally. There are many that now sit in this bucket, including most notably, our major trading banks, Telstra, our retailers Woolworths and Coles, Coca-Cola and our general insurers Suncorp and IAG. Many have tried their hand at offshore expansion, with the exclusion of Coca-Cola's overseas presence in Indonesia, with limited commercial success.

Yet our top ten ASX listed companies continue to reflect domestically based businesses, with only three – BHP Billiton, CSL and Macquarie Group – operating offshore operations. Those restricted to the Australian economy have their own challenges, potentially crimping longer-term growth and reducing management's desire to reinvest in the business.

Table 6: Top ten listed Australian companies by market capitalisation

Stock Code	Description	Market Capitalisation ($b)
CBA	Commonwealth Bank	129.55
BHP	BHP Group	108.64
WBC	Westpac Banking	93.02
CSL	CSL	90.33
ANZ	ANZ Banking Group	77.18
NAB	National Australia Bank	70.49
MQG	Macquarie Group	43.74
WOW	Woolworths Group	39.85
WES	Wesfarmers	39.11
TLS	Telstra	38.30

Source: IRESS Market Technologies

This is a by-product of a more competitive environment, where company boards are pressured to deliver returns ahead of a longer term economic benefit. Cost cutting and capital management initiatives have become the focal points of attention, which promise to deliver short term wins while jeopardising long term rewards.

Even more damaging is when exceptional people leave, as the very foundations of a good organisation is the internal culture. Those that lose direction or offer little in the way of progress get left behind and it's when good people leave that the resilience of an organisation is truly tested.

In contrast, market leading businesses attract high achieving individuals. They set standards and those attracted to an expanding, growing business are eager to embrace change and build on that success.

Summary

The risk for investors is to put too much value on the brands which reflect their past rather than their future.

At the same time, they could do far worse than to consider businesses that are lesser known in name. Those with a readiness to look beyond today have in our experience, the capability of delivering extraordinary value with the passage of time. ***SFM***

INFOMEDIA

We have followed Infomedia, an automotive electronic parts catalogue (EPC) software provider, since its float almost two decades ago. After listing in August of 2000 for $1.00 a share with a market capitalisation of $315m, the shares reached an all-time high of $2.65 later that year, valuing the company at more than $830m. At the height of the tech boom, expectations for Infomedia were as high as they were for every other software business, expectations that were never met. Unlike many of its peers, Infomedia was earning profits and while its shares fell to a low of $0.17 in 2011, it managed to stay in business.

For many years the company grew revenue by selling more licenses to customers, however it failed to grow earnings. In theory, a well-run software business should be able to sell the same product to an increasing number of customers without growing operating expenses or product development at the same rate. Earnings should expand at least as fast as revenues. Clearly something about the operating model at Infomedia was not quite right.

After observing the company for more than 14 years, in our March 2014 Quarterly Newsletter, we outlined our assessment that the new management team had resolved these issues; Infomedia was on the right track. However, this assessment was off the mark and we explain why later. First, it's worth revisiting the business and why their offering is of value to customers.

The business

Infomedia's core competency is building and managing EPCs and the data that underpins them. Car dealerships around the world rely on parts catalogues provided by their original equipment manufacturers (OEMs) to identify and price parts for different vehicles. Whether the customer is an aftermarket service centre or a dealer’s own service department, identifying the correct parts for a vehicle is mission critical.

Parts

The automotive dealership business models depends on acquiring a customer upon purchase of a new vehicle, often at breakeven or even for a loss. The profitability of the dealer is then largely determined by their ability to retain the customer for regular servicing. Maintaining these relationships is the most important job of a dealer. Infomedia provides a variety of tools to assist with this process, which we expand on later. Related to the service business is the other profitable offering, OEM parts sales. Original equipment (OE) dealers sell parts to their own service departments as well as independent mechanics.

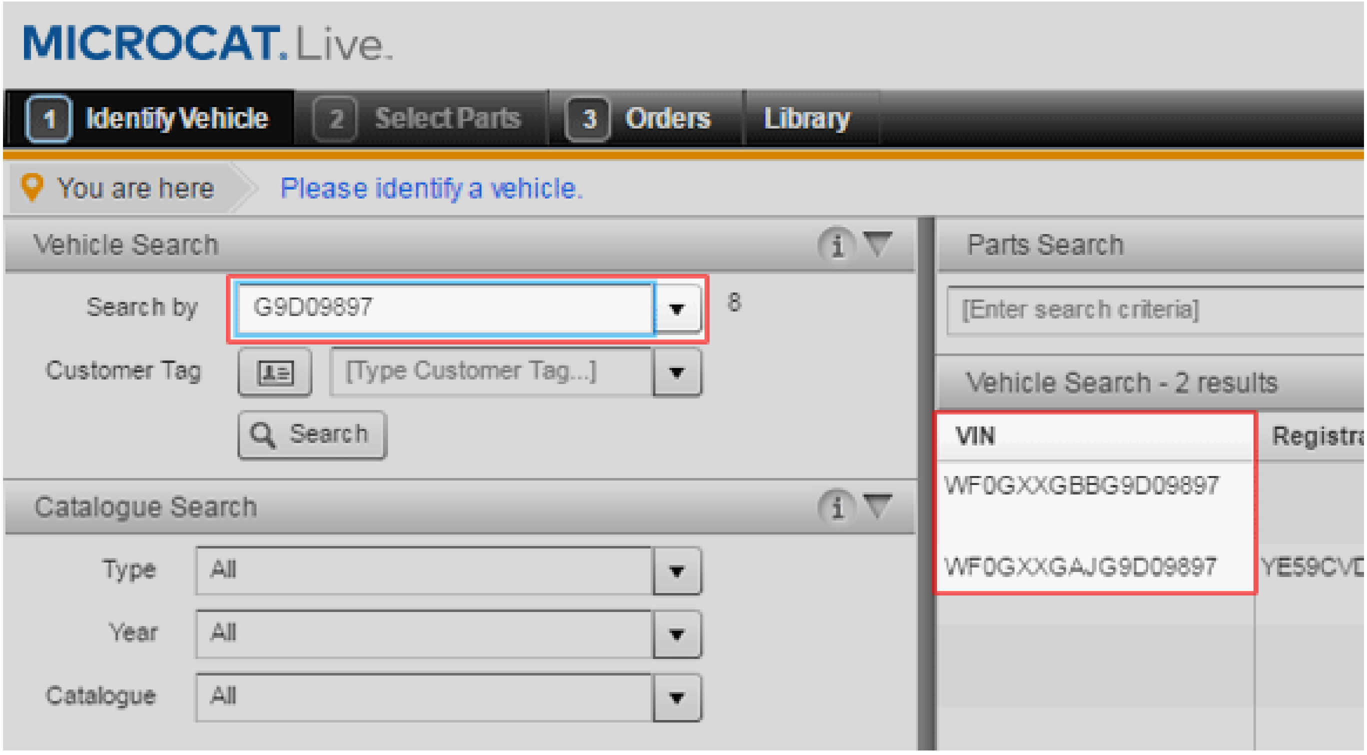
Our recent trip to the UK confirmed the OEM/dealer business model is under threat. Many dealers are shutting down in response to the challenges they face, while others are pivoting away from selling new cars towards the used car market. Those that choose to persevere in the new car sales market are forced to find ways to become more efficient and deliver more value to their customers.

Understanding what parts are required by different vehicles isn't purely an administrative task, it's also critical to being able to build accurate parts orders quickly. Today, independent shops buy less than 25% of their parts from OE dealers due to the availability of non-OEM parts and in order to save customers money. Providing superior service to purchasers is non-negotiable for the parts departments of automotive dealers.

OEMs and dealerships have historically managed this process in one of a variety of ways. Before computers and databases were commonplace, OEMs would produce parts catalogues similar to the Yellow Pages. Soon after publishing, these would become outdated as new models rolled off the factory floor. Eventually, these catalogues were digitised but the updated libraries had to be distributed by CD to dealerships. This was the state of the market when Infomedia began as an EPC supplier. Today, EPCs are browser-based systems provided either by specialists, such as Infomedia, or by OEMs using proprietary technology.

Infomedia's flagship product, Microcat Live, is the industry's leading EPC. The library provides dealers with data on all relevant parts for their manufacturers' vehicles. Dealers search and filter by VIN, license plate or vehicle model and as a browser-based solution, users are always on the most up-to-date version of the software with access to new parts data immediately.

Figure 7: Microcat Live vehicle search



Source: Infomedia Microcat Live

Today, OEMs have three main choices for their EPCs. The first is building and maintaining their own parts libraries which demands substantial development resources. The maintenance of the parts library for these proprietary solutions is often labour intensive. Despite the benefits of using a third-party EPC provider, a large percentage of OEMs still operate proprietary systems.

If a dealer chooses not to build their own EPC, the two providers that dominate the third-party EPC market are Infomedia and Snap-on (U.S. based).

New parts capabilities

Using the data and infrastructure of Microcat Live, Infomedia has developed other systems that improve the efficiency of the automotive supply chain from parts ordering, to instant chat and customer relationship management (CRM) tools.

Microcat PartsBridge connects dealer parts departments with smash repair shops, providing workflows to simplify their ordering and fulfilment. Using VIN code filtering, body shops are able to validate their repair estimates and send dealers their parts orders. With the increased transparency that Microcat PartsBridge provides, body shops reduce the risk of underquoting for repair work and can help them compete more effectively on price.

Microcat CRM increases visibility across the supply chain from OEM to the wholesale customer, which helps dealers sell more genuine parts. Dealer sales representatives use Microcat CRM to view current sales and forecasts, schedule visits and log notes on customer visits.

Other small additions to the portfolio, such as Microcat Messenger, provides Infomedia customers with tools that reduce friction within the supply chain and increase accuracy. Although the actual technology that sits behind these tools is relatively simple, the breadth of the product suite allows Infomedia to deeply integrate themselves in dealerships' operations, improving retention.

Service solutions

Superservice Menus is a fast and accurate quoting tool. By combining VIN specific data and the required parts, consumables and labour for different services, Menus can calculate the expected cost of a vehicle service.

Superservice Triage systemises the service department's vehicle inspections, providing mechanics with vehicle specific electronic checklists that help identify, price and recommend additional repair work. Additionally, the ability to create reports, including photos and videos improve transparency for the customer and reduce declined repair recommendations. Inbuilt analytical tools help management monitor the performance of service technicians.

Superservice Connect provides dealers with an automated service booking tool, which allows customers to self-serve via the dealer's website and draws on the Superservice Menus functionality to provide those self-service customers with precise quoting.

Data

Clearly each of the Microcat and Superservice tools are geared towards providing dealers with better ways of engaging with and selling to their customers. Not only are these tools powered by the EPC parts data but they also create new data sets, such as useful life of parts and customer behaviours. On their own, each of these different data sets are valuable, but combined, Infomedia is finding there are a variety of new solutions they are able to provide to dealers and OEMs because of these insights. The company has a number of proof of concept data tools in pilot with OEMs.

In November 2018, Infomedia acquired Nidasu, a provider of automotive data analytics to OEMs and dealerships throughout Australia and Asia Pacific. The upfront payment to Nidasu was $5.6m and Infomedia will pay a number of earnouts based on the profitability of the business in future periods. Infomedia acquired Nidasu because of their ability to solve problems OEMs and dealers have when monitoring performance and generating actionable insights from their own data. A wide variety of dealer management systems (DMSs) are used in the industry and they have a low level of interoperability and standardisation, making analysis difficult and laborious.

The DMS is a business intelligence and enterprise resource planning (ERP) system that is critical to the operation of the dealership. It is the operating system for the dealers' finance, sales, inventory, and administration departments. Thus the DMSs contain much of the data the OEMs and dealers need to understand their businesses. However, the age of the systems and the difficulty with which the data gets aggregated, means both parties frequently fail to complete even the most rudimentary analysis. Often OEMs request reports from dealers which are then aggregated. Nidasu integrates directly with all major DMSs in Australia, allowing OEMs to run the reports themselves.

Nidasu allows OEMs the ability to monitor the performance of dealers compared to their peer groups, provide full insight into the dealer's part sales and inventory levels. It also enables the OEMs to forecast aftermarket service and part sales revenues, based on dealer territory VIN registrations.

While small, the Nidasu acquisition fits neatly within Infomedia's core competency and area of focus, taking data the business is generating and turning it into actionable insights to help improve their customers' operations. As the business matures, we expect to see Infomedia releasing more products and services that enhance their capabilities in these areas.

Execution and selling discipline

Since it was founded, Infomedia has evolved and it's worth revisiting some of its history. After establishing the business in 1988, originally as a Microsoft software distributor, founder Richard Graham concluded he didn't want to stay in the business of selling other people's software, and in 1991 launched Microcat. Richard Graham was a visionary and he was responsible for the production of revolutionary software, but his business development skills and strategic planning were found wanting.

Despite stepping down officially as CEO in 2004 and holding the title of both non-executive chairman and executive chairman at various points until September 2013, Richard Graham always remained very much in control of the business until the removal of CEO Andrew Pattinson in 2015. Executives appointed to run the company were loyal to the founder and failed to invest adequate resources in the redevelopment of old tech stacks or implement effective sales practices.

The company developed lazy habits over many years, sales and marketing practices lacked rigor and the workforce probably reflected those realities. An example of this are the pilot programs which Infomedia would roll out for OEMs, requiring upfront investment without guaranteed returns. Investors looked to the pilot pipeline as an indicator of future sales, but the rate that pilot programs converted to paying contracts was inconsistent. When they did convert, they were rarely accompanied with a commensurate increase in profits.

New team

This began to change when Jonathan Rubinsztein was appointed as the CEO in January 2016. After meeting him we were apprehensive to say the least. He possesses at times, what appears to be unbridled optimism. Despite this, his vision of Infomedia's future was similar to ours. From his point of view, the main thing the business lacked was selling discipline. In our opinion, this sounded like a relatively easy fix.

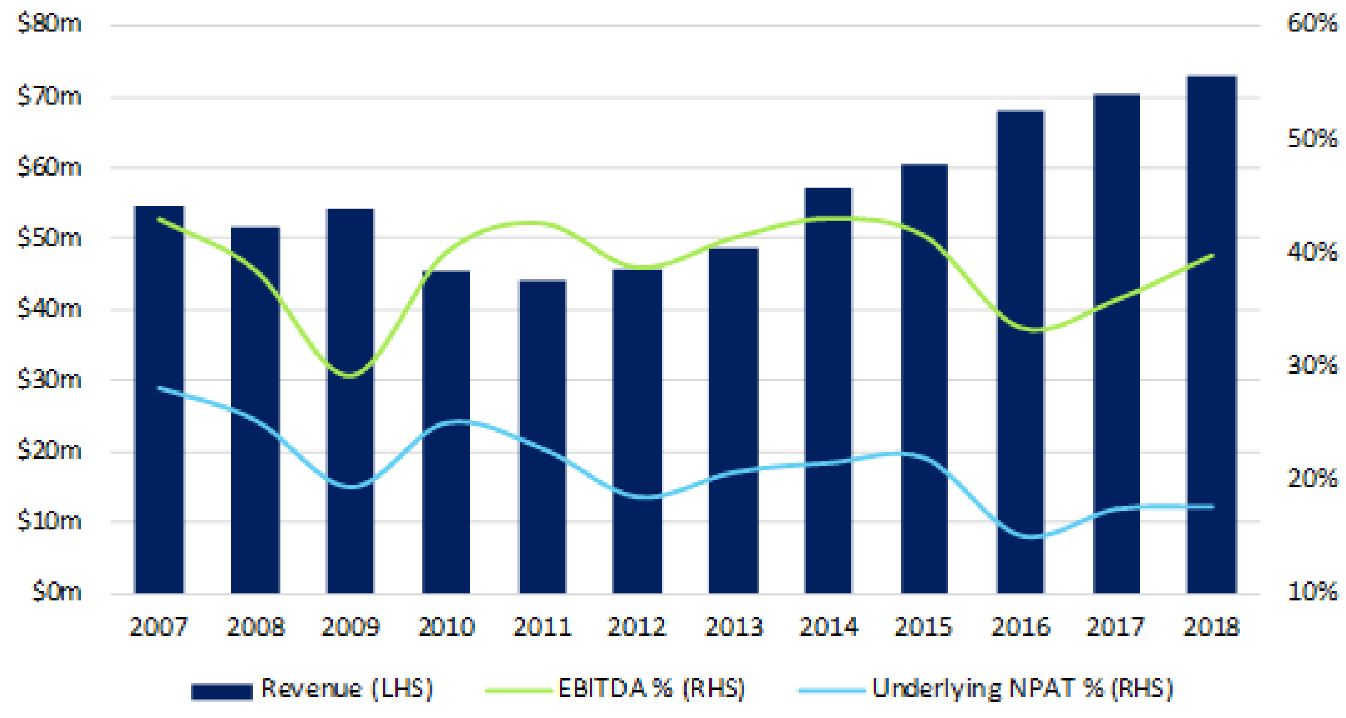
At the most recent results for the first half of the 2019 financial year, Rubinsztein spoke frankly with us about how much change was actually required to get everything back on track. The business was literally tied to the company's old offices in Frenchs Forest in Sydney's northern suburbs by hardware that no-one remaining in the business knew how to operate. Responsibility for individual products was vested in all of its staff, which meant no-one actually took ownership or were held accountable for performance. Substandard account management had left clients feeling like their needs weren't understood by Infomedia.

For the better part of two years, Rubinsztein spent his time cleaning up problems and putting in place the right infrastructure to support his vision for the business.

The first part of this clean-up process was bringing in a team capable of executing. At Infomedia's investor day in March, we had the opportunity to meet these people. The most important appointment was bringing in Richard Leon as Chief Financial Officer. Leon is an executive we have time for, having previously managed the finances at Altium, another of our portfolio's holdings. It's fair to say that Rubinsztein and Leon balance each other like Yin and Yang. What Rubinsztein brings to the table in terms of energy and passion, Leon brings in rigor and financial strategy. Together they carry what the leaders that preceded them lacked, an ability to drive growth in revenue while maintaining discipline with respect to costs.

Digging deeper, Rubinsztein and Leon inherited a business that was in poor shape. Not only was an important client of Infomedia opting not to renew their EPC license, the board had identified a requirement for a period of accelerated software development to bring aging systems into the new world. The team attacked these issues head on, scoring a number of large early contract wins and redirecting product development resources to the highest priorities. Underinvestment and poor resource allocation meant the business had over-earned in prior periods. Figure 8 illustrates this.

Figure 8: Infomedia's revenue and margins



Source: Infomedia company financials

Improved organisational structures implemented by the management team now ensure important responsibilities don't slip through the cracks. Every product Infomedia sells has a product manager, a champion for that product within the business. Those product managers work with regional heads to ensure there is appropriate resourcing to support and grow each product.

An improved focus on account management provides the company with better insights into clients' needs. This has the dual benefit of allowing for the early identification of customers who are likely to change provider, while also giving the intelligence the company needs to identify pain points for customers and potential areas for product development and growth.

An example of an early win was the signing of the global Nissan EPC contract. Typically, OEM's would only endorse the products but wouldn’t have any involvement in convincing the dealer of the benefits. Upfront costs to configure the systems would leave Infomedia earning little to no margin from contracts. Although the Nissan contract required upfront development work, the management team secured a minimum billable contract value from Nissan, enabling Infomedia to earn an appropriate return.

Learning from our mistakes

In retrospect, we made mistakes in our initial assessment of Infomedia. Management were trustworthy but appeared more capable than they were. As an outsider, we have to make a number of judgments using limited information and in this case we judged incorrectly. The red flag should have been that the CEO was an internal appointment. Rarely does a CEO capable of steering a business to greatness, come from inside a poorly performing business. Fresh eyes are always a good idea when things aren't going according to plan.

However, when we look at the key criteria we are searching for in a business, we got most of these right. The balance sheet of the business was always very conservative, with $5m to $15m of cash in the bank. The business is undoubtedly a leader in its field. Low capital intensity all but guarantees that once they make the appropriate adjustments to the business, success in growing the business will translate to bottom line growth, substantial cash generation and strong returns for shareholders.

Our original error in the assessment of management cost us five years. Having the wrong people as the custodians of the company is a significant risk and it's why we spend so much time discussing it. Fortunately, because of the conservative nature of the business, this mistake was far from catastrophic.

Following the injection of new blood into the business and a painful period of consolidation, Infomedia is finally in a position to capitalise on their core competencies and an industry with structural tail winds in their favour. ***SFM***

CSL – FLU SHOT

Early days

"It wasn't particularly obvious when I first joined the company that it was going to make its 75th birthday let alone 100" (McNamee, speaking of the company's milestone in 2016).

Global plasma derived therapies leader CSL is an Australian success story. The financial results achieved since its listing in 1994 are a testament to management's foresight in building a world class business. That said, getting this far was by no means a straight forward exercise.

Former CEO Brian McNamee, who joined CSL in 1990 and remained in charge until 2013, has been credited with its transition from a domestically based, government owned enterprise, to one that has achieved global relevance.

Looking back, McNamee was under no illusions as to the need for bold steps, as he recalls, *"The company had an extraordinarily rich history of providing a public service to the Australian public… but it wasn't really clear that the world needed CSL anymore."* The task at hand was to build out a more competitive offering, one that required an international presence.

In 2000, the company announced the first transformational deal, acquiring its Australian equivalent in the form of the Swiss Red Cross plasma business ZLB for an outlay of $892m.

In 2004, the company backed this up with the $965m acquisition of U.S. based Aventis Behring. The second acquisition was purchased on very attractive financial terms, setting the foundations for what is now the company's flagship division, CSL Behring.

CSL's current CEO Paul Perreault, who at the time was an executive at Aventis Behring, noted the significance of the undertaking, *"At the time both companies were struggling… it was pretty much a bet the company situation for CSL and it was the minnow swallowing the whale."*

Most importantly it underlined the way in which the company was prepared to grow. A counter-cyclical bias, where value could be added, with McNamee noting *"The history of CSL is to do transformative, value accretive acquisitions. We tried to find unloved assets often owned by larger companies."*

Back to the future

When the Commonwealth Serum Laboratories (CSL) was founded in 1916, its basis for existence was to provide critical medicines including vaccines, serums and anti-toxins to the general public. Almost 100 years later, and despite its lower relevance to the overall group, the company saw fit to return to its roots, acquiring the influenza operations from Novartis.

The deal was announced in 2015 and resulted in CSL outlaying US$275m for the loss-making Novartis influenza vaccine business, which it then combined with its own bioCSL operations to form the second largest global influenza vaccine provider, Seqirus.

The fact that CSL was able to acquire the assets so cheaply was due to the business losing money and lacking operational scale. At the time of the acquisition CEO Perreault noted, *"We've got a lot of work to do, no doubt about that, it is not for the faint of heart."*

However, the move should also be seen in its consistency with past company actions and management's core philosophy, *"It was not unlike the plasma segment in 2004 with the Aventis Behring deal. People were getting out of flu because it is hard. The Novartis business brings us scale… I think we bought well. Developing a product every six months for the northern hemisphere and the southern hemisphere and trying to produce pandemic supply and antigens…it seems we like complexity. We're just getting started."*

Today, recently appointed CSL Chair Brian McNamee summed up the company's entrepreneurial approach when compared to its pre-float days, *"There are consistent cultural characteristics that remain firmly embedded at its core. Back then, as it does now, the company had great technical depth – a deep understanding of what patients with rare and serious diseases need, the science to successfully innovate and the operational expertise to manufacture and commercialise high quality therapies. Most of all, the organisation had a genuine belief that it could identify underperforming international assets and help them thrive – because we understood our core expertise and* *had the determination to use it. That hasn't changed at all."*

Flu business

The Seqirus influenza business is currently run by former CSL CFO Gordon Naylor. He joined the company in 1987 having held several operational and corporate roles including responsibility for CSL Behring's global supply chain and global information systems.

Naylor's recent decision to step down as President of Seqirus follows a thirty-year career with the company, which most notably has included the successful transformation of a previously loss-making business.

The business is now on target to meet or exceed its original financial metrics set at time of acquisition. More importantly, the business is establishing a high-performance bar that fellow competitors now need to maintain.

To set the scene, the largest global influenza player, French based pharmaceutical group, Sanofi is committed and likely to go the distance. Third placed operator, British operator GlaxoSmithKline, appears less inclined to invest the dollars required to succeed.

Over the long run, a likely outcome could be two well-resourced groups, Sanofi and CSL, dominating the US$4b plus annual influenza opportunity.

Industry fundamentals

CSL's involvement with influenza dates back a century having developed a vaccine during the Spanish flu pandemic in 1919. Today, and following its acquisition of Novartis, Seqirus operates in more than 20 countries, employing over 2,000 employees and is ranked second globally behind Sanofi, in a market recording annual revenues in excess of US$4b.

As CEO Perreault noted, this is a complex, commodity type manufacturing business that requires scale. What makes this market tough is the necessity to develop a new product every six months, underscoring the task at hand and helps explain why few competitors exist.

In addition to the US$4b traditional seasonal vaccine market, there is also a US$2b market linked to pre-pandemic requirements.

The U.S. market dominates the global seasonal vaccine market, accounting for some 45% of total volume dose demand, followed by Japan at 19% and Mexico at 8%. Supported by their respective disease centres, these countries enjoy high levels of immunisation rates.

With rising vaccination coverage, the U.S. has recorded annual increases in flu vaccine doses of 5% per annum over the past 15 years, rising from 70m in 2001, to 146m doses during the 2016 season.

Flu Vaccine types

CSL views influenza as a serious disease, with an annual infection rate of 5% to 10% amongst adults and 20% to 30% of children, causing 500,000 deaths per annum globally.

The predominant flu sub-type viruses, include Type A, found in both humans and animals and Type B, mainly discovered in humans. The aim of seasonal vaccines is to protect the population from those virus strains that circulate in humans.

There are two main vaccine types, namely trivalent (TIV) or quadrivalent (QIV). TIV as the name implies, protects against three virus strains while QIV protects against four. Historically, TIV was used as the standard vaccine, however, incorporation of an extra strain has seen a significant implementation of QIV.

Vaccine choice

This task is overseen by the World Health Organisation (WHO), which undertakes extensive surveillance of viruses, forming the basis for selection of flu strains for inclusion in the upcoming seasonal vaccine. Following surveillance work and data analysis, manufacturers are provided with the selected viruses to include in vaccine production.

This occurs every six months, prior to the start of the respective winter seasons in both the Northern Hemisphere (starting in February) and the Southern Hemisphere (beginning in September).

Chicken eggs - vaccine manufacturing timeline

The majority of flu vaccines are grown in chicken eggs, a method of vaccine development that's been safely used for 70 years. But why chicken eggs?

The excellent yield of virus from chicken eggs has led to their widespread use in research laboratories and for vaccine production. In fact, the vast majority of influenza vaccines, both inactivated and infectious, are produced in chicken eggs.

Manufacturing steps – eggs

According to the WHO it takes approximately five to six months for the first supplies of approved vaccines to become available, following the identification of a new strain of influenza virus.

There are many steps involved, which all require timelines to be met. In short, the sequence of events from identification to manufacturing are listed below,

1. **Identification of new virus** – Global surveillance identifies new virus strains, forwarded to WHO.
2. **Preparation of vaccine strain** – Takes approximately three weeks to prepare hybrid strain.
3. **Verification of virus strains** – Testing of virus required, which takes about three weeks before being distributed to manufacturers.
4. **Preparation of reagents** – WHO produce standardised substances called reagents, given to all manufacturers, to measure correct vaccine dose levels. A period of three months is required to produce reagents.
5. **Vaccine testing** – Manufacturers take the hybrid vaccine to test the best growth conditions in eggs, which takes approximately three weeks.
6. **Vaccine production** – Vaccine is injected into eggs and virus is then harvested and purified, referred to as antigen. Each batch takes about two weeks.
7. **Quality control** – Each batch is tested, requiring approximately two weeks.
8. **End of process** – Vaccine is diluted to give desired concentration of antigen, before filling and releasing into vials and syringes, which takes two weeks.
9. **Approval** – Certain countries require each new influenza vaccine be tested before approval granted, time varies.

Cell-based vaccines – the future

A growing body of evidence is now questioning the ongoing use of eggs in vaccine production. In August 2016 the U.S. Food and Drug Administration (FDA) gave the green light to the use of CSL's Flucelvax, the only cell-based flu vaccine approved in the U.S.

Cell-based flu vaccine manufacturing was developed as an alternative to the egg-based manufacturing process. According to the Centres for Disease Control and Prevention (CDC), *"'Cell-based' refers to how the flu vaccine is made. Most inactivated influenza vaccines are produced by growing influenza viruses in eggs. The influenza viruses used in the cell-based vaccine are grown in cultured cells of mammalian* origin instead of in hens' eggs."*

Cell vs egg manufacturing

The CDC outlines two specific advantages of cell-based vaccines compared to the traditional egg-based manufacturing.

The first focuses on the outcomes:

1. *"Growing influenza viruses in eggs can introduce changes (i.e. egg-adapted changes) that can have important implications for the body's immune response to vaccination. For example, these egg-adapted changes could cause the body's immune system to produce antibodies that are less effective at preventing disease caused by the specific flu viruses in circulation. FDA approval of cell-grown CVV's will reduce egg-adapted changes and may result in vaccines containing virus that is more 'like' wild-type circulating viruses. Therefore, the FDA's approval of cell-based candidate vaccine viruses has the potential to improve the effectiveness of cell-based flu vaccine."*

The industry refers to this mutation as the antigenic drift, highlighting a key weakness with egg-based vaccines. Since viruses are renowned for being *"sneaky"*, what starts off as being the selected seasonal vaccine could end up being off the mark as the virus mutates.

Real world industry data is now showing the outcomes using cell-based vaccine manufacturing. Most importantly it is seen as being highly effective in dealing with antigenic drift, resulting in seasonal vaccines that are a closer match to the circulating virus.

The second point highlighted by the CDC relates to vaccine production:

2. *"A major advantage of cell culture technology includes the potential for a faster start-up of the vaccine manufacturing process in the event of a pandemic. The cells used to manufacture Flucelvax are kept frozen and 'banked'. Cell banking assures an adequate supply of cells is readily available for vaccine production. Growing the influenza viruses in cell culture for the manufacture of Flucelvax is not dependent on an egg supply. Also, as described above, cell-based flu vaccines that are produced*

> *using cell-based candidate vaccine viruses have the potential to improve the effectiveness of cell-based flu vaccines (compared to egg-based flu vaccines) by eliminating the kinds of egg adaptations that occur in egg-manufactured flu vaccines."*

The annual production process and the quantum of eggs required is a significant undertaking. Suitable eggs need to be identified and certified as safe for making vaccines, which requires considerable planning time both in the pre and post manufacturing phases. Matters are only made tougher by the fact that each egg can only grow one strain of the flu virus, and as such, a vaccine devised to combat three strains requires three eggs, producing only enough for a single vaccine dose.

WHO estimates between 450m to 500m eggs are required each year for the production of immunisation shots. After a short period, billions of copies of the virus are then harvested.

CSL – leading the industry

The acquisition of Seqirus has provided CSL with an important competitive advantage over other manufacturers; the ability to produce flu vaccines using cell-based technology.

At present, the company offers both manufacturing techniques. Liverpool, U.K. and Parkville, Australia sites are focused on egg-based vaccines, whilst the Holly Springs site in the U.S. is specifically geared towards cell-based manufacturing.

At the time of acquisition in 2015, CSL set out to be in a financial breakeven position by 2018 and was working towards a five-year target of generating US$1.0b in revenues and delivering 20% operating profit margins. This should be compared to the US$652m in revenues and the accompanying US$205m net loss recorded in its first year of ownership in 2016. To achieve these targets, a number of product and manufacturing milestones were necessary. These include increasing the number of differentiated products, shifting demand towards higher valued based offerings and significantly scaling up manufacturing volume at the group's state-of-the-art cell-based vaccine facilities at Holly Springs.

Critical to its success is the group's ongoing commitment to research and development programs. These include achieving influenza vaccine regulatory approval in key age-related groups, most notably, children and the elderly, underpinned by a deliberate product shift, from TIV to QIV vaccines.

At the group's research and development (R&D) day held in December 2018, management presented the progress of vaccine programs group wide. With three global manufacturing sites and facilities able to deliver both TIV and QIV vaccines across egg and cell-based technologies, the focus now is on broadening the age indications across existing influenza vaccines and scaling manufacturing output.

The sales mix during 2018 resulted in around 50% delivered from the QIV vaccine range, 30% from TIV and the balance from the egg based Fluad, a high strength dose specifically targeting the plus 65 age group. Since its launch in 2016, QIV has become the dominant vaccine preference amongst clinicians.

During 2018, the company successfully expanded the indications of Afluria QIV to patients in the 6 months-4-year range and completed U.S. registrations for a Fluad QIV trial for the over 65 age patient cohort.

In this time the company also received approval for a major process improvement at the group's cell-based manufacturing facility at Holly Springs. This is a particularly significant milestone as the company's Flucelvax manufacturing output progressively shifts from TIV to QIV doses. As a result, dose output at Holly Springs has increased materially, from less than 5m in 2014, to the recorded run-rate of 25m in 2018.

Expectations are for the manufacturing output to reach 40m doses in 2019, as the company nears its 2020 sales target of US$1b, with accompanying operating margins of 20%.

At this level, the Seqirus cost base would be on par with the group's main plasma manufacturing cost base. Current capacity within Holly Springs sits at 70m doses, while a US$140m facility expansion currently underway, (with a completion date of 2020) is expected to offer dose capacity of 200m within six months of a declared flu epidemic.

At the group's half year results for 2019, Seqirus delivered a stand out performance. Overall sales from influenza rose 22% to US$816m. The division reported gross and operating profits of US$506m and US$304m respectively, a margin of 32%.

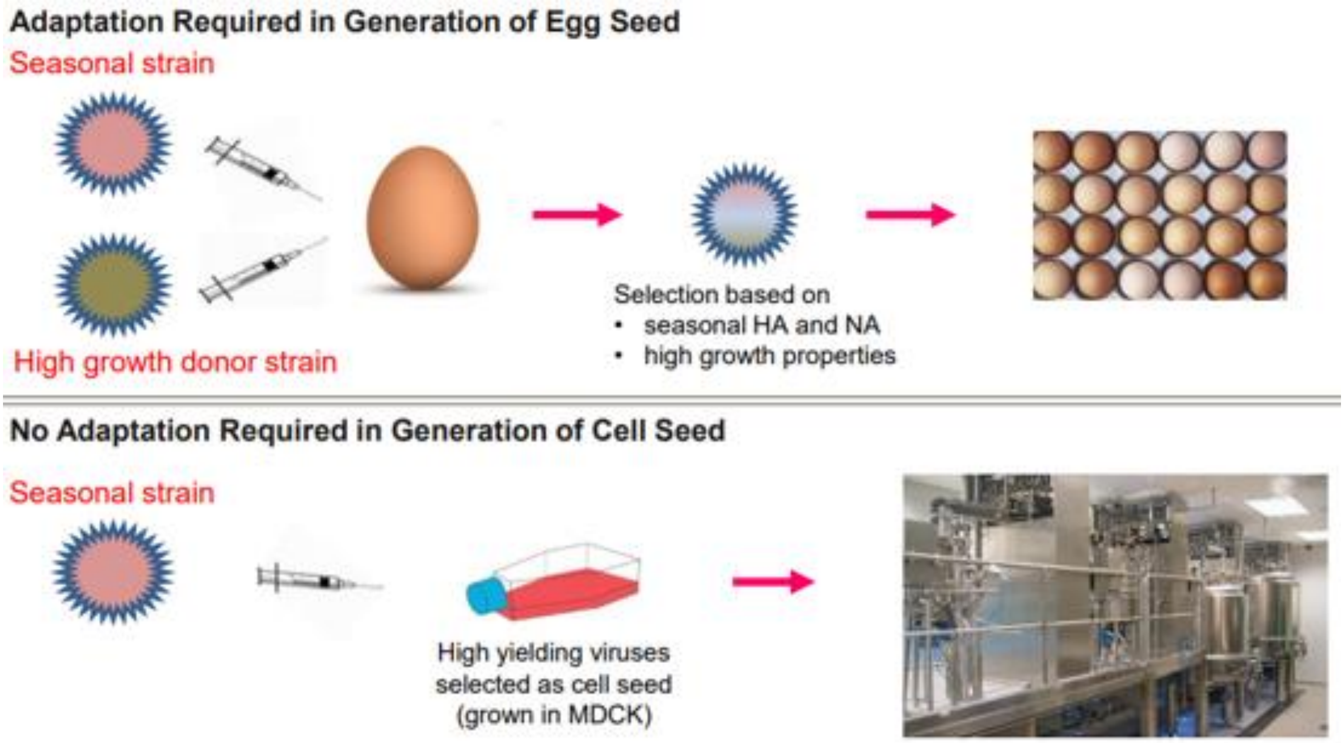
Some of this benefit will reverse in the second half, as the seasonally weaker second half impacts volume demand, resulting in operating losses.

Summary

Despite the business' seasonality, the company is committed to growing and investing in the influenza industry. The long term game plan remains three-pronged, to continue to expand product indications across the age groups, shift demand away from the lower priced TIV market towards the higher valued QIV and drive towards the higher volume and lower operating cost of cell-based manufacturing.

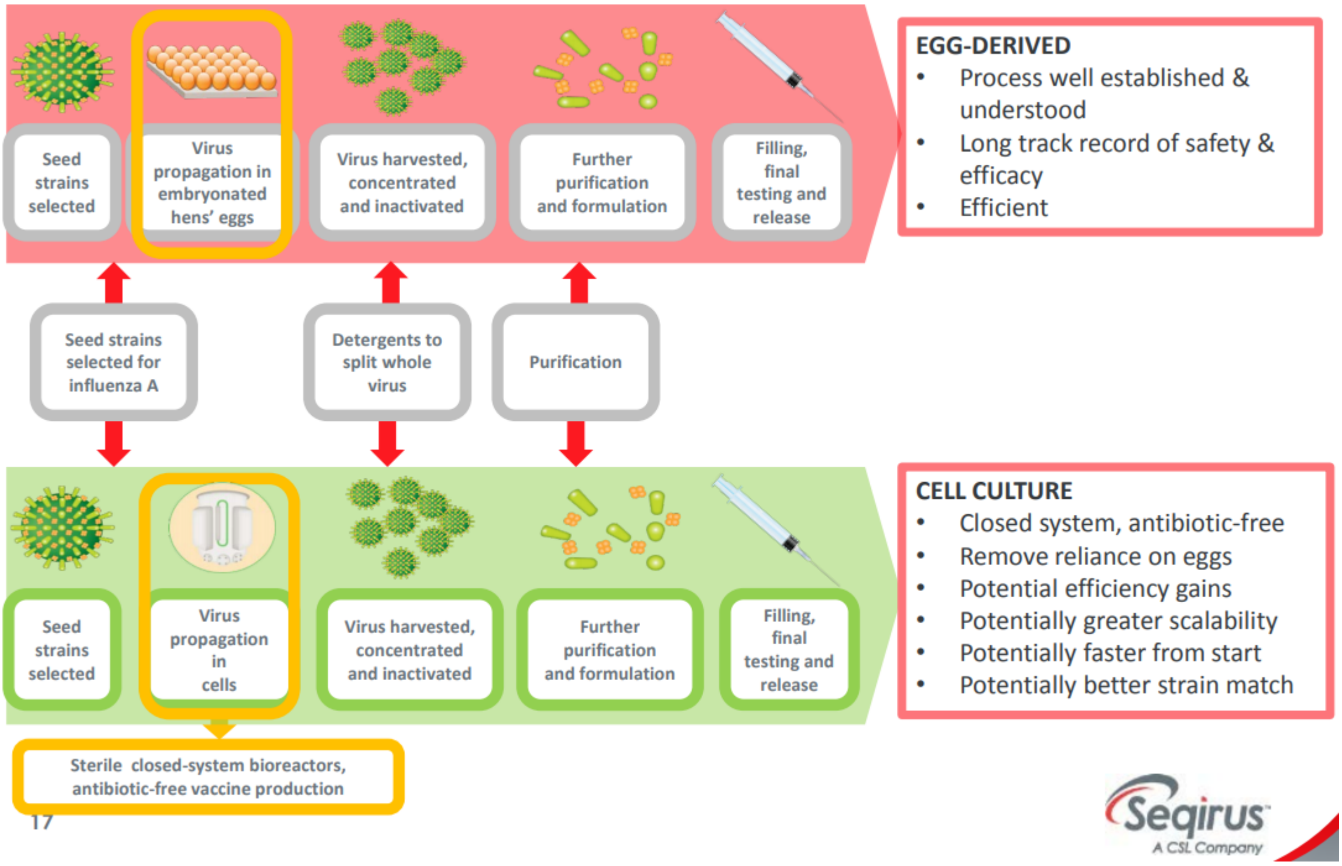
It is a sensible strategy aided by a diminishing number of credible, well-resourced global players. ***SFM***

Figure 9: Egg-based vs cell-based vaccines



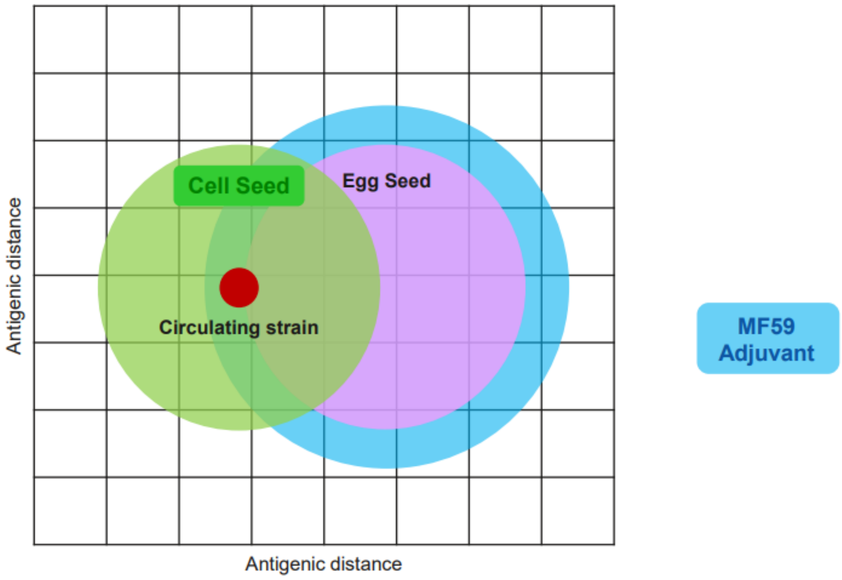
Source: 2018 CSL R&D Briefing Presentation

Figure 10: Egg vs cell culture manufacturing of influenza vaccine



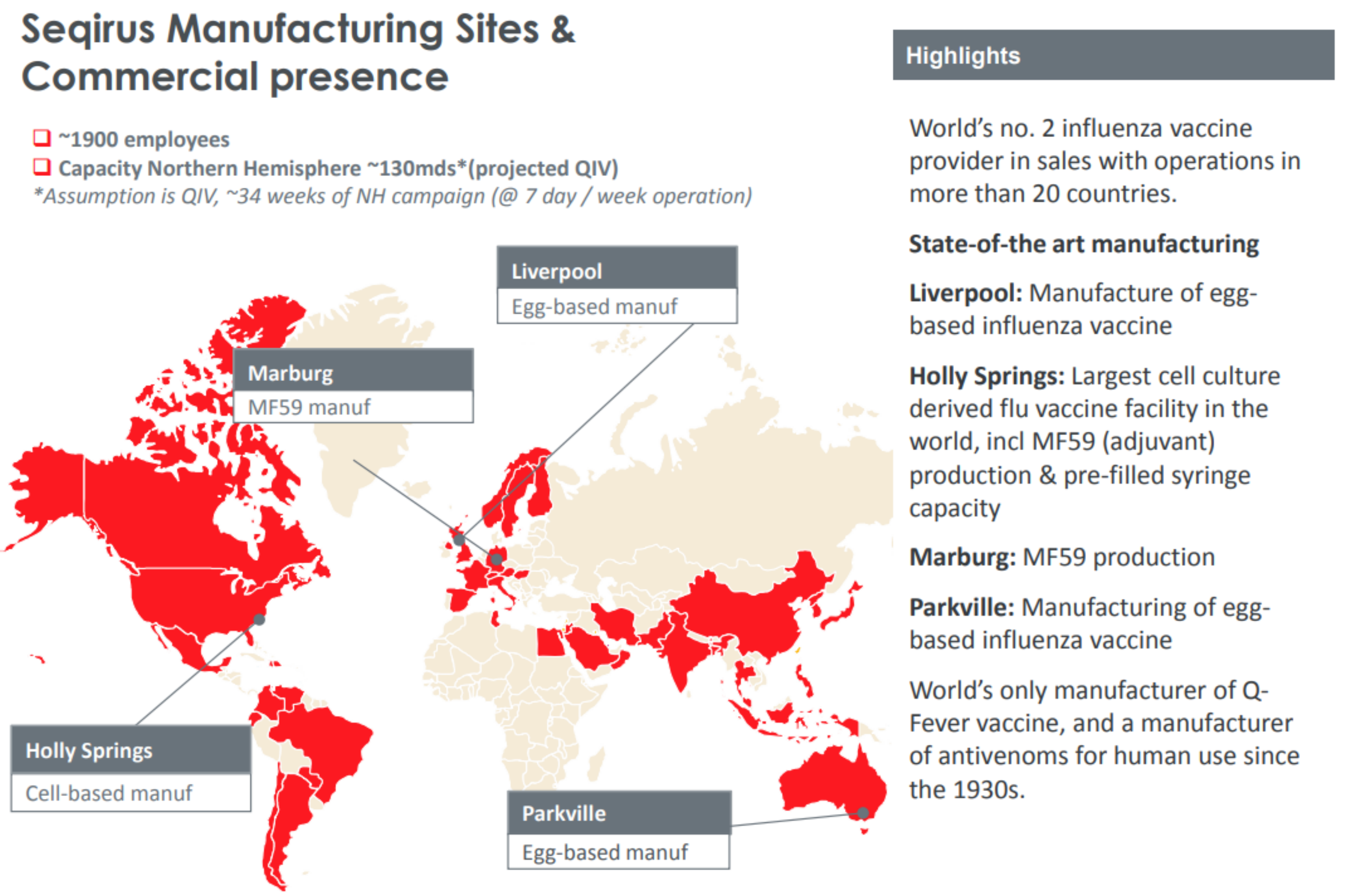
Source: 2016 Seqirus Presentation to Investors and Analysts

Figure 11: Seqirus Technologies aim to Enhance Influenza Vaccines



Source: 2018 CSL R&D Briefing Presentation

Figure 12: CSL Seqirus Manufacturing facilities



Source: 2016 Seqirus Presentation to Investors and Analysts

JAMES HARDIE INDUSTRIES – SUCCESSION

Newly appointed CEO Jack Truong handed down the group's third quarter 2019 result. Following a five-month handover, Truong officially took over the reigns on 31 January this year from longstanding and well-respected Chief Executive Louis Gries.

Since taking the role as CEO in 2004, Louis Gries has steadfastly focused on building a dominant U.S. fibre cement business from scratch.

Today, James Hardie is the leading global player in fibre cement, built around an organic growth-driven strategy. In the key U.S. market, fibre cement enjoys a circa 18% share of the total siding market. Comprising of wood, vinyl and fibre cement, the company holds more than 90% of this market segment. The long-term goal is for James Hardie to lift fibre cement's share of house cladding to 35%, while retaining 90% market share.

The appointment of a new CEO has been in train for some time. By his own omission Gries' focus had been on the U.S., rather than the organisation as a whole, which has been the correct call, based on the significant U.S. potential. However, it consequently limited genuine opportunities elsewhere.

While the U.S. operations have been impacted by internal manufacturing issues and struggled in recent years to deliver meaningful outperformance, the lesser parts of the group, namely the Asia Pacific operations, have delivered meaningful gains.

Strategic direction under Truong

CEO Truong's approach is expected to be a more measured one. With a PhD in chemical engineering, Truong believes product innovation is crucial in building leading edge products.

Central to this is a focus on the daily operation of the business. Truong summarises this as C.E.O., described below:

C = Customer – focus on customers, be they the consumer, builder, distributor, installer.
E = Employee – communicate what is expected and ensure engagement throughout the organisation.
O = Owner – think like an owner, not just an employee, with a clear desire to contribute.

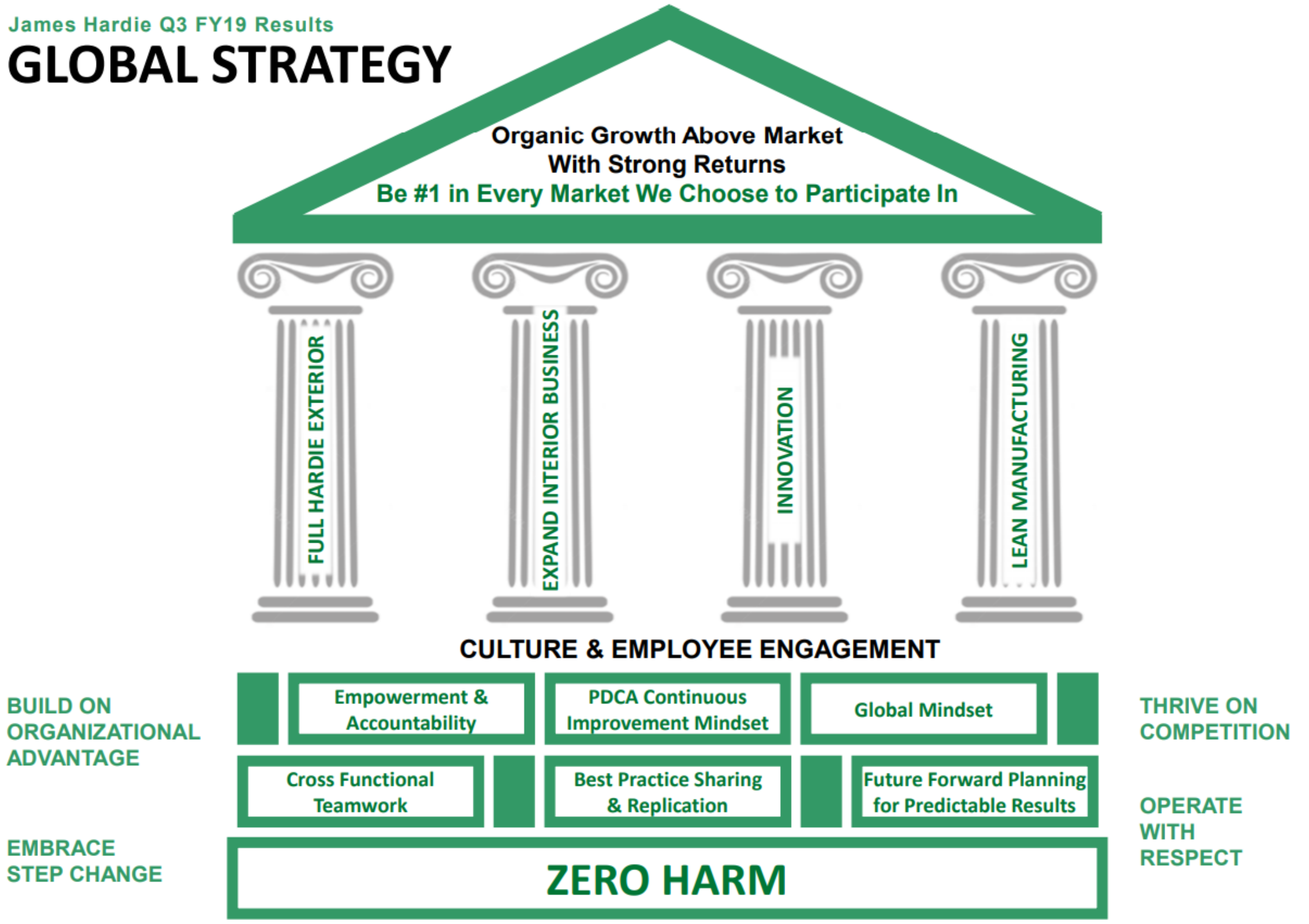
The approach highlights a strong motivational factor of building from the core and challenging employee mindsets, to ensure the small gains – the *"one percent"* wins – are valued.

Within their strategic direction, manufacturing operations will be prioritised, with the introduction of Lean principles. The desire is to drive a more predictable manufacturing outcome, rather than operating in a reactive fashion. New external executive appointments have already been announced, reflecting an approach to combine the best of current company practices alongside new external input. This could unsettle existing James Hardie employees, who may be set in their ways. However, as Truong highlighted, one of his key strengths is his ability to step back and scrutinise the direction a business needs to take, because inevitably the real long-term danger is leaving things unchanged.

The global strategy unveiled by Truong is built around four pillars:

1. Fully penetrate the market opportunity in fibre cement exteriors
2. Expand the interior product range and grow market share
3. Innovation
4. Lean manufacturing

Figure 13: James Hardie Global Strategy



Source: James Hardie Q3FY19 Management Presentation

The company's north star is to operate as the number one player in whatever market it chooses to operate in. Operationally, the focus will be on converting the benefits already enjoyed at being the *"the world's leader in fibre cement manufacturing"* into a *"world class manufacturer".*

Management expects the introduction of Lean processes to save up to US$100m in costs (on an annual basis) by 2022.

The majority of the benefits will flow from a reduction in raw material waste and standardisation of best in class operating procedures across the group's ten U.S. plants and those offshore.

Confidence in achieving these targets is based on the benefits delivered in sites where Lean has already been rolled out, namely in the two sites at Carole Park and Rosehill in Australia and in Manila, Philippines. To put simply, what the company is aiming to do is not a theoretical exercise.

These offshore operations are the blueprint for the implementation in the U.S. facilities. The objective to run a standardised, predictable manufacturing operation requires a shift in mindset, from a top down management driven approach, to one of increased, on-site accountability. Importantly, learnings from different facilities will be shared across the group.

New products

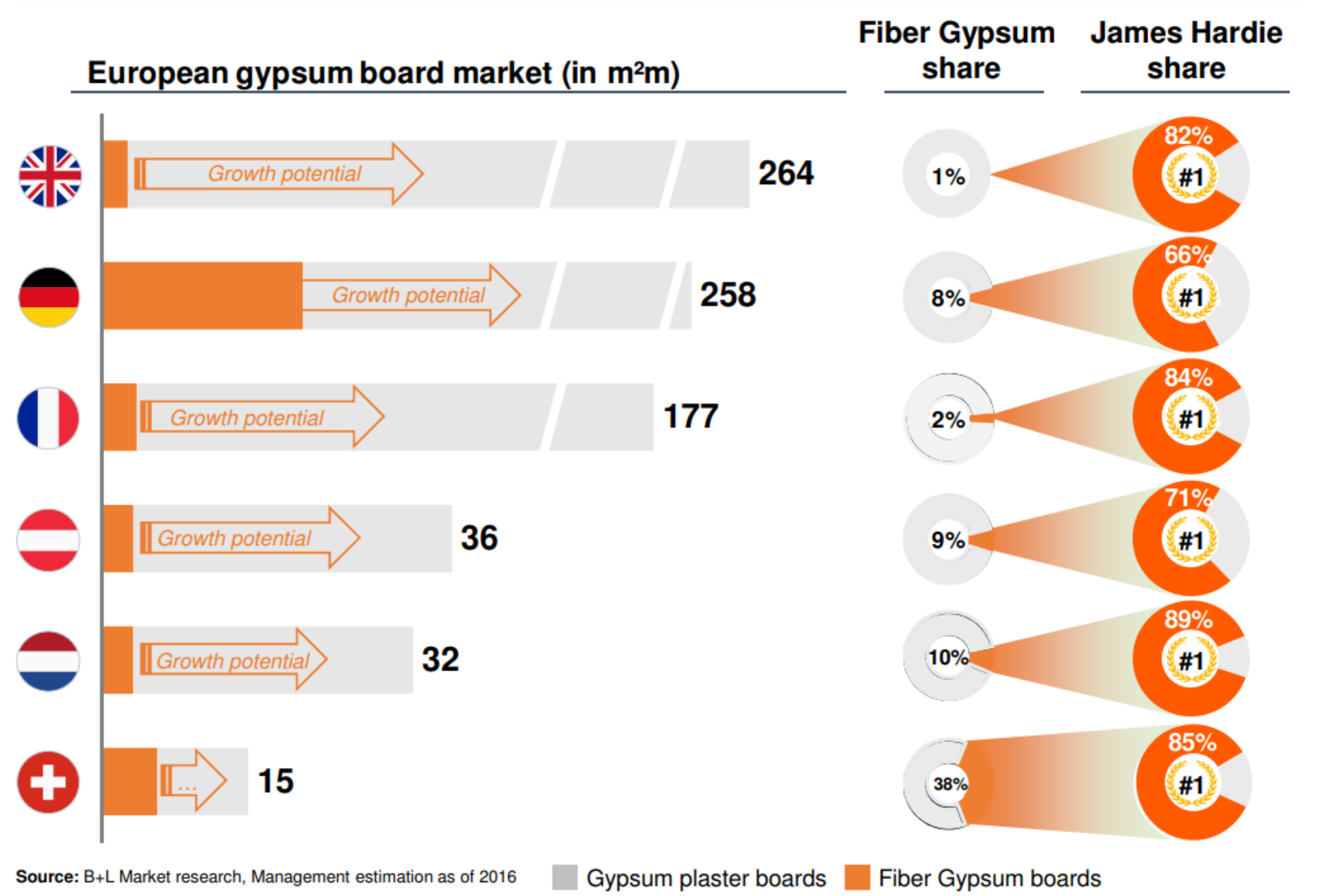
The introduction of the market's first waterproof cement backer board, will provide a significant opportunity to grow the interiors segment, by providing a cost-effective solution that replaces the current industry practice of waterproofing. Currently interiors represent 20% of U.S. revenues.

In Europe, the company's first major acquisition of Fermacell is performing to expectations. Having paid US$559m to acquire the business nine months ago, it has been described as a smooth transition. In discussing the purchase, the company commented, *"As an organization* *we are very happy with what we have bought. Private Equity has a seven-year time horizon. We have a 30-year time horizon".*

The big picture is for the company to maintain its current growth of 8-12% annually in the core fibre gypsum product offered by Fermacell, augmented by James Hardie's fibre cement products. This positions the company for sustainable long term growth in Europe.

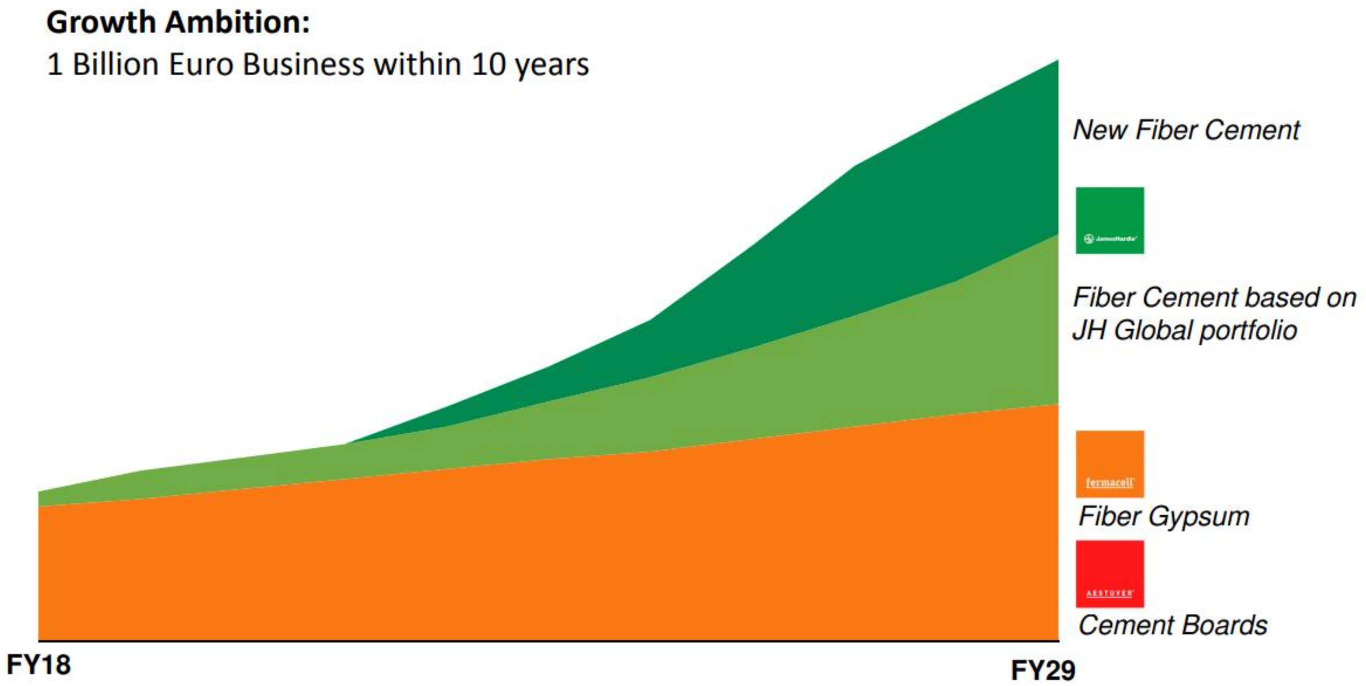
Over the next decade, the company aims to have a business delivering sales of over €1.0b, with operating margins of 20%, similar to existing operations in the U.S. and Asia Pacific.

Figure 14: Fermacell today in Europe



Source: James Hardie 2018 USA Analyst and Investor Presentations, Europe Presentation

Figure 15: James Hardie Europe and the company outlook



Source: James Hardie 2018 USA Analyst and Investor Presentations, Europe Presentation

Figure 16: James Hardie's long term value creation

North America

- 35/90 with strong returns (20-25% EBIT margin)

Europe

- €1 billion business with 20+% EBIT margin

APAC

- Deliver growth above market with strong returns (20-25% EBIT margin)

Source: James Hardie Q3FY19 Management Presentation

Summary

Management succession is never easy, even more so if the personal bar is set high. In the case of James Hardie, outgoing CEO Louis Gries successfully executed on a core business strategy, to grow share in an organic manner with a superior product offering. Newly appointed CEO Jack Truong will now look to build on what has already been achieved.

Now a much bigger business to the one Gries inherited in 2004, Truong's task is two-fold. Firstly, to maintain the inherent growth trajectory and market share gains that the company has historically enjoyed. Secondly, to elevate the business standing to a higher level, encompassing staff engagement, manufacturing excellence, operational safety and cultural alignment.

For FY19, the company has maintained a net profit guidance of US$295m-US$315m. Adjusted for one-off items associated with the European acquisition of circa US$30m, the adjusted net profit at the midpoint would come in at US$330m. The company has a current market capitalisation of US$5.2b and net debt of US$1.1b. ***SFM***

PEOPLE

The key to any business is its people. They are the front line, representing the face and voice of most organisations. Gaining insights from this core segment of a business is not always possible but we are good at listening and given the opportunity, we are happy to engage.

In March we travelled to the U.S. and Japan. Our visit was centred around a site tour of CSL's operations in Chicago, which provided an excellent opportunity to get insights into the company's blood plasma operations infrastructure and the core U.S. management team.

We also took the opportunity to organise meetings with other executives of companies held in our portfolio. In doing so, we had the opportunity to meet a host of employees, which helped gauge what is happening on the ground.

The following comments provide some context of our meetings. We have referred to the non-executive staff members met during our visit by their first names only.

As always, you can learn a lot by just observing and we certainly walked away with some confidence that the businesses visited were not only in good hands, but supported by an engaged group of senior employees.

James Hardie Industries

As our earlier piece on succession highlighted, the company is in transition, not only in an organisational and leadership sense but also at its core, its culture.

We initially met with key members of the executive leadership team, including CEO Jack Truong, Sean Gadd, Ryan Kilcullen and newly recruited Johnny Cope. As earlier mentioned, the appointment of Truong took effect on 31 January 2019, which is important to note as it is still very early days in the transition period.

It should also be noted that the business strategy, which has underpinned James Hardie's growth for over a decade is not under threat. The strategy remains central to its business pursuits but there will now be a greater focus on operational sustainability, plant performance, employee engagement and the attainment of global manufacturing excellence.

One could call it a reset, but the changes underway will alter the business in a positive way.

We also met with Human Resources executive Rhonda Stickley, who joined the group some seven months earlier. Her task is particularly important because it goes to the heart of people and culture. Our chance meeting in the office corridors allowed us to ask some quick off the cuff questions on her early impressions and the task at hand. Not wanting to downplay the work required, her genuine enthusiasm for Truong's leadership style was clearly evident.

Next, we heard from Manufacturing and Logistics supply operator Rob. The coordination of the group's nine U.S. manufacturing plants with the supply of products to end-users is a logistically complex process. The trick is in transporting the desired product mix, at the right volume quantity, to make it economically affordable for both the company and its product distributor. Previously, James Hardie would have taken a hard line of what could be delivered, often at the customer's expense. Suffice to say a newer, less arrogant approach is now under consideration, one that considers both sides and is underpinned by a more give and take view of the world.

Next, we met with Stevie who is responsible for measuring the key outputs of plant performance. Operating nine, and soon to be ten plants, scattered across the U.S., of varying capacity designs and built over different time eras not surprisingly comes with some challenges.

Historically all manner of factors were measured, but this has been refined to four key metrics:

1. Yield – measuring the loss incurred within each plant. In short, the difference between raw material input and overall output.
2. Cost per unit
3. Volume per measurement period
4. Cash profit per plant

The introduction of Lean manufacturing principles will look to minimise waste, improve operational plant performance and drive greater cash profit outcomes.

It will also lead to greater acceptance and accountability amongst the plant employees. As Truong noted before

Lean's introduction, "*everyday is a new day*" on site, thus each day should build on the previous day's learnings, providing scope for continuous improvement.

Whilst still early days in the U.S. rollout of Lean manufacturing, our Skype call with plant manager Jason from the group's Peru facility was enlightening. Having just launched, the learning curve for all plant staff is steep. Change is often resisted within an organisation, but Jason outlined quick acceptance from within for the need for improvement.

The early signs are encouraging and, more importantly the change has been internally embraced by all divisions. Over the course of the year, all ten plants will be gradually phased onto Lean processes.

Walking out of the James Hardie meeting some three hours later, we had a much better understanding and appreciation of the positive changes underway.

Flight Centre Travel Group

In keeping with our earlier article on the group, we met with the Flight Centre team in their Michigan Avenue offices in Chicago.

The retail store was branded Liberty to reflect the group's acquisition undertaken in 2008, while the upstairs offices housed the company's corporate travel offerings including Corporate Travel, FCM and Travel Associates.

We were hosted by Cameron McLeod, Senior Vice President North America and Peter Stone, CFO North America. While Stone is relatively new, having joined some three years ago, McLeod is more representative of the long tenure amongst senior Flight Centre staff, clocking up over ten years following his move from the Australian operations.

Our visit allowed us to engage with staff, including Phillip on the Liberty front desk and team leader Danielle upstairs in Corporate Travel. While retail, with its personal service offering, continues to resonate with a subset of travellers, it's in the corporate travel market where the group is making significant inroads.

Specifically, the small to medium enterprise corporate market that the group is targeting in the U.S. is estimated to be worth US$150b. Flight Centre's current market share is circa 2%, with internal aspirations to grow by a minimum of 20% per annum and a medium term aim of capturing an overall share of 10%.

If these numbers feel a little ambitious, our discussions with management and staff suggested otherwise. The market opportunity is significant in size and is underserviced. More importantly the rollout of new Microsoft Dynamics software is set to provide staff with straight-through account processing.

As Danielle noted, this will free up significant time among agents, reduce errors and increase the number of customers consultants can service. As such there is scope to do much more with fewer staff and without the hinderance to service levels.

The company is also embracing an independent contractor model. Still in its rollout phase, this will allow individuals wishing to work away from an office environment to join as contractors, enjoying the full support of the Flight Centre group, while retaining the majority of the commission generated.

For the company's part, this new model will provide an attractive alternative for those wishing to join or re-enter the industry. Importantly, the company incurs little in additional costs, can be scaled with increasingly savvy technology solutions and delivers a higher overall net margin to the group.

Our meeting went some way in confirming the size of the prize in the U.S. is significant and that the company is very well positioned to grow market share and profits over the foreseeable future.

CSL

We travelled one and a half hours from Chicago to Kankakee to visit the blood plasma operations of CSL Behring. An impressive and visually imposing asset, aptly named Everest, it is one of five global manufacturing sites that comprises the CSL Behring operations.

The site, in operation for over 65 years, is led by Brad, a 21-year veteran of the company. Kankakee is the largest fractionation facility within the group's network and is the main producer of intermediate plasma products, crudely 50%, for all other global site requirements. As such, the need to invest ahead of the curve, in assets like base fractionation plants, is critical if the group is to meet its current growth projections.

Project Atlas, code name for the Kankakee expansion, will add 8 million litres of additional capacity and compares to the group's current U.S. production profile of 15 million litres.

Our next stop took us to where things start, plasma collection. Visiting the Kankakee plasma collection centre provided an insight into how the company has standardised the collection of blood.

Operating over 200 centres throughout the country, CSL is the industry's largest collector of plasma and is also the most cost-efficient operator. Much of its competitive advantage is driven from its standardised approach to delivering its service and the attention provided to donors.

We were welcomed by the senior regional team including Scott, Amanda and Brandon, each with over 20 years of CSL service. Donor care and the centre's efficient processing of individual plasma collection was on display during our visit.

The CSL plasma centres generate more than 300,000 active donors per month and recruit more than 12,000 new donors per week. The group's "*vein to vial*" electronic traceability of all blood donors was on show at their plasma testing laboratories, located a short flight away in Knoxville, Tennessee.

Senior executive Mike Deem and CSL's laboratory plant manager Connie Farrar, both with over 25 years of company service, typified the connection that exists between donor and patient. The facility is state-of-the-art, providing a country wide specimen testing facility of all plasma donors. During this process, plasma is held as inventory for 60 days, before being cleared and forwarded to the Kankakee site for either the intermediate or final plasma fractionation process.

On our last stop to the airport, we sat with Val Romberg, Executive Vice President of Manufacturing and Planning. He joined CSL following the Aventis Behring merger in 2004 and has remained a central figure in the company's operational direction. With clear oversight covering manufacturing and business planning, Romberg and the executive team are planning ten years out.

While the next five are expected to deliver more of the same, with solid growth in immunoglobulin demand, the latter are a little less clear. Newer drug delivery technology platforms, including gene therapy are areas that may cause disruption and require ongoing attention.

When asked what makes CSL unique, Romberg noted three aspects. The first was collaboration across the organisation, underscored by the readiness of individuals to assist when needed. The second was an unwavering commitment to the patient. And the third, focus.

The company remains wary of arrogance and hubris. To this point Romberg's comments reflect the importance of culture and working towards a common goal. Our visits and interactions reflect a company grounded to its stated longer-term goals.

Domino's Pizza Enterprises

On our final stop before heading home, we visited the operations of Domino's Pizza Japan in Tokyo. As investors may recall, it was about one year ago that we undertook an extensive global review of the Domino's operations, which included visiting sites in Europe and Japan.

As such, this meeting allowed us to review the progress made in Japan under the leadership of CEO and President Josh Kilimnik and his team.

Having only moved to full ownership of Domino's Pizza Japan (DPJ) in 2017, these are still early days but the interim results in February revealed good progress. Store numbers are rising, franchisee store owners are growing as a percentage of total stores and country revenues and profit margins are on the rise.

No doubt this will please investors, but Japan is not an easy market to tackle. There are many aspects to Japanese life that requires DPJ to tailor a suitable food offering and adapt to certain cultural nuances. For this reason, it is important to appreciate that CEO Kilimnik will move slowly as to not undo the group's strong foundations.

The executive team in place has significant experience. Kilimnik has 22 years of experience, EVP Corporate Operations Hiroshi Kakiuchi and EVP Shin Sasaki both with 30 years, Chief Marketing Officer Todd Reilly has 17 years, alongside newer recruits CFO Eric Tai with 3 years and CIO Saeed Khan with 2 years.

One of the more pleasing aspects of the DPJ business model is its pursuit of growth from within. Presently, DPJ has 550 stores with a medium-term target of 1,000. Franchisees make up 43% of this total, while the balance are corporate stores run by DPJ. This differs to other markets where franchisee numbers dominate.

The smaller proportion of franchisee stores reflects the lack of maturity of the business as well as a deliberate focus on developing future franchisees from within the organisation. As Kilimnik notes, this is a risk-out strategy that allows the parent to drive the right long-term outcomes while maintaining the Domino's culture.

The second point to note is management's commitment to shift towards a higher pizza volume mentality. Currently, pizza consumption in Japan is regarded as a one-off or for special events, such as Christmas and birthdays.

The aim is to introduce greater choice and differing price points that promote authenticity and appeal among consumers. CEO Kilimnik refers to this as "*layering*", thereby allowing DPJ to appeal to a wider audience segment. The results so far are supportive of this targeted approach.

As we previously noted these are early days, but the signs are positive. The company is the market leader in only four prefectures out of 47, with a deliberate strategy to grow in key cities to drive critical mass before expanding further.

Most pleasing of all, is the manner in which management are progressing the business. One that is data driven and where change is introduced gradually. This avoids knee jerk reactions and allows for a systematic approach in delivering continuous improvement to the food menu and overall customer service.

Today, DPJ contributes circa 20% to group operating profits. The business has clear direction, supported by a management team that is focused on building out a sustainable operation. Our take on things is that the group is on track.

Summary

As qualitative as these observations are, they provide a strong foundation supporting our decision for investing.

While it is all well and good for leaders to have good intentions, real success occurs when those on the front line embrace best practices. It is a long process and pleasingly those we met on our visit all share a common goal, to build organisations where a company's cultural identity is just as important as the profits delivered. ***SFM***

Various photos from the trip

Photo 1: CSL manufacturing site Kankakee “Everest”

Photo 2: CSL plasma collection centre, Hazel Crest Illinois

Photo 3:
CSL plasma collection centre reception, Hazel Crest Illinois

Photo 4: Domino’s Pizza Japan newest upgraded store, Tokyo

Photo 5: Portfolio Manager in Chicago

Photo 6: Flight Centre Liberty Travel Store

Photo 7: Meeting with James Hardie Industries CEO Jack Truong

Source: SFML US trip

A TEXAN ROAD TRIP

Welcome to Texas

In late March we travelled to Texas, the lone star state. Located geographically in a southern central region of the country. Texas is home to a little over 28m U.S. citizens, making it an easy comparison to our own national head count.

They say everything about Texas is big. We can vouch for the fact that its distances are vast. The state occupies over 278,000 square miles (686,000 square km) of territory making Texas the second largest state by both population and area. It is also a region of high growth,[1] affordable living standards and a large skilled workforce. These facts make Texas an attractive place to invest.

Photo 8: Austin, the Capital of Texas

Source: SFML US trip

The proud history of Texas is truly fascinating having been governed, at different periods, by the Spanish and the French. It had been overrun by Mexicans at the Alamo in 1876, and also self-governed as a sovereign nation for a period. The *"simple folk of Texas"* have seen it all, and that's the genesis of their appeal.

As you would expect, this history has had a lasting influence. Texans seem to stand apart from the stereotypical U.S. culture. They share some of the better qualities of Australian's of yesteryear. We met a long-serving regional manager at Morsco Inc, a Texas based plumbing supply business (acquired by Reece) who offered the following insight.

"Texans are inherently honest and down to earth, the qualities often associated with Australians who hail from the bush. We are welcoming and open and we get your humour which makes it easy for Australians to travel and assimilate in Texas."

It's an interesting insight, and perhaps it explains a tongue in cheek comment from Reece CEO, Peter Wilson, who noted at the 2018 Reece AGM, *"that after 3 weeks of due diligence on Morsco in Texas, I discovered I was the skinniest person on the Morsco team"*.

Our trip served two purposes. Firstly, it served as a quest to find the perfect (surf-able) wave. We will come back to this endeavour. The second reason for the journey was to meet people associated with businesses we have invested in. Not chief executives with crafted messages, but regional managers, their direct reports and the staff members who are tasked with executing in the field. These people are the customer facing operators who directly reflect and represent the culture of a business.

Why we travel to meet people

Evaluation of culture is an important element of our investment process. Ultimately, through our many engagements, over many years, we are seeking to understand a business from the bottom up, in an unfiltered way. This is a key part of our Environmental, Social & Governance (ESG) process. It's also a very rewarding experience.

It's perhaps meaningful for both our clients, and the companies in which we invest, to understand why we make this effort. We are trying to understand the marriage between culture, the sustainability of earnings, and the long-term growth aspirations and opportunities within a business. We are not seeking to gain short term

[1] *Texas is growing faster than US GDP levels of 3%.*

earnings information or market intelligence, which is often unhelpful noise.

Here are four reasons why we try to understand the culture of a business.

1. We believe that culture is key to sustainable profits
2. Sustainable profit translates to real earnings per share (EPS) growth over time which drive increasing dividends and share prices
3. Long term real EPS growth is the key to wealth creation
4. We vote on all resolutions based on our insights, not those of proxy advisors.

We elaborate on these points below.

In our experience culture is the key to sustainable profits. A sustainable business requires competent management to invest in its people and its technology as a part of an ongoing and consistent strategy. If there is buy in[2] to this strategy throughout the business, the culture is invariably healthy. The opposite is also true. If organisational buy in is not apparent, staff turnover is generally higher and ultimately market share will be ceded to a stronger competitor.

Our understanding of the people and the cultural fabric of a business assists us in holding our ground, over the long term, when a company has a setback. And they all have these. A setback, in a high-quality business, however painful to short-term performance, may also represent an opportunity if the business is not structurally challenged.

Our low portfolio turnover and ability to capture real earnings per share (EPS) growth over the long term is founded on four elements. Our focus is people, business, balance sheet, and capital management in that order. It's a mantra that we keep repeating because it makes sense. We assess the valuation of the business after these four elements are understood.

Investors should also understand these types of businesses will have periods of appearing expensive and periods of being cheap based on a *"point in time valuation"*. We try to adjust our weightings accordingly. However, it is the long-term ownership of a quality business (based on the 4 elements described previously) that allows us to capture real earnings growth over time. This is the only true source of **repeatable** wealth creation.

Finally, we vote all resolutions based on our own insights. Our understanding of management and the culture they lead, combined with the business, balance sheet, capital management and the long-term growth optionality drives our voting on remuneration. As we vote based on our insights, not those of proxy advisors, we are required to **have a view** that can be substantiated to our clients.

We covered over 746 miles (1,200 km's) of country side in a road trip that started in the Texan capital of Austin. From Austin, we travelled North West to Waco, then on to Dallas Fort Worth and Frisco, before venturing south to Houston, and finally turning west to San Antonio. From San Antonio it's a quick trip north west to Austin, to complete a near perfect triangle. It allowed for more than 20 site visits, and dozens of interactions during our four days on the road.

The aim was to increase our knowledge of Altium (ALU), Reece (REH) and Reliance Worldwide Corporation (RWC), and to get a first-hand view of their competitive landscapes. Are you an expert after four days on the road? No, but you have a much better feel than every other investor that hasn't covered the ground.

The eagle-eyed observer will have picked, from our route detailed above, that we didn't even make it to the Texan coastline. The Gulf of Mexico does in fact get surf-able waves. Galveston, which is directly south of Houston and Corpus Christies, to the south of San Antonio are the favourite surf breaks of Texan surfers. However, it is a man-made wave in the middle of Texas that is drawing crowds. The surf industry, like many others, is being augmented by rapid advances in technology. As a result, this coastal sport has moved inland with spectacular results.

Waco, Texas, with its notorious past aside, is the home of an infrastructure investment estimated to be worth north of $10m that generates perfect waves. This 2-acre site houses a 240-foot man-made, crescent shaped concrete surf pool. It comes complete with cabanas, spas, restaurant, shop and of course a hotel with a view…of a pool.

[2] *Buy in = commitment to strategy*

At the touch of an iPhone or iPad, electronically controlled jets generate an underwater air chamber that gives life to six sets of three perfect waves, from over 50 variations. Some 160 waves are produced per hour. You can choose the height, direction and frequency catering to the tastes of beginner through to elite professional surfer. The pool is shallow and advanced waves barrel dangerously over a concrete reef.

Up to ten surfers in the water each pay US$100 per hour for the primal privilege of surfing a near perfect wave by yourself, a near impossibility for most urban surfers at increasingly populated surf breaks around the world.

These pools are spectacular, and the product is truly futuristic for a surfer. Various operators have established themselves across Europe, the U.S. and Australia, and are racing to raise capital and even government funding, now that surfing is a sanctioned Olympic sport.

The simple maths is not hard to run. Monetising these investments and generating a return on capital employed will be the challenge that determines their future.

Waves to one side, Selector has a growing interest in Texas for two other reasons. Firstly, in early 2018, as noted above, Reece (a portfolio position) acquired the Texas based plumbing supply, waterworks and HVAC specialist, Morsco in a US$1.44b deal. Secondly, in late 2018, Altium (a portfolio position) established its first cyber pod in Frisco, Texas. As a bonus, Morsco, who we also visted, supplies Reliance Worldwide's Sharkbite and Holdrite products alongside Lowe's and Home Depot.

Each of these businesses provide growth opportunities that are not widely understood. That alone warranted the investment of our time for further investigation.

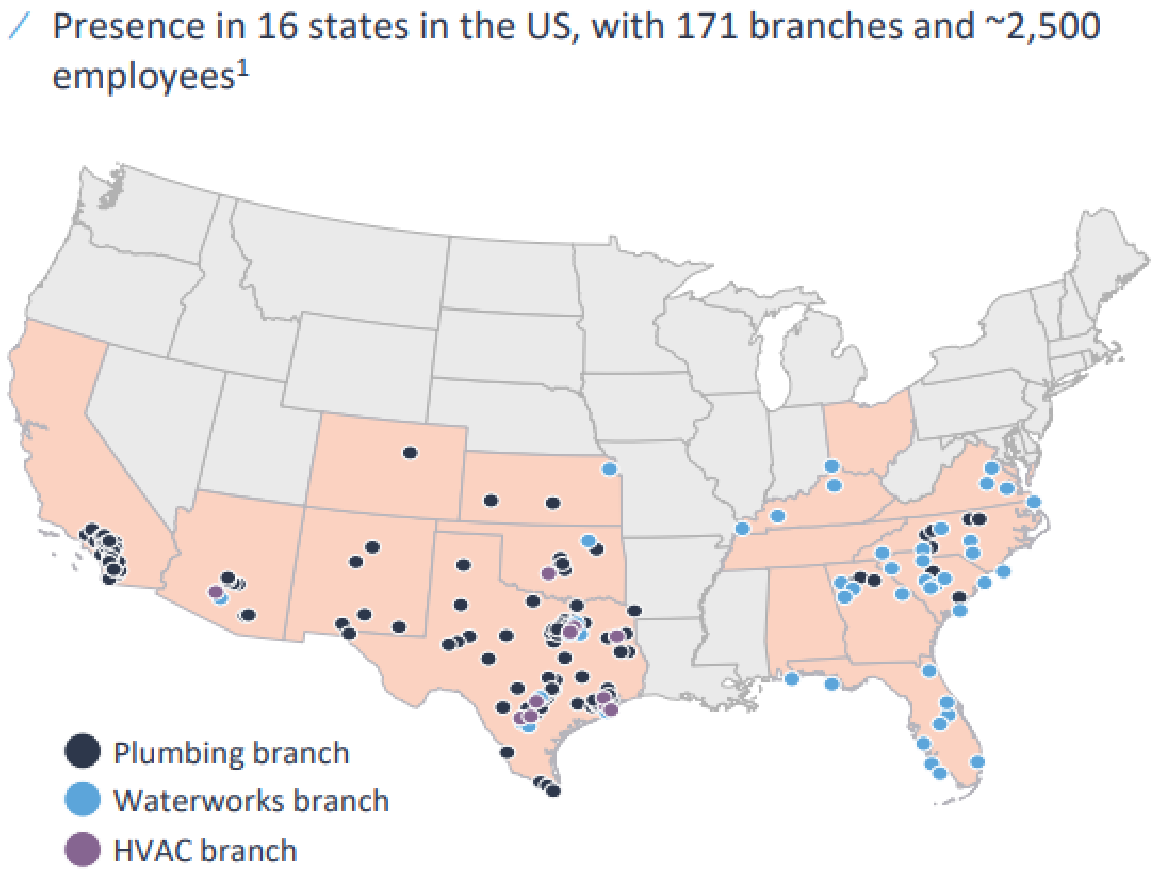
Reece has been listed since 1954 and this Texan acquisition was its first transaction to require new capital and debt. With a combined value of nearly $5b, it doubled the market capitalisation of Reece. We participated in the raising based on the long-term opportunity for a combination of organic and acquired growth in the U.S. While Morsco operates more than 170 sites in 16 states, Texas alone presents a compelling story. In addition, the potential for efficiency gains through the introduction of technology are significant and margin expansion should be achieved when world's best in class business practices are successfully shared. Reece has EBIT margins north of 10% compared to Morsco's margin of 5.8%

Photo 9: Entry foyer Morsco owned Morrison Plumbing Supply

Source: SFML US trip

The reality is we didn't know Morsco existed before the announcement of its acquisition by Reece. Slide decks and presentations can be useful, but prior to this trip we had spent very little time in the U.S. Sun Belt states of Texas, Georgia and Arizona. We do have a better feel for California and North Carolina. In terms of business mix, plumbing supplies represented 60% of Morsco's total sales of $2.2b for the 12 months ended 2017, and Texas itself generates over 50% of these sales. It also contributes over 60% of HVAC sales and circa 20% in Waterworks, making it the logical target of our road trip.

Figure 17: Morsco's reach



Source: Reece 2018 Acquisition of Morsco and Capital Raising Presentation

Part 1 – Morsco Site visits

Over a week we visited 21 facilities. This included visits to;

- Morsco's head office
- Morsco HVAC
- Morrison Supply Company (wholly owned by Morsco) showrooms, stores, supply yards and depots
- **Ferguson's** (Morrison's largest competitor) – showrooms, stores, supply yards and depots
- **Moore Supply** (competitor supplied by Hajoca) – showroom and stores
- **Lowe's** (competitor) – distributor of Reliance Worldwide Corporation
- **Home Depot** (competitor) – distributor of Reliance Worldwide Corporation

Morsco is a collection of 13 private equity driven acquisitions across Plumbing supply, Heating, Ventilation and Air Conditioning (HVAC) and Waterworks. These segments mirror those of Reece. While our site visits only scratched the surface, three things relating to culture, technology and Reece (as Morsco's new owner) became abundantly clear.

Culture

Reece has a certain way of presenting its assets to the public. From sharply presented stores and showrooms to the modern distribution centres in Sydney and Dandenong Victoria, which we visited last year. Reece are generally easy to do business with and they offer a good retail experience.

In contrast Morsco assets, as noted above, are a collection of acquisitions that were made over an extended period of time. Our photo gallery below shows the cross section of assets from the newly leased Carrollton HVAC site (Photos 10-12), which is only 4 weeks old, to the much older Stafford location, which is an example of one of the family plumbing stores that have been consolidated over time (Photos 20-22).

Morrison's largest showroom in Lazybrook, Houston provides a further contrast. This site was cavernous. It consists of a large showroom that has several adjoining wings. As you enter the first room you feel like you have stepped into a 1960's style Italian Restaurant, full of taps basins and kitchens. This joins more contemporary rooms that have bathtubs and toilet cisterns bolted to walls that soar well above your head. As you progress deeper, additional rooms were ultramodern and brightly lit. They carried the latest Kohler products, including electronic cisterns that play music on demand.

Clearly, a significant gap exists between the maintenance capital expenditure or fit out spent on the sites we visited. That said we visited Moore Supply, which is serviced by the industries second largest player Hajoka, only two streets from the Morrison Supply Stafford location. Its footprint was similar to Morrison, and the store appearance was in a similar state of disrepair. These old format stores clearly look uninviting in comparison to a modern Reece site. While they were both trading actively at lunchtime, the feedback was that this market, on the outskirts of Houston, was a dog eat dog market with little product differentiation.

Of more interest than the outward appearance of sites was the engaging attitude of staff and regional site managers across the Morsco group. Over four days of visits, aside from two sales staff members that ignored our presence in an empty showroom, it was an overwhelmingly positive experience. While we introduced ourselves at each site, these were unscripted meetings. We walked away with a view that Morsco's culture is strong and is a good fit with Reece.

Like Reece, Morsco has long tenure of management amongst its ranks of 2,500 full time employees. The senior management is led by CEO Chip Hornsby who is an industry veteran. Staff and management clearly endorse Chip’s leadership style and approach. One operator who modestly described himself as a *“lowly sales guy”* credited Chip with *“creating the beast that is Ferguson”* before shifting his focus to Morsco. Another describes a culture in which he could maintain a leadership role as a widower and look after a sick child as required.

The stories continued to flow as we travelled. Staff and management are motivated to win and take share from Ferguson in particular. They believe they can compete and prosper by knowing the customer, the market and how Ferguson operates in the market. For many, this confidence comes from having worked at Ferguson or another competitor.

Ferguson have a presence in all 50 U.S. states, yet the market is far from won. On a combined basis the top five plumbing supply companies command a market share of only 31%. Today, Morsco is the fourth largest in the market. The competitor that they are going after is well known to them, as Chip Hornsby was the chief architect of Ferguson’s success. And it would appear that more than a few managers and staff followed him to Morsco.

We had additional discussions with plumbers and drivers in the supply chain. The views expressed had a consistent theme. Long tenure and long-term relationships were valued, pay was fair or better than alternatives and the people in the Mosco organisation were good to work with. This was the reason why *Tim* had been a sales rep for 13 years. He described an event called *“the big defection”* where a team of eight colleagues had left to go and work at Ferguson, he didn’t know why, but it clearly doesn't happen every day.

This message continued to be sheeted home when we reached Chicago. In the board room of James Hardie Industries (JHX), we met Johnny Cope, the newest member of the James Hardie senior management team. Cope is a Texan who now reports to Sean Gadd as the US Sales leader of Exteriors. He is also an industry veteran who clearly has staying power and internal fortitude. Cope cut his teeth at Ferguson working alongside Chip Hornsby and John Day. We asked for his opinion on Chip. He said that one word came to mind in relation to Chip. R-E-S-P-E-C-T. We don’t know Johnny Cope well, but he is the type of individual that you don’t need to try to second guess.

Photo 10: Morsco Carrollton HVAC warehouse and showroom

Source: SFML US trip

Photo 11: Morsco Carrollton HVAC delivery bay

Source: SFML US trip

Photo 12: Morsco Carrollton HVAC showroom

Source: SFML US trip

Technology

Reece followers will be aware of their strong focus and consistent investment in technology. When it comes to business enabling systems they are clearly best of breed. So much so, that like Domino's in 2013, Reece today refer to themselves as a technology company.

This statement is justified by the apps in the hands of plumbers that manage all elements of supply and billing to the state-of-the-art distribution facility in Sydney. Reece’s claim to be a tech player will become even harder to dispute after the new 7000 sqm Reece technology hub opens in 2020 on the landmark Rozella site in Cremorne, near Melbourne.

By way of contrast, at a macro level, US technology fails to impress us on many fronts. Outside major cities 4G is little better than the 3G equivalent in Australia. Point of sales technology is frustratingly slow, tap and go is non-existent and a digital wallet seems to be a thing of the future. Credit cards often require a combination of PIN and signature.

At a business level, in terms of technology, Morsco is years behind Reece. Recent town hall meetings have seen presentations made to middle management on technologies that Reece have successfully deployed in Australia. The response has been strong and the team and Morsco are excited by the opportunity. In time, Morsco will be brought out of the dark age and it will be transformational.

Morsco have progressively rolled out Eclipse ERP, a real-time transaction processing software that is used for order fulfilment, inventory control, accounting, purchasing and sales. It was developed for wholesalers and distributors in the Electrical, HVAC and plumbing industry.

From our inquiry we would say it received mixed reports. Comments fell more on the positive and nothing negative, but if you watch the process of plumber inquiry, computer aided stock search, followed by a physical inspection of a warehouse – it looks painful and time consuming to us. U.S. plumbers sit at a counter, on what looks like a bar stool, for 15 to 20 minutes at a time. Australian plumbers, who understand billable hours, would be out the door in a flash.

This experience is consistent across the plumbing service desks of Morrison, Ferguson and Moore operations. The industry is ripe for change in our eyes. Technology driven efficiency gains must drive margins in time.

Photo 13: Morsco Carrollton HVAC warehouse

Source: SFML US trip

Photo 14: Morrison Lazybrook & Timbergrove (1)

Source: SFML US trip

Photo 15: Morrison Lazybrook & Timbergrove (2)

Source: SFML US trip

Photo 16: Morrison Lazybrook & Timbergrove (3)

Source: SFML US trip

Photo 17: Morrison Lazybrook & Timbergrove (4)

Source: SFML US trip

Photo 18: Morrison Lazybrook & Timbergrove (5)

Source: SFML US trip

Photo 19: Morrison Lazybrook & Timbergrove (6)

Source: SFML US trip

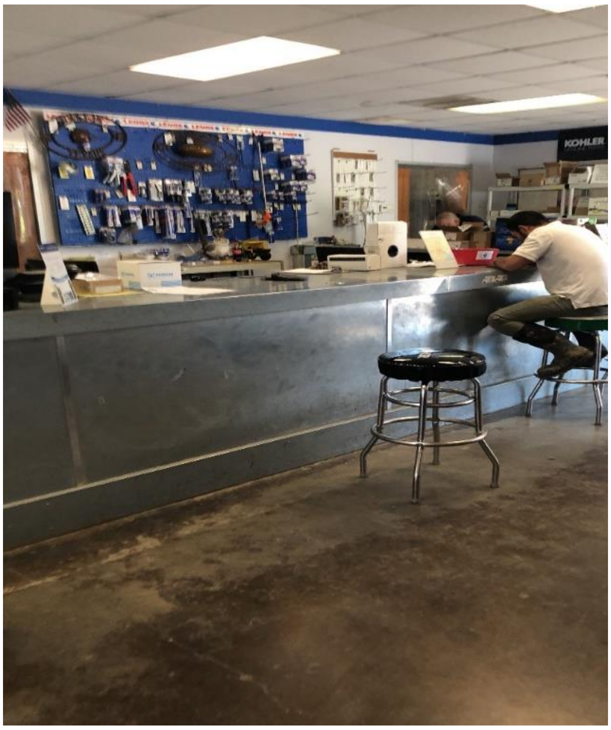
Reece Ownership of Morsco

Private equity ownership was raised in several conversations we had in Texas. The most telling comment was that Morsco had been driven to focus on financial outcomes at the expense of customers interests.

This type of mismanagement is not uncommon and can manifest in various actions. Underinvestment in a business never produces good results. We have noted a chronic underspend on technology and fit out above, by Australian standards.

It's very clear that Morsco management and staff have embraced the transition from private equity to a long-term owner who has skin in the game and are experts in the industry, even if they are new to the geography and local market dynamics. These potential shortcomings will be overcome by the slow and steady approach being undertaken by Reece. No changes are visible today, according to our discussions its business as usual, with Reece watching on closely.

Photo 20: Stafford site (Houston) acquired from Flagstaff family, Plumbers counter



Source: SFML US trip

Photo 21: Stafford site (Houston) acquired from Flagstaff family

Source: SFML US trip

Photo 22: Stafford site acquired (Houston) from Flagstaff family, showroom

Source: SFML US trip

Market competition and Sharkbite

In plumbing supply, Morsco competes with Ferguson, Hajoca and Winsupply in that order. Ferguson showrooms in major retail areas are modern and well presented, as depicted in the photos below. They are also well staffed by engaging sales teams. In fact, ex-Ferguson staff now working at Morsco did not have negative comments in relation to their former employer. They generally had a good working experience.

As noted, Ferguson have a presence in 50 states across the U.S. They have sales revenue of circa US$16.6b compared to Morsco's US$1.7b. Ferguson have a large exclusive product range and a bigger range of similar brands, for instance Kohler is a key brand across the U.S. and is stocked by all the leaders.

When mystery shopping, Ferguson sales staff are reluctant to price match Morrison or Moore. Feedback from Ferguson's was they have a margin that they need to achieve and don't discount below this. They are happy to look at Morsco's offer and match it with a similar product rather than price match. At Moore Supply Facet Showroom in San Antonio sales staff went a step further. They told us that they did not want to see the (hypothetical) prices quoted by Morsco as this was considered an unethical approach to sales.

As an interesting aside, Flight Centre who we visited in Chicago, have very strong USA corporate sales growth in the small to medium enterprise (SME) space which they plan to dominate. They believe their roots in retail sales translate well to the corporate space. Flight Centre of course have a strong history of price beat and lowest price guarantees as a marketing message in Australia. In the U.S. this is not a leading strategy, but it does sit within the DNA of sales teams.

As a further aside, Sharkbite was displayed prominently (not something to get excited about) at nearly all Morrison sites we visited. The ranges were small, but the product was known and well recognised. The merchandising of product is non-existent as seen in the display of Reliance's John Guest product below. In contrast Lowe's and Home Depot displays of Sharkbite, Holdrite and EvoPEX ranged from good to impressive.

We conducted several video interviews with plumbers and sales staff in Home Depot and Lowe's that produced some compelling accounts of both the Sharkbite and the new EvoPEX range.

It was Johnny Cope, from James Hardie, who offered up a final opinion on Morsco. He sees the acquisition of the business and the team as both a significant opportunity for, and addition to Reece.

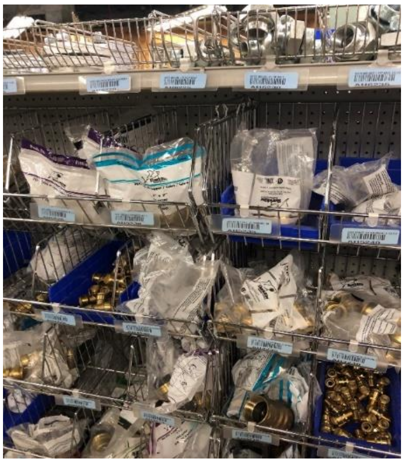
Photo 23: Ferguson outside

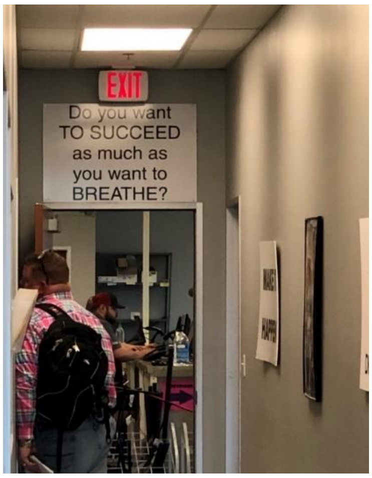
Source: SFML US trip

Photo 24: Ferguson inside

Source: SFML US trip

Various photos from the trip





Source: SFML US trip

Photo 25: Underinvestment or productive assets? (San Marcos, San Antonio)

***Photo 26:** Moore Supply, ethical but motivated*

Photo 27: Home Depot know home to merchandise

Photo 28: Prominent displays of Sharkbite

Photo 29: Prominent displays of Sharkbite

Photo 30: Home Depot know home to merchandise

Photo 31: Moore Supply, ethical but motivated

Photo 32: Plumbing Supply, San Antonio Texas

Photo 33: Plumbing Supply, San Antonio Texas

Part 2 – Altium Management meeting

Our interest in visiting Frisco, Texas an hour north of Dallas Fort Worth, stems from the fact that it is the new home of Altium's first cyber pod. As our regular readers will know, Altium sells software as both term and perpetual licences and has a growing software as a service offer (SaaS). Each is used in the design of printed circuit boards (PCB), which are at the centre of every electronic device or product that has even the most rudimentary *"smarts"* or internet connectivity. See our December 2014 Quarterly Newsletter for our background story.

Altium is working towards two distinct goals. The first is to deliver US$200m in revenue by 2020, a target that should be comfortably delivered as seats climb above the 41,000 level from the 39,179 delivered at the half year result. The second target is aspirational. It has been variously described as market dominance, or 100,000 seats which equates to US$500m in revenue by 2025. This target may appear aggressive at first glance. Either way, we know that execution is key so the first line of questioning we put to Henry Potts related to whether Altium's leadership team is up to the task of the goals set and whether Altium has the organisational belief to achieve them.

Henry Potts joined Altium in April 2015, and today operates under the title of Chief Sales Officer. He is a veteran of the PCB industry having led Mentor Graphics' PCB division for 16 years prior to his appointment. Under his leadership, Mentor achieved 50% market share, the coveted position of dominance. Henry is worth listening to when it comes to anything associated with the PCB industry.

On the night before our meeting we had been woken by a brutal hail storm that swept the Frisco and Dallas Fort Worth region. Henry was also woken. While our rental vehicle looked a bit cleaner after the storm, Henry's brand new black pick-up truck was totalled. Every panel was damaged, and the windscreen was shattered.

In answering our questions, one thing was certain. Henry had more confidence in Altium's ability to execute on its targets than he had in his lifelong insurers ability to pay out on his battered pick up.

Henry described that he *"has climbed Everest before"*, with Mentor Graphics achieving 50% share of the PCB market being the metaphorical Everest. The corporate belief at Altium comes partly from this experience and partly from the execution underway today. Reporting over 40,000 seats will see target number one achieved. This will generate revenue of US$200m which opens both new opportunities and new options for the business. After this, Henry believes it's all about execution, a view also expressed by CEO Aram Mirkazemi in our one on one meeting at the February 2019 half year results.

Altium believe market dominance requires both a different growth cadence and a different corporate mentality.

The latter is about how Altium is perceived in the market by its customers. For example, when Mentor achieved 47% market share, PCB design was a division of the business rather than a core focus. Mentor didn't have or want to own the hearts and minds of the PCB developer's community. They were nowhere to be seen in the student and hobbyist's market. Rather, Mentor remained steadfastly focused on the big corporate multi seat accounts that could move the needle for the larger group.

Execution is about incremental sales growth and model efficiency. Altium believe they need the message of dominance to be integrated into their corporate purpose, to enable them to get past the 50% share barrier. This is achieved by being very close to end users in the market. Altium will remain focused on the engineering students and hobbyist developers who feed the mid-market with its designers. The cyber pod plays an important role in achieving this. Winning in the sophisticated multi seat corporate area will not compromise this strategy.

We are increasingly learning of cradle to grave business strategies. Blackmores traces a tuna from catch and harvest to an individual bottle of fish oil tablets. CSL traces blood plasma from the vein to a vial, an increasingly automated journey. Xhaopin, majority owned by Seek, aims to track a student from school to retirement via an electronic CV and digital pathway.

Altium's cyber pod aims to replicate these strategies. This will take the form of a connected sales super loop, bridging the gulf of *"churn"*. Churn is the number of clients that are not renewing their licence after expiry.

Renewal rates are a key driver of the 2020 and 2025 targets. This also drives the change in growth cadence referred to above.

Today, Altium deploy a sales funnel that is supported by Marketo an automated marketing software developed by Adobe. Marketo's tools drive the sales process by increasing the rate of website click through conversion. The engagement of potential customers is achieved by using Marketo's artificial intelligence to sweep Altium's sales and marketing databases to provide tailored content. The potential buyer is provided with helpful links to videos and software demonstrations. This automation is designed to aid and importantly, progress the sales process through to closure. Marketo also takes data points that measures the success of the sales journey. Knowledge gained from these insights support the improvement of the process for future sales.

When a sale is made the new buyer drops from the Marketo funnel and the data points created by this process effectively lay idle. As a result, Altium gets no indication of the client's future intentions, or satisfaction with the software until after a subscription has been renewed again or when a lapse event is recorded.

Frisco was chosen as the home of the cyber pod because the cost of living is low by U.S. standards. No state income taxes are levied in Texas. However, land taxes are high, so housing plots are on the small side, again aiding affordability. According to Henry, this is the reason why double garages don't exist in the Frisco area. He noted that while his wife's car was in their single garage, his new ute was destroyed by hail activity.

The cyber pod consists of 22 staff. Of these staff, 16 are from sales backgrounds, with the team leader recruited from HP. These sub US$100k roles where filled within days and weeks. By comparison these roles would command significantly higher wages in California and may remain open for longer than 4-5 months at a time.

Under the guidance of Henry, the cyber pod is tasked with creating the super sales loop.

The super sales loop scenario is an extension of the Marketo funnel. A pipe is added to this funnel. After purchasing the software, the hobbyist, developer or engineer is stimulated along a guided journey. This pathway will be supported by the delivery of intuitive electronic documents that solve user pain points. These user roadblocks can prevent a positive user experienced if they are not addressed.

The target is clear, as new users become more proficient, design productivity increases. Lifting user satisfaction ultimately drives licence renewal rates. Improvement in this metric is the key to the second goal of 100,000 seats by 2025.

To achieve this outcome, the cyber pod needs to integrate Marketo and Salesforce. In general, the Integration of software from competing vendors can be a complex task. Henry thinks Altium is up to the integration task. A quick search indicates that others have achieved this integration. Alternatives also exist such as Hubspot, another automated marketing tool that integrates with Salesforce.

Salesforce have also developed their own software solution that competes with Marketo. We understand that Altium are progressively testing this alternative.

The success of the cyber pod will be measurable. Henry referred to two important elements that will determine the path to 100,000 seats.

1. The cadence of growth
2. A consistent focus on the end user.

We think these bases are covered.

Firstly, the cadence of growth will shift if renewal rates increase and churn rates fall.

Secondly, the super loop is designed to improve the user experience, by increasing design productivity. If you add in the capabilities of Altium 365, the Octopart ecosystem and the eventual goal of linking design to the manufacturing floor, which we have not covered here, there is a very clear focus on the end user. The blueprint for dominance has been created.

In terms of measuring success, the metric is clear. Altium are targeting a renewal of 95% by 2021.This represents a meaningful improvement to churn from the current 87%. ***SFM***

COMPANY VISIT DIARY – MARCH 2019 QUARTER

Date	Company	Description
25-Jan	RMD	ResMed HY19 Results Conference Call
25-Jan	RMD	ResMed DB Management Meeting
30-Jan	IPD	Impedimed Q2FY19 Results Conference Call
5-Feb	JHX	James Hardie Industries Q3FY19 Results Conference Call
5-Feb	NVT	Navitas HY19 Results Conference Call
5-Feb	JHX	James Hardie Industries DB Management Meeting
5-Feb	JHX	James Hardie Industries Q3FY19 Results Meeting
7-Feb	IEL	Idp Education MS Management Meeting
8-Feb	IEL	Idp Education Macquarie Management Meeting
11-Feb	JHX	James Hardie Industries SFML Management Meeting
11-Feb	REA	REA Group UBS Management Meeting
12-Feb	PXS	Pharmaxis TC Management Meeting
13-Feb	BAP	Bapcor HY19 Results Conference Call
13-Feb	CAR	Carsales.com HY19 Results Conference Call
13-Feb	CPU	Computershare HY19 Results Conference Call
13-Feb	CSL	CSL HY19 Results Conference Call
13-Feb	CPU	Computershare SFML Management Meeting
14-Feb	BRG	Breville HY19 Results Conference Call
14-Feb	ASX	ASX HY19 Results Conference Call
14-Feb	BRG	Breville UBS Management Meeting
14-Feb	CSL	CSL GS Management Meeting
14-Feb	BRG	Breville Macquarie Management Meeting
15-Feb	CAR	Carsales.com GS Management Meeting
15-Feb	JIN	Jumbo Interactive HY19 Results Conference Call
15-Feb	ASX	ASX DB Management Meeting
18-Feb	NHF	NIB Holdings HY19 Results Conference Call
18-Feb	CSL	CSL GS Management Meeting
18-Feb	CWY	Cleanaway Waste UBS Management Meeting
18-Feb	CSL	CSL SFML Management Meeting
18-Feb	NHF	NIB Holdings Macquarie Management Meeting
18-Feb	ALU	Altium HY19 Results Conference Call
19-Feb	ANN	Ansell Macquarie Management Meeting
19-Feb	VRT	Virtus Health HY19 Results Conference Call
19-Feb	BKL	Blackmores HY19 Results Conference Call
19-Feb	IFL	IOOF Holdings HY19 Results Conference Call
19-Feb	COH	Cochlear HY19 Results Conference Call
19-Feb	OSH	Oil Search HY19 Results Conference Call
19-Feb	JHX	James Hardie Industries Management Meeting with Chairman

Date	Company	Description
19-Feb	ALU	Altium DB Management Meeting
19-Feb	NWL	Netwealth Group Macquarie Management Meeting
19-Feb	VRT	Virtus Health MS Management Meeting
19-Feb	ALU	Altium SFML Management Meeting
19-Feb	VRT	Virtus Health UBS Management Meeting
19-Feb	BKL	Blackmores SFML Management Meeting
20-Feb	NEA	Nearmap HY19 Results Conference Call
20-Feb	DMP	Domino Pizza Enterprise HY19 Results Conference Call
20-Feb	SGM	Sims Metal Management HY19 Results Conference Call
20-Feb	COH	Cochlear SFML Management Meeting
20-Feb	ALU	Altium UBS Management Meeting
20-Feb	BAP	Bapcor UBS Management Meeting
20-Feb	COH	Cochlear GS Management Meeting
20-Feb	DMP	Domino Pizza Enterprise MS Management Meeting
20-Feb	VRT	Virtus Health SFML Management Meeting
21-Feb	IFL	IOOF Holdings SFML Management Meeting
21-Feb	IRE	IRESS FY18 Results Conference Call
21-Feb	MYO	MYOB Group FY18 Results Conference Call
21-Feb	SGR	The Star Entertainment HY19 Results Conference Call
21-Feb	FLT	Flight Centre Travel Group HY19 Results Conference Call
21-Feb	SYD	Sydney Airport FY18 Results Conference Call
21-Feb	ALL	Aristocrat Leisure Annual General Meeting
21-Feb	FLT	Flight Centre Travel Group DB Management Meeting
21-Feb	DMP	Domino Pizza Enterprise SFML Management Meeting
21-Feb	NEA	Nearmap MS Management Meeting
21-Feb	SGM	Sims Metal Management GS Management Meeting
21-Feb	NEA	Nearmap SFML Management Meeting
21-Feb	DMP	Domino Pizza Enterprise UBS Management Meeting
21-Feb	NHF	NIB Holdings SFML Management Meeting
22-Feb	WTC	Wisetech Global UBS Management Meeting
22-Feb	FLT	Flight Centre Travel Group UBS Management Meeting
22-Feb	FLT	Flight Centre Travel Group SFML Management Meeting
22-Feb	CWN	Crown Resorts UBS Management Meeting
22-Feb	IRE	IRESS GS Management Meeting
22-Feb	FLT	Flight Centre Travel Group MS Management Meeting
22-Feb	SGR	The Star Entertainment Macquarie Management Meeting
22-Feb	SGM	Sims Metal Management SFML Management Meeting
25-Feb	RWC	Reliance Worldwide HY19 Results Conference Call
25-Feb	IFM	Infomedia HY19 Results Conference Call
25-Feb	OSH	Oil Search SFML Management Meeting

Date	Company	Description
25-Feb	NAN	Nanosonics HY19 Results Conference Call
25-Feb	NAN	Nanosonics UBS Management Meeting
26-Feb	IRE	IRESS UBS Management Meeting
26-Feb	BKL	Blackmores Conference call with CFO
26-Feb	IRE	IRESS SFML Management Meeting
26-Feb	JIN	Jumbo Interactive SFML Management Meeting
27-Feb	RWC	Reliance Worldwide SFML Management Meeting
27-Feb	NEA	Nearmap UBS Management Meeting
27-Feb	SEK	SEEK HY19 Results Conference Call
27-Feb	NEA	Nearmap GS Management Meeting
27-Feb	PWH	Pwr Holdings UBS Management Meeting
27-Feb	RWC	Reliance Worldwide Macquarie Management Meeting
27-Feb	NAN	Nanosonics SFML Management Meeting
27-Feb	NEA	Nearmap DB Management Meeting
28-Feb	APX	Appen UBS Management Meeting
28-Feb	SEK	SEEK SFML Management Meeting
28-Feb	SEK	SEEK MS Management Meeting
28-Feb	A2M	The A2 Milk Company UBS Management Meeting
1-Mar	REH	Reece HY19 Results Conference Call
1-Mar	BKL	Blackmores SFML Meeting with Chairman and CFO
4-Mar	IFM	Infomedia UBS Management Meeting
4-Mar	BUB	Bubs Australia UBS Management Meeting
5-Mar	TNE	Technology One SFML Post AGM Management Meeting
6-Mar	FPH	Fisher & Paykel Healthcare SFML Management Meeting
8-Mar	IFM	Infomedia Technology Day
11-Mar	Fineos	Fineos IPO Roadshow
13-Mar	SEK	SEEK SFML Conference Call re ESG
13-Mar	JHX	James Hardie Industries SFML Conference Call re ESG
13-Mar	BID	Bid Energy UK Investor Tour
13-Mar	MP1	Megaport UK Investor Tour
14-Mar	JHX	James Hardie Industries SFML Conference Call re ESG
14-Mar	BAL	Bellamy's Australia UBS Management Meeting
14-Mar	XRO	Xero UK Investor Tour
14-Mar	SDF	Steadfast UK Investor Tour
14-Mar	Tokema	Tokema UK Investor Tour
14-Mar	CTD	Corporate Travel UK Investor Tour
14-Mar	RMV.LSE	Rightmove PLC UK Investor Tour
14-Mar	Auto.LSE	Autotrader Plc UK Investor Tour
14-Mar	PDG.LSE	Pendragon UK Investor Tour
15-Mar	BAL	Bellamy's Australia GS Management Meeting

Date	Company	Description
15-Mar	III.LSE	3i Group PLC UK Investor Tour
15-Mar	IRE	IRESS UK Investor Tour
15-Mar	Tilney	Tilney UK Investor Tour
15-Mar	PPS	Praemium UK Investor Tour
15-Mar	Epsilon	Epsilon UK Investor Tour
18-Mar	TSTL.LSE	Tristel PLC UK Investor Tour
18-Mar	MVP	Medical Developments UK Investor Tour
18-Mar	The Loadstar	The Loadstar UK Investor Tour
18-Mar	IHP.LSE	IntegraFin Holdings PLC UK Investor Tour
18-Mar	RWC	Reliance Worldwide UK Investor Tour
19-Mar	FNZ	FNZ UK Investor Tour
19-Mar	BVS	Bravura Solution UK Investor Tour
19-Mar	Unit 4	Unit 4 UK Investor Tour
19-Mar	FLT	Flight Centre Travel Group UK Investor Tour
19-Mar	WEB	Webjet UK Investor Tour
20-Mar	WPP.LSE	WPP PLC UK Investor Tour
20-Mar	PWH	Pwr Holdings UK Investor Tour
20-Mar	BOWl.LSE	Hollywood Bowl UK Investor Tour
20-Mar	DTY.LSE	Dignity PLC UK Investor Tour
20-Mar	GTK	Gentrack UK Investor Tour
20-Mar	OFX	OFX Group Investor Day
21-Mar	ALU	Altium UK Investor Tour
22-Mar	EQT	Equity Hl UK Investor Tour
26-Mar	ALU	Altium US Management Meeting
26-Mar	TLX	Telix Pharmaceuticals TC Management Meeting
26-Mar	IFM	Infomedia GS Management Meeting
26-Mar	REH	Reece Morsco Head Office Bent tree Forest drive Dallas US Site Visit
26-Mar	REH	Reece Morsco HVAC Carrollton Dallas US Site Visit
27-Mar	REH	Reece Morsco Morrison Wynnwood Lane Houston (Lazybrook) US Site Visit
27-Mar	REH	Reece Morsco Morrison Stafford US Site Visit
27-Mar	REH	Reece Moore Stafford US Site Visit
27-Mar	REH	Reece Ferguson Sugar Creek US Site Visit
28-Mar	REH	Reece Morsco Morrison Industrial San Marcos San Antonio US Site Visit
28-Mar	REH	Reece Ferguson 10534 Interstate 35 San Antonio US Site Visit
28-Mar	RWC	Reliance Worldwide Lowes New Braunfels US Site Visit
29-Mar	RWC	Reliance Worldwide Lowes San Marcos US Site Visit
28-Mar	RWC	Reliance Worldwide Home Depot New Braunfels US Site Visit
28-Mar	RWC	Reliance Worldwide Home Depot Kyle US Site Visit
28-Mar	REH	Reece Moore Facets San Antonio US Site Visit
28-Mar	RWC	Reliance Worldwide Morrison Jones Maltsberger San Antonio US Site Visit

Date	Company	Description
29-Mar	REH	Reece Ferguson South Manachaca Austin US Site Visit
29-Mar	REH	Reece Ferguson East Congress Austin US Site Visit
29-Mar	REH	Reece Ferguson HVAC East Congress Austin US Site Visit
29-Mar	RWC	Reliance Worldwide Morrison East Congress Austin US Site Visit
29-Mar	REH	Reece Moore East Congress Austin US Site Visit
29-Mar	FLT	Flight Centre Travel Group US Chicago Site Visit
29-Mar	JHX	James Hardie Industries US Chicago Site Visit
29-Mar	NVL	National Vet Care UBS Conference Call