Selector High Conviction Equity Fund Quarterly Newsletter No.83

March 2024

In this quarterly, we discuss how Governments keep taking more, and no matter how one justifies it, if it becomes ‘punitive’ and deemed ‘confiscatory’, society will ultimately be the loser.

We follow this with a collection of portfolio company reviews flowing from the latest reporting season. We touch on the pertinent numbers and provide a brief perspective on the business and points of view.

We then delve into the *“Productivity dilemma”*, examining the challenges facing businesses and how the Government’s industrial relations approach is cause for concern.

Next, we turn our attention to *“Our greatest risk”*, where we shed light on the profound impact government regulatory changes can have on the financial wellbeing of a business.

Lastly, we explore the importance of portfolio pruning in *“Watering the flowers, pulling out the weeds”*.

Photo. *Altium - the Jamaican bobsled team. Source: Selector Funds Management*

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Selector is a Sydney based fund manager. Our team combines deep experience in financial markets with diversity of background and thought. 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. Our ongoing focus on culture and financial sustainability lends itself to strong ESG outcomes.

Selector has a 20-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,

Since late 2023 investors have been wrong-footed. High interest rates, high inflation readings, global turmoil and economic unease prompted retreat among the many 'expert' commentators. How wrong they have been, as local and global share markets move higher.

History is littered with market timers and the rallying cry of 'beware' and 'get out'. It wins headlines but rarely more. History now shows that the market downdraft in 2022, when the U.S. Central Bank undertook the fastest and largest interest rate rises ever, was not a signal to sell but to buy.

Share markets here and abroad have since raced into record territory, bolstered by a corporate reporting season that provides validation alongside a more benign outlook for interest rates and inflation.

Investors should reflect on this point for just a moment. Far better to maintain a coherent and consistent investment philosophy than ducking and weaving to miss out on the pain yet somehow rejoice in the wins.

Our performance has been built on the former and we encourage investors to regard the market's frequent mood shifts not as a threat, but as a long-term opportunity.

Mergers & Acquisitions

After a period of dormancy, corporate takeover activity stepped up a gear during the quarter. It is a timely reminder that a company's appeal does not necessarily hinge on financial numbers alone.

Strategic intent is equally important, a fact often overlooked by investors who oscillate in and out of investment positions, driven solely by a company's immediate earnings outlook.

When strategic appeal is on offer, suitors are not far behind. This is not necessarily a good thing, since it requires one party to leave early. The inducement is cash, leaving investors with a difficult choice.

Two that attracted investor attention in the quarter included the French-based construction firm Saint-Gobain's $4.3b cash bid for building materials group CSR and Japanese semiconductor leader Renesas's $9.1b cash offer for printed circuit board global leader Altium.

We were firmly in the Altium camp, having been on board for well over a decade. The current take offer, while not unexpected, is likely to succeed. This bittersweet outcome offers a short-term reward, possibly at the expense of longer-term performance.

It is also due recognition for an Altium management team that embarked on an aspirational long-term global leadership pursuit, with clear goals and transparent communication. On almost any measure, shareholders have been well served.

Economics

On the economic front, productivity is a term investors should become well acquainted with. In the three months to December, Australia's real Gross Domestic Product (GDP) rose by just 0.2%, with the annual rate of growth slowing from 2.1% to 1.5%.

It was the country's lowest rate of growth since 2000, outside of the COVID pandemic period.

In addition, the government's growing reliance on tax has it entrenched at 27% of GDP compared to 23% pre-COVID levels. These numbers are concerning on two fronts because they talk to a weakening trend across these important metrics.

The RBA's aggressive thirteen interest rate rises since 2022 are having an impact, consistent with its mandate to target inflation rather than economic growth.

Reserve Bank of Australia (RBA) governor Michelle Bullock's most recent remarks to describe the current interest rate settings unfortunately miss the mark, "*We still have to get inflation down and the risks to achieving that remain finely balanced. The war isn't won yet. So we continue to be vigilant and can't rule anything in or out*."

Perhaps it hadn't dawned on the governor that actual wars are occurring, and what the RBA does with interest rate settings is such a blunt instrument that only serves to highlight the limits of their decision-making policies.

Most importantly, it exposes the silliness of such a lopsided mandate, akin to driving a car with only a brake and no accelerator. It's a hard lesson that will become all too apparent if and when the RBA starts to pivot – not due to a weak inflation reading, but because of insufficient or stagnant economic growth.

If the aim is to reduce inflation, the most sustainable path to achieve this is by driving productivity growth, which the RBA has no power to influence.

Reporting season

The March quarter coincided with company reporting season, a period in which businesses update investors on individual, corporate and financial progress.

We describe some of the share market price reactions that follow such events as "the folly of reporting season".

Measuring a company's progress should not be restricted to a point-in-time exercise, nor should a lower profit number or softer earnings guidance be considered a sign of weakness or vulnerability.

The real test of progress lies in prioritising what is right for a business long term and communicating that action clearly and transparently.

In this reporting season, like many others that have preceded it, we have benefited from the extra knowledge gained. If pushed to name a constant theme in the businesses owned, it centres on management's propensity to invest even more aggressively to develop future digital platforms, products and services.

The likes of the CAR Group, Cochlear, WiseTech Global and Breville are a few that clearly illustrate this point.

Quarterly

It seems only fitting to start this quarterly with a quote from former Prime Minister Paul Keating.

Governments keep taking more, and no matter how one justifies it, if it becomes 'punitive' and deemed 'confiscatory', society will ultimately be the loser.

We follow this with a collection of portfolio company reviews flowing from the latest reporting season. We touch on the pertinent numbers and provide a brief perspective on the business and points of view.

We then delve into the "Productivity dilemma", examining the challenges facing businesses and how the Government's industrial relations approach is cause for concern.

Next, we turn our attention to "Our greatest risk", where we shed light on the profound impact government regulatory changes can have on the financial wellbeing of a business.

Lastly, we explore the importance of portfolio pruning in "Watering the flowers, pulling out the weeds".

For the March 2024 quarter, the Fund delivered a gross positive return of **10.79%** compared to the All Ordinaries Accumulation Index, which posted a gain of **5.45%**.

For the financial year to date, the Fund has returned **21.12%** compared to the Index which recorded a gain of **13.84%**.

We trust you find the quarterly informative.

Regards,

Selector Investment Team

"CONFISCATORY"

Former Treasurer and Australian Prime Minister Paul Keating on the issue of personal taxation in discussion with the Australian Financial Review, May 12, 2017, responded.

"I believe the top rate of tax in Australia should be no higher than 39 per cent at the most. I reduced the top marginal rate from 67 per cent to 47 per cent just on 30 years ago and here we are now having it go to 47.5 per cent, or if Labor had its way to 49.5 per cent. This is too punitive a level where the state is confiscating almost half of people's income over $180,000."

And with the passage of time, his views remain consistent as he declared on the AFR in February 2024,

"There's an issue that all societies should have of how much a person's conscientious efforts and wealth should be delivered to the state," he says.

"Once you start getting the top rate over, in my opinion, 39 [per cent], it becomes confiscatory and when they become confiscatory you just lose all that impetus to make a dollar and do clever things."

Now

With the passing of the stage three tax changes, the top marginal tax rate above $190,000 stands at 47%, a combination of a 45% marginal tax rate plus a 2% Medicare levy.

Post the changes, the editor-at-large at the Australian Financial review Paul Kelly highlighted,

"The bottom 40 per cent of taxpayers pay no net tax. The top 10 per cent of taxpayers will now pay about 47 per cent of all income tax revenue. The top 5 per cent of taxpayers paid about 32.9 per cent of revenue back in 2017-18 and under Labor's plan that will rise to about 34.6 per cent. Economist Chris Richardson calculates that the top 1 per cent pay as much income tax as the bottom 71 per cent."

Figure 1: Tax thresholds

CURRENT		COALITION STAGE THREE		LABOR STAGE THREE	
Taxable income	Tax rate	Taxable income	Tax rate	Taxable income	Tax rate
$0-$18,200	0c	$0-$18,200	0c	$0-$18,200	0c
$18,201-$45,000	19c	$18,201-$45,000	19c	$18,201-$45,000	16c
$45,001-$120,000	32.5c	$45,001-$200,000	30c	$45,001-$135,000	30c
$120,001-$180,000	37c			$135,001-$190,000	37c
$180,001+	45c	$200,001+	45c	$190,001+	45c

Source: ATO

PORTFOLIO OVERVIEW

Table 1: Performance as at 31 March 2024*

	3 Month	6 Month	1 Year	3 Year	5 Year	10 Year	15 Year	Since Inception
Fund (net of fees)	10.39	21.05	25.45	8.35	8.69	11.89	14.22	10.50
Fund (gross of fees)	10.79	21.89	27.33	10.05	10.58	13.86	16.28	12.55
All Ords. Acc. Index	5.45	14.59	14.98	9.52	9.52	8.50	10.16	8.42
Difference (gross of fees)	5.34	7.30	12.35	0.53	1.06	5.36	6.12	4.13

**Performance figures are historical percentages. Returns are annualised and assume the reinvestment of all distributions.*

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

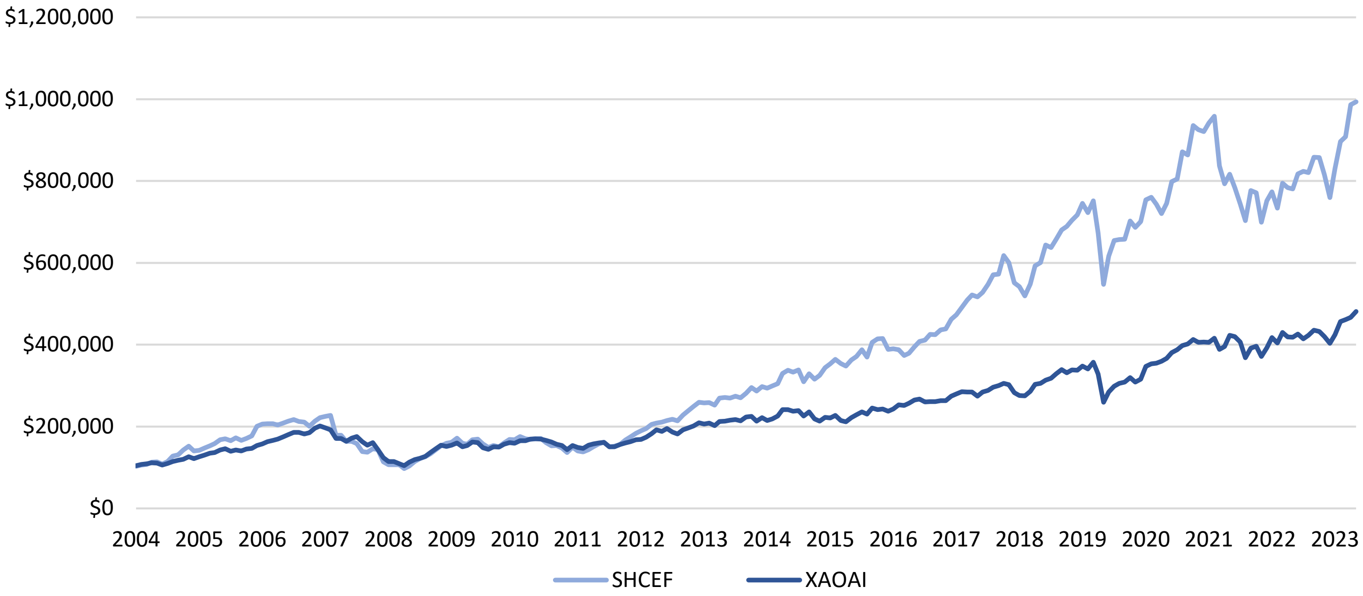


Table 2: Fund's Top 10 Holdings

Top 10 March 2024	%	Top 10 December 2023	%
CAR Group	7.84	CAR Group	8.00
Cochlear	6.64	Altium	7.90
James Hardie Industries	6.50	James Hardie Industries	6.62
TechnologyOne	6.46	Cochlear	6.52
Reece	5.58	TechnologyOne	6.50
ResMed	4.69	CSL	5.12
Aristocrat Leisure	4.53	Reece	4.94
CSL	4.45	Aristocrat Leisure	4.91
WiseTech Global	4.21	Domino's Pizza Enterprises	3.64
SEEK	3.23	SEEK	3.51
Total	**54.12**	**Total**	**57.66**

Table 3: Unit prices as at 31 March 2024

Unit Prices	Entry Price	Mid Price	Exit Price
	$3.7145	$3.7052	$3.6959

Selector employs a high conviction, index unaware, stock selection investment strategy. 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 2024 quarter

S&P ASX Industry Sectors	Quarter Performance (%)
Information Technology	24.23
A-REITS	16.05
Consumer Discretionary	11.62
Financials	11.02
Industrials	4.59
Healthcare	2.59
Energy	1.42
Utilities	1.28
Consumer Staples	0.38
Telecommunications	(0.57)
Materials	(7.94)

Table 5: Fund's industry weightings

Industry group	March 2024 (%)	December 2023 (%)
Software & Services	20.78	24.17
Health Care Equipment & Services	18.78	16.03
Media & Entertainment	13.98	14.64
Consumer Services	12.62	13.99
Capital Goods	8.01	6.99
Materials	6.50	6.61
Pharmaceuticals, Biotech & Life Sciences	4.58	5.29
Cash & Other	3.52	0.65
Commercial & Professional Services	2.91	3.25
Automobiles & Components	2.53	2.41
Insurance	2.03	2.10
Financial Services	1.98	1.93
Consumer Durables & Apparel	1.79	1.94

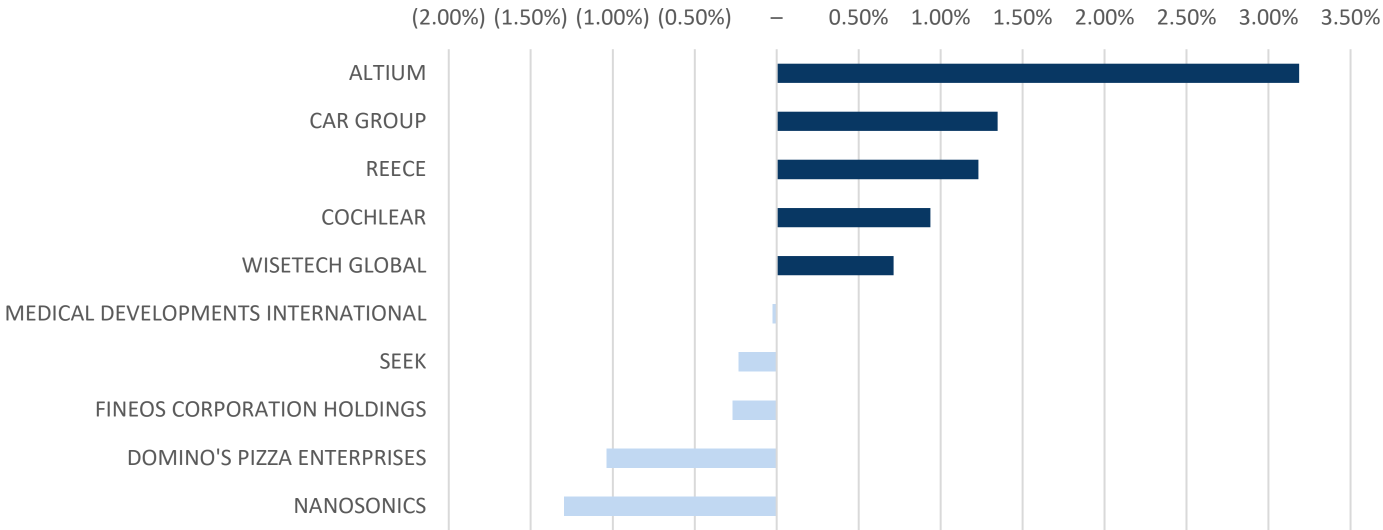
Table 6: Portfolio turnover as at 31 March 2024

Period	Turnover %
1 Year	6.02
2 Years	6.14
3 Years	8.24
5 Years	8.08
10 Years	7.25
15 Years	7.02
Since inception	6.40

- Turnover shown as annualised percentages
- Turnover = Lesser of purchases or sales divided by average funds under management for the period
- Turnover calculation excludes cash flows greater than 1% of FUM over any given period

PORTFOLIO CONTRIBUTORS

Graph 2: Contributors and Detractors – March 2024 quarter



ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (ESG)

- **ESG risk of the portfolio**

Table 7: SFML ESG Scores

Company Name	ESG Roadmap	ESG Score
ARISTOCRAT LEISURE	2.0	8
ALTIUM	2.0	7
ARB CORPORATION	2.0	6
BREVILLE GROUP	2.0	8
CAR GROUP	2.0	8
COCHLEAR	2.0	7
COMPUTERSHARE	2.0	8
CSL	2.0	9
DOMINO'S PIZZA ENTERPRISES	2.0	7
FINEOS CORPORATION HOLDINGS	2.0	8
FLIGHT CENTRE TRAVEL GROUP	2.0	8
FISHER & PAYKEL HEALTHCARE CORPORATION	2.0	9
INFOMEDIA	2.0	3
IRESS	2.0	8
JAMES HARDIE INDUSTRIES	2.0	7
JUMBO INTERACTIVE	2.0	7
MEDICAL DEVELOPMENTS INTERNATIONAL	2.0	6
NANOSONICS	2.0	9
NIB HOLDINGS	2.0	9
OFX GROUP	2.0	7
PRO MEDICUS	2.0	6
POLYNOVO	2.0	7
REA GROUP	2.0	9
REECE	2.0	9
RESMED	2.0	8
RELIANCE WORLDWIDE CORPORATION	2.0	9
SEEK	2.0	9
TECHNOLOGYONE	2.0	7
WISETECH GLOBAL	2.0	9

ESG 2.0 Roadmap

Consideration			
Environment	Climate Targets	Renewable targets	Progress against target
Social	Human Capital Management	Community (including MS*)	Best Interests
Governance	Board effectiveness	Shareholder interests	Risk & Litigation

Roadmap scorecard
9 filters applied to each portfolio business

*Modern Slavery (MS)

The ESG 1.0 Roadmap, developed in-house in 2019, defines ESG issues that may impact companies and applies a score of 1 or 0 for each of the 12 areas under consideration. The ESG 2.0 Roadmap iteration was created in 2021, with changes integrated into our portfolio models thereafter. The ESG 2.0 Roadmap consists of 9 areas under consideration.

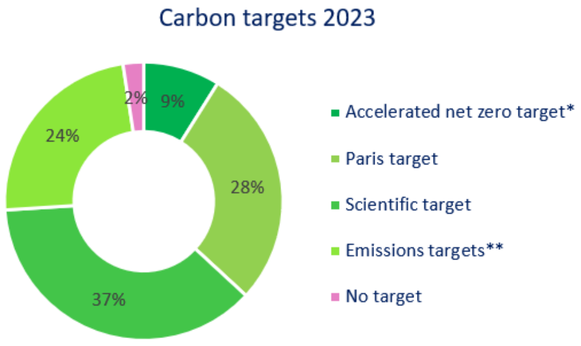
The following is a breakdown of each consideration:

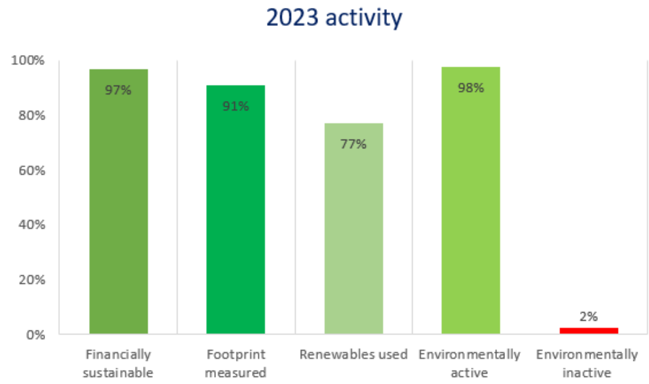
- Climate targets – Assessment of the company's plans relating to carbon neutrality, Paris commitments, scientific targets, or emission targets. "0" rating for no effort.
- Renewable targets – Assessment of the company's documented use of renewables mix or implemented targets for renewable energy.
- Progress against targets – Measuring progress made against announced targets. "0" rating for no effort.
- Human Capital Management – "Is there a history of human rights violations, workplace and IR disputes, discrimination and harassment claims?"
- Rating of the company's employee engagement, turnover and productivity. Compare the company's work, health and safety (WHS) standards against peers, including their recording and track record of incidents.
- Community – Rating of the company's community engagement and social licence to operate. Consider whether the company has a framework on social issues across its supply chain, including labour standards, child labour, health & safety, discrimination, and harassment.
- Best Interests – "Is the company behaving in a manner that is in the best interests of stakeholders."
- Board effectiveness – Assessment of the board including industry experience, independence, age, diversity, tenure, equity ownership and capacity.
- Shareholder interests – Assessment of the remuneration structure, shareholder communication, corporate disclosure, and reliability of financial statements. Test the factors against the company's corporate strategy and whether they are in line with shareholder interests.
- Risk & Litigation – Rating of the company's internal risk and control framework.

The ESG Roadmap is reviewed quarterly with data updated annually by reporting companies. Further detail on our ESG Roadmap can be found in the SFML ESG & Voting Policy, available at https://selectorfund.com.au/esg

▪ Carbon Risk Analysis

Figure 2: Portfolio Reporting 2023





What we are seeking

- Paris targets
- Science based targets
- Emissions targets
- Renewable energy targets

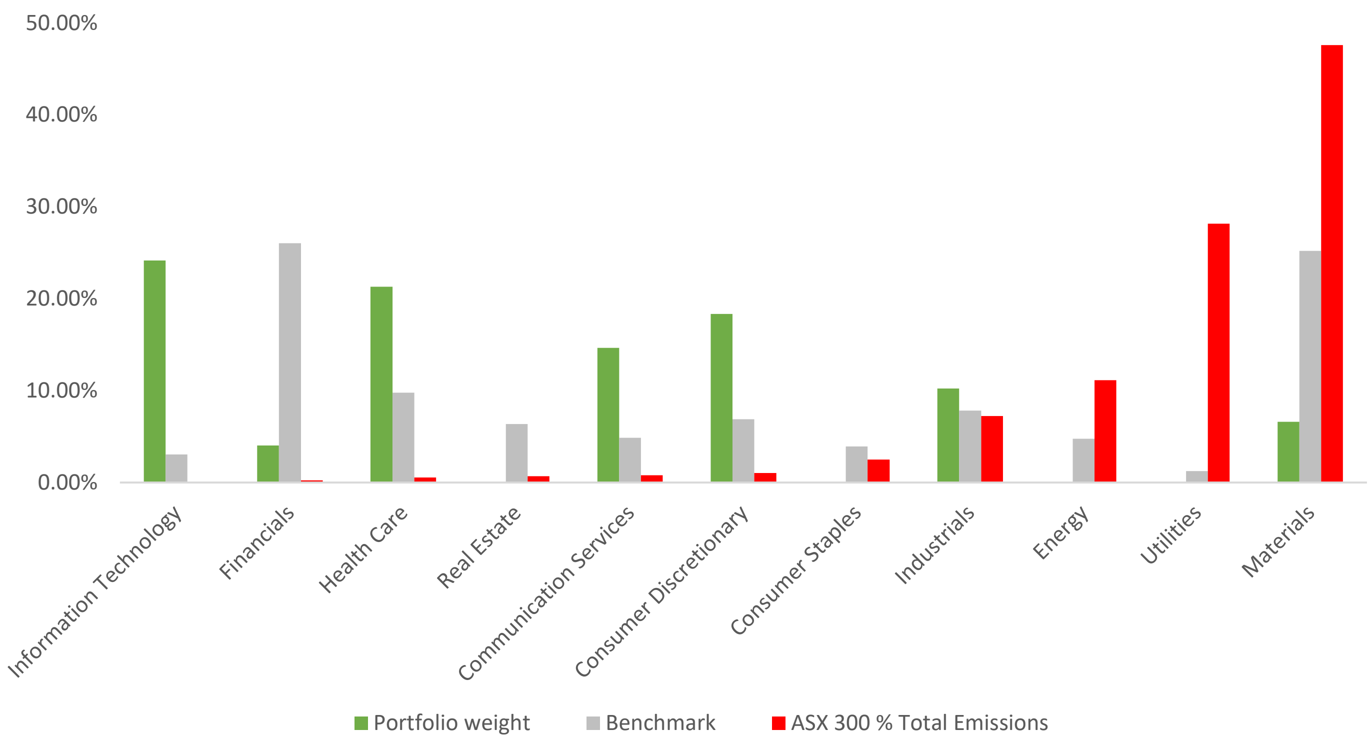
What we are monitoring

- Financial sustainability
- No efforts
- No accountability

**Net zero across all scopes by 2030*
**Has at least measured emissions or energy use or set a target*

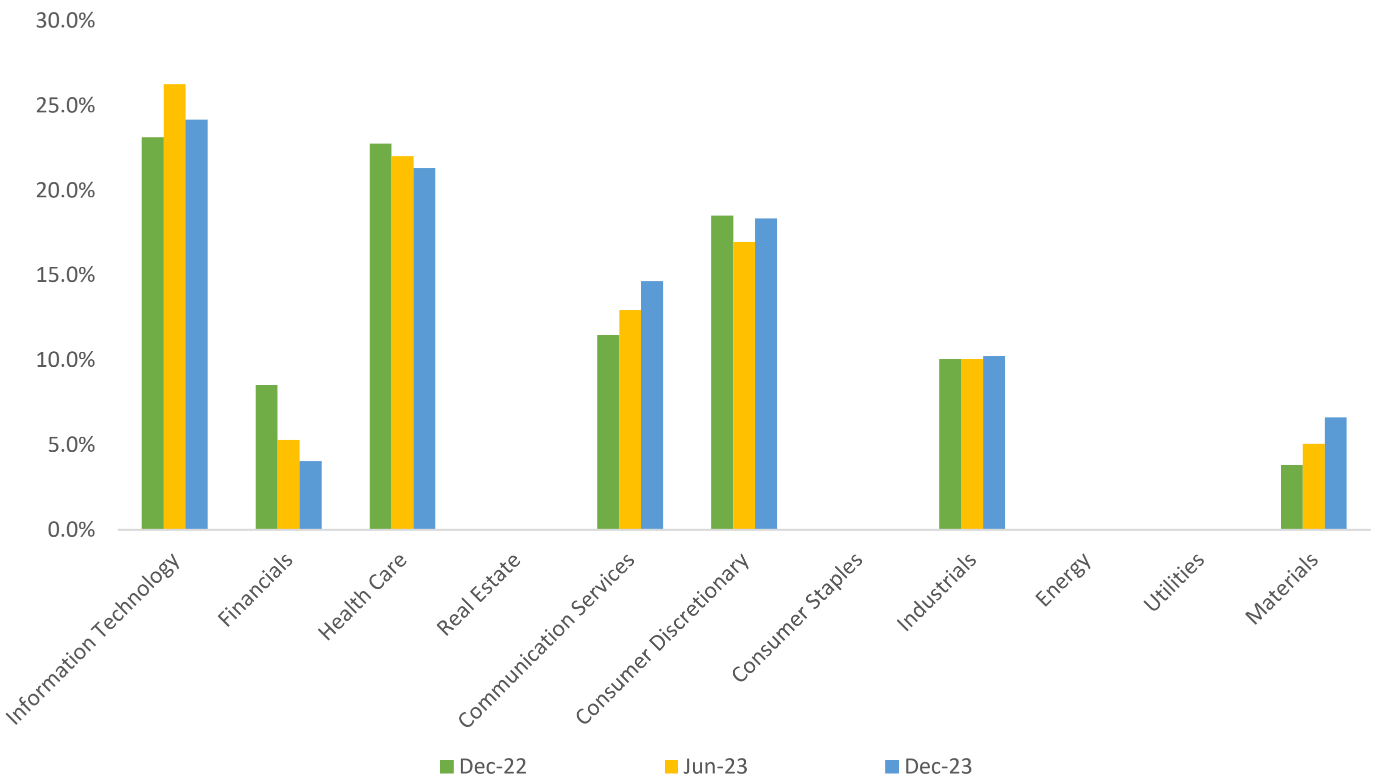
Source: SFML Research

Graph 3: SHCEF vs ASX 300 Carbon Exposure 31 December 2023



Source: Refinitiv

Graph 4: Portfolio Carbon Exposure Periodic Change



Source: Refinitiv

Table 8: SFML Portfolio carbon intensity

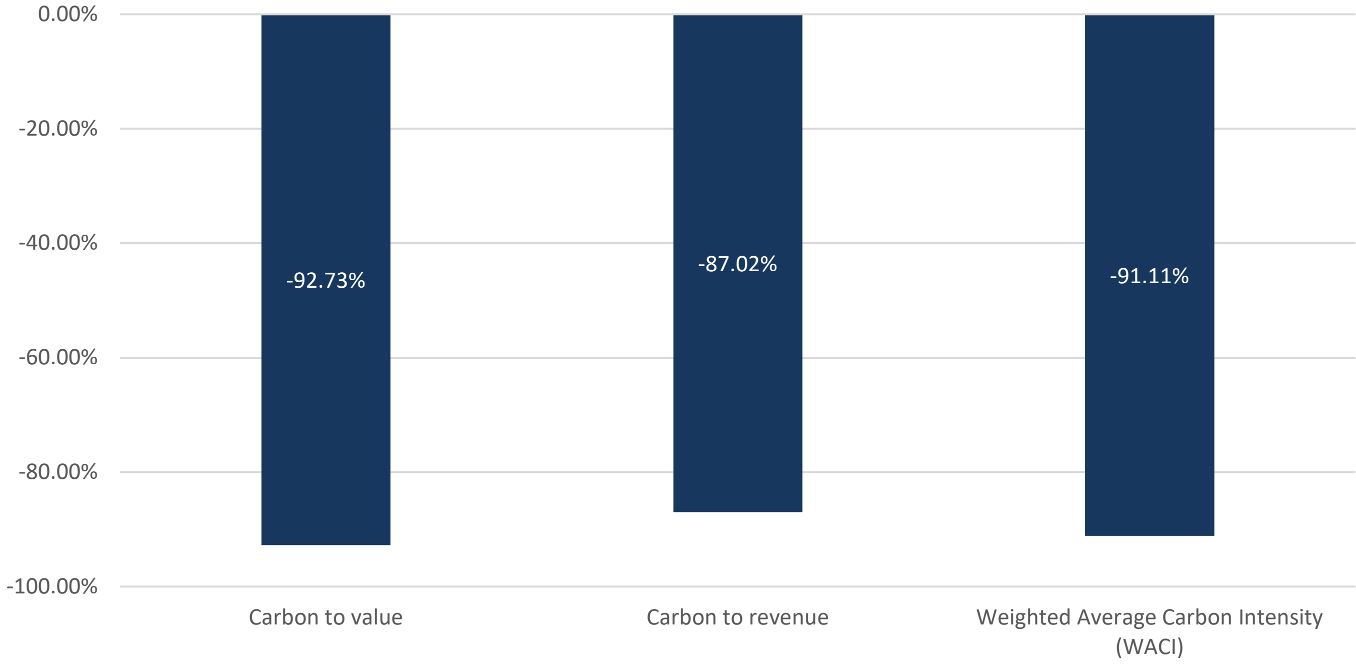
Carbon intensity method[1]	**SFML**	**Benchmark[2]**
Carbon to value invested	2.50	34.47
Carbon to revenue	14.30	110.16
Weighted Average Carbon Intensity (WACI)	11.48	129.14

Source: Refinitiv

1. Denominated in tonnes per CO2e/AUD$m
2. Benchmark used is S&P/ASX 300

- ***Carbon to value invested*** – this calculation is the aggregation of estimated owned constituent greenhouse gas emissions per $1m market capitalisation as at 31 December 2023. It allocates the emissions investors are responsible for based on their level of ownership, enabling them to measure their contribution to climate change.
- ***Carbon to revenue*** – this calculation reflects the aggregation of estimated owned constituent greenhouse gas emissions per $1m generated in apportioned revenues. It allocates the emissions investors are responsible for based on their ownership of company revenues.
- ***Weighted Average Carbon Intensity (WACI)*** is the weighted average of individual company's estimated carbon intensities (emissions over revenues), weighted by the investment proportion of the constituents.

Graph 5: SFML Carbon Intensity Relative to ASX 300



Source: Refinitiv

SFML's carbon to value invested and carbon to revenue are both lower than the S&P ASX 300 index, at 92.73% and 87.02% respectively. SFML's WACI is 91.11% lower than the index, due to no exposure to Energy and Utilities sectors, and low exposure to the Materials sector.

Table 9: SFML Top 10 emitters and total Portfolio Revenue impact of AUD$90 Carbon tax

Portfolio	Revenue ($m)[1]	CO_2 Emissions[2] (Tonnes)	$90 Carbon Tax ($m)	Impact on Revenue (%)
SFML Top 10 Emitters	55,517.21	1,251,239	112.61	(0.20%)
SFML Portfolio – Total	75,823.44	1,274,964	114.75	(0.15%)
ASX300 Top 30 Emitters	554,732.63	188,338,601	16,950.47	(3.06%)
ASX 300 Index – Total	1,271,446.34	203,818,645	18,343.68	(1.44%)

Source: SFML & Refinitiv CO2 Emission data

1. Last reported financial year revenue as at 31 December 2023
2. Scope 1 and 2 emissions (estimated if not reported).

*Note: ASX 300 index revenue impact from a carbon tax is **9.5x** larger than SFML portfolio*

Table 10: Fundamentals behind comparing SFML Top 10 Emitters and ASX300 Top 30 Emitters

Portfolio	Percentage of Total Portfolio	Percentage of Total Portfolio's Emissions
SFML Top 10 Emitters	37.95%	98.14%
ASX 300 Top 30 Emitters	30.52%	92.40%

Source: SFML & Refinitiv CO2 Emission data

*Note: ASX300 Top 30 Emitters revenue impact from a $90 carbon tax is **15.0x** larger than SFML Top 10 Emitters*

Table 11: SFML Portfolio Top 10 Emitters Carbon Tax Scenario Testing

Company	CO_2 Emissions (Tonnes)	NPAT[1] (AUD $m)	EPS[1] ($)	Value of Carbon Tax ($)	Cost of Carbon Tax ($m)	Impact on NPAT (%)	EPS Post Carbon Tax ($)
JHX	646,409	748.93	1.72	90	58.18	(7.77%)	1.59
CSL	336,000	3,880.65	8.04	90	30.24	(0.78%)	7.98
REH	65,586	387.61	0.60	90	5.90	(1.52%)	0.59
DMP	60,400	122.60	1.37	90	5.44	(4.43%)	1.30
FLT	33,480	47.41	0.23	90	3.01	(6.36%)	0.22
RWC	32,550	207.64	0.26	90	2.93	(1.41%)	0.26
RMD	25,059	1,334.52	9.07	90	2.26	(0.17%)	9.05
ARB	17,681	88.46	1.08	90	1.59	(1.80%)	1.06
ALL	17,258	1,535.60	2.02	90	1.55	(0.10%)	2.02
FPH	16,816	228.21	0.40	90	1.51	(0.66%)	0.40

Source: Refinitiv CO2 Emission data

1. Last reported financial year values as at 31 December 2023

- **How ESG factors are incorporated into research and decision-making processes**

We believe ESG is incorporated into our investment process and our research efforts. We make this distinction to provide further insight.

ESG incorporation into investment process

ESG consideration is integrated into the three core areas of our investment process:

1. Corporate engagement program
2. Quantitative modelling program
3. Voting program.

The three programs of work listed above are applied consistently to each business that we research. Ultimately, we are seeking businesses with leadership qualities, run by competent management teams, underpinned by a strong balance sheet and with a focus on capital management. Each of these four elements has its roots in culture and ESG.

We believe Culture and ESG are intertwined. We consider them both integral to our assessment of a business. Voting is the other half of ESG, all resolutions are documented, researched and voted inhouse.

Our ongoing focus on the individual culture and financial sustainability of a business lends itself to strong ESG outcomes at a business and portfolio level. This is evidenced by portfolio emissions significantly lower than index emissions, coupled with outperformance since inception.

ESG incorporation into research

All research is undertaken in-house by the Portfolio Managers and investment team. This is an intensive, granular and in-depth approach to continuous learning. We seek businesses with leadership qualities, run by competent management teams, underpinned by strong balance sheets and with a focus on capital management. This approach lends itself to strong ESG outcomes. Our approach is to fully integrate ESG into each of these four areas.

This is a risk out process. We are trying to take as much risk off the table as possible before we invest. The key areas of risk we focus on are board and management competency and the culture they are responsible for, business qualities, balance sheet and capital management. We believe a common-sense approach holds that a net cash balance sheet carries lower risk and more optionality than an optimised or extended balance sheet. We ultimately compare equity risk to a risk-free rate.

Before we invest, we seek to understand which risks a business can control verse those outside its control. For this to be possible, risk must be reported in a consistent and transparent fashion, to avoid any surprises. Here we are considering the possibility of assets becoming stranded (environment) or compromised (Social, Governance, legal, IP, cybersecurity as examples).

Risk sits in each bucket of E, S and G. Our program of corporate engagement has aided our understanding of risk in the S and G buckets since inception. In more recent years we have taken progressive steps to better understand Environmental risk and today, we are actively seeking better financial disclosure from the companies we invest in.

Our conviction in this process generates a concentrated portfolio of our best ideas, or our highest quality stock picks. The aim is to capture as much real earnings per share growth as possible over the long-term.

Our approach has been consistent since inception. It is framed by our Roadmap. This template is both qualitative and quantitative in nature, it focuses our research efforts on the aspects of ESG that we hold important in assessing the risk associated with a long-term investment. This internal scoring system is integrated into our financial model.

Our Roadmap provides a repeatable framework that drives our corporate engagement program, our quantitative program of financial modelling including our stock universe data screen, and our structured voting program. It also holds a strong relevance to our portfolio construction.

Our Roadmap has a material bearing on our investment process from screening ideas to portfolio construction. As an example, we highlight the top left-hand corner of the Roadmap, “Individuals we can trust”. If we are unable to establish confidence in management, board and the culture that they are responsible for, we will not invest in a business. We are index unaware and have the luxury of sitting on the sideline or saying no to an investment.

We believe culture and ESG are intertwined, with the former driving the later. We have focused on the culture that drives the social attributes and governance process within a business since inception.

In 2019 we developed our ESG Roadmap which provides an additional framework for integrating ESG into our research. It is also incorporated into our financial models. This is an iterative approach whereby we are building upon successful initiatives and discarding those that do not add value to our process.

We have taken progressive steps to better understand environmental risk. We measure emissions targets and renewables use across the portfolio. We also measure portfolio emissions against index emissions.

We have long had confidence that our process drives strong ESG outcomes in relation to social and governance issues. We believe our long-term outperformance and low turnover is evidence of this. It is now also apparent, from the portfolio reporting discussed above, that we are driving equally strong ESG outcomes in relation to environmental issues.

In addition, we use our templates and framework to actively seek better transparency and financial disclosure from the companies we invest in.

- **Examples of where ESG issues have been integrated into investment analysis and decision-making processes including company engagement and voting**

As part of our corporate engagement program, we have proposed a sustainable capital management program to businesses we engage with. The ongoing ability to deliver strong ESG outcomes requires long term business sustainability. The model that SFML promotes is a sustainable approach to ongoing re investment into innovation and R&D programs, a sensible payout ratio, and a consistent buyback of shares that drives real EPS growth over the long term while maintaining a strong balance sheet. These financial elements promote business sustainability that are hallmarks of good financial stewardship including. We have actively discussed this model with:

- CAR Group
- Fisher & Paykel Healthcare
- TechnologyOne
- Cochlear
- Reece
- Flight Centre Travel Group

- Details of any ESG research sources (internal and external) used during the reporting period.

We endeavour to read widely. This includes publicly disclosed documents, such as annual reports, sustainability statements, company and board charters and broker research. We subscribe to news services, various publications and a global business transcript service that also collates broker research and financial data.

SFML also recently integrated a new financial platform, Refinitiv, which provides extensive ESG coverage and data insights across ASX All Ordinaries securities. Refinitiv's reported and estimated emissions data has been used to generate the detailed analysis of SFML's portfolio emissions as seen above. Refinitiv will also enable data to be refreshed more frequently.

All research is undertaken in house by the Portfolio Managers and investment team. This is an intensive, granular and in-depth approach to continuous learning. We believe this is a differentiated approach that generates strong ESG outcomes.

THE FOLLY OF REPORTING SEASON

Any investment success that we have had, has come about by taking a view on the people and the sustainability of the business model.

To that end we consider any meaningful business progress be measured over long intervals, sometimes decades. A leading indicator is not the profits generated today, but the quantum of profits earmarked for re-investment.

When considered in that vein, reporting season should ideally be about tomorrow. If we operate with any advantage, it sits in the delicate balance of appreciating the importance of today's result but having the patience and understanding of what it takes to build a longer more durable business.

Having just completed another company reporting season, we felt it appropriate to add in this wonderful piece of qualitative input from author Willian Green, 'Richer, Wiser, Happier'.

In our opinion author Green, is closer to the mark than many would admit, putting the folly of reporting season into perspective.

"Indeed, you start to realise that much of the investment world is engaged in fruitless nonsense. Wall Street economists and market strategists pontificate about macroeconomic headwinds and tailwinds that nobody can reliably or consistently predict.

Media pundits muse about the significance of short-term price fluctuations that are random and meaningless.

Highly intelligent analysts at brokerage firms squander their time calculating next quarter's corporate earnings to the exact penny-an absurd guessing game that's irrelevant to successful long-term investors.

Not to be outcome academics teach complicated mathematical formulas and speak in a private code about Sharpe ratios, Sortino ratios, alpha, beta, the Modigliani measure, and other arcane concepts that lend an air of scientific exactitude to the messiness of the markets.

Meanwhile investment consultants harness these highfalutin notions to convince clients that their portfolios need frequent subtle fine tuning.

Buffett has derided these high-priced peddlers of complexity as "hyper-helpers" whose advice is often delivered in esoteric gibberish."

Altium (ASX:ALU)

US$m	HY24	HY23	Change
Revenue	**139**	**120**	**16%**
% Recurring	*81%*	*79%*	
Operating Profit (EBITDA)	**45**	**43**	**3%**
margin	*32%*	*36%*	
Net Profit after Tax	**33**	**30**	**11%**
margin	*24%*	*25%*	
Net Cash	**180**	**205**	
Operating Cash Flow	**23**	**33**	
Capital Expenditure (CAPEX)	**(2)**	**(1)**	

Altium, an electronic Printed Circuit Board (PCB) design company, announced its first half 2024 results in February. The business is performing well on all fronts, reporting strong customer growth in the enterprise market and on its cloud platform, Altium 365. The company continues to see improved conversion to subscription-based licenses, accounting for 54% of all new licenses sold, further improving revenue visibility. This compares to 14% in the first half of financial year 2021.

Overshadowing the result was a takeover bid made by Japanese semiconductor leader Renesas. The bid to acquire Altium at $68.50 per share values the company at $9.1b, a 39% premium to prior trading. The transaction has been unanimously approved by the boards of both companies and, if successful, is expected to close in the second half of 2024.

The acquisition goal is to create an integrated and open electronics system design and lifecycle management platform. The deal will combine Altium's cloud platform capabilities with Renesas' strong portfolio of embedded offerings, and connectivity to provide a complete semiconductor solution.

Altium Designer

Core to the company's ecosystem is the Altium Designer (AD) platform, which contributed 80% of group revenue. Software revenue grew 21% to US$110.6m, driven by the adoption of higher priced Enterprise level solutions, which rose 61% to US$20.4m. The shift to higher value products has seen the average seat subscription value increase 20% to US$2,584. Customer churn in the Enterprise segment remains low at 0.8% of annualised recurring revenue.

Now, with 62,768 seats on subscription, the Annualised Recurring Revenue (ARR) pool reached US$162.2m, an increase of 30%.

Altium 365

Altium 365, the company's cloud-based collaboration model, offering both electronic and mechanical design elements. The result is a more seamless and connected experience across the design, development and manufacturing process.

Altium 365 now has 46,312 active monthly users, an increase of 55% on the prior comparative period and 9.2% quarter on quarter. Altium 365 is a critical aspect of the Cloud Platform strategy, as it enhances the attractiveness of the core PCB design technology and encourages the migration from on-premise to on-cloud as well as organisational collaboration across the design, testing, part procurement and manufacturing of a PCB on a single platform. The recent acquisition of Valispace, a requirements management application, marks Altium's initial venture into monetising 365.

Guidance

Given the recent takeover offer, Altium has withdrawn formal guidance for financial year 2024. The company did, however, reaffirm its aspirational financial year 2026 targets for revenue of US$500m, underlying EBITDA margin of 38%-40% and 100,000 software seats on subscription.

Altium has a current market capitalisation of A$8.6b.

Cochlear (ASX:COH)

Cochlear is the global leader in implantable hearing solutions, with over 750,000 implantable devices sold across 180+ countries. The company was founded in 1981 and employs more than 4,800 employees across 50 countries. Cochlear delivers lifelong hearing outcomes to its patients through implant systems and sound processor upgrades. These upgrades are recurring in nature and represent 31% of sales revenue.

	HY24 ($m)	HY23 ($m)	Change
Revenue	**1,113**	**893**	**25%**
Gross Profit margin	***74%***	***75%***	
R&D Expense	(127)	(103)	
% revenue	*11%*	*11%*	
Underlying Operating Profit (EBIT)	**255**	**186**	**37%**
margin	*23%*	*21%*	
Underlying Profit after Tax	**192**	**142**	**35%**
margin	*17%*	*16%*	
Net Cash	**485**	**556**	
Operating Cash Flow	**157**	**89**	
Capital Expenditure (CAPEX)	*(43)*	*(43)*	

In February, Cochlear reported its half year 2024 result. The business delivered strong, double-digit revenue growth in its Cochlear Implant (+22% in constant currency) and Services (+29% in constant currency) divisions to $649m and $349m respectively. The performance was driven by market share gains following the launch of the Nucleus 8 Sound Processor and increased demand for processor upgrades across global markets.

Growing the market

The company is noticing positive trends in adult referral rates across its key developed markets, with long-term initiatives aimed at increasing awareness and access beginning to show signs of success. The strategy has been built on growing referral pathways through clinical studies and direct-to-consumer (DTC) efforts.

On the clinical side, the company has been investing in clinical studies to raise awareness of the connection between hearing loss and cognitive decline, while also broadening its global reach through new product indications. Two recent changes to product indications include the U.S. Food and Drug Administration (FDA) lowering the minimum recipient age for cochlear implantation from 12 to 9 months, and the addition of single-sided deafness indication for the Nucleus implants.

On the DTC side, Cochlear is focused on building referrals from the hearing aid channels to ensure a natural pathway exists for customers with profound hearing loss to receive improved hearing outcomes. To date, the business is experiencing faster growth in referrals from the hearing aid channel compared to the overall market, indicating these programs are effectively lifting the overall growth rate of the cochlear implant industry.

The opportunity in cochlear implants remains significant. Cochlear stands as the global leader, commanding over 60% of the market share. However, the company only accounts for a 4% share of the hearing devices market for the severe or higher hearing loss segment.

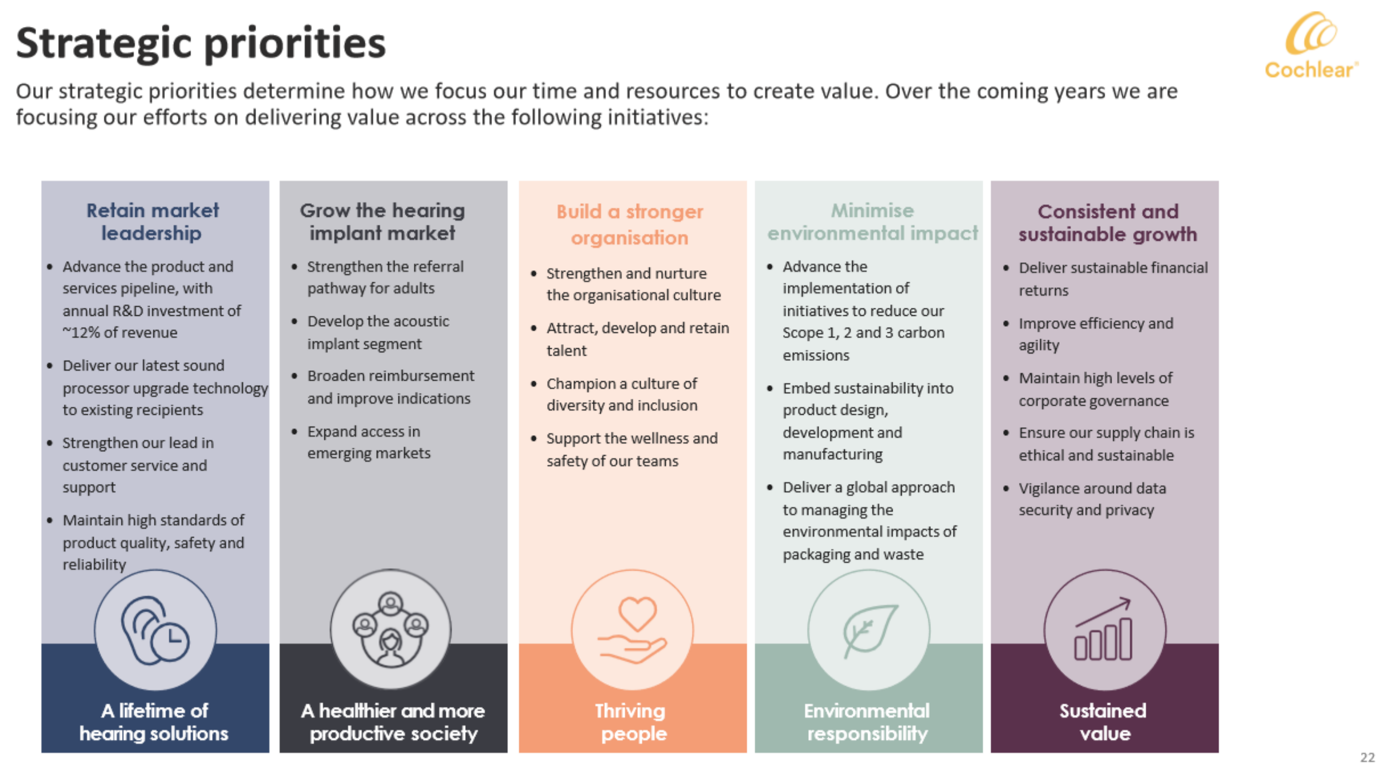
Business investment

In 2021, management announced plans to upgrade its software and technology stack to ensure the business can operate and scale as a bigger company. Two years on, Cochlear has reached an important milestone with the transition of its Customer Relationship Management (CRM) and Enterprise Resource Management (ERP) systems to the cloud. So far, $80m has been invested, with management guiding to a total cost at the top end of its $100m-$150m range.

In China, the company's fully owned manufacturing plant in Chengdu went live, signaled by the sale of domestically manufactured sound processors. Management expects to receive approval to sell locally-made implants by December.

These recent milestones reflect the company's ongoing commitment to investing in the business, product development and market awareness initiatives to support its long-term growth ambitions, as highlighted in Figure 3.

Figure 3: Long-term priorities



Source: Cochlear HY24 Results Presentation

Outlook

For financial year 2024, management upgrades its underlying net profit guidance from $355m-$375m to $385m-$400m, reflecting improved cochlear implant sales of between 10% and 15%, compared to high single-digit growth expected in August 2023.

Cochlear has a market capitalisation of $21.5b.

Domino’s Pizza Enterprises (ASX:DMP)

Domino’s Pizza Enterprises is Domino’s largest franchisee outside of the U.S., with rights in 12 countries across Australia & New Zealand (ANZ), Europe and Asia. The Company has a network of over 3,800 stores, generating sales of $2.1b in half year 2024. Domino’s Pizza Enterprises was established in 1983 and directly employs over 18,800 employees globally.

	HY24 ($m)	HY23 ($m)	Change
Network Sales	**2,140**	**$1,966**	**9%**
Revenue	**1,272**	**1,155**	**10%**
ANZ	*444*	*403*	*10%*
Europe	*395*	*364*	*9%*
Asia	*433*	*388*	*12%*
Underlying Operating Profit (EBIT)	**108**	**114**	**(5%)**
Group margin	**8%**	**10%**	
ANZ margin	*14%*	*16%*	
Europe margin	*9%*	*7%*	
Asia margin	*5%*	*9%*	
Net Profit after Tax	**62**	**72**	**(13%)**
Net Debt	770	667	
Operating Cash Flow	**143**	**109**	
Capital Expenditure (CAPEX)	*(78)*	*(102)*	

In February, leading pizza operator Domino's reported its half year 2024 results. Performance was mixed, with Australia and New Zealand (ANZ) reporting the strongest same store sales growth in six years, up 8.2%, offset by ongoing challenges in France and Japan. Domino’s ended the half with 3,837 stores globally.

ANZ

ANZ reported a strong result, with new product launches in the My Domino’s Box and Meltzz range successful in broadening the offering into lunch and snacks. Additionally, growth is being achieved with less discounting, highlighting the positive resonance of the new product offerings with customers.

Management highlighted growth has primarily been driven by the delivery customer, with more work to be done to attract the carry-out customer who are traditionally more price conscious.

International headwinds

The company acknowledges challenges in markets, particularly France and Japan, noting that while successful strategies from other regions are being adapted, more time is needed for full implementation.

For instance, in France the Burger Pizza range has resonated well, but aligning franchisee engagement on marketing and pricing strategies is an ongoing process. Despite a strong performance by its quick service restaurant (QSR) peers, the company has acknowledged its subpar execution and incorrect product mix. Plans to build out the team remain underway, including the recruitment of a new marketing officer. That said, Domino’s remains the largest pizza chain in the region.

In Japan, while new products have been positively received, the broader range remains a work in progress. The company is focusing on increasing its order frequency per customer by targeting the carry-out customer with new products at a lower price. These efforts aim to grow franchisee average weekly order volumes, in turn increasing profitability.

Outlook

Whilst no formal guidance was provided for financial year 2024, management are committed to delivering new product innovations at appropriate prices to drive customer value and healthy margins for franchisees. Over the next three to five years, Domino's is targeting same store sales growth of 3%-6% and CAPEX investment of $100m-$150m per annum.

Domino's has a market capitalisation of $3.9b and declared an unfranked interim dividend of 55.5c per share.

Iress (ASX:IRE)

Iress is a leading technology provider for the financial services industry with the market leading software for financial advice (Xplan) and Trading & Market Data (Iress) in Australia. The business was founded in 1993 and employs 1,790 people globally across eight countries.

	FY23 ($m)	FY22 ($m)	Change
Revenue	**626**	**616**	**2%**
% Recurring	92%	92%	
Gross Profit margins	***82%***	***83%***	
Underlying Operating Profit (EBITDA)	**128**	**146**	**(12%)**
margin	*21%*	*24%*	
Net Debt	**320**	**326**	
Operating Cash Flow	**64**	**113**	
Capital Expenditure (CAPEX)	*(19)*	*(28)*	

Transformation update

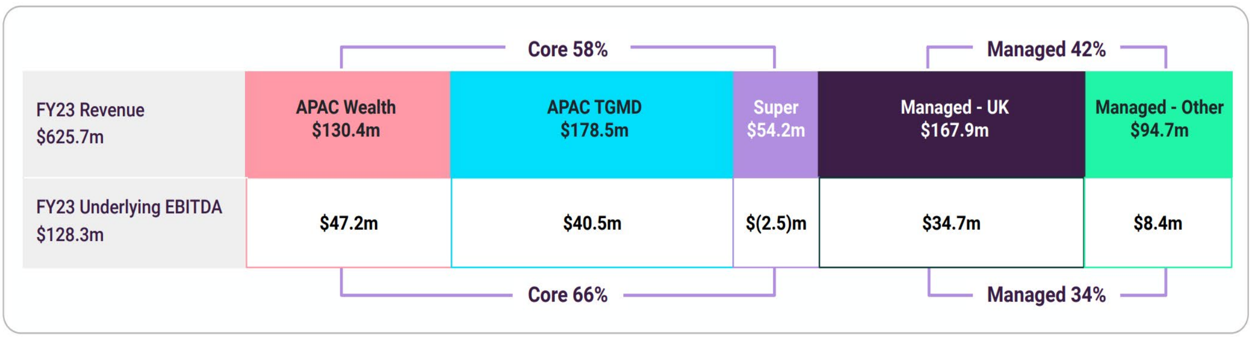
In April 2023, CEO Marcus Price announced a new strategy and organisational structure to improve accountability across each business segment and refocus internal growth efforts on the core assets of Wealth Management, Trading & Market Data and Superannuation.

The goal of the transformation is to create a business that is more customer and product focused, capable of delivering high operating profit margins and single-digit revenue growth. Management expects the business reset to be completed in financial year 2024 and the core assets to achieve a financial performance (revenue growth + EBITDA margins) aligned to the 'rule of 40' in financial year 2025.

Businesses outside these core areas are being divested, with the proceeds used to reduce debt. Three assets have been divested to date, including OneVue's Managed Fund Administration (MFA) business for $50.5m in August 2023, OneVue's Platform business in February for $1m upfront with the potential milestone payments of $20m over 18 months, and the UK Mortgage business in March for £85m (A$164.3m) before costs.

Collectively, these sales have helped reduce the company's leverage ratio from 2.8x in June 2023 to an expected range of 1x-1.5x at the end of calendar year 2024.

Figure 4: Business Unit Performance



Source: Iress FY23 Results Presentation

Capital management

Management is continuing to evaluate a revised capital management plan, which includes reducing debt, increasing product investment and modifying the dividend policy. The dividend remains on pause until the target leverage range is reached, anticipated by the end of 2024.

Figure 5: Capital Settings – Target State

Current state	Transition	Future state
Debt - leverage ratio **2.5x**	Delivered via asset sales, complemented by free cash flow over next 12 months	Debt - leverage ratio **1.0x - 1.5x**
Software Capex **c.2-3%** of revenue	Increased R&D with targeted level to be achieved over medium term (2-3 years); allowed for in dividend policy settings	Software Capex **5-7%** of Group revenue
Dividend policy **>80% of Core NPAT**	Dividend to be considered when target leverage range achieved; remains on pause until then.	Dividend policy **Paid out of NPATA***

*NPATA represents Reported/Statutory NPAT adjusted for after-tax impairment, write-off and amortisation of acquired intangibles, and gain/loss on sale of assets. 21

Source: Iress FY23 Results Presentation

Outlook

For financial year 2024, management lifted its underlying EBITDA guidance, excluding multiple one-off costs associated with the transformation and M&A related costs, from $135m-$145m to $137m-$147m. On an exit run rate, the company expects to achieve an underlying EBITDA of $160m-$180m.

Iress has a market capitalisation of $1.6b.

Figure 6: FY24 Guidance

Pathway to Rule of 40 for Iress Group

	Guidance[1]		
	Underlying EBITDA		Adjusted EBITDA
	Previous	Current	
FY24	$135m -$145m	$137m -$147m ▲	$117m -$127m
FY24 exit run-rate	$150m -$170m	$160m -$180m ▲	$140m -$160m

By end of FY24:

- Transformation program with external consultants to complete
- Improved customer pricing models better aligned to value
- R&D investment in core businesses for growth
- Streamlined cost base
- Stronger balance sheet with improved leverage.

By end of FY25:

- Iress Group progressing to Rule of 40
- Improved operating margins
- Organic growth initiatives delivering improved returns
- Significant debt reduction providing balance sheet flexibility.

[1] FY24 guidance provided on a continuing business basis and based on 31 December 2023 FX rates 22

Source: Iress FY23 Results Presentation3

Nanosonics (ASX:NAN)

Nanosonics is an infection prevention company and the global leader in ultrasound probe disinfection, protecting over 26m patients a year. The business was founded in 2001 and employs 300 people across Australia, North America, Europe, U.K. and Japan. Its lead product, trophon2, is sold across 30 countries.

	HY24 ($m)	HY23 ($m)	Change
Global trophon install base (units)	33,550	31,120	8%
Revenue	**80**	**82**	**(2%)**
Capital	*22*	*26*	*(15%)*
Consumables (recurring)	*58*	*56*	*4%*
Gross Profit margin	***80%***	***79%***	
R&D	**16**	**14**	**19%**
% of revenue	*20%*	*17%*	
Operating Profit (EBIT)	**3**	**11**	**(72%)**
margin	*4%*	*13%*	
Net Profit after Tax	**6**	**10**	**(40%)**
margin	*8%*	*13%*	
Net Cash	**118**	**99**	
Operating Cash Flow	**9**	8	
Capital Expenditure (CAPEX)	*(1)*	*(2)*	

Nanosonics reported weaker than expected revenue, led by delays in customer trophon2 unit and upgrade sales. Management emphasised the decline was not due to lost sales or structural changes, as the requirements for high-level disinfection of ultrasound probes remain unchanged. The company has started to see delayed first-half orders materialise, reflected in the stronger unit and revenue growth guidance for the second half of financial year 2024 compared to the first half.

Nanosonics remains the standard of care in the U.S., with 29,360 devices in the region. Management noted the business is operating in at least 70% of 5,700 addressable hospitals. The sales are often within one department, giving the company opportunities to extend its footprint into other hospital departments.

Further, the intentional shift to a predominantly direct sales model in the U.S. has enabled Nanosonics to incrementally increase its average sales price for both units and consumables, while also generating additional annuity revenue from offering service contracts previously managed by GE Healthcare.

The global opportunity for trophon remains large, with market penetration in Europe and Middle East and Asia Pacific (APAC) at 5%. The underlying trophon business remains highly profitable, as shown in Figure 7.

Figure 7: trophon Business – Unaudited Pro forma Profit and Loss

TROPHON BUSINESS

Unaudited Pro forma Profit and Loss

nanosonics

A significant proportion of the Company's operating expenses are associated with future earning opportunities from new product development and expansion. Presented below is the profitability profile of the current core trophon business without those product expansion investments.

Excluding operating expenses of approximately $13.3 million[1] associated with the development and commercialisation preparation of the CORIS technology, the unaudited pro forma profit before tax of the current trophon business in H1 FY24 was approximately $18.2 million.[1]

$ millions	FY24 H1
Revenue	**79.6**
Gross profit	**63.4**
%	79.7%
Operating expenses	**(47.5)**
% of Revenue	59.6%
Other income	0.8
Other gains/(losses)-net	(0.4)
Earnings before interest and tax	16.4
Finance income-net	1.8
Operating profit before tax	**18.2**

This includes all operating and investment costs associated with developing emerging trophon markets that do not currently contribute significantly to revenue as well as R&D associated with the trophon technology roadmap.

The pro forma profit before tax of $18.2 million for the half represents 23% of revenue demonstrating the strong underlying profitability of the stand-alone trophon business.[1]

1. The pro forma profit and loss statement is unaudited and reflects total Company results less operating costs associated with new product development and commercialisation. Operating costs reflect unaudited management allocation estimates where resources are shared between trophon and new product development and commercialisation. The pro forma profit and loss statement also includes income received from the Jobs Plus Program.

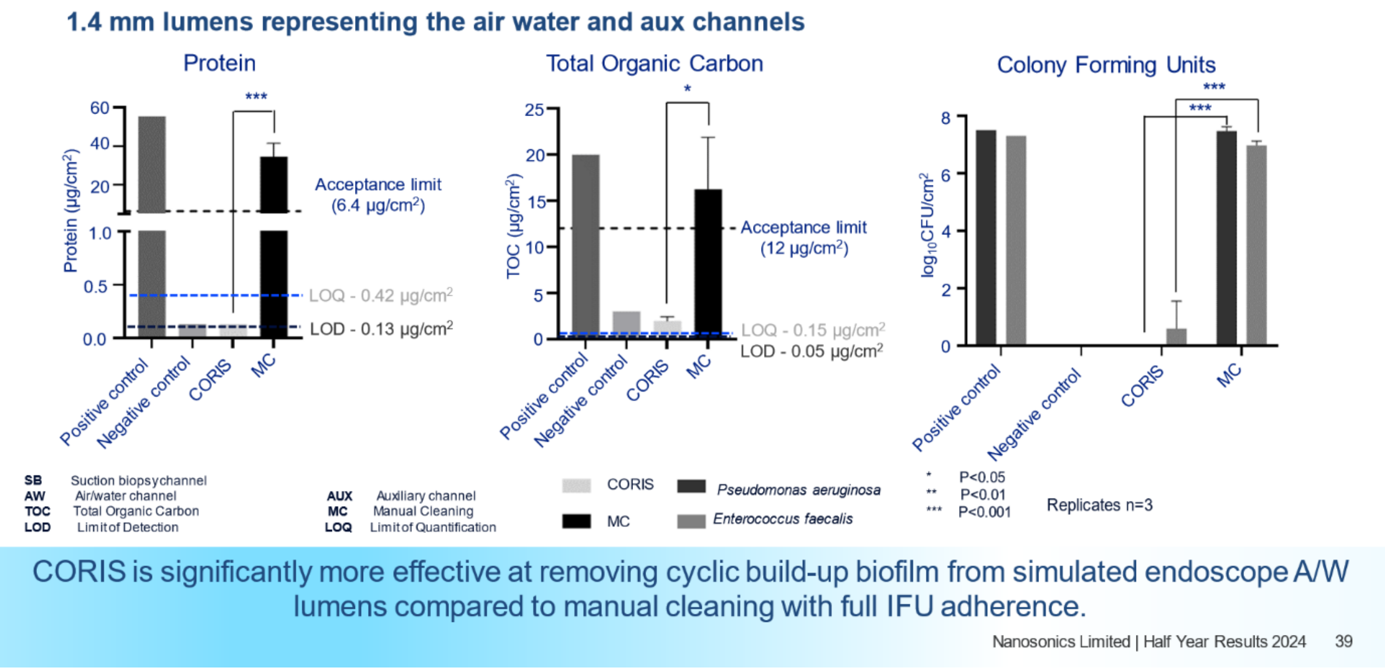
Nanosonics Limited | Half Year Results 2024 26

Source: Nanosonics HY24 Results Presentation

CORIS

CORIS is the group's next platform designed to reprocess reusable flexible endoscopes. The device aims to address the limitations of manual cleaning through a highly automated process. Early data points to CORIS show superior disinfection compared to manual reprocessing, setting new benchmarks in endoscope cleaning efficacy.

Figure 8: CORIS Preliminary Results



Source: Nanosonics HY24 Results Presentation

Nanosonics is progressing with its human factor studies in the U.S. and expects the FDA De Novo submission in the third quarter of financial year 2024. For the half, the company recorded an R&D expense of $13.3m towards the development and commercialisation of the CORIS platform.

The fundamentals behind CORIS adoption are known, with clinical guidelines and endoscope reprocessing requirements already established in all major markets.

Guidance

Nanosonics expects second-half revenue to increase by 6%-15% over the first half, with full-year revenue projected to be between $164m-$171m, compared to financial year 2023 revenue of $166m. Gross profit margins are expected to be 76%-78% driven by higher capital revenue. Operating expense guidance was reduced from 17%-22% to 9%-11%, driven by a mixture of efficiency gains and realigning costs to the updated growth expectation.

Nanosonics has a market capitalisation of $833m.

Pro Medicus (ASX:PME)

Pro Medicus is a global provider of enterprise imaging software, representing nine of the top 20 U.S. hospitals. The company has remained founder-led since being established in 1983 and has 115 employees across the U.S., Germany and Australia.

	HY24 ($m)	HY23 ($m)	Change
Revenue	**74**	**57**	**30%**
% Recurring	*96%*	*99%*	
Gross Profit margin	***100%***	***99%***	
Operating Profit (EBIT)	**48**	**38**	**34%**
margin	*65%*	*67%*	
Net Profit after Tax	**36**	**27**	**33%**
margin	*49%*	*48%*	
Net Cash & Investments	**132**	**95**	
Operating Cash Flow	**29**	**20**	**45%**
Capital Expenditure (CAPEX)	*(4)*	*(3)*	

Pro Medicus reported a strong half year 2024 result with four contract wins in North America, representing a combined total contract value of over $200m. This included the company's largest win to date, securing a $140m contract over 10 years with Baylor Scott & White Health, the biggest not-for-profit health system in Texas. All four contract wins will be implemented in the cloud and comprise of the company's "full stack" solutions of its Viewer, Archive and Worklist products.

Pro Medicus is expanding its client base beyond academic hospitals, primarily in the Integrated Delivery Networks (IDNs), which is the largest market segment in the U.S. The company has made good progress in the IDN space with six contract wins over the last 18 months, all cloud-based and involving more than one Visage product.

The offering remains the best in market due to its fundamentally superior image streaming capabilities, making it the leading software in terms of speed, functionality and scalability. These claims are backed by the clinical outcomes of the software, driving up to a 50% improvement in radiologist efficiency.

The opportunity remains significant. The company holds approximately 7% market share in the U.S. by scan volume, with increasingly larger file sizes putting strain on legacy solutions.

Pro Medicus continues to invest in its business to deliver an incrementally better offering, furthering the gap to its competitors. This is aided by the highly recurring nature of its contracts, giving the business greater visibility over multiple years. The company is progressing the rollout of its technology into adjacent fields, with a Cardiology viewer, which was showcased to customers at the RSNA conference in 2023, nearing commercialisation. The offering will be available in the same software as Radiology, giving hospitals further efficiency gains to view all scans on a single platform.

Guidance

Whilst no formal guidance was provided, the company has a five year forward revenue of over $600m based on current contract minimums. Management remains confident in the sales pipeline and anticipates stronger sales in the second half of the year compared to the first.

Pro Medicus has a market capitalisation of $10.8b.

PolyNovo (ASX:PNV)

PolyNovo is a medical device business specialising in synthetic bioabsorbable polymer solutions. Its leading product, Novosorb BTM was approved in the U.S. in 2015, followed by Europe in 2019. The company employs 237 staff globally and has treated over 37,000 patients in 37 countries.

	HY24 ($m)	HY23 ($m)
Revenue	**47.9**	**29.4**
NovoSorb BTM Revenue	42.2	27.3
Gross Profit margin	***96%***	***95%***
R&D	4.9	3.0
% of revenue	*10%*	*10%*
Operating Profit (EBIT)	**0.6**	**(3.6)**
margin	*1.3%*	*NA*
Net Profit after Tax	**2.7**	**(3.8)**
margin	*5.6%*	*NA*
Net Cash	**43.3**	**43.7**
Operating Cash Flow	**0.6**	**(2.7)**
Capital Expenditure (CAPEX)	*(1.1)*	*(0.1)*

During the first half of financial year 2024, PolyNovo posted its first period of profitability and reaffirmed expectations to remain profitable over financial year 2024. Growth in the period was driven by ongoing educational awareness activities and sales efforts to increase the adoption of its products across hospitals.

Over the half, hospital accounts increased 67% to 861, with the U.S. adding 154 new customers, bringing its total to over 410 hospitals. Growth was driven by direct sales efforts aimed at winning new accounts, alongside the increasing network effects from physicians and surgeons introducing the company to new hospital departments and geographic locations. Half on half, physician publications of Novosorb BTM increased from 214 to over 230.

Management attributes the growing clinical interest to the platform-like nature of Novosorb BTM to deliver meaningfully differentiated patient outcomes across multiple use cases. This versatility has seen physicians taking the company into new regions, accounts and hospital departments outside of burns. Revenue and profit growth are following demand, demonstrated by increased manufactured units from 17,000 in financial year 2022 to circa 38,000 in financial year 2023 and approximately 49,000 in the first half of financial year 2024.

International

Revenue outside of the U.S. more than doubled to $10m in the half, led by solid growth in the UK and Germany. PolyNovo believes it is the market leader in advanced dermal substitute procedures across the two regions and the market leader for burns in ANZ.

The company has continued building its team in India, with 16 sales representatives in total. Focus in the region remains on winning government tenders to make it easier for physicians to access reimbursed products. To date, the company has won a government veteran tender and announced inclusion on the Indian Government-e-Marketplace (GeM) portal in March.

PolyNovo anticipates its first order through the GeM platform within a month.

Manufacturing

PolyNovo continues to invest in its people, product and infrastructure to scale the business. The company aims to start the development of its third manufacturing plant in Port Melbourne in the first quarter of 2025. The development will take two years and cost circa $25m, which is fully funded by cash reserves from its capital raise in November 2022.

The facility is designed for product flexibility and higher output, reflecting the businesses' ambition to have a larger product portfolio over time. Management expects the facility will support circa $500m in sales.

PolyNovo has a market capitalisation of $1.5b.

SEEK (ASX:SEK)

SEEK is a leader in online employment marketplaces with a global presence across eight markets. The Asia Pacific (APAC) platform hosts over 29m monthly unique visitors with 95k monthly unique hirers. In Australia, the marketplace holds 31.7% market share by placements, a 3.6x lead against its nearest competitor. SEEK was founded in 1997 and currently employs over 3,700 people across Australia and New Zealand (ANZ), Asia and Latin America.

	HY24 ($m)	HY23 ($m)	Change
Revenue	**597**	**627**	**(5%)**
Operating Profit (EBITDA) - Continuing Operations	**253**	**283**	**(11%)**
margin	*42%*	*45%*	
Adjusted Profit after Tax – Continuing Operations[1]	**108**	**142**	**(24%)**
margin	*6%*	*9%*	
Net Debt	**1,109**	**1,064**	
Operating Cash Flow	**131**	**138**	**(5%)**
Capital Expenditure (CAPEX)	*(96)*	*(87)*	

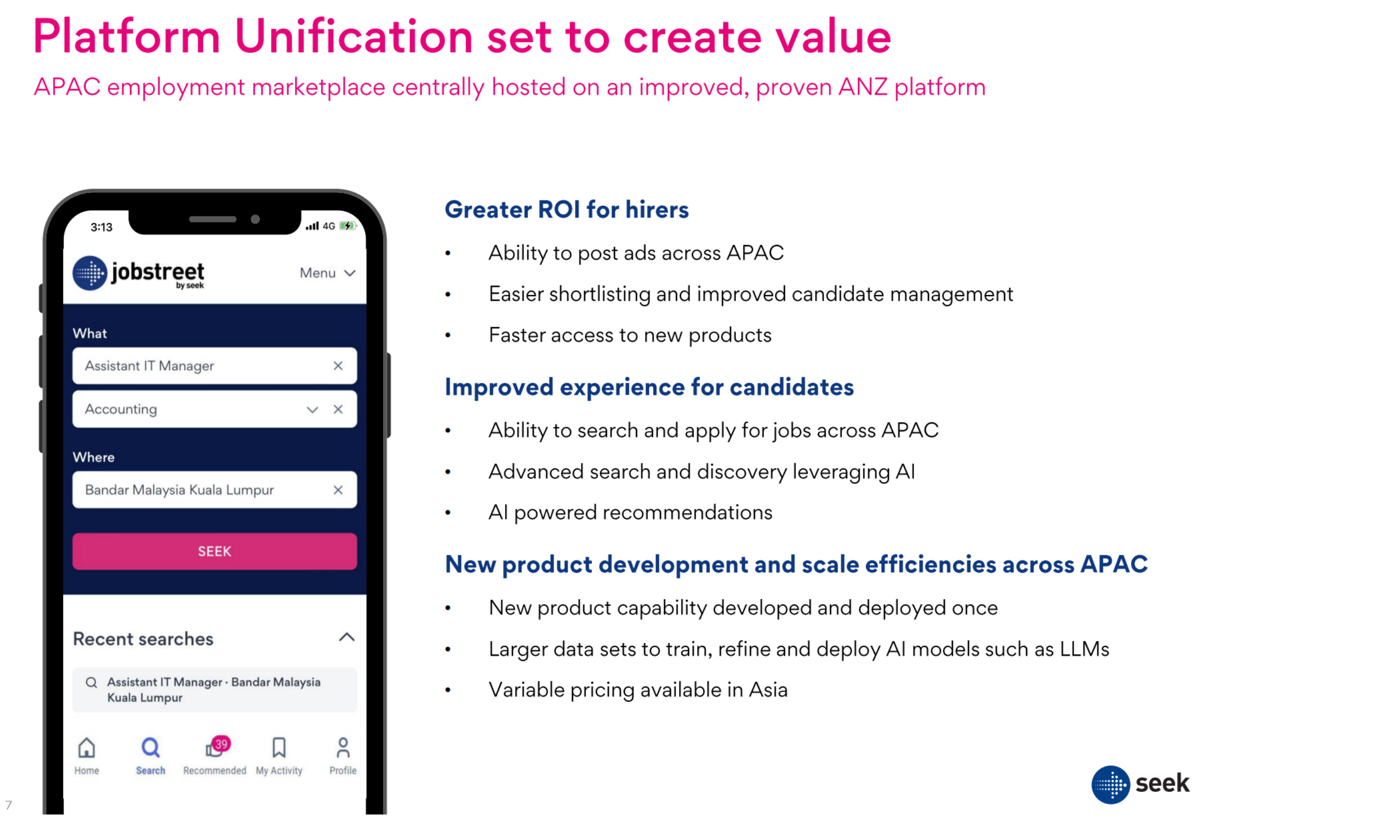
[1]Excludes the SEEK Growth Fund and significant items

Platform unification

In the first half of financial year 2024, SEEK announced the completion of its platform unification project ahead of time and within budget. The project has transformed the company's technology infrastructure into one unified employment marketplace and customer relationship management (CRM) platform across eight countries in APAC. The initiative has taken three years and cost circa $175m, below the forecasted $180m. Minor post-rollout activities remain, with management expecting completion by the end of the financial year.

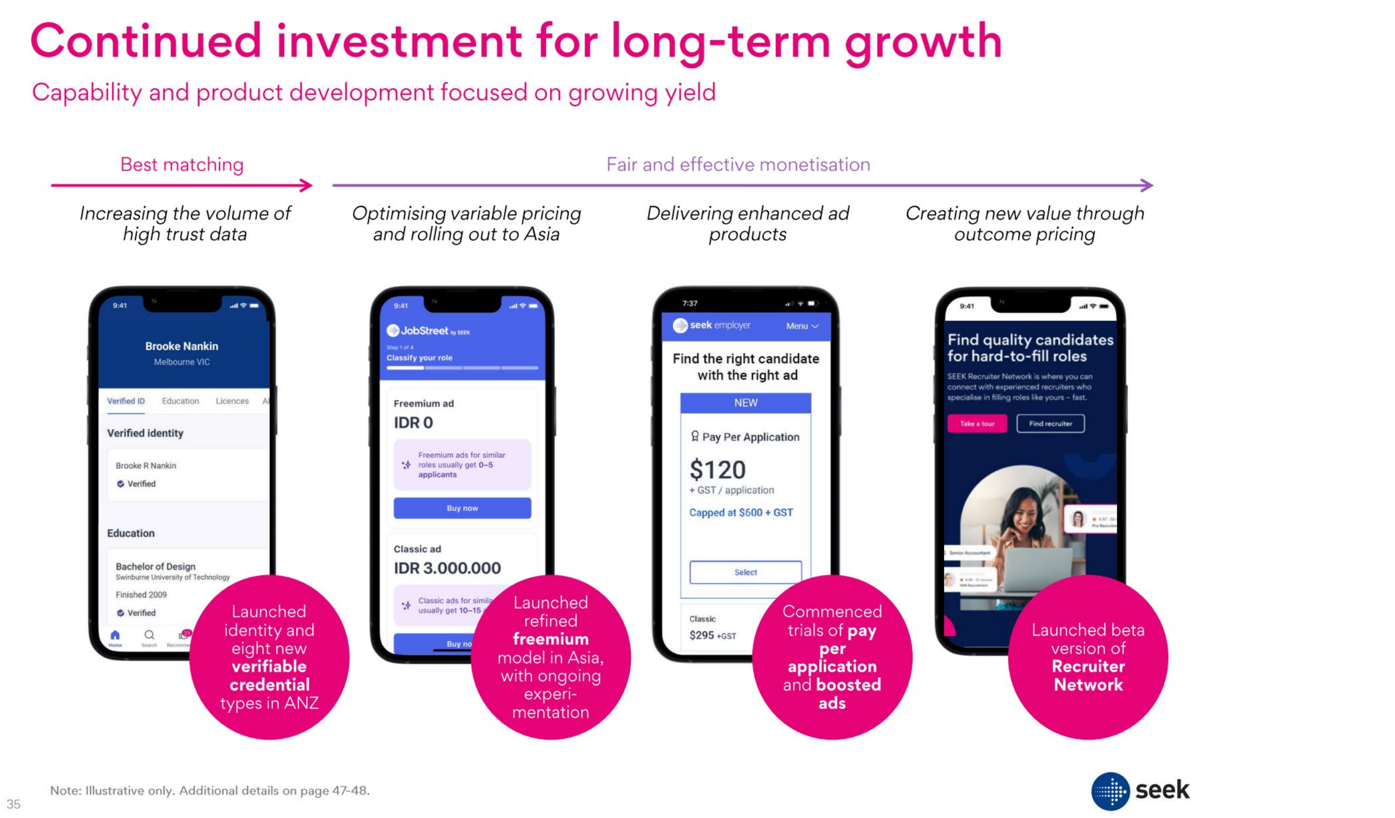
The new platform lays the foundations for more efficient scalability across the region, especially in Asia, where the feature set has historically lagged ANZ. Management noted over 400 employees were involved in the unification project, with most of the resources returning to roles in product development at no incremental cost. This allows SEEK to double down on its investment to grow over the long term through expanding employer and talent pools, improving candidate matching and growing ad yield.

Figure 9: Platform Unification



Source: Seek FY23 Results Presentation

Figure 10: Investment



Source: Seek FY23 Results Presentation

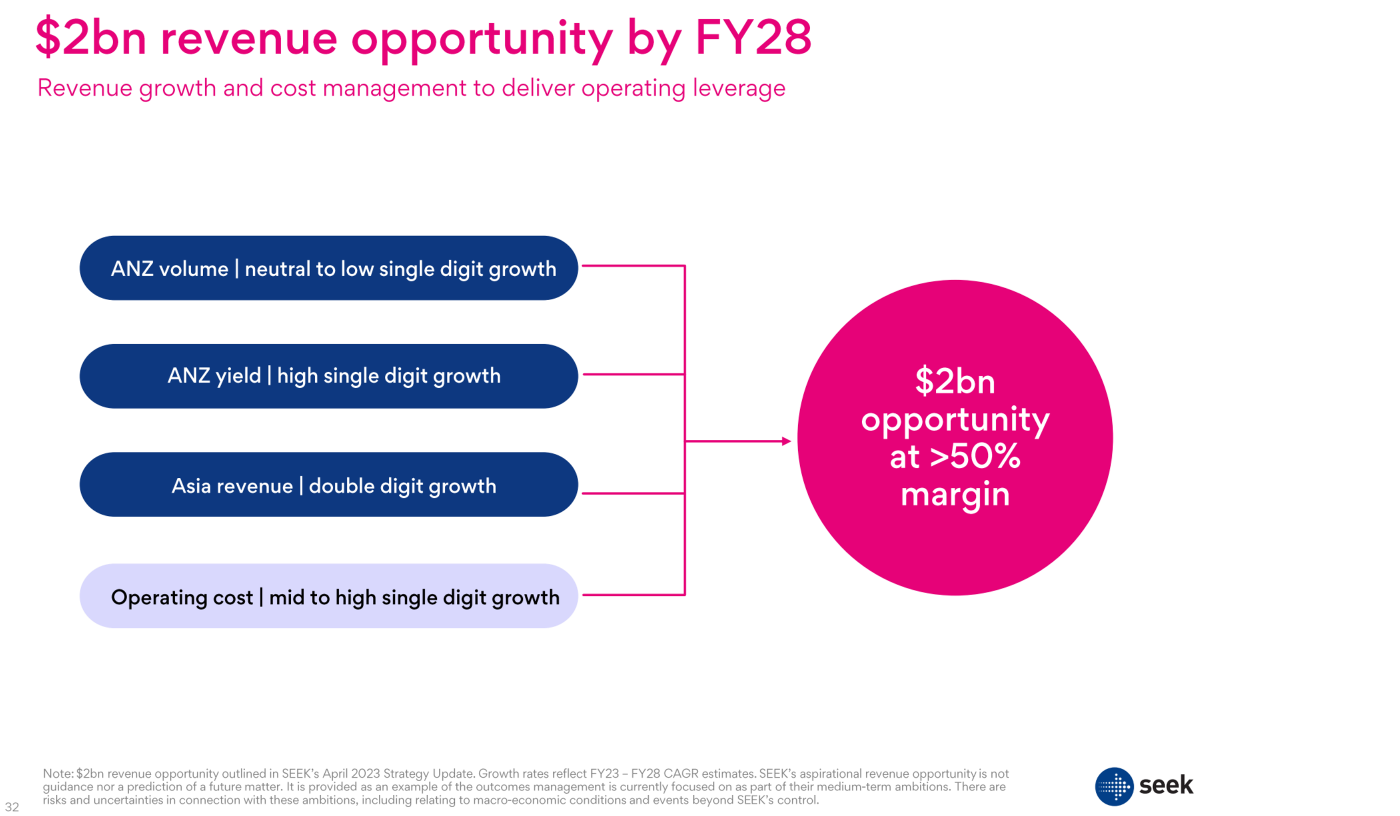
Guidance

Given lower ad volumes in APAC, management now expects financial year 2024 revenue to be at the bottom end of its original guidance of $1.15b-$1.21b. Guidance assumes continued growth in ad yield in the second half with ANZ to deliver approximately 10% growth on the prior corresponding period (pcp) and Asia yield growth in the mid-teens on the pcp. Operating profits are expected to be between $490m and $530m.

Longer term, management remains committed to its financial year 2028 aspirations of $2b revenue and EBITDA margins greater than 50%. Targets are expected to be achieved through single-digit volume and yield growth in ANZ and double-digit revenue growth in Asia, as shown in Figure 11.

SEEK has a market capitalisation of $8.9b

Figure 11: Revenue Opportunity



Source: Seek FY23 Results Presentation

WiseTech Global (ASX:WTC)

WiseTech Global is a leading global logistics software provider, operating in 181 countries. The company has remained founder-led since 1994, with over 3,300 employees across 37 countries.

	HY24 ($m)	HY23 ($m)	Change
Revenue	**500**	**378**	**32%**
CargoWise Revenue	*421*	*301*	*40% (19% organic)*
Gross Profit margin	***84%***	***86%***	
R&D (expensed & capitalised)	(178)	(115)	
% revenue	*35%*	*30%*	
Operating Profit (EBITDA)	**230**	**187**	**23%**
margin	*46%*	*50%*	
Underlying Profit after Tax	**128**	**122**	**5%**
margin	*26%*	*32%*	
Net Debt (Cash)	**55**	**(490)**	
Operating Cash Flow	**250**	**203**	
Capital Expenditure (CAPEX)	*(95)*	*(66)*	

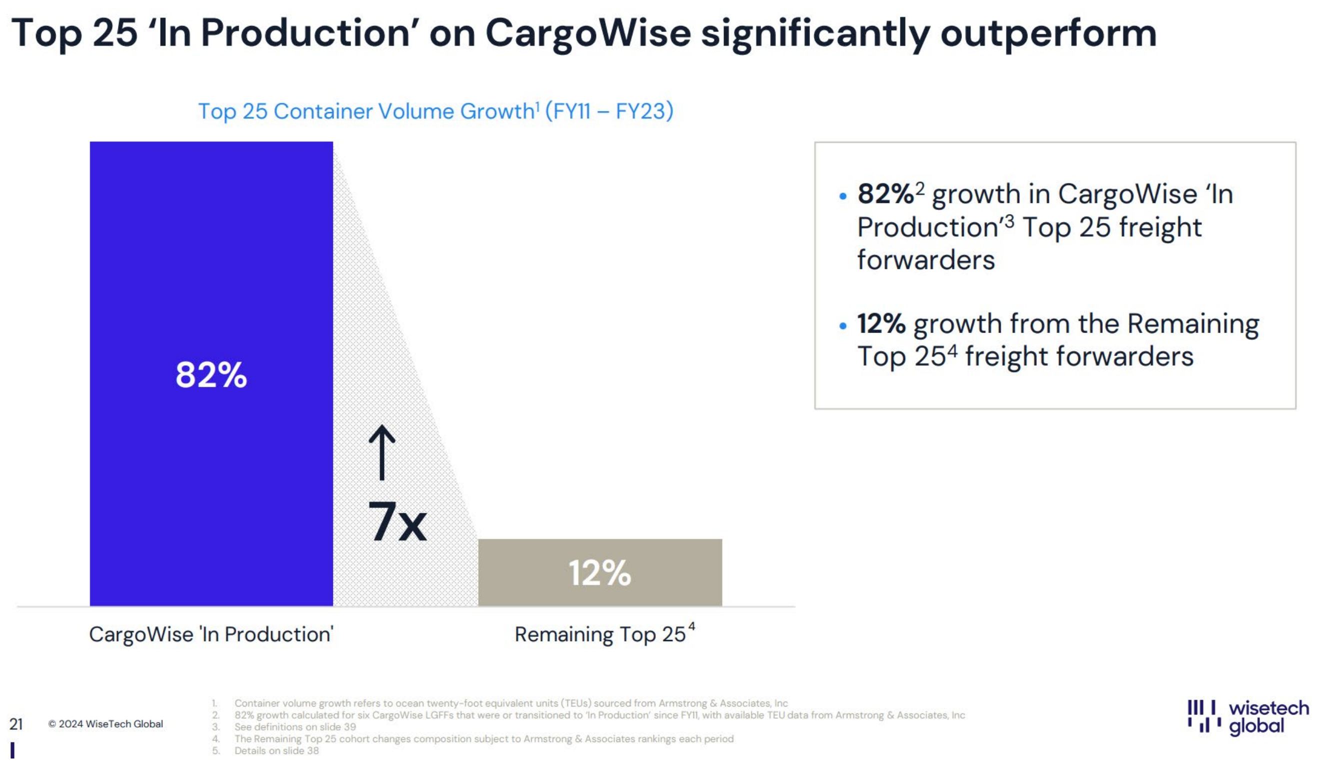
WiseTech Global reported its half year 2024 results in February. The company delivered strong revenue growth from its core platform, CargoWise, through recent acquisitions, ongoing customer rollouts, new client wins and product enhancements supporting annual price increases. CargoWise revenue is 99% recurring, with customer churn under 1%, providing a predictable earnings stream to reinvest into the business.

Product investment

Over the past five years, WiseTech's commitment to product development has been substantial, with over $1b invested, driving more than 5,500 enhancements to the CargoWise platform. This focus not only delivers material value to its customers but also underpins the company's future growth by expanding the CargoWise ecosystem beyond air and sea logistics.

WiseTech has proven its ability to deliver improved efficiency and scale to the end client by solving unmet customer needs in a highly complex industry. As a result, customers on the CargoWise platform have materially outperformed their largest global peers over the last 12 years, as shown in Figure 12.

Figure 12: Top 25 Global Freight Forwarder Container Volume Growth (FY11 – FY23)



Source: WiseTech Global HY24 Results Presentation

At the end of the half, product development staff represented 62% of total headcount, up from 57% in the prior corresponding period (pcp). This accounts for over 1,800 employees, versus circa 1,000 at the start of financial year 2023, with 60% of the headcount growth coming from acquisitions.

New customer wins

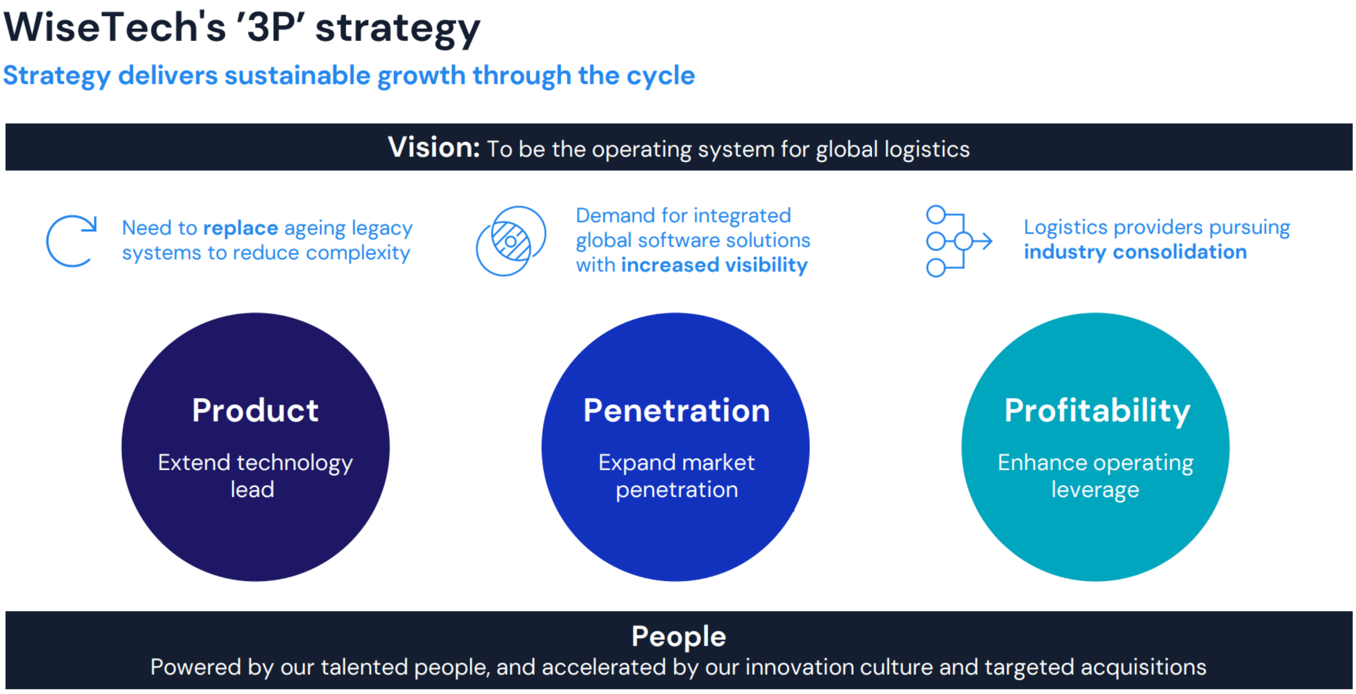
Over the half, WiseTech broadened its influence among the Top 25 Global Freight Forwarders by securing a global rollout with Sinotrans. With 13 of the Top 25 Global Freight Forwarders as customers, the company believes it has reached a tipping point in becoming the logistics platform of choice. Moreover, additional rollouts were secured with APL Logistics and Yamato Transport, bringing the total contracted customers to 49 large global freight forwarders.

Guidance

The company reconfirmed its financial year 2024 guidance range for revenue of $1,040m to $1,095m, an increase of 27%-34% and EBITDA of $455m to $490m, up 18%-27%. Management expects EBITDA margins will return to over 50% by financial year 2026.

WiseTech continues to see significant growth opportunities, supported by its vision to become the operating system for global logistics through its '3P' strategy highlighted in Figure 13.

Figure 13: '3P' Strategy



Source: WiseTech Global HY24 Results Presentation

WiseTech has a market capitalisation of $32b and declared an interim dividend of 7.70 cents per share, representing a 20% payout ratio of its underlying NPAT. ***SFM***

WHY WE SAY WHAT WE SAY

Australian musician John Butler describes his instrumental track "Ocean" as *"my conversational piece",* sharing a story full of twists and turns, and highs and lows.

At Selector, our conversational piece to the audience is our newsletters. Since inception, our quarterly pieces have been freely available on our website, unlike many of our peers who have chosen to keep this information behind the high walls of client logins.

We produce these writings to discuss matters of the day, ultimately forming a historical record. We make them available not because we think highly of ourselves or what we have to say but rather to communicate our investment philosophy openly.

Our topics are varied, some controversial, others strong of view. Importantly, they represent us. Our words are backed up by our actions. And our investment actions are disclosed transparently in our quarterlies.

We choose to be open and frank because that is what we expect of the companies we invest in. In doing so, we will make statements and form opinions that we believe are true.

We, however, live in a litigious world, where every word written is scrutinised, and legal input carries the day.

If ever we were forced to choose one over the other, a full and frank 'conversational piece' or an acceptable watered-down point of view, we would choose the former or nothing at all.

And if we ever are forced down that path of saying nothing at all, you will hopefully understand why. ***SFM***

WATERING THE FLOWERS, PULLING OUT THE WEEDS

Our quarterly and monthly updates provide investors with a see-through to the companies owned in the portfolio.

We ordered the top ten holdings by weighting, listing our highest percentage holding down to our lowest within this group. Altogether, these ten collective businesses represent more than 50% of the portfolio's total market value, reaffirming our concentrated investment approach.

Another point to note is the low turnover nature employed. Not because we are lazy or have a dearth of opportunities. Rather, it indicates the opportunity we see in holding businesses over the longer term rather than following the typical short-term cycles common among many investors.

Combine our concentrated investment philosophy with a low turnover mentality and you have an output. That output is performance, which can be measured over shorter periods (less than three years) or longer durations (greater than 10 years).

Obviously, investors can do their own analysis on this point, with a likely reference point being the portfolio performance compared to the share market's index returns.

Portfolio

Beyond the top 10 sits the balance of businesses, of varying weightings, held within the portfolio. Not all work out, which in many ways is an outcome of the strongest and best business performers rising to the surface.

The share market may give you a temporary boost in share price, but without earnings performance, it is unlikely to be sustained. The key word here is 'sustained'. A business that can build an enduring earnings stream, one that leads to market leadership or can certainly display monopolistic-type characteristics, will invariably be rewarded.

When measured over a long duration, the top 10 display these qualities, reflected in earnings growth and accompanied by share price performance.

As we indicated though, not all succeed. The real skill, if there is one, is to give a business sufficient time to get it right while remaining patient. The danger of course, is believing the business will work out and that any delays are merely a matter of time and short-term setbacks are just part of the course.

The reality is that some businesses end up as disappointments, and the outcomes reflect a real opportunity cost rather than just a financial outcome of a loss or profit. Certainly, when we realise our errors, no consideration is given to the entry price paid or anchoring to beliefs that things will get better, we simply exit.

Over the quarter, we exited two businesses, Insignia (formerly IOOF) and Appen. The former is a longer-term investment holding and the latter is of shorter duration. In the end, we were too slow to appreciate the structural decline underway in each business.

It would be fair to say that every business undergoes an element of structural shift. Nothing is permanent; a perfect example is the global phenomenon of software services once delivered as an on-premises solution requiring large one-off payments.

Today, many businesses have embraced the alternative Software-as-a-Service (SaaS) offering, where consideration involves monthly annuity-style payments, based on actual usage.

That global structural trend could have been the death knell of many enterprises or an opportunity to build and deliver a better, more sustainable and relevant service offering. Technology One, a top 10 business held in the portfolio, made the transition and if truth be told, was an early leader in the SaaS industry locally.

At the time, we assessed the risks, although this is difficult to accurately determine. The company's strong balance sheet, underpinned by its net cash position and its low client churn rate, reflecting the long-term nature of its customer base, provided important grounding points for us. That said, any business caught midstream can be so easily judged with hindsight.

In the case of Insignia and Appen, each initially displayed positive financial qualities, led by founder-type individuals. However, unlike Technology One, the structural issues unfolding in their respective industries proved their undoing. We can certainly point to factors that contributed, including badly executed business acquisitions, dilutive capital raisings and poorly managed transitions. In the end, their respective competitors stepped up, while the business health of both organisations slowly deteriorated.

With any investment undertaken, our starting position is to take small and measured steps. There is discipline on the quantum of capital invested, requiring judgment on our part. To that end, we aim to limit additional capital until we see tangible progress.

It is also important to point out that while Insignia and Appen have not performed to our original expectations, others that also sit outside the top 10 have performed strongly. These include healthcare operator nib Group, lottery group Jumbo and hospital device manufacturer Fisher & Paykel Healthcare.

Occasionally and without our urging, the flowers get picked by outsiders. During the quarter Japanese listed chip manufacturer Renesas took the step to formally bid for ASX listed printed circuit board designer Altium.

The $68.50 per share cash offer, valuing the business at $9.0b, has forced our hand, leading us to sell one of our flowers, our second largest holding pre the bid.

The Altium board and its management team succeeded in building a world class global leader that ultimately attracted the attention of Renesas.

We wish them well, noting that under normal circumstances we would have confidently held the investment for many years to come.

When all is said and done, the collective of all our investment holdings dictates the quantum of results delivered. On this basis, we are satisfied that the current performance scoreboard is supportive of our approach and actions. ***SFM***

PRODUCTIVITY DILEMMA

Productivity often gets little of the limelight, despite its importance; without it, nothing else matters. It sits at the bottom of the political discussion circuit, overshadowed by topics including work from home (WFH), the industrial 'relations' bill, inflation, interest rates and the backflip, stage three tax cuts.

Ironically, all these issues become inconsequential if they come at the expense of the improvement of national productivity.

Tom Dusevic, The Australian Policy Editor in his article on 10 February, discussed the task at hand, *"The econocrat's rule of thumb is that growth in living standards is driven by the three Ps: population, participation, and productivity. Our population grew by 2.4 per cent, or 624,000, in the year to June, with a net inflow of 518,000 migrants; the RBA assumes that overall growth rate was maintained to the end of December. That's a million more people, give or take, since Labor came to power.*

The migration surge helps to ease labour supply, but it also pumps up demand for consumer goods and rents. Given that most migrants are on temporary visas with work rights, such as students and backpackers, the working-age population has grown by 3 per cent, its fastest rate in decades. Participation in the labour market is at near record levels.

For now, the first two Ps are helping to grow the economy. It's stagnant productivity that is threatening the outlook in two ways: it confirms lower output from each worker, for a variety of reasons; and it's a harbinger of more inflation trouble."

While the Reserve Bank of Australia (RBA) is gunning for productivity growth to return to 1.2 per cent, consistent with rates seen more than a decade ago, the reality is that productivity has remained stagnant for far too long.

Why is this important? According to the RBA, *"If productivity is weaker than assumed, businesses could find themselves facing continued strong growth in labour costs, putting upward pressure on prices paid by consumers."*

And this is where it matters. *"Nominal unit labour cost"*, or the cost of producing an extra unit of goods and services, is growing at seven per cent which, as Dusevic points out, represents *"the fastest since 1990 (outside of Covid). This is what matters for inflation and it's not compatible with a return to 2-3 per cent inflation."*

It seems Dusevic is not alone in his thinking. John Kehoe, The Australian Financial Review Economic Editor, highlights the former RBA head of economics analysis Jonathan Kearns current perspective, *"So much of the RBA's ability to get inflation to 2.5%, which is its explicit goal now, rests on the hope of productivity growth."*

Figure 14: Labour Productivity[1]

Chart: Michael Read | Source: ABS

Business sideswiped

So why is it so hard for those elected to grasp the importance and drivers of productivity?

Perhaps it comes down to the one area in society that has been largely overlooked: business.

It is a business that employs, puts capital at risk, alongside its owners, and will invest.

The 2.5 million small businesses in Australia are the silent majority, doing all the heavy lifting. While it may be easy to point to the big end of town and fly accusations of insufficient support or actions for employees, as noted

[1] *measured by real GDP per hour worked in the production of goods and services by civilian wage and salary earners, employers, self-employed persons, unpaid family workers, and members of the Australian Defence Force.*

by the RBA governor Michele Bullock, *"If there's more productivity, then you can pay your workers more because they're worth more, they're producing more. So, if productivity isn't rising, if it's falling, then that doesn't bode well for rises in wages."*

And that's where the rubber hits the road. Businesses have had to cope with plenty of upheavals in recent times, including COVID-19, staff shortages, cost inflation, higher borrowing costs, wage inflation, WFH and now the latest industrial relations imposts, including new right-to-disconnect laws regarding contacting employees after hours.

The right to disengage is without question. However, suggesting it is a one-way street fails to consider the changing working landscape, especially with the WFH revolution.

WFH may be productive for employees, affording them time for personal activities. For employers, the costs borne for the office or WFH are the same, while measuring productivity for remote workers is much harder to gauge.

BHP Billiton

At the big end of town, a company that we have never owned, BHP Billiton, is equally feeling the global competitive pressure and wage inflation that was *"especially problematic"*.

The group's CEO Mike Henry expressed his concerns, deeming the short-cut government handouts as an inadequate response. The AFR reported on this matter on 20 February, *"That may not be enough to alter course. It should not take the pressure off, or the focus off making sure we have the policy settings in place to drive long-term competitive positioning for Australia."*

Certainly, our publicly listed businesses have lifted the bar significantly across all matters of policy agendas, be they environmental, social or governance.

As we discuss below, one can read any number of annual reports to appreciate the extent of company undertakings and the employee benefits now on offer.

nib Group

COVID-19 has upended how work is carried out, forcing all parties to adapt. At one end of the spectrum, we can consider the transformation of health insurer nib as an example.

The company has fully embraced WFH for its employees, which has led to a radical shift in work practice, as nib Group explained below in its October 2021 media release.

"NIB Group (nib) has introduced a new flexible way of working, which encourages its 1,200 strong workforce to work from home at least four days a week and only come together in person at local office 'hubs' for a purpose, such as meetings or social events. nib employees are supported by a $1,200 annual distributed work allowance to contribute to the reasonable ongoing costs of working remotely.

Dubbed Life at nib, nib Chief People Officer, Martin Adlington, said the distributed working policy reflected the health insurer's approach to the future of work following the upheaval of the pandemic.

A survey of nib's workforce showed that 79% of employees agreed that working from home enabled them to do their best work.

In addition, our $1,200 annual allowance will help cover some of the costs of working in a remote environment while new employees will also receive a one-off reimbursement of $300 to help them set up their workstation at home, in addition to the tech kit we supply them," he added. The new policy also provides nib's employees with flexibility and choice about when and where they perform their work which has helped the insurer attract new talent to the business.

Each employee can come to an agreement with their leader on what works best for them in terms of hours and location. For example, one person might start work earlier, so they can do the school pick up. For another, it may suit them to start work later, so they can be active in the morning,"

nib's 2023 Sustainability Report provides further insight into the benefits provided (see Table 12 – Table 14). The company employs 1,888 staff, with the majority being female. Further, absenteeism rates are low, as are lost time injuries, while the employee engagement score sits at a healthy 81%.

Table 14 outlines an extensive list of employee benefits available, totalling 44. Perhaps the most startling data point concerns employee attrition.

In 2023, nib recorded voluntary or involuntary attrition of 20.3%. Of this the majority were voluntary (16.4%), a figure consistent with 2022, where a total of 20.9% and 17.8% respectively were recorded.

Looking from the outside in, staff turnover of 20% each year underscores a real issue. How can you drive real productivity improvement when one-fifth of your main asset, your people, leave annually?

There does not appear to be a clear correlation with the employee benefits provided, as Table 12 and Table 13 outline, nor reflected in heightened absenteeism.

Rather, it likely reflects the real issue that almost all businesses face: the annual attrition of staff and the costly and unproductive process to replace them.

We doubt governments or employees give much thought to that, but it is a serious burden on business, which invariably carries more serious long-term challenges.

Table 12: nib 2023 Sustainability Report

Our people

	FY23			FY22		
Number of employees	**Female**	**Male**	**Gender diverse**	**Female**	**Male**	**Gender diverse**
Australia	1,055	541	3	695	411	2
Ireland	25	6	0	14	4	0
New Zealand	171	77	0	150	68	0
United Kingdom	2	3	0	0	3	0
United States of America	5	0	0	3	0	0
Total	**1,258**	**627**	**3**	**862**	**486**	**2**
% of total	66.6%	33.2%	0.2%	63.9%	36.0%	0.1%

Source: nib 2023 Sustainability Report

Table 13: nib Group 2023 Sustainability Report

	FY23			FY22		
Lost time injuries	**VL/L**	**M**	**H/VH**	**VL/L**	**M**	**H/VH**
Australia	0	2	0	0	0	0
Ireland	0	0	0	0	0	0
New Zealand	0	0	0	0	2	0
United Kingdom	0	0	0	0	0	0
United States of America	0	0	0	0	0	0
Total	**0**	**2**	**0**	**0**	**2**	**0**

VL/L Impact very low or low **M** Impact medium **H/VH** Impact high or very high

	FY23	FY22
Lost time injury frequency rate (LTIFR)	0.51	0.76
Absenteeism[1]		
Australia	4.3%	3.8%
New Zealand	1.8%	1.6%
Flu shots given to employees	414	314
Wellbeing program		
Fitness initiatives - number of employee participants	675	170
Mental health initiatives		
Calm app – number of employee participants	282	-
Number of employees with mental health first aid training	51	31
Clearhead – number of employee contacts	29	-
Employee Assistance Program (EAP)		
Employee contacts	296	216
Family member contacts	35	37
Employee EAP consultation usage %	22.2%	18.0%

Source: nib 2023 Sustainability Report

Table 14: nib Group 2023 Sustainability Report

	FY23	FY22
Employee experience		
Employee engagement score	81%	75%
Employee inclusion score	82%	80%
Employee wellbeing score	77%	74%

		FY23				FY22
Employee attrition[2]	**Female**	**Male**	**Total**	**Female**	**Male**	**Total**[3]
Voluntary turnover rate	17.8%	13.0%	16.4%	17.7%	17.7%	17.8%
Involuntary turnover rate	3.5%	4.3%	3.9%	3.3%	2.8%	3.1%
Total	**21.3%**	**17.3%**	**20.3%**	**21.0%**	**20.5%**	**20.9%**

Work and life benefits
Additional leave days (AU, NZ)
Apple employee purchase program (AU)
Cultural leave (Group)
Employee giveaways (Group)
Flexible work practices (Group)
Gender affirmation leave (Group)
Hybrid working model/location flexibility (Group)
International remote work (Group)
Leisure travel discounts (Group)
Microsoft home office program (Group)
Paid parental leave (Group)
Public holiday swaps (Group)
Volunteer leave (Group)

Finance and insurance benefits
Corporate bank offer (AU)
Corporate car offer (AU, NZ)
Corporate retail discounts (AU)
Distributed work allowance (Group)
Employee health insurance benefit (Group)
Employee share plans (AU, NZ)
Garmin discount offer (Group)
Income protection insurance (AU, NZ, Ireland)
Life insurance (AU, NZ, Ireland, USA)
New employee home office reimbursement (Group)
Payroll giving (Group)
Pension/retirement saving matching scheme (UK, Ireland, USA)
Salary sacrifice (AU)
Transport discounts (Ireland, USA)
Travel insurance discount (Group)

Health and wellbeing
Access to Calm app (Group)
Clearhead (NZ)
Employee assistance program (Group)
Employee health & wellbeing program (Group)
Ergonomic program (Group)
Eye care discounts (AU, NZ)
Flu vaccinations (Group)
Gym discounts & fitness initiatives (AU, NZ)
Mental health framework (Group)

Reward and recognition
Christmas gift (Group)
Short term incentive program (Group)
Years of service awards (Group)

Career and development
Access to LinkedIn Learning
Educational assistance (Group)
External training (Group)
Mentoring program (Group)

2. Gender diverse attrition has not been reported separately due to low numbers of employees identifying as gender diverse. Gender diverse attrition has been consolidated within the total attrition figures.
3. FY22 results are restated due to reclassification of two terminations from voluntary to involuntarily.

Source: nib 2023 Sustainability Report

To illustrate the point further, Figure 15 – Figure 21 highlight employee data points covering CAR Group and Cochlear.

Across both global organisations, employee benefits are extensive.

For CAR Group, with an employee base of 1,800, voluntary turnover hit 14% in 2023, down from 23% in 2022. However, employee attrition varied significantly across specific geographical regions, ranging from a low of 8% in Chile to 26% in South Korea, underscoring the challenges.

At Cochlear, with a global workforce of 4,800, the group has done exceedingly well to maintain a highly engaged team, with voluntary attrition held at 8.2%.

Figure 15: CAR Group

Australia

- Fully flexible workplace – ability to work 100 percent remote.
- Income Protection Insurance.
- Employee Share Plan – permanent employees can purchase $500 of shares in carsales.com Limited (pre-tax) which is matched by the company.
- Paid parental leave – 18 weeks paid for primary caregivers (with bonus 5 days of "Leave up Your Sleeve" when a primary caregiver returns to work to help them adjust to balancing their work and home commitments). Four weeks paid leave provided to secondary caregivers. We pay superannuation on our employer-funded parental leave in addition to government-funded parental leave.
- Public holiday swaps – ability to swap a gazetted public holiday for a day that has more cultural or religious significance to an employee.
- Gender affirming leave – six weeks paid for anyone who is affirming, has affirmed, or seeking to affirm their gender.
- Other flexible leave options including Family & Fertility Planning Leave, Miscarriage Leave, Purchased Leave, Refuel Days, Family and Domestic Violence Leave, Grandparents Leave, Study Leave and Career Break Leave.

Brazil

- Hybrid working environment with face-to-face and remote options available.
- Health care, dental care and life insurance coverage.
- Childcare payment assistance.
- Extended parental leave – as a member of Programa Empresa Cidadã (Citizen Company Program), webmotors offers an additional 60 days (primary caregivers) and 15 days (secondary caregivers) on top of the parental leave legislated by Instituto Nacional do Seguro Social (Brazilian social security agency). This leave is fully paid.
- Employee birthday leave.
- Banco Santander support – special rates available for employee loans and financing with reduced interest rates.

Latin America

- Choice of work mode – face-to-face, hybrid, or remote.
- Health, major medical, life and accident insurance policies.
- Savings fund benefit plan (Mexico only) – allows employees to have 13 percent of their salary withheld and put into a dedicated savings account.
- Bonus leave days on Christmas Eve, New Year's Eve and an employee's birthday as well as additional vacation days based on tenure.
- Club Benefits Program – a range of activities and programs available to support employee health and wellbeing.
- Other paid flexible leave options including Personal Days and Health Care Leave.

United States

- Fully flexible workplace – ability to work 100 percent remote.
- 401K plan with company matching.
- Full benefits package for health cover and insurance including medical, dental, vision, short- and long-term disability, life insurance, accidental death, critical illness, hospital indemnity, legal resources and identity theft protection.
- Paid parental leave – up to four weeks of paid leave at 100 percent of the employee's base salary. Available to all employees regardless of gender or primary/secondary caring responsibilities. This is employer funded and provided in addition to mandated leave as per the Family and Medical Leave Act (FMLA).
- Paid Time Off (PTO) – up to 31 days available from first year of employment with yearly balance rollover. PTO earned increases based on tenure.
- Other paid flexible leave options including employer funded (non-government mandated) Jury Duty leave and Bereavement leave.

Source: CAR Group 2023 Sustainability Report

Figure 16: CAR Group

carsales ESG data	FY23[6]	FY22	FY21
Environmental (Australia)[1]			
Total Scope 1 emissions (t CO2e)[2]		185.6	194.3
Total Scope 2 emissions (t CO2e)[3]		487	622.3
Total Scope 1 and 2 emissions (t CO2e)		672.6	816.6
Total Scope 3 emissions (t CO2e)[4]		7,016.9	3,324.6
Total Scope 1, 2 and 3 emissions (t CO2e)		7,689.50	4,141.10
Achieve and maintain carbon neutrality		Maintained	Achieved
GHG emission intensity (tCO2-e) (Scope 1 & 2)		0.9	1.2
GHG emission intensity (tCO2-e) (Full Scope)		10.4	6
Waste to landfill (tonnes)[5]		118.6	42.6
Waste recycled (tonnes)[5]		87	11.3
Waste recycled (percent)		42%	21%

1. Emissions data is for Australia only and prepared one year in arrears. FY22 is now the baseline for the Australian emissions reduction strategy. We intend to expand to measurement of our international operations in FY24.
2. Transport fuel, refrigerants.
3. Purchased electricity.
4. Equipment, employee commute, working from home, flights, third-party services, food and beverage, landfill, transmission and distribution losses, fuel extraction, production and distribution losses, other utilities, base building services.
5. Waste data is for Australia only and prepared one year in arrears. Increase in waste volume from FY21 to FY22 is attributable to employee return to offices post-pandemic, the Australian workforce spent a significant proportion of FY21 working exclusively from home.
6. As environmental data is prepared in arrears, FY23 information is not yet available.

carsales ESG data	FY23	FY22	FY21
Social			
Customer			
Customer satisfaction score (Australia)[1]	**58%**	65%	
Customer trust metric (Australia)[2]	**63%**	63%	65%
System reliability for customers (Global)[3]	**>99.9%**	>99.9%	>99.9%[4]
Revenue invested into IT and innovation (Global)	**8%**	7%	7.6%

1. Commercial customer satisfaction is a measure of satisfaction of the Australian carsales dealer network.
2. Minimum consumer trust metric is determined through our externally supported carsales brand health tracker.
3. Proportion of time our websites were fully accessible to customers.
4. Australia, Chile, Mexico only during FY21.

People			
Employee profile			
Total employees (FTE)	**1808**	1738	
Australia	**748.5**	738.0	
USA	**379.0**	358.0	
South Korea	**391.0**	350.0	
Brazil	**158.0**	141.0	
Chile	**74.0**	69.0	
Mexico	**25.0**	50.0	
New Zealand	**9.8**	10.0	
Thailand	**10.0**	9.0	
China	**8.0**	8.0	
Malaysia	**5.0**	5.0	

Source: CAR Group 2023 Sustainability Report

Figure 17: CAR Group

Sustainability strategy

Our sustainability strategy helps us to systematically strengthen practices essential to our ESG material focus areas. We have set goals that support our efforts and provide momentum, motivation and accountability towards their achievement. The table below provides a snapshot of our goals against each material area and how we are progressing. The material topics sections following this table provide more detail on our sustainability management practices and performance.

Material Topics, Goals and Progress

Our people

Material topics

- Diversity, equity and inclusion
- Talent attraction, retention and engagement
- Health, safety and wellbeing

Goals	Status (FY23)	Status (FY22)
Diversity, equity and inclusion		
Minimum 40% women in senior roles (Australia)[1]	Achieved (43%)	Achieved (40%)
Minimum 30% women in digital roles (Australia)	Achieved (30%)	Not met (29%)
No gender pay gap between like for like roles without a sensible reason to explain it (Australia)[2]	Achieved	Not met
Talent attraction, retention and engagement		
Maximum 20% voluntary turnover rate (Australia)	Achieved (14%)	Not met (23%)
Minimum 75% employee engagement score (expanded in FY23 to become an international markets measure)	Not met[3] (73%) (Global)	Achieved (78%) (Australia)
Zero adverse rulings regarding discrimination or harassment[4] (Global)	Achieved (0)	Achieved (0)
Health, safety and wellbeing		
Zero workplace fatalities (Global)	Achieved (0)	Achieved (0)
Zero high consequence workplace injuries (Global)	Achieved (0)	Achieved (0)

1. 'Senior roles' is defined as senior managers in Australia who report to an Australian-based member of the global Executive Leadership Team. From FY24 we intend to pivot this goal to be a global figure and include all senior managers globally who report to a member of the global Executive Leadership Team.
2. A 'sensible reason' includes someone being recently promoted who still requires upskilling in certain competencies, a new starter with limited proven track record in the role, or a difference in performance outcomes over the year.
3. Historically, we have reported on engagement for Australia only. This year, we have a global view of engagement and thus are reporting an average score of 73% globally. Although this falls slightly below our target, the Australia engagement score has remained above target at 77%.
4. An adverse ruling is defined as an unfavourable ruling by a court, tribunal or similar.

Source: CAR Group 2023 Sustainability Group

Figure 18: CAR Group

Gender diversity (percent)	
Global	
Male	60.9
Female	39
Gender diverse	0.1
Australia	
Male	66.9
Female	33
Gender diverse	0.1
USA	
Male	51
Female	49
South Korea	
Male	67
Female	33
Brazil	
Male	55
Female	45
Chile	
Male	64
Female	36
Mexico	
Male	52
Female	48
New Zealand	
Male	70
Female	30
Thailand	
Male	50
Female	50
China	
Male	62
Female	38
Malaysia	
Male	60
Female	40
Voluntary turnover (percent)	
Australia	14
USA	13.5
South Korea	26
Brazil	12
Chile	8
Mexico	66
New Zealand	0
Thailand	0
China	12.5
Malaysia	17

Source: CAR Group 2023 Sustainability Report

Figure 19: Cochlear

Thriving people

Our people are our most valuable asset and are an engaged, capable and high-performing team that delivers on our strategy and supports the creation of sustained value. We have a diverse workforce with around 4,800 people across the globe. Their knowledge, expertise, passion and focus on delivering excellence is key to achieving future success.

Cochlear has a rich history, helping people to hear for over 40 years, underpinned by a strong culture of innovation and a focus on our customers.

We have a responsibility to build a reputable and sustainable organisation, now and into the future. We achieve this by nurturing those important elements of our culture that have brought us success, while continuing to evolve, intentionally shaping the culture that will enable us to grow and deliver for our customers as our workforce expands.

Diversity, equity and inclusion continue to be key priorities as they are fundamental to our success as an innovation leader. Over the past few years, we have also focused on building a stronger achievement culture, improving the way we collaborate to achieve company-wide goals.

Focused training and development enable us to establish clearer priorities and work more effectively together, removing boundaries and improving focus on what matters most, our customers.

We have continued to develop our systems, processes and organisation design in a deliberate fashion to reinforce this target culture. We have invested in leadership development, notably in Inclusive Leadership and Unconscious Bias and Culture Conversations, with an increased focus on building critical skills and capabilities both at an individual and organisational level.

Over the next few pages we discuss some of the key initiatives we are pursuing which aim to create value by investing in our people and culture.

Strategic priorities

Our targets

Retain employee engagement levels at or above 80%

A stronger organisation

- Strengthen and nurture the organisational culture
- Attract, develop and retain talent
- Champion a culture of diversity and inclusion
- Support the wellness and safety of our teams

How our people benefit

- Engaged, capable and high-performing employees
- Diverse, equitable and inclusive workplace
- Engaging development and career opportunities
- Strong health, wellbeing and safety culture

Relevant UN Sustainable Development Goals

Source: Cochlear 2023 Sustainability Report

Figure 20: Cochlear

Attracting, developing and retaining talent

We strive to attract and retain passionate and highly skilled professionals.

We have continued to build on our efforts to engage and retain our talent, focussing on career progression and development, pay and recognition and ensuring all our employees feel a sense of belonging, regardless of their background and experiences.

As a result, we have seen a significant number of employees taking on a new career development opportunity with 30% of open roles filled by employees.

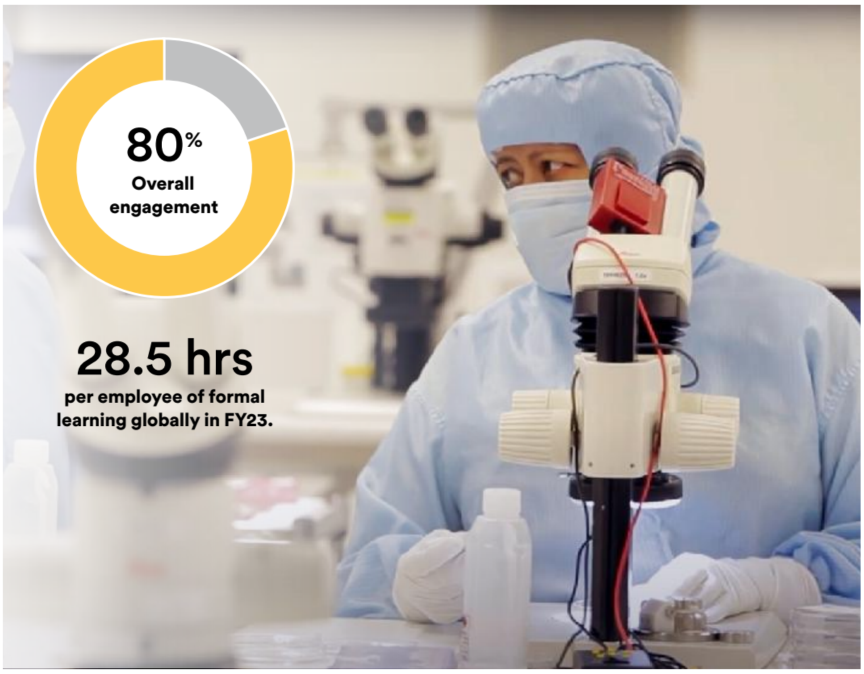
In FY23, overall employee engagement remained strong at 80%, with 91% of our employees completing our global engagement survey.

We are particularly pleased to see contribution to the satisfaction of our customers (94%), employee understanding of their contribution to strategy (93%) and pride in the organisation (92%) remain our strongest areas, a result that can be attributed to the power of our mission and our strong commitment to our customers.

We have also continued to see a strong uptake in our all-employee share purchase plan, with 47% of eligible employees participating in the second year of the plan offering.

Our retention levels remain strong with our global annualised voluntary turnover for FY23 of 8%, almost three points below the previous year.

We have made a significant global investment in efforts to prepare for our new People and Culture operating model with the new IT platform launching in September 2023. The new operating model is designed to support our organisation as it grows and will enable greater empowerment of our leaders and greater opportunities for our people to share their talents and skills and build their career.



Source: Cochlear 2023 Sustainability Report

Figure 21: Cochlear

Our workforce

Employees by category	FY23				FY22			
	Female		Male		Female		Male	
	%	Number	%	Number	%	Number	%	Number
Senior manager	43%	168	57%	227	41%	157	59%	225
Management	49%	457	51%	475	48%	406	52%	444
Operational	55%	1,882	45%	1,564	55%	1,763	45%	1,451
Total	**53%**	**2,507**	**47%**	**2,266**	**52%**	**2,326**	**48%**	**2,120**

Employees by type and gender	FY23				FY22			
	Female		Male		Female		Male	
	%	Number	%	Number	%	Number	%	Number
Permanent	53%	2,508	47%	2,267	52%	2,327	48%	2,120
Temporary	57%	83	43%	63	63%	94	37%	56
Full-time	51%	2,392	49%	2,275	51%	2,229	49%	2,137
Part-time	78%	199	22%	55	83%	192	17%	39
Total	**53%**	**2,591**	**47%**	**2,330**	**53%**	**2,421**	**47%**	**2,176**

Gender diversity in leadership	FY23	FY22
Women on the Board	40%	33%
Women in senior management	43%	41%

Engagement

Engagement	FY23	FY22
Employee turnover	8.2%	11.1%
Engagement score	80%	80%
Total hours of employee formal training	28.5	24.3

Safety and wellbeing

	FY23	FY22	FY21	FY20	FY19
Severity rate	263	281	295	192	156
Injury Frequency					
TRIFR[1]	3.3	2.5	2.7	3.2	1.9
LTIFR[2]	2.3	1.6	1.5	1.7	1

1 Total Recordable Injury Frequency Rate (TRIFR) measures how frequently recordable injuries are occurring.

2 Total Lost Time Injury Frequency Rate (LTIFR) refers to the number of lost time injuries occurring in a workplace per 1 million hours worked.

Source: Cochlear 2023 Sustainability Report

These examples illustrate the extent to which companies have needed to adapt. The drop in national productivity is an unwelcome development, which all parties need to acknowledge and address.

Simply expecting businesses to do more of the lifting will come at a cost and ultimately shifts the burden onto all of us. What is certain, though, is businesses will be rational, adopting automation where practicable and cutting local jobs where possible. Governments and unions have been warned. ***SFM***

THE GREATEST RISK

Any investor intending to put capital to work will consider the associated risks. Among all the potential pitfalls, regulatory risk remains our primary concern.

Governments have form. They act when cornered and their actions are regularly justified based on fairness and economic reform. These actions often stem from political motives, serving as distractions from more pressing hot-topic agenda items.

Businesses and individuals face the wrath of these regulatory shifts. Nevertheless, any elected government or regulatory body that follows due process is entitled to make changes, irrespective of external opinions.

Concerns for businesses arise when they become targets of regulatory attention. Take for instance, the current inquiry initiated by the Federal Government into our supermarket operators.

Pressured to address cost-of-living challenges, the Government has ordered the ACCC to conduct a new investigation into supermarket pricing. This 12-month review will focus on 'industry gouging' and follows a previous inquiry undertaken in 2008.

During that period, despite the Rudd Government ordering a similar in-depth probe into supermarket pricing practices, Eric Johnston, a journalist with The Australian newspaper, offered commentary on the ACCC findings.

"There was no evidence of gouging. Indeed that probe, headed by Graeme Samuel and concluded in 2008, found supermarket retailing was workable competitive in Australia and there was barely any link between rising food prices and profits… Don't conflate food inflation with gouging. It's little wonder the 500-page report sank without a trace."

This time, the review will delve into pricing across the supply chain. ACCC deputy chair Mick Keoghan explains, *"In other words, what price is being paid at the farm gate, what price is being paid by the processor, what price is being paid by the wholesaler and what price is being charged by the retailer and to look in great detail at where the margins are through the supply chain and answer the question as to whether margins are excessive."*

With the inquiry now underway, the major supermarket operators must await the findings, knowing that the Government is looking and seeking scalps.

Given the nature of regulatory investigations, the ACCC's final recommendations are difficult for investors to properly assess at this point.

Whether the findings are good or bad, they underline a level of heightened risk and the prospect of continued regulatory scrutiny.

At the extreme, one must look at the 2017 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry to realise inquiries lead to change.

The 76 banking recommendations that followed were harsh but justified, resulting in significant fines and a purge across the industry.

Elsewhere, inquiries have been conducted and actions have sparked a myriad of activities, involving sectors such as petrol retailing, the airline industry, banking, the resources arena, evidenced by escalated royalty rates, and any other activities that may lessen competition.

Of particular concern to us is the healthcare sector, specifically medical insurers. Those who have experienced delays waiting for elective surgery in public hospitals can appreciate why many prefer private health insurance.

Yet, the industry finds itself constantly in the government's crosshairs, forced to defend the premiums charged and the level of healthcare coverage. Despite intense competition from not-for-profit players and the listed operators, it remains an easy target for politicians looking to win votes, with little consideration for the consequences of such actions.

nib

We have intentionally limited our investments in areas that expose us to heightened regulatory risk.

We do not have any investment in the supermarket retail trading sector, airlines, or even the banks. But we are owners in the nib Group, who provide private health insurance cover for millions of Australians.

Private medical insurance is a sensitive topic and an obvious target for politicians who dislike private, profit-making enterprises.

During periods of rising costs and economic hardship related to inflation and interest rates, seeking premium rate increases becomes even more difficult.

There's already evidence of this, with the Government rejecting the requests from private health insurance operators for an initial premium rate in 2024. In March nib was ultimately successful with a 4.10% premium lift for the 2024 year.

Despite this, we remain wary that at some point more will be demanded by governments or in other words, operators may see reduced earnings. Politicians have form and the only losers here are shareholders, so they become easy targets.

National Disability Insurance Scheme (NDIS)

When nib Group chose to enter the NDIS arena in October 2022 (see Figure 22), initially as a Plan Manager provider, we were cautious. The NDIS was one of the Government's signature programs to assist disability recipients with funding.

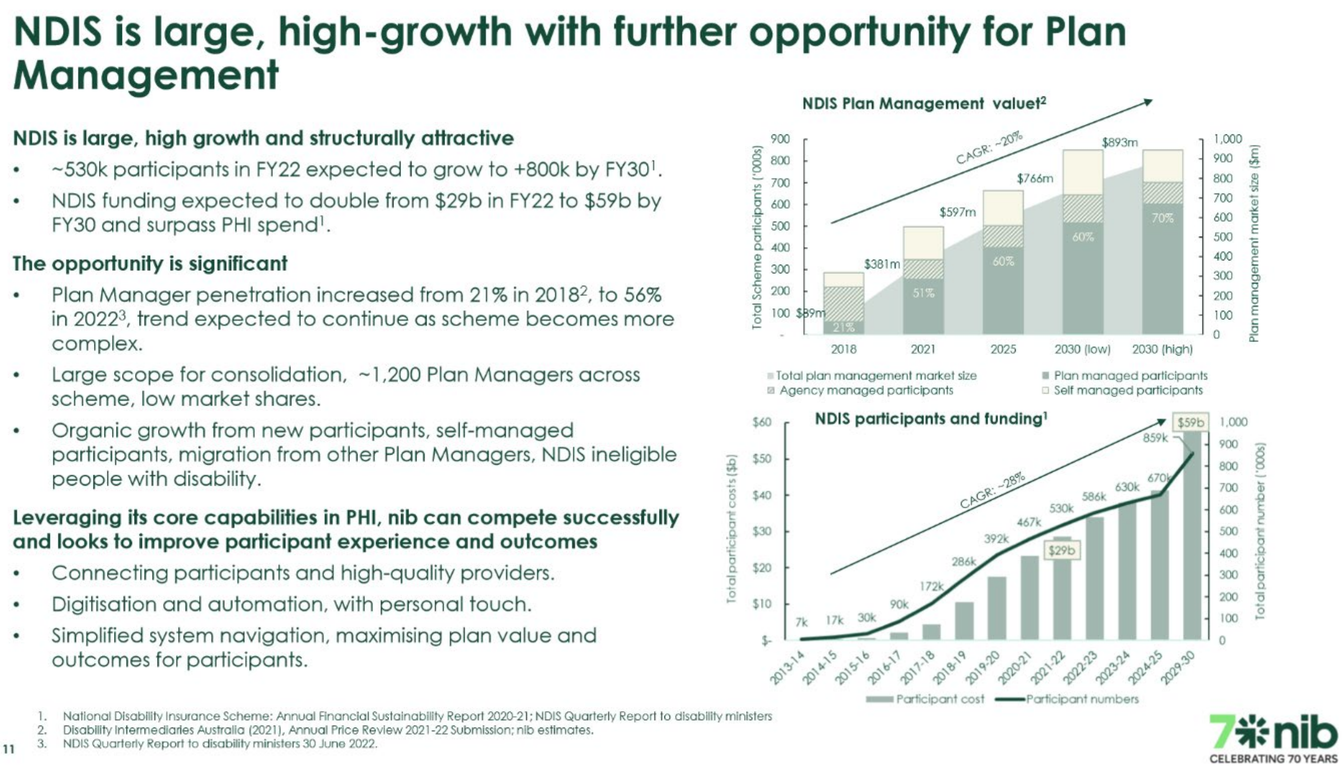
nib's intention was also clear: to add corporate professionalism into an industry that had grown rapidly since the introduction of NDIS in 2014.

In the specific Plan Management segment, when nib first entered, the industry comprised 1,200 managers and was ripe for consolidation.

In 2022, nib laid out its intentions to become a top Plan Manager with at least 50,000 plan management participants by 2025. It raised $135m from shareholders and announced its first acquisition, Maple Plan – an existing Plan Manager – as its beachhead into the industry.

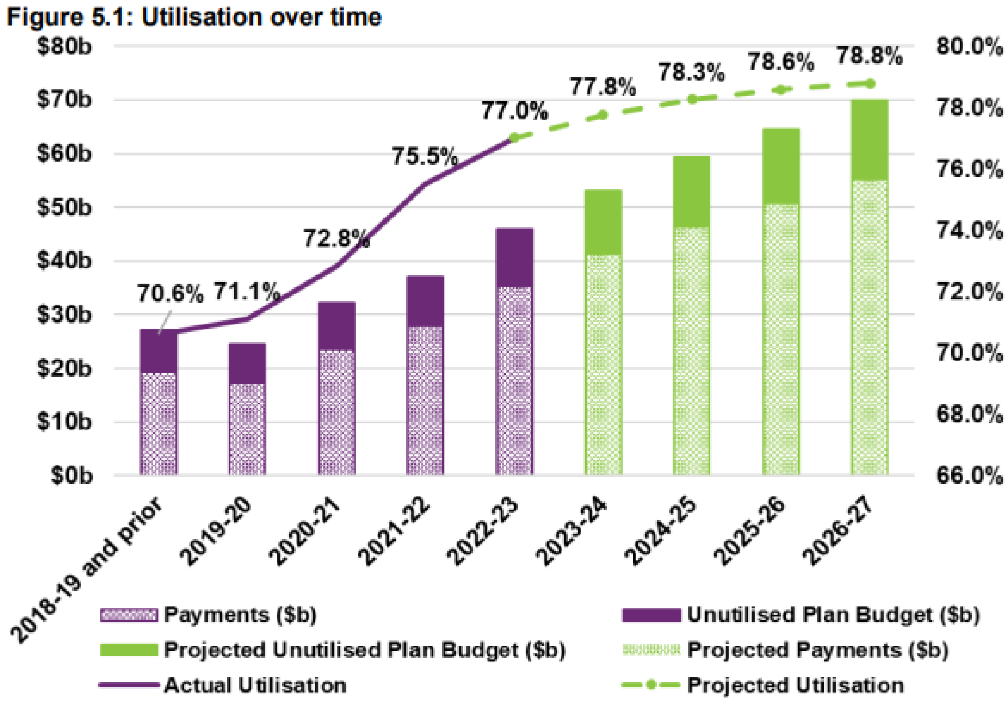
Subsequent acquisitions have followed and by May 2023, nib had completed its fourth purchase, putting the business on track to meet its 2025 target.

Figure 22: nib's initial entry into NDIS October 2022



Source: nib October 2022 NDIS presentation

Figure 23: National Disability Insurance Scheme (NDIS)



Source: National Disability Insurance Scheme, Annual Financial Sustainability Report 2022-2023

nib Thrive, as the division is now known, ended the 2023 financial year with 27,373 participants, having spent $117m in acquisitions.

Since balance date a further 10,000 participants have been added, following its fifth plan manager purchase.

The NDIS industry has grown beyond government and industry expectations. In 2023, its cost to the taxpayer exceeded $36.7b, with forward estimates of $55b by 2027, reflected in Figure 23.

The number of supported participants has also grown to over 610,000. The budgetary pressure this has placed on the Federal Government is now apparent, with Disability Minister Bill Shorten announcing new measures in December 2023 to reign in these costs, *"It's not the job of the government to create NDIS millionaires, it is to look after the people on the scheme."*

These plans include cutting out the Plan Managers, who essentially act as the go-to between the participants, the NDIS and service providers. Over 50% of disability participants have elected to use Plan Managers to deal with the complexity of NDIS, while the remaining have opted to engage with the service providers directly.

The latest Government proposal, following a review, is to move to real-time payments, which would eliminate cash reimbursements and the need for plan providers. The full implementation is expected to take five years, allowing time for nib to adapt to the new landscape.

nib CEO Mark Fitzgibbon remains unperturbed with developments, noting that its plans were never just about being a Plan Manager processing transaction, *"We aim to support our 40,000 current and future participants with a more seamless and integrated experience in their plan design, support service procurement and ongoing management of their plan.*

As important as the plan management regime is today and will remain for some time, it's always been a starting point for us in pursuing this broader vision."

Message

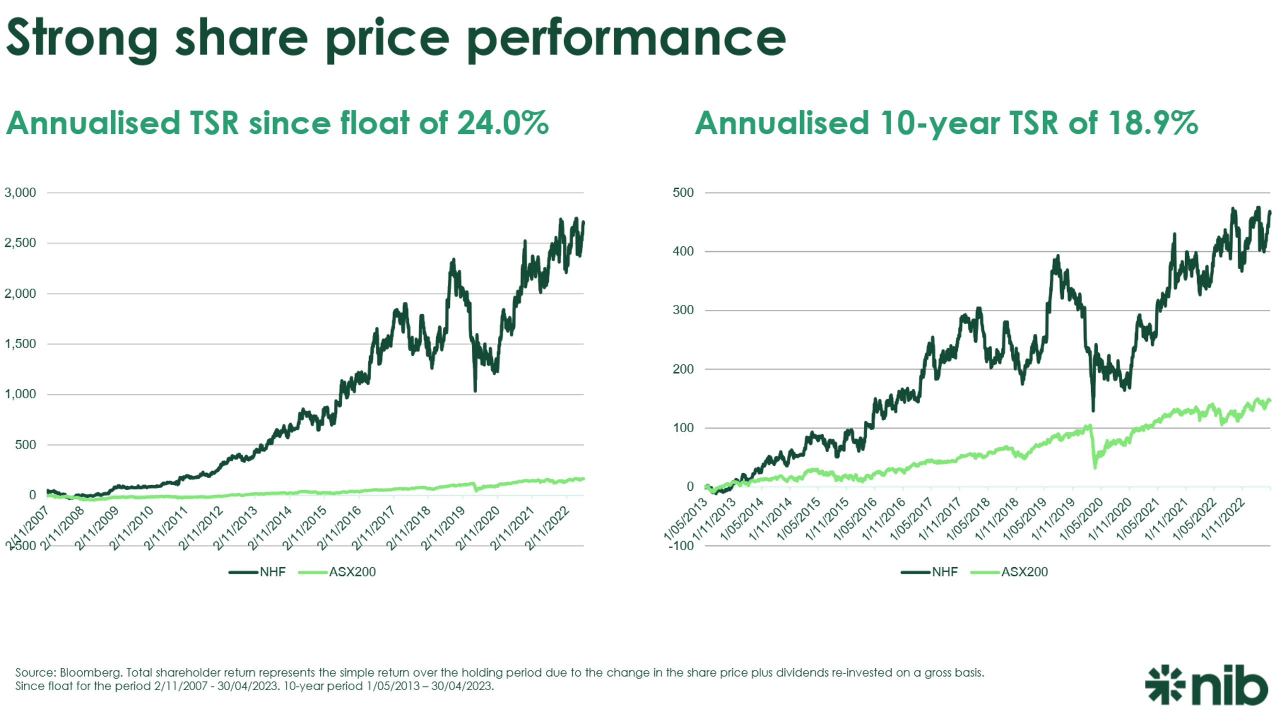
The clear message for investors is to remain vigilant to regulatory risk. We suspect that nib's NDIS offer will evolve as its CEO has indicated, but our initial concerns appear largely vindicated.

This hasn't stopped the business from delivering on its aspirations or financial objectives, illustrated by its long-term performance track record and accompanying share price, shown in Figure 24 and Figure 25.

Figure 24: nib five-year performance through COVID

Source: nib 2023 Annual Report

Figure 25: nib share performance since its public listing 2007



Source: nib Macquarie conference May 2023

Key point

Any business deemed by governments to be too successful will be at risk of review or regulatory regulation, particularly if it can win votes and cut budgetary costs. ***SFM***

APPLES & ORANGES

In March 2022, we penned an article, “Why point in time investing fails the test of time”.

In it, we intended to demonstrate that it was better to view a business through the lens of time rather than a valuation metric taken at a point in time.

We used the examples of our two largest banks, Commonwealth Bank and Westpac, to highlight this. It’s important to note we don’t, and have never, held these businesses in our portfolio for reasons regarding financial transparency within banks and financial institutions in general.

That said, the banks are major businesses that dominate the local share market landscape.

In our article, we specifically referenced an Australian Financial Review (AFR) piece written by the then Chanticleer columnist Tony Boyd, titled “Westpac’s lost decade”.

Boyd posed the question, “It's the big question on the minds of those who have followed the Australian banking industry for the past 30 years – how did Westpac go from being bigger than Commonwealth Bank to less than half its size in just over a decade?”

His conclusion, “During Kelly's tenure, Westpac made the strategic mistake of not investing in an upgrade to its core systems. Someone who worked in IT under Kelly said there were plenty of IT outages, but no desire to spend the money to rebuild the entire system. Her rival at the CBA, Ralph Norris, took on the risks associated with large IT projects and gave CBA a technology leadership that continues today.”

The “Kelly” mentioned in the quote above refers to Gail Kelly, previous Westpac CEO, and the CEO of St George before its merger with Westpac.

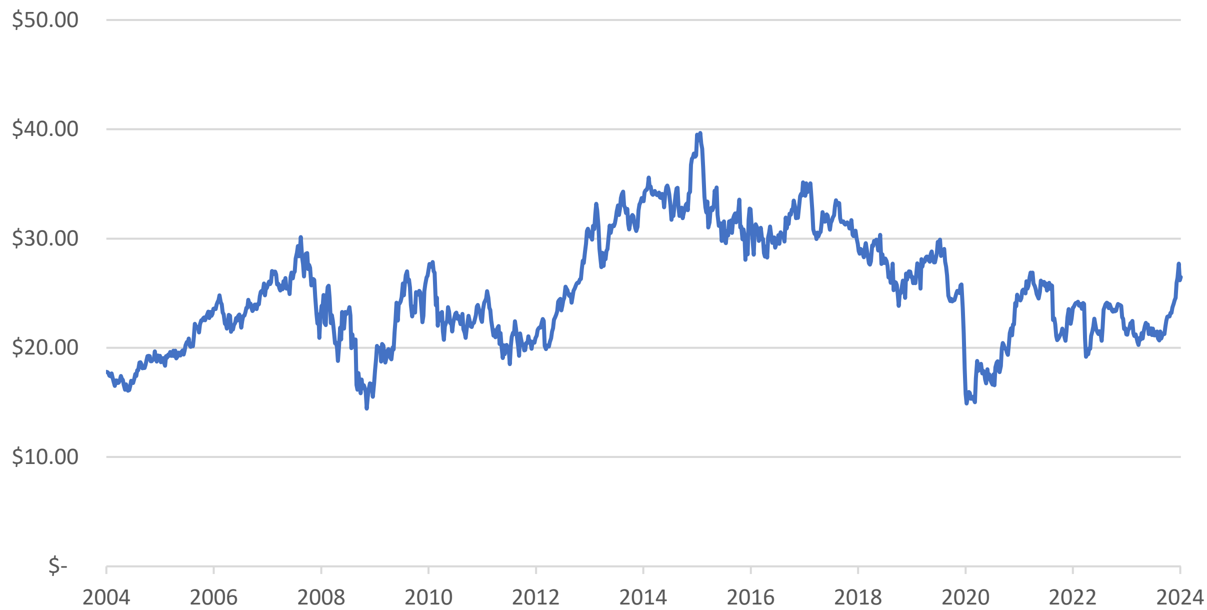
The cost of not integrating the two banks’ core systems, as Boyd highlighted, has continued to weigh on the business ever since the 2008 merger.

The share price performance of Commonwealth Bank and Westpac, shown in Figure 26 and Figure 27, measured over twenty years, probably best captures this valuation discrepancy that exists between the two.

Figure 26: Commonwealth Bank 2004-2024

Source: IRESS

Figure 27: Westpac 2004-2024



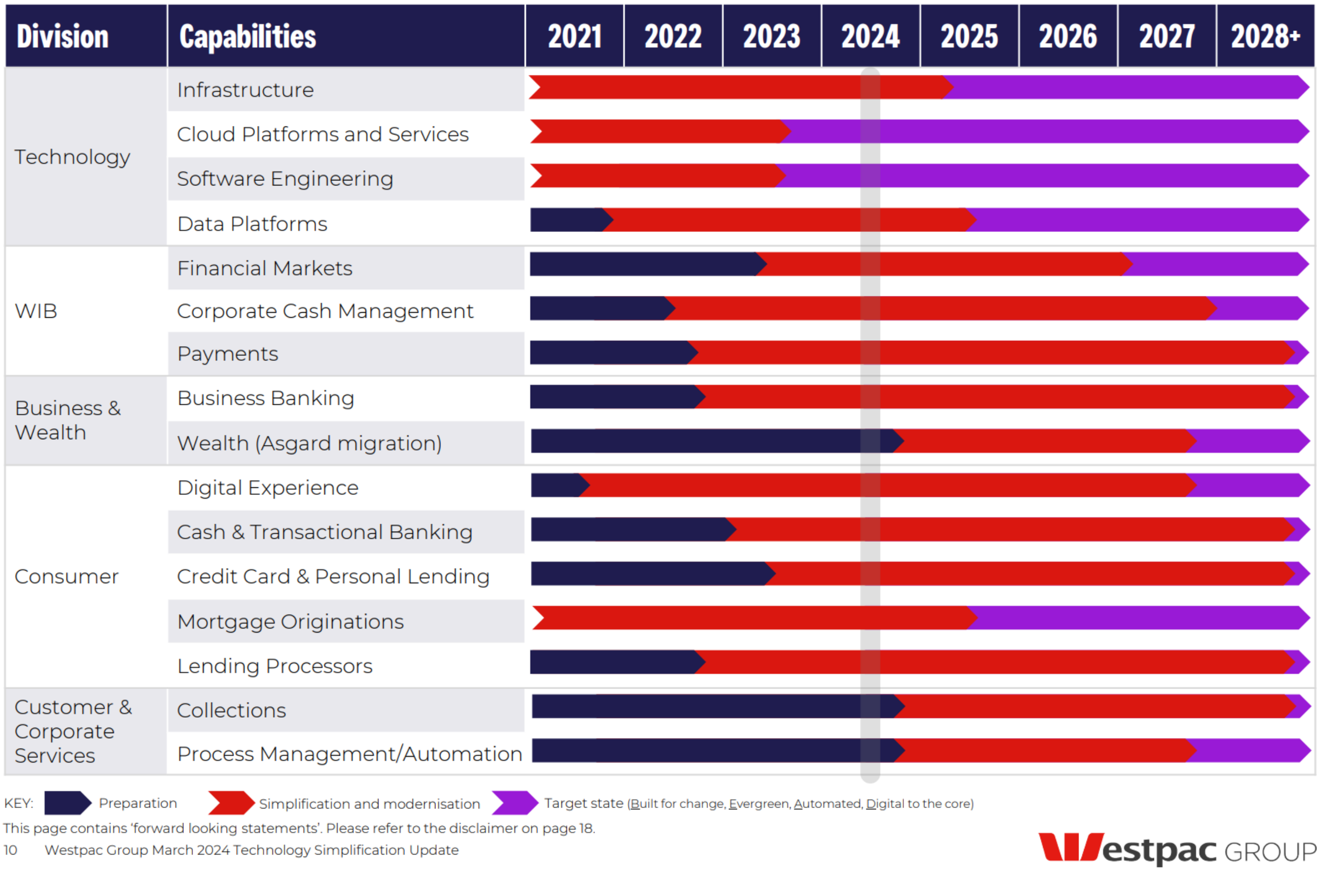
Source: IRESS

27 March 2024

On 27 March 2024, Westpac announced a 'Technology Simplification Update'. Under current CEO Peter King, the bank has been playing technology catchup and this latest update provides further data points looking out to 2028.

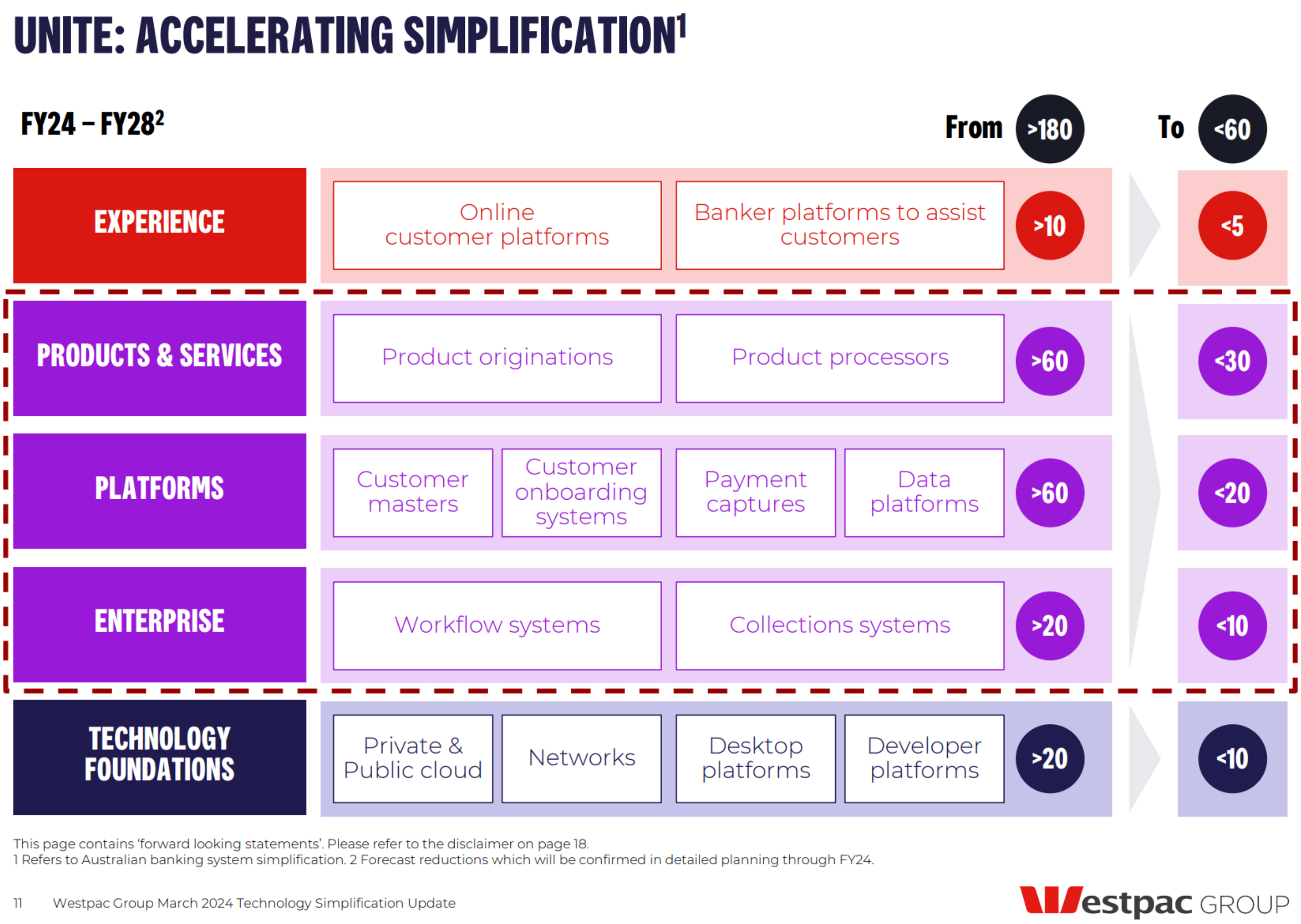
Figure 28, Figure 29 and Figure 30 are taken directly from the release, illustrating the scope and length of investment required.

Figure 28: Enterprise Technology Roadmap



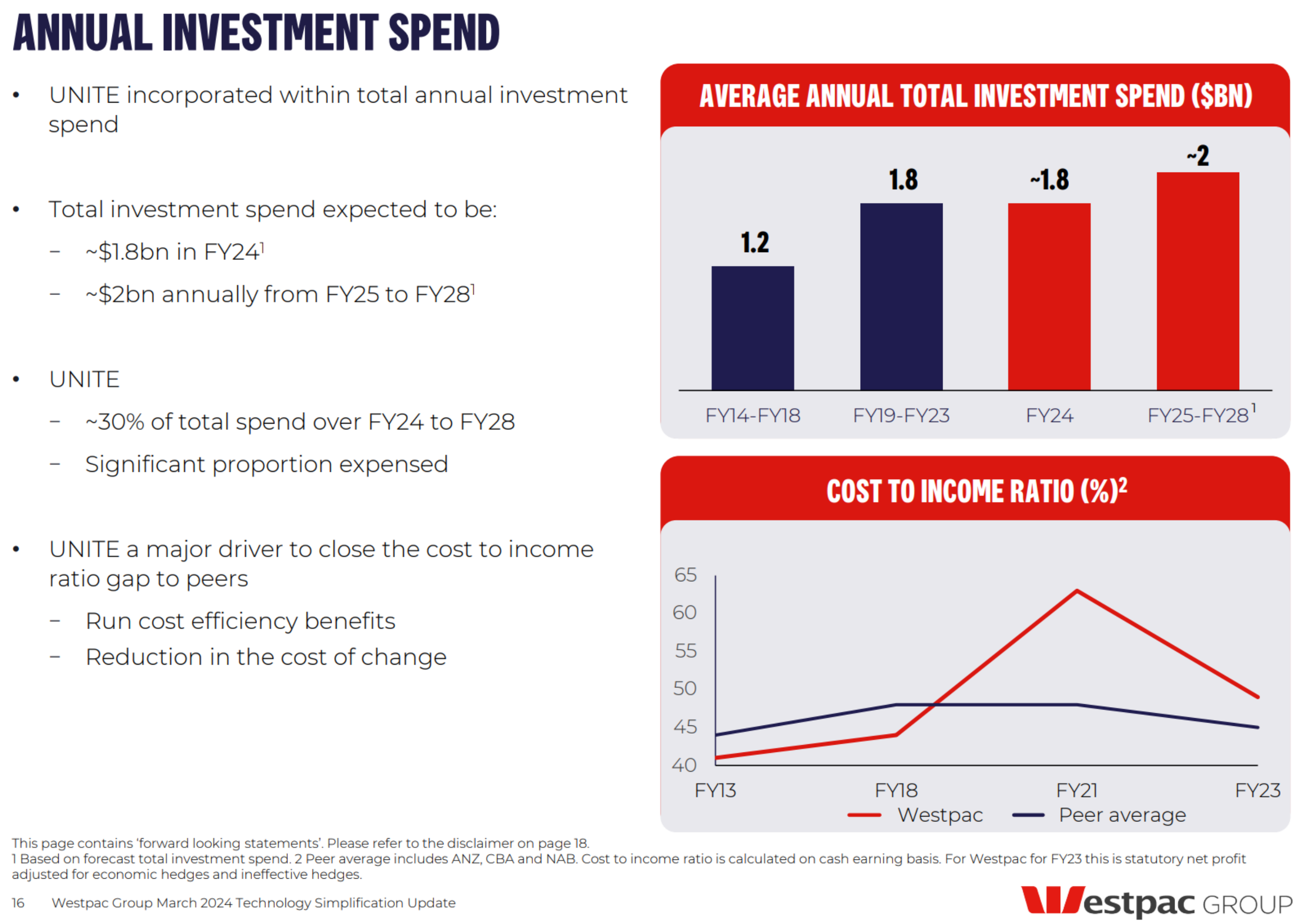
Source: Westpac March 2024 Technology Simplification Update

Figure 29: Unite: Accelerating Simplification



Source: Westpac March 2024 Technology Simplification Update

Figure 30: Annual Investment Spend



Source: Westpac March 2024 Technology Simplification Update

In a discussion with the AFR in March 2024, Westpac's Chief Information Officer Scott Collary, provided a historical perspective, "*We made it way more difficult for ourselves. My background is in banking in the US, so I've done a lot of M&A and transition work and the best ones do the integration work up front. Others have different strategies – doing it over time or leaving it as is. We left everything as is and then put even more complexity on top of it.*"

The bank is confident the program of work can be achieved within the indicated four-year timeframe. However, technology overhauls are notoriously difficult to deliver on, as the scope of work invariably shifts.

Capitalisation of intangibles

Now some in our industry are quick to throw stones at how research and development expenditure is treated under current accounting rules. The argument that reported profits can be aided by how such outlays are treated has merit.

When a business capitalises spend – that is, when it puts it onto the balance sheet rather than expensing it all during the current financial period – it can no doubt deliver a better financial outcome, namely, higher profits. We are mindful that this area requires a certain level of understanding.

The ultimate test on whether this accurately portrays the profitability of a business hinges on its ability to convert the increased capitalised spend into future earnings. In the case of WiseTech Global, the global leader in software solutions for the logistics industry, the level of product and development capitalisation in the recent half lifted from 52.7% of revenue to 53.9%. Some have suggested that the company might be using this mechanism to report higher profits.

This simplistic analysis fails to consider the significant inroads the company is making in the global logistics market. Moreover, it fails to acknowledge that over 50%, precisely 13 of the top 25 global freight forwarders, have committed to global rollouts of the group's flagship logistics platform, CargoWise.

While WiseTech may be an easy target for institutional non-owners of the business, this sentiment doesn't seem to extend to the major banks and their treatment of software development spend.

Below in Table 15 and Table 16, we illustrate Westpac's reported financials over the past five years, focusing on revenue, underlying net profit and the treatment of capital expenditure, whether expensed or capitalised.

As the table shows, Westpac has consistently capitalised circa $1.0b in spend, a rather significant amount relative to the actual profits reported.

In 2023 the bank chose to capitalise $1.1b of software spend compared to an underlying net profit of $7.4b, representing 15.5% of profits. Some of this deserves to be capitalised, but as Table 16 illustrates, 62% of the group's $1.9b investment spend is allocated to maintenance and only 38% for future growth and productivity endeavors.

We will leave it to others to form their respective view on this, but a company's cash flow statement invariably reveals more truths than an actual income statement report.

Table 15: Westpac Financial Summary

($m)	2023	2022	2021	2020	2019
Revenue (interest income)	43,752	23,251	22,278	27,047	33,222
Net interest income (gross profit)	18,317	17,161	16,858	16,696	16,907
Underlying profit after tax[1]	7,368	6,568	6,953	5,227	7,979
CAPEX[2]	(1,379)	(1,265)	(974)	(1,275)	(1,186)
Property, Plant & Equipment (PPE)	*(238)*	*(166)*	*(234)*	*(240)*	*(280)*
Capitalised computer software	*(1,141)*	*(1,101)*	*(740)*	*(1,035)*	*(906)*

[1]Underlying excludes hedging, provisions for remediation, litigation, fines and penalties and impact from asset sales, revaluations, asset write downs and restructuring costs.

[2]AASB138 capitalisation principle: An intangible asset shall be recognised if, and only if:

a) It is probable that the expected future economic benefits that are attributable to the asset will flow into the entity; and

b) The cost of the asset can be measured reliably.

Table 16: Westpac Investment Spend

	2023	2022	2021	2020	2019
Total investment spend ($m)	**1,922**	**1,987**	**2,019**	**1,720**	**1,506**
Expensed	*42%*	*44%*	*61%*	*40%*	*40%*
Capitalised[1]	*58%*	*56%*	*39%*	*60%*	*60%*
Maintenance (Regulatory & Risk)	62%	66%	71%	61%	48%
Growth & Productivity	**38%**	**34%**	**29%**	**39%**	**52%**

[1]Includes Capitalised software, Fixed assets and prepayments

Lessons

When considering the lessons applicable today, we believe our comments in 2022 remain just as relevant.

"*When you consider Westpac's cumulative series of missteps, repercussions follow. Not necessarily in the short run, but unquestionably over a longer timeframe. And importantly, the more entrenched the situation, the harder the path back. Competitors do not stand still, and the internal changes required involve a strategic reset and buy-in from the board, executives, and staff.*

CEO King is now embarking on that journey, announcing deep cost cuts, retrenchments at head office and asset sales. Staff morale is unlikely to be positive, while the legacy of years of underinvestment problematic.

To that end, the error that investors make is to focus on point in time valuations as a true comparator of businesses and competitors. Such an approach ignores the elephant in the room – is the business remaining relevant?

Relevancy is not easy to deduce, but as we have tried to highlight in this and previous articles on the subject, investor and shareholders alike need to consider a business across multiple disciplines and not just profitability.

If the focus is purely on the bottom line, it will come at the expense of reinvestment, considered risk taking and the cultural fabric of an organisation. Such an approach, as Boyd has clearly articulated, will undoubtedly lead to disappointment."

Comment

As for investors taking shortcuts by singling out some companies in their treatment of capitalised expenditure while turning a blind eye to others, it is always best to compare apples with apples, not oranges. ***SFM***

COMPANY ENGAGEMENTS – MARCH 2024 QUARTER

Date	Company	Description
9-Jan	RMD	ResMed JPM Healthcare Conference
10-Jan	TLX	Telix Pharmaceuticals JPM Healthcare Conference
25-Jan	RMD	ResMed 2Q24 Results Call
25-Jan	NAN	Nanosonics Barrenjoey Management Meeting
25-Jan	RMD	ResMed UBS Management Meeting
25-Jan	DMP	Domino's Pizza Enterprises Trading Update Conference Call
1-Feb	ALL	Aristocrat Leisure Management Meeting
6-Feb	TNE	TechnologyOne Management Meeting
8-Feb	REA	REA Group HY24 Results Call
8-Feb	RMD	ResMed Barrenjoey Industry Insight Call
9-Feb	REA	REA Group Management Meeting
12-Feb	CAR	CAR Group HY24 Results Call
12-Feb	CAR	CAR Group Barrenjoey Management Meeting
13-Feb	BRG	Breville HY24 Results Call
13-Feb	JHX	James Hardie Industries 3Q24 Results Call
13-Feb	CSL	CSL HY24 Results Call
13-Feb	SEK	SEEK HY24 Results Call
13-Feb	JHX	James Hardie Industries E&P Management Meeting
13-Feb	BRG	Breville UBS Management Meeting
13-Feb	SEK	SEEK Barrenjoey Management Meeting
13-Feb	CAR	CAR Group Management Meeting
13-Feb	BRG	Breville Morgans Management Meeting
14-Feb	CAR	CAR Group UBS Management Meeting
14-Feb	CPU	Computershare HY24 Results Call
14-Feb	CAR	CAR Group GS Management Meeting
14-Feb	BRG	Breville Barrenjoey Management Meeting
14-Feb	BRG	Breville Management Meeting
14-Feb	CPU	Computershare Citi Management Meeting
15-Feb	JHX	James Hardie Industries Management Meeting
15-Feb	PME	Pro Medicus HY24 Results Call
15-Feb	ALU	Altium Renesas Takeover Investor Call
15-Feb	CPU	Computershare Macquarie Management Meeting
15-Feb	CSL	CSL Barrenjoey Management Meeting
15-Feb	CPU	Computershare Management Meeting
16-Feb	SEK	SEEK Management Meeting
19-Feb	RWC	Reliance Worldwide HY24 Results Call
19-Feb	COH	Cochlear HY24 Results Call
20-Feb	ARB	ARB Corporation HY24 Results Call
20-Feb	IFM	Infomedia HY24 Results Call
20-Feb	COH	Cochlear Management Meeting
20-Feb	COH	Cochlear Barrenjoey Management Meeting
20-Feb	IFM	Infomedia UBS Management Meeting

Date	Company	Description
20-Feb	IFM	Infomedia Management Meeting
20-Feb	ARB	ARB Corporation Macquarie Management Meeting
21-Feb	IRE	Iress FY23 Results Call
21-Feb	WTC	WiseTech Global HY24 Results Call
21-Feb	ARB	ARB Corporation Morgans Management Meeting
21-Feb	DMP	Domino's Pizza Enterprises HY24 Results Call
21-Feb	TNE	TechnologyOne Annual General Meeting
21-Feb	ARB	ARB Corporation Management Meeting
21-Feb	FCL	FINEOS Corporation Holdings FY23X Results Call
22-Feb	DMP	Domino's Pizza Enterprises Management Meeting
22-Feb	ALL	Aristocrat Leisure Annual General Meeting
22-Feb	IRE	Iress Management Meeting
22-Feb	DMP	Domino's Pizza Enterprises Barrenjoey Management Meeting
23-Feb	TLX	Telix Pharmaceuticals FY23 Results Call
23-Feb	JIN	Jumbo Interactive HY24 Results Call
26-Feb	NHF	nib holdings HY24 Results Call
26-Feb	NAN	Nanosonics HY24 Results Call
26-Feb	NAN	Nanosonics Barrenjoey Management Meeting
26-Feb	JIN	Jumbo Interactive Morgans Management Meeting
26-Feb	FCL	FINEOS Corporation Holdings Management Meeting
27-Feb	ALU	Altium HY24 Results Call
27-Feb	REH	Reece HY24 Results Call
27-Feb	JIN	Jumbo Interactive UBS Management Meeting
27-Feb	ALU	Altium Management Meeting
27-Feb	PNV	PolyNovo 1H24 Results Call
27-Feb	ALU	Altium Barrenjoey Management Meeting
27-Feb	JIN	Jumbo Interactive Management Meeting
27-Feb	NAN	Nanosonics Management Meeting
28-Feb	FLT	Flight Centre Travel Group HY24 Results Call
28-Feb	PNV	PolyNovo Macquarie Management Meeting
28-Feb	FLT	Flight Centre Travel Group UBS Management Meeting
28-Feb	REH	Reece Management Meeting
28-Feb	FLT	Flight Centre Travel Group Management Meeting
29-Feb	WTC	WiseTech Global Management Meeting
29-Feb	MVP	Medical Developments International HY24 Results Call
29-Feb	PNV	PolyNovo Management Meeting
29-Feb	NHF	nib holdings UBS Management Meeting
29-Feb	NHF	nib holdings Management Meeting
1-Mar	PME	Pro Medicus Management Meeting
6-Mar	MVP	Medical Developments International Management Meeting
8-Mar	ALL	Aristocrat Leisure UBS Industry Insights Call
14-Mar	ALL	Aristocrat Leisure Management Roundtable
19-Mar	RMD	ResMed Management Meeting
19-Mar	JIN	Jumbo Interactive Macquarie Management Meeting

Date	Company	Description
21-Mar	WEB	Webjet Investor Strategy Day
21-Mar	SIG	Sigma Healthcare FY24 Results Call
25-Mar	PME	Pro Medicus Barrenjoey Management Meeting
25-Mar	PME	Pro Medicus J.P. Morgan Management Meeting
26-Mar	SIG	Sigma Healthcare Goldman Sachs Management Meeting
27-Mar	PME	Pro Medicus Citi Management Meeting