



In this quarterly edition we review performance and attribution. We discuss our stock selection process. We focus on obstructive sleep apnea specialist ResMed Inc. And finally we revisit government intervention. Photo. Whale migration coincides with reporting season in Sydney.

Dear Investor,

During the past quarter we have witnessed something rather ironic. Despite ongoing financial deadlock in Europe, sluggish growth in the US and slowdown concerns in China, world markets are hitting new four month highs. The US Dow Jones Industrial index, the London FTSE, the German DAX and even our local All Ordinaries Index have marched upwards despite the backdrop of investor uncertainty. It's hard to draw too many conclusions other than to make the observation that focusing on what drives markets is in itself rather futile.

As we discuss further in our report, investors generally approach investing from two angles. Either they form a view on the world and then make decisions based on those views or alternatively they consider each investment on a case by case basis. The first approach is often referred to as top-down investing and the second, not surprisingly, is called bottom-up investing. For our part, Selector is a bottom-up funds management business. Our skill set lies in approaching any given investment idea on an individual basis so that a view can be formed on the merits of that business.

It is an approach that makes intuitive sense to us and importantly removes the market's noise from the process. Where this approach is particularly helpful is during times of market extremes, periods not dissimilar to the issues currently facing investors today. With so much anxiety out in the market, it's little wonder that investors still view cash as an asset class currently representing the best value for money. The only problem with this approach is that it is reactionary and as we noted in our June quarterly newsletter, globally, government bond yields are pushing near zero. It certainly doesn't strike us as being a logical, well thought out investment approach.

In this quarterly newsletter, we explain why bottom-up investing works for us and follow that up with a company review on obstructive sleep apnea group ResMed Inc. Having followed the fortunes of this business since its Australian listing in 1999, the group has carved out an impressive market position, providing tangible proof of the financial returns that can be generated when wonderful businesses marry up with sensible management teams. As we will explain further in the review, there is a lot of work required to make this all happen but fortunately for the investor, all that's really required is patience, a quality sorely lacking in today's market.

Finally, over the past quarter the Fund outperformed the general market, delivering a gross positive return of **11.62%** as compared to the **8.20%** rise in the All Ordinaries Accumulation Index. We are pleased with these results during a particularly difficult investment climate.

To all our investors we trust that you find the report informative.

Regards
Tony Scenna
Corey Vincent

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Quote

Wriston Lecture 1991 – Why Government is the problem (Milton Friedman)

“The point is that the actions that serve self-interest are very different in the private sphere than they are in the public sphere. The bottom line is different. If a group of people start an enterprise in the private sphere, it may be a success or it may be a failure. Most new enterprises are failures. If the enterprise were an obvious success, it would probably already be in existence. If the enterprise is a failure, that means it loses money. The people who own it have a very clear bottom line. To keep it going, they would have to dig into their own pockets. They are reluctant to do that, so they have a strong incentive either to make the enterprise work or to shut it down.

Suppose the same group of people have the same idea, start the same enterprise in the government sector, and the initial results are the same. It is a failure; it does not work. They have a very different bottom line. Nobody likes to admit that he has made a mistake, and they do not have to. They can argue that the initial failure was only because the enterprise was not on a large enough scale. More important, they have a much different and deeper pocket to draw on. With the best intentions in the world, they can try to persuade the people who hold the purse strings to finance the enterprise on a larger scale, to dig deeper into the pockets of the taxpayers in order to keep it going. That explains what is a very general rule: if a private enterprise is a failure, it is closed down—unless it can get a government subsidy to keep it going; if a government enterprise is a failure, it is expanded. I challenge you to find exceptions.”

