Dear Investor,

We start this newsletter where we ended our last. In fact, if we reproduced the introduction to the December 2008 quarterly newsletter word for word, it would have as much relevance today as it did then. The rumbling Mack truck that we spoke of has arrived. It is fully laden with more liquidity than even the most optimistic had expected. And the jury is certainly out on what the "unintended consequences" of this action will have on all of us. Suffice it to say they are real and significant in magnitude.

Secondly, we noted the move by investors piling into low yielding US securities. And by low we meant zero. In sharp contrast, equities remained on the nose despite the historically cheap valuations on offer. Investor fear ruled.

Finally we spoke about the need to "look rather than turn away" at a time when the "fundamentals appear to have become irrelevant". The dilutive capital raisings, that were largely avoided, continued unabated from the likes of Fairfax Media, Insurance Australia Group and Westfield Group to name just a few. In all, listed companies have raised upwards of $60 billion from existing shareholders since the financial year began, while the market has shed close to 53% since its peak in November 2007.

Yet throughout, one thing has remained inescapable – that of an ever increasing number of quality businesses offered up to investors, at knock-down prices. A view reaffirmed time and again as companies reported their financial results. No one doubted that things would be tough and in many cases bad, but the sell-off has been so extreme that value was almost jumping off the screen and onto our laps.

While global equity markets have staged a dramatic turnaround from lows reached in mid March we will leave the macro analysis of where we stand today for others to ponder. Some caution the latest move as a bear market rally while others have jumped the other way and now see a clear bottom in place.

For our part, we will aim to do three things;

Firstly, we will continue to carry out analysis on as many businesses as we possibly can, at a time when extreme value is on hand.

Secondly, we will look to reposition the portfolio holdings to take advantage of these situations where circumstances allow.

Lastly we will try to communicate our investment process as clearly and as consistently as we can, so that our investors have the confidence to stay the course during a historically difficult period.

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If we can succeed on all three, then we will have the makings of delivering significant investment gains over the ensuing years ahead.

Regards

Tony Scenna
Victor Gomes
Corey Vincent

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Performance March Quarter 2009

In what turned out to be a bumpy quarter that required some nerve the Fund underperformed falling 3.6%. The All Ordinaries Accumulation Index fell 1.7% while the All Ordinaries Index declined 3.5%.

For the current financial year, the Fund has outperformed the All Ordinaries Accumulation Index by 4.5%. Portfolio performance statistics page 18.

The Perfect Business

We are always looking for the **perfect business**. One that, as if on tap, delivers a constant stream of rising profits and flowing payments of tax efficient dividends.

So what is the perfect business? To us it's strong profits, fat margins, few competitors, an established reputation and unquestionable brand loyalty.

The banks or perhaps media stocks, stock exchanges, toll roads, a home grown retailer like Woolworths or a drug company like CSL come quickly to mind. Using the parameters above and the past decade as a guide, many seem to fit the bill.

If one ventured offshore, names like Microsoft, Coca-Cola, GE, McDonald's, J&J would certainly push their way into contention. While the list seems long, things are not always what they seem.

Great companies become great companies because they chart a course without knowing their ultimate destination. In some instances, the benefits flow to the pioneers, such as Google. Others, like Harvey Norman have become leaders through market dominance and strong operational execution.

In many instances, the moats that have protected these businesses have been so deep and wide that they provided the shelter needed to deliver a growing stream of profits and dividends without fear of reprisal.

And yet, the moats that protected great businesses in the past now appear vulnerable. The one thing about change is that it is constant. Stand still and the advantage is lost. If the events of 2008 have taught us anything, it is that the notion of the perfect business is just that, a notion. Where an advantage enjoyed by one, is doggedly pursued and chipped away by others.

With hand on heart, one would be hard pressed to identify many perfect business models. Monopoly positions, once enjoyed by the telecoms and media businesses are now vulnerable to government intervention and game changing new technologies like

the internet. The fat margins that have characterised such enterprises are now under attack. And with each attack, more of the enterprise is exposed. Management teams that had built operations on historical cost structures and reliable profit margins now fight a rear guard action. Once great brands and business icons like Lend Lease, Fairfax Media and Wesfarmers, to name a few, have surely lost their advantage.

A great business is not just the business itself but also the people who run it. Today, food retailer Woolworths is recognised as a truly outstanding business, the bluest of blue chip companies. And while it has had a remarkably strong track record over the past decade, it's instructive to recall its corporate history.

Life for Woolworths began in 1924, in Sydney's Imperial Arcade with an emphasis on providing good things at cheap prices. With its unproven business offering, the company listed with only friends and promoters in support. The store became an immediate success.

No thought had been given to running a chain of stores but an opportunity to gain premises on extremely attractive terms changed all that. It seemed that the public was in need of the Woolworths offer and despite the Depression years, the group prospered.

Woolworths were pioneers. They understood the power of advertising, utilising newspapers and the relatively unknown new media of radio, with great success. Aware of overseas trends, the group continued to look outward, introducing new warehouse facilities in preparation for growing demand.

They pioneered new marketing styles, including the first "Self Service" variety store in 1955. Customers no longer waited to be served but helped themselves to product before paying at the checkout. At the rear of the stores, Woolworths also experimented with the concept of offering a limited range of grocery items including fresh vegetables, delicatessen items and fresh packaged meat.

Woolworths it seemed had correctly read the pulse of the consumer. Rapid expansion and acquisitions of existing competitors soon followed, culminating in the group's first supermarket opening in 1960. Regional expansion of drive-in supermarkets quickly spread. This was followed by an expansion into the apparel market with the acquisition of the Rockmans group.

In 1973, the company introduced the Woolworths Own Brands product line. In order to qualify for inclusion, the 200 items chosen had to be at least equal in quality to the national leader but be sold at a cheaper price. By 1974, with 50 years under its belt, the group celebrated with retail sales of $702 million and net profits of $9.9M.

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Two years later, sales exceeded $1.0 billion before doubling again by 1981. The acquisition of the Dick Smith chain of stores in 1981 was yet another example of a preparedness to move early.

Woolworths were early adopters of technology. The group's first supermarket scanning operation was introduced in 1982. In 1983, Woolworths had the world's first electronic funds transfer system at point of sale. This was followed by the introduction of computerised warehouses. By its 60th anniversary Woolworths was turning over $3.2 billion worth of sales and enjoying net profits of $57 million.

And then suddenly it all stopped. In 1986, for the first time in 63 years no final dividend was paid. Sensing the group's weakness, corporate raider Industrial Equity (IEL) pounced, snatching a 19.9% interest before on selling to New Zealand group Rainbow Corporation, who in turn was acquired by IEL's parent, Brierley Investments in 1987.

Sales had risen to $5.4 billion by this point but net profits had fallen a dramatic 85% to just $9.3 million. The group had lost its way, tackling too many fronts both here and abroad. The decision to refocus was swift and included the retirement of Chairman Sir Eric McClintock and appointment of previous Director Paul Simons as managing director. Disposal of unprofitable company assets and store closures as well as the campaign launch of "Woolworths the Fresh Food People" in 1987 arrested the slide.

In 1988, with IEL under investigation for its part in gaining virtual control of the group, a takeover offer of $3.65 per share was made for the outstanding shares. In 1989 at a total cost of $850 million, Woolworths became a wholly owned subsidiary of IEL and formally delisted, ending its 65 years listing on the share market.

IEL was in turn taken over by the Adsteam Group, before it too collapsed leaving Woolworths open to return to the public arena, which it did in 1993, backed by the largest public share offering in history. All up 1.0 billion shares were offered at an issue price of $2.45 per share. By 1994 – the group's 70th anniversary - things were back on track with sales hitting $11.5 billion and net profits of $200 million.

In 1996, petrol retailing was introduced at Woolworths supermarket car parks, followed by an alliance with Caltex petrol outlets and the 1998 acquisition of liquor group Dan Murphy.

Woolworths it seems, continues to evolve as a business. Management has come from within and has a preparedness to test new concepts and invest for the future. This has left competitors in their wake.

However, all of this is history. Today Woolworths has a market capitalisation of $30.6 billion and trades on a prospective PER of 17. The group dominates the retailing landscape with forecast sales of $50 billion for 2009, underpinned by the group's flagship supermarket division which contributes some 88% of total company sales and 80% of earnings before interest and tax. It is hard to imagine how one can continue to justify the price multiple placed on them when they, essentially are the market.

As much as we have admired the Woolworths business, we have struggled to justify the market's valuation for some time. We have chosen to follow from a distance with a conviction to act given the right circumstances. However, if we were on board today, our greatest fear would not be on the business valuation nor the business itself but on management.

When one thinks of the world's great investors the name Peter Lynch comes quickly to mind. During his tenure as portfolio manager of the Magellan Fund at Fidelity Investments from 1977 to 1990, he grew the Fund from $18 million to $14 billion, generating an average annual return of 29%. Apart from his stellar investment track record, Peter Lynch was greatly admired for his common sense approach made most famous with his quote "Go for a business that any idiot can run – because sooner or later, any idiot is probably going to run it."

Unfortunately, as much as we would like to back strong businesses that even "idiots" can't destroy; our preference is to find sound businesses run by sensible managers. Our fear is that "idiots" often unleash enormous damage, sometimes terminal. Not even well established business franchises are immune. And it is here that we turn back to the Woolworths story.

Woolworths' management has an enviable track record that every shareholder would be proud to be associated with. One in which the pursuit of sound, sensible and transparent business decisions has catapulted the group into one of our most respected companies. However, keeping investors onside is not all beer and skittles. Even for businesses like Woolworths, that have delivered in spades over the years, the institutional imperative to want more and more is not only alive and well, it is downright dangerous. And unfortunately our greatest fear is that given sufficient pressure, management will end up doing some really dumb things just to justify their credit ratings, their bonuses and ultimately their market status.

We have sufficient confidence that Woolworths CEO Michael Luscombe and CFO Tom Pocket will do what so many business leaders have so spectacularly failed to do – and that is to protect the business franchise for both current and future owners.

On this score, business leaders at groups including Fairfax Media, Suncorp-Metway, Wesfarmers and Rio Tinto - just to name a few - have a lot to answer for. It is not so

much that their respective share prices are wallowing like so many others but that they were forced to take rear-guard actions by issuing mountains of new shares at significant discounts to prevailing market prices. In essence, many of these businesses and captains of industries bet the farm using other people's money, only to see the door slammed shut in their face. The process of repairing reputations in light of the damage inflicted is of little consolation to shareholders. They have suffered the twin fate of a falling profit line and an enlarged share base. Unfortunately such actions can create negative implications, including in some cases, permanent loss of capital..

Perhaps to illustrate our thoughts we can reflect on Wesfarmers' 2007 acquisition of retail conglomerate Coles Group. Wesfarmers is a group with a stunning track record, which has prided itself on generating a satisfactory return for shareholders over the long term. The results have been achieved by adhering to a core discipline of buying and growing businesses that meet a return on capital metric well above the group's own cost of capital. Prior to the Coles acquisition in 2006, Wesfarmers reported a net profit after tax of $869 million, had 378 million shares on issue, carried total net borrowings of $1.4 billion and generated a return on capital employed of 28.4%. Fast forward 3 years and the situation is very different.

To be fair, the financial crisis has punched a hole in many businesses, but the impact on Wesfarmers has been twofold. Firstly, the group embarked on a massive "winner takes all" acquisition that had significant turnaround risk. Secondly, and this is a big no-no, the acquisition was largely funded by debt. The upshot is that management's options for dealing with the crisis are limited. The thing we fear most is not that a business has fallen on hard times, as is the case here. Rather it is the extent that mismanagement inflicts permanent damage on the share capital base and investor returns.

As things stand, Wesfarmers is forecast to earn net profits of $1.5b during 2009, on sales revenue of $50 billion. The $19 billion acquisition tag for the Coles Group burdened the company with net debt of $10 billion. The two highly dilutive capital raisings undertaken by management have since pared net debt to around $6 billion, while shares on issue have ballooned to more than 1.0 billion. This would suggest that net profits would have to exceed $2.1 billion for shareholders to be no worse off than 2006, a rather tall order when you consider that the group's coal division - which may have seen its best days - contributes a similar profit to that of the combined Coles Group. All up, the return on capital employed is set to tumble below 10% as further significant chunks of capital expenditure are required annually to turn the Coles Group around.

For our part, avoiding such situations has always been a high priority. We have spoken in the past of the "Road Map" check list that we apply to each business considered for investment. While we haven't escaped the market carnage, with many

of our investments severely battered and bruised, we largely avoided the issues now facing the companies noted above.

While the likes of Billabong, Cochlear, ResMed, Primary Healthcare, Flight Centre and SEEK have some business issues to sort through, the survival of these businesses is not subject to paying off excessive levels of debt and issuing large chunks of highly dilutive new shares. Thankfully these are not the issues that have kept us up at night.

At a time when more and more investors have decided enough is enough, the check list of things that keep us grounded in our thinking and which we deem vital to the long term health of any business revolves around four key areas. And when we find a business that can jump these hurdles, we invest with confidence.
Firstly, we seek to measure the **return on capital employed** (ROCE) over a multi-year horizon. This ratio forms the core of our process for the simple reason that it indicates how well a company is utilising its capital to generate earnings. Here we are focused on the un-geared return on total capital employed so that the use of debt is taken into account. The ROCE should be higher than a business's total cost of capital; otherwise any additional capital invested in the business will reduce shareholder returns. The focus is not the share price but whether a business is earning its keep. And if it isn't, piling on more debt will, in time, bring the structure undone.

Secondly, we assess the various measures of **earnings quality** of a business such as its cash flow quality. High reported earnings are not as important as high-quality earnings. High quality earnings are transparent, repeatable, controllable and, importantly, bankable. Earnings that are the result of large one off events may not be repeatable and are of low quality. Importantly, those businesses that generate earnings but not cash may not be sustainable. When we invest, we make sure the company is taking its earnings to the bank.

Thirdly, we aim to measure the **financial leverage** of any given business. This is essentially a risk management tool. Our focus is debt. Debt may sit on or off the balance sheet. Examples of off balance sheet debt are the operating leases that the business is contracted to. The main output is a coverage ratio which measures the multiple by which earnings before interest, tax and amortisation (EBITA) cover the total financing costs of the business. The higher the level of cover, the more resilient a business is to operational or economic setbacks.

Lastly, we pay particular attention to the **capital management** of a business. This is a key measure on management as proper "stewards of our capital". In this regard if we were to lose any sleep, it would be to the extent that management was exposing the business to the permanent loss of earnings power. This includes share capital issued or bought back by the company, capital required to maintain the operating business and any new capital required to grow. Done poorly, the flow on consequences to the owners of the business will most likely prove disastrous.

Businesses will go through some lean times. But to avoid them when valuations are as attractive as they are today, makes little sense even though the holding period can be an emotionally scarring process. As Peter Lynch noted, "When stocks are attractive, you buy them. Sure, they can go lower. I've bought stocks at $12 that went to $2, but then they later went to $30. You just don't know when you can find the bottom."

Finding decent businesses, run by good managers, selling at sensible prices is ultimately what it is all about. No business can fully protect itself against the economic perils of tough times but good managers can chart a course that gets you safely to the other side. And, frankly, when all is said and done, those that have run aground will be more than offset by those emerging stronger and more dominant in their chosen business field. On this score, we remain steadfast in our belief that great businesses, selling at attractive values are now on offer.

Trip down memory lane

Sometimes experience can be a hindrance. On other occasions it helps to keep you out of trouble. During the past quarter we presented to a number of financial investors on the economic state of play. We don't profess to be experts in this field but our personal involvement in the markets dates back a few decades so we were prepared to offer an opinion. The information compiled and reproduced below serves as a welcome discussion point as we contemplate the challenges ahead.

Table 1: The Seventies

	Annual GDP Growth %	Annual CPI %	Unemployment rate %	10 year bond yield	90 day bank bill
Jun-70	8.40	3.55	4.9	6.86	8.70
Jun-71	2.20	5.14	5.9	6.83	8.15
Jun-72	3.89	6.52	5.6	5.85	5.75
Jun-73	3.50	8.16	4.9	6.72	6.40
Jun-74	0.76	14.62	5.6	9.52	18.80
Jun-75	5.16	16.87	8.5	9.50	8.80
Jun-76	2.24	11.97	7.7	9.99	9.31
Jun-77	2.46	13.52	7.0	10.41	10.95
Jun-78	0.09	8.03	6.3	9.10	10.83
Jun-79	3.41	8.72	6.2	10.00	10.26

Table 2: The Eighties

	Annual GDP Growth %	Annual CPI %	Unemployment rate %	10 year bond yield	90 day bank bill
Jun-80	10.40	10.85	6.3	11.76	13.83
Jun-81	4.55	8.72	5.4	13.10	15.58
Jun-82	1.29	10.76	6.8	16.40	18.57
Jun-83	-3.37	11.13	10.2	14.70	14.24
Jun-84	7.85	3.97	9.1	14.10	13.77
Jun-85	6.29	6.57	8.6	13.80	15.29
Jun-86	1.28	8.46	7.5	12.95	14.68
Jun-87	4.34	9.26	7.8	12.80	13.68
Jun-88	4.39	7.14	7.2	11.95	13.10
Jun-89	5.17	7.57	5.9	13.50	18.37

Table 3: The Nineties

	Annual GDP Growth %	Annual CPI %	Unemployment rate %	10 year bond yield	90 day bank bill
Jun-90	1.93	7.67	6.5	13.40	15.02
Jun-91	-1.58	3.41	9.0	11.17	10.39
Jun-92	1.30	1.23	10.7	8.90	6.42
Jun-93	4.44	1.86	10.7	7.37	5.22
Jun-94	4.96	1.74	9.7	9.63	5.12
Jun-95	3.31	4.50	8.1	9.21	7.55
Jun-96	4.12	3.10	8.0	8.88	7.57
Jun-97	4.84	0.03	8.2	7.05	5.35
Jun-98	3.88	0.67	7.9	5.58	5.32
Jun-99	5.20	1.07	6.7	6.27	4.93

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Table 4: New Century

	Annual GDP Growth %	Annual CPI %	Unemployment rate %	10 year bond yield	90 day bank bill
Jun-00	4.11	3.19	6.2	6.16	6.23
Jun-01	1.00	6.02	6.9	6.04	4.97
Jun-02	4.81	2.84	6.5	5.99	5.07
Jun-03	1.99	2.69	6.1	5.01	4.67
Jun-04	4.78	2.48	5.5	5.87	5.49
Jun-05	2.78	2.49	5.0	5.11	5.66
Jun-06	2.59	3.98	4.8	5.79	5.96
Jun-07	3.92	2.07	4.3	6.26	6.42
Jun-08	2.93	4.51	4.3	6.45	7.81
Jun-09	1.0?	3.0?	6.0?	3.00?	2.50?

As the tables highlight, the past four decades provide some useful reference points worthy of discussion. Those with longer memories will recall both the market highs and lows that at the time made little or no apparent sense. For our part, the numbers are a stark reminder that relying on economic forecasts for investment guidance is fraught with danger.

As you look through the decades and down the column headings, ask yourself this question: "Would I have invested knowing these facts beforehand?"

Obviously "The Seventies" continues to haunt those in Government and anyone that understands what happens when you mix high inflation, high unemployment and high interest rates. For almost a decade, the country suffered under the weight of debilitating conditions and yet annual growth measured by GDP remained solid throughout.

Early in "The Eighties" a slowdown, followed by robust growth accompanied by high inflation, high unemployment and high double digit interest rates again featured. How anyone made money out of the share market during this period is anyone's guess but they did.

"The Nineties" still serves as a cold reminder of how it feels to go through a recession. While inflation was largely laid to rest, high levels of unemployment and high interest rates early in the decade, tested the nerve of many who saw value in the markets.

Finally "The New Century" brought better news on the economic front. Solid growth numbers, accompanied by low inflation, low unemployment and a low interest rate environment provided a cheery investment background.

So what can we say going into the next decade? Many now talk of a long and deep recession while others point to the death of the consumer and the likely re-emergence of inflation - this time things must be different. No doubt, the many market experts from the International Monetary Fund (IMF), The World Bank, the Organisation for Economic Corporation and Development (OECD) and our own think tank – The Reserve Bank - will keep us duly informed of the state of play.

Having already spent more than enough time on this subject we will leave the last words to Peter Lynch "If you spend more than 13 minutes analysing economic and market forecasts, you've wasted 10 minutes." At Selector, we are in a similar mind to that of Lynch, preferring to focus our attention on things within our control and understanding.

WorleyParsons (WOR) added to the portfolio

In this quarterly's introductory comments, we spoke about how the investment landscape was now producing attractive business opportunities at knock down prices. It is our view that some time down the track, investors will look back on this period as having provided some outstanding investment opportunities to buy top shelf products selling at bargain basement prices. Into this basket we would now include WorleyParsons - a business that was added to the portfolio with a 5% weighting and an average entry price of $14.87 per share.

WorleyParsons is a business that we missed when it floated back in November 2002 at the then issue price of $2.00 per share. That we missed it was perhaps more to do with the fact that we were in the midst of establishing the Selector business itself.

More important, however, is the fact that the company chose to float at a time of weak share market conditions. No boom time valuations to underwrite big payoffs for the founders but an internal desire to bring to the public arena a business with aspirations to grow.

At this point we introduce the group's founder and current chief executive officer, John Grill. The business was founded by Grill in 1971, operating a small engineering consulting practice called Wholahan Grill and Partners. Growing steadily over the ensuing years, the big move came in 1986 when it acquired the local and Asian interest of Worley, an American based engineering firm with a strong reputation in the offshore oil and gas industry.

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While a name change to Worley followed soon thereafter, the basis on which business was conducted had stood the test of time and remained unchanged. Specifically, Grill and his team were and remain firm believers in the principles of partnering both in respect to individual customers and regions in which operations are undertaken. In short, the value of building alliances based on mutual respect for each party has allowed the group to enjoy long standing relationships stretching over decades with companies like Woodside Petroleum (20 years) and Shell (14 years). As their success and demand for new oil and gas projects has grown, so too has the need for reliable technical expertise from their suppliers.

In 2004, Worley acquired the business of US based Parsons E&C, a business of similar pedigree to its own. With a history dating back to 1944, Parsons' has an excellent reputation in designing, constructing and managing major infrastructure projects. These include power plants, chemical facilities and gas processing plants. It provided an excellent fit for Worley, symbolised with a name change to WorleyParsons.

Further bolt on acquisitions followed, including the 2007 buy-out of Canada's largest engineering group, the privately held Colt Companies, for more $A1.1 billion.

Today WorleyParsons' operations span 34 countries and 118 offices with over 31,000 employees. The group's service offering encompasses the entire project lifecycle from identification to actual operation of large scale infrastructure projects.

While the Hydrocarbons division (oil & gas) still dominates, providing the group with over 70% of total revenue and earnings contributions, WorleyParsons' evolution has seen its involvement grow in the areas of Minerals & Metals (base metals), Power (including nuclear plants) and Infrastructure & Environment (including desalination plants).

Since listing the group has maintained an impressive earnings track record combined with an equally impressive share price performance. With the assistance of CFO David Housego since 1999, CEO Grill has diligently and conservatively guided the group forward. While net debt has risen on the back of the two major acquisitions undertaken during the past five years, gearing remains conservatively set, with current interest cover of 12.7x and a gearing coverage ratio, that includes operating lease expenses, of 6.4x. Just as important, issued capital has remained tight, rising only 62% at a time when net earnings have jumped thirteen-fold. Return on capital employed remains impressive, hovering above 20%.

Table 5: WorleyParsons Financial Snapshot

$'M	2003	2004	2005	2006	2007	2008	2009 (e)
Revenue	377	374	1249	2417	3513	4652	6000
Operating Margin %	11.0	13.1	9.7	9.1	10.2	12.7	11.6
EBITDA	41.4	49.0	117.0	219.9	353.4	587.0	694.0
EBITA	35.6	43.8	107.6	201.4	336.4	544.5	647.0
NPAT	25.9	30.7	66.5	139.1	224.8	343.9	396.4
Net Debt / (net cash)	(30.9)	(13.0)	6.0	53.7	398.2	629.2	615.0
Market Capitalisation	303	430	1604	4090	8177	9154	4370
Enterprise Value	272	417	1610	4144	8575	9783	4985
Earnings Yield %	11.8	9.7	6.7	5.0	3.8	3.5	13.0
ROCE %	34.9	30.3	23.0	38.0	17.8	23.6	24
Cover ratio	5.0	6.6	28.5	5.2	5.4	6.1	6.4
GOCF / EBITDA %	87	38	99	80	73	56	90
Earnings per share ¢	17.3	20.6	32.4	67.9	93.6	142.1	163.3
Dividends per share ¢	5.0	12.0	20.0	41.0	60.5	85.5	76.0
PER	11.7	13.9	24.2	29.4	36.3	26.7	11.0
Dividend Yield %	2.5	4.2	2.6	2.1	1.8	2.3	4.2
Share Price 30 June $	2.03	2.88	7.83	19.96	34.00	37.86	18.00*
Issued Capital	149.3	149.3	204.9	204.9	240.5	242.1	242.8

Quant Screen (Earnings Yield %, ROCE %, Cover ratio, GOCF / EBITDA %)

* Price at time of writing Apr 2009

All in all, while we acknowledge the dangers of management that looks to acquire growth, to date, they have done so only where the price, culture and opportunity justified the move.

At the end of the day it is also reassuring to know that the majority of the board and management have significant stakes in the business. Grill himself retains a 13.6% share interest in the group, valued at $627 million.

Having missed the opportunity to invest in WorleyParsons the first time around, along with a share price that hit a record high of $54.19 in December 2007, the global events since have allowed investors to re-examine a whole host of excellent businesses at more realistic valuations. While the business is not immune to contract cancellations and earnings impacts, the 2009 interim result highlighted the group's

defensive earnings qualities and management's confidence in sustaining growth, culminating in a number of significant contract alliance wins.

While buying into WorleyParsons when valuations were stretched was not a recipe for success, we suspect that on a current earnings yield of 13.0%, investors are being more than compensated for the inherent risk that now exists.

More importantly, management as stewards of capital, have charted an appropriate and commendable course. When combined with other important financial metrics discussed in our earlier piece, the decision to invest was a much easier call and makes far more sense, than the considerable energy investors expend on trying to predict a market bottom.

Government Intervention

Governments of all persuasions are feeling the financial pressure as they scrabble to deal with a host of economic issues. One can't argue that some intervention is necessary but it is ironic how many of todays issues stem from actions taken years earlier.

For example, the stock markets in the US have operated on the uptick rule when it came to investors selling stocks short – selling a stock that the seller doesn't own in anticipation of lower share price. This rule was introduced during the last major downturn in 1934 and required every short sale transaction be entered at a price higher than the price of the previous trade. The rule prevents short sellers from adding to the downward momentum when the share price is already declining.

That rule stood for 73 years and was lifted in July 2007, which incidentally coincided with a top in the US share market. Fast forward today and Governments are now scrambling to reintroduce this rule as well as new ones surrounding mark to market accounting. We only hope that whatever legislation is introduced, the implications are thought out and progressive in nature.

New website

Our website is new and improved and is now internally controlled.

www.selectorfund.com.au

COMPANIES VISITED DURING THE 3rd QUARTER 2008-2009

January			
	DOW	Downer EDI management meeting	13/01/09
	OSH	Oil Search investor relations meeting	19/01/09
	PXS	Pharmaxis site visit	09/01/09
February			
	MQG	Macquarie Group investor update day	05/02/09
	RMD	ResMed second quarter conference call	06/02/09
	PRY	Primary Healthcare interim results presentation	09/02/09
	PRY	Primary Healthcare site visit	10/02/09
	COH	Cochlear interim results presentation	10/02/09
	CBA	Commonwealth Bank of Australia interim results	11/02/09
	CPU	Computershare interim results presentation	11/02/09
	BXB	Brambles interim results presentation	16/02/09
	WES	Wesfarmers interim results presentation	16/02/09
	SRX	Sirtex management visit	16/02/09
	ASX	ASX interim results presentation	17/02/09
	CSL	CSL interim results presentation	18/02/09
	FXL	Flexigroup interim results presentation	18/02/09
	CAB	Cabcharge interim results presentation	19/02/09
	BBG	Billabong interim results presentation	19/02/09
	STW	STW Communications Group full year results	19/02/09
	FXJ	Fairfax Media interim results presentation	23/02/09
	IRE	Iress Market Technologies full year results briefing	23/02/09
	ALL	Aristocrat Leisure full year results presentation	24/02/09
	FLT	Flight Centre interim results presentation	24/02/09
	NHF	NIB Holdings interim results presentation	25/02/09
	WOR	WorleyParsons interim results presentation	25/02/09
	SEK	SEEK interim results presentation	25/02/09
	TLS	Telstra interim results presentation	26/02/09
	TTS	Tatts Group interim results presentation	26/02/09
	DOW	Downer EDI interim results presentation	27/02/09
	QBE	QBE Insurance full year results presentation	27/02/09
	ROC	ROC Oil full year results presentation	27/02/09
	WOW	Woolworths interim results presentation	27/02/09
March			
	TSE	Transfield Services interim results presentation	02/03/09
	ETC	Entertainment Media & Telecoms Corporation	03/03/09
	FLT	Flight Centre management meeting	04/03/09
	ASX	ASX management meeting	05/03/09
	LYL	Lycopodium management conference call	09/03/09
	NHF	NIB Holdings management meeting	10/03/09
	CNX	Carbon Energy management meeting	12/03/09
	ACG	AtCor Medical management meeting	13/03/09
	IRE	Iress Market Technologies management meeting	17/03/09
	SIP	Sigma Pharmaceuticals full year results presentation	23/03/09
	SEK	SEEK conference call	24/03/09

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