

## FUND PERFORMANCE

Since inception in December 2004 the Fund has delivered a compound annual return of 13.6% to 31 March 2008 (inclusive of \$0.0709 cents in distributions). The All Ordinaries Accumulation Index has compounded at 15.5% over the same period. Statistics page 14 *SFM*

## BIG PICTURE

### What a quarter

Gut wrenching is how we would describe it. Sometimes words just aren't enough. This past quarter had it all, so much so that we have tried to cover some of our thoughts in a series of short articles titled; "Truth", "Fear", "Volatility", "Debt", "Our Unit Price", "The Way We Invest", "The Reporting Season", "Experience", "A Good Surf", "Our Thoughts On Inflation And Interest Rates" and finally "The Message In Water" ~ a lighter note for what it's worth ~ just to round it all out.

We hope you find it a worthy read, perhaps even reassuring in these volatile times. Our aim is to explain why, with a backdrop of uncertainty, fear and a falling unit price, we not only remain confident of the future but look forward to these turbulent times as providing a sound backdrop when making good long term investment decisions.

*SFM*

### Truth

In our last quarterly we noted several examples of marketing spin used by management teams. Since our quarterly is read by many of the managers of businesses the Fund holds shares in, we thought it wouldn't hurt for them to reflect on their own communication policies.

So it is only appropriate that we start with some straight shooting of our own.

This is the first quarter that our short-term results have soured our longer-term track record.

In short, we didn't pick the top of the market nor are we likely to pick the bottom either. These were never our aims, even though many managers profess to have the skills to perform such feats. Rather with a backdrop of pessimism we remain totally focused on achieving our long-term investment objectives. To this end we will not deviate from making the tough calls despite the short-term pain that may result. If we fail to execute on this point, we ultimately fail you, our investors.

*SFM*

***"As difficult a quarter as I  
have seen in 30 years on Wall  
Street"***

*Merrill Lynch chief executive John Thain.*

### Fear

Fear took centre stage during the past quarter with its impact on the general market, sharp, broad and in some quarters unbelievably brutal. From its peak last November the All Ordinaries Index shed over 21% to close at 5409.7. The full extent of the fall only cushioned by the robust resources sector led by heavy weights BHP Billiton and RIO Tinto, who combined account for some 16%% of the Index. Financial stocks took the full brunt of the sell-off, with the major Australian retail banks falling 30% from their recent highs.

In this context it can be said that these aren't normal times.

The last time we uttered these words was in our 31 December 2006 quarterly report in relation to our excess investment returns and our "batting average" of \$11 gained for every \$1 lost. At the time, we said it would be arrogant of us to expect to maintain

that ratio. Furthermore we said it was too high to be sustained over the long term and a more realistic target was somewhat lower.

This time round the investment mood has turned decidedly negative with words like financial dislocation, credit crunch, corporate collapses, banking turmoil, bailouts, write-downs, foreclosures, panic and loss of trust becoming all too common.

***“Worst financial crisis since the 1930’s”***

*George Soros*

And if you ever needed evidence that things are out of hand take a look at the unfortunate comical events of Mick Gatto appearing on the front page of national newspapers as a self appointed receiver to the sad Opes Prime demise.

As we write, Lift Capital, another unknown aggressive margin lender has collapsed. Other unknown names are now being bandied around daily.

Undoubtedly this market is testing the nerves of all investors.

The flip side is long term opportunities are now being thrown up on an almost daily basis.

However the roar from the stand – SELL – grows louder by the day. And over the past quarter the crowds jeering has proven to be remarkably accurate.

We believe such fear will **ultimately** run its course and give way to common sense. Common sense will return once confidence in the credit system and the general market is restored. And confidence will

return when the fundamentals become compelling.

Ultimately is underlined in the preceding paragraph because we don’t know when. How can we!

While it may not be any time soon, our confidence comes from the fact we have seen fear played out in financial markets time and again. In that sense this period is no different.

***“The current credit crisis is the most wrenching in the last half century and possibly more”***

*Alan Greenspan*

In fears wake we now see good businesses, sustainable ones, those with capable management operating quality franchises selling at attractive valuations, some even at wonderful prices. They come up rarely but when they do, even if the outlook is less certain they should be snapped up.

And when is the outlook ever really certain? We try to answer this with some facts a little later. **SFM**

### **Volatility**

To get a sense of the fear in this market we had a look at the trading volatility over the quarter. Overall, the March quarter consisted of 61 trading days and we measured the daily trading range from high to low. On only 7 days, the index ranged less than 1%, but on 28 days the index move swung between 1% and 2% and on the 26 scariest days, or 43% of the quarter, the index swing was greater than 2% daily. See table below

Period	Daily % Range All Ord Index	Days	% Total
<b>Mar Qtr</b>	< 1%	7	11
	> 1% - 2%	28	46
	> 2% - 3%	19	31
	> 3%	7	12
<b>Total</b>		61	100

Across the globe the VIX index (now that sounds intimidating) reached a 5-year high of 31.16% in mid March. The VIX is the Chicago Board Options Exchange Volatility index. See chart.



The last time the VIX hit intra day highs above 30 was on 23 January 2008 and in August last year following the first sub prime scare.

Rather than just reflecting the emotional impact on investors, volatility blowouts are a good leading indicator that has historically coincided with significant market lows.

This time around the March spike coincided with the US Federal Reserve's radical bail out of Wall Street investment firm Bear Stearns - an action not seen since the depression.

Each time volatility spikes, we are closer to an eventual bottom, noting that the longer the period, the stronger the recovery. *SFM*

### Debt

More important than fear or volatility is debt. Debt is long term, it won't just go away or dissipate like fear and volatility. Debt is a topic that has regularly featured in our newsletters.

We have noted that many investors have embraced an array of today's equivalent of "get rich quick schemes", from Contracts for Difference (CFD) to hedge funds and margin lending products, without

due respect to the risks involved.

Our "Road Map" highlights a company's level of debt as a key criterion when we are considering its investment qualities. In short, we just don't like debt and we seek to avoid businesses and managers that have little understanding of the impact it can have on a business.

The fact that debt is no longer freely available, as a result of the credit crunch, has impacted nearly every asset class, possibly with the exception of resources where we maintain a healthy long-term exposure.

To this end, the events unfolding in the market place are both necessary and painful. Necessary in that balance needs to be restored and the level of greed restrained so as to allow the market to operate in a more orderly fashion. *SFM*

### Unit Price

This quarter the fear, volatility and the credit crunch have resulted in wide spread pain. Investors in our Fund have seen the stock market and unit price decline considerably during the past quarter. While we take no delight in such an outcome we reaffirm our confidence in our investments and the philosophy that underpins them. To add some substance to this we refer to the three articles listed below under the headings "the reporting season" which finished this quarter, "the way we invest" and our "experience".

That we have no control on a company's share price - fluctuating day to day - highlights perfectly why investors need to take one step back and approach the investment from a different perspective. Price is important but what is more important is the type of business and the quality of people that underpin it.

So while the Fund's unit price may be telling us one thing, we draw considerable comfort from the knowledge that the management teams of businesses owned by the fund, have strategies and offerings that extends well beyond next week, next month, or even next year. These strategies are set to deliver sustainable income streams, high returns on equity and what we refer to as real earnings per share growth. *SFM*

### **The way we invest**

Inexperienced investors will be scrambling to stem the damage, reduce debt, remedy failing investment strategies or even apportion blame through increasing use of class actions. We don't think the answers lie here.

We won't be opting out or changing what we do or how we do it. We aim to continue buying businesses that offer good to excellent value. We will hold them over the medium to long term. And we won't use debt, leverage, a prime broker or any other financial wizardry that has become standard practice in the industry.

When the financial markets go down we are likely to follow, sometimes more so and sometimes less. Our investment process – outlined in our Road Map approach - has worked well in the past and it will continue to work well in the future. Rather than changing what we do, we have the experience that allows us to stay focussed. *SFM*

### **Reporting Season**

During the March reporting season, all bar one of the Funds underlying investments reported their interim or full year results.

Fifteen of the seventeen businesses reported higher profits while ten were accompanied by higher dividend payments. Under more normal circumstances these are the facts that really should

matter to investors.

During the quarter we added three new businesses to the Fund, namely Macquarie Bank, Primary Healthcare and Aristocrat.

While our timing has been less than ideal and the violent swings in daily prices have surprised us, our entry points give us enormous confidence that we have bought great businesses at attractive prices. That's not to say they won't get cheaper in the interim.

As we sit here and write in early April we are seeing some early signs of improvements in credit market operations. We believe this is the key issue, over and above any talk of recessions in the USA or elsewhere.

We note that professionals are starting to buy securitised debt obligations that were toxic only two months ago. Citi, one of the largest holders is set to ink the sale of some \$13B in risky loans at 90c in the dollar to a group of US private equity firms. This seems like a more attractive get out for Citi than we had expected. In addition to this, several banks have successfully raised capital including Lehman's who was rumoured to be the next cab off the rank. The recapitalisation of balance sheets is certainly a step in the right direction. *SFM*

### **Experience**

So where do we draw our confidence from? Selectors' two fund managers have been involved in the financial markets for a considerable number of years. In fact, when combined it's a little over forty. And that number almost doubles when our chairman's experience is thrown in. Since this year marks a significant milestone for Tony we thought a little interview was in order.

Direct quotes are in italics.

Tony's experience dates back to the early 1980's, so here we reflect briefly on some lessons he has learnt over the past quarter of a century and while staying calm in troubled times pays off.

It's almost 25 years to the day that after completing an economics degree, Tony accepted a position at Perpetual Trustees Australia as an investment analyst. Up to that point he had elected to continue working at his local Balmain hardware shop rather than accepting advice to take one of the various accounting jobs on offer.

The time was 1983 and the funds management industry was in that "awakening period". There were really only the trustee companies and some insurers to choose from. Tony remembers being pretty green picking up that first annual report but Perpetual provided some experienced heads and plenty of rope for someone eager to learn.

*"You learnt, and you put it into practice. Detailed analysis was followed by internal discussions. Decisions were made on a case by case, business by business basis. It was a slow, thoughtful investment process".*

Ultimately, any actions taken were reflected in the results of the portfolios managed. Over the years, Perpetual has blossomed by sticking to its knitting while its track record has stood the test of time. It has even created its share of "super star managers" including the likes of Anton Tagliaferro and Peter Morgan as the funds management industry "emerged".

During those early years Tony invested some of his own money into businesses he had analysed. His first investments were two relatively unknown stocks, Allgas Energy and Westinghouse Brake & Signal.

Both companies were relatively small in market capitalisation terms and had incomes that were

subject to cyclical swings. These factors were offset by strong market positions and overlooked share prices.

After holding both companies for the best part of the 1980's, the 1987 crash was an emotionally difficult period to stomach. In a matter of days, tremendous value was wiped off both businesses. For a budding fund manager it was hard to swallow.

*"As financially draining as the situation was, the fact of the matter was the business fundamentals had not altered."*

Tony learnt that,

*"Time and again the market tests your current view. If you base that view on anything less than fundamentals you end up responding emotionally".*

*"If the business had not materially altered, why would my assessment of it be so materially different now with the shares trading significantly lower?"*

At such extreme moments in history, it's amazing how the view of the average investor can turn on a dime. Anything remotely positive is discarded, while the mere mention of concern is fanned like a fire through a forest.

*"Looking back today I've come to realise what a difficult decision that must have been - to hang on particularly when markets are full of fear."*

In both the Allgas and Westinghouse examples, the holdings were maintained. With no debt or leverage attached to these holdings the decision to remain invested was free of any financial constraints or external forces pushing for a sale.

The businesses continued to prosper and as luck would have it, take overs occurred in later years, at significant premiums to their pre-crash prices.

Patience was ultimately rewarded in a monetary sense but more importantly the experience gained was forever.

And it was handy experience to have for the events that would unfold over the ensuing years - and there were plenty. None more so than the Labour Government induced recession we had to have of 1990-92.

While many compare the impact of the 90's recession to the financial carnage in today's international markets, a domestic recession has the added disadvantage of leaching away the ability and desire of business to forge ahead.

To this list we can add the experiences gleaned from the 1994 bond market sell off, the 1997 Asian crisis which saw 20% wiped off the All Ordinaries Index in one month – along with the collapse of hedge fund Long-Term Capital Management in 1998 and the technology bust that resulted in the market giving up 22% from its peak before bottoming out in March 2003.

While these events can steel you for future events they are never easy to traverse. And each time the circumstances are slightly different.

*“Ultimately though, there is a consistent pattern. That is, the markets recover and investors return to the business fundamentals. That's my experience over the past 25 years and I doubt that this time is any different”. SFM*

### Experience of others

Drifting around our office is an old copy of the March 2005 edition of Fortune magazine and an article titled “The Best Advice I Ever Got”, which under the circumstances is rather timely

Warren Buffett (CEO of Berkshire Hathaway) responded:

*“I had two mentors: my dad, Howard Buffett, and Ben Graham. My dad was a totally independent thinker. I suppose the fact that he was has influenced my own thinking some when it comes to buying stocks. Ben instructed me some there too. He said, you're neither right nor wrong because others agree with you. You're right because your facts and reasoning are right”.*

Andy Grove (Founder Intel Corporation) responded:

*“The best advice I ever got was from Alois Xavier Schmidt, my favourite professor at the City College of New York. A saying of his stayed with me and continued to influence me as the decades unfolded. He often said, when everybody knows that something is so, it means that nobody knows nothing. Time and again Schmidt's saying prompted me to think for myself, go back to first principles and base knowledge on facts and analysis rather than on what everybody knew”.*

As a follow up we would highly recommend Andy Grove's book “Only the Paranoid Survive” which describes Intel's rise to become the world's largest computer chipmaker and the critical challenges that were faced. Respected business consultant the late Peter Drucker noted,

*“This terrific book is a dangerous book. It will make people think”.*

We can certainly vouch for that. So during this period where facts become rumours and rumours become fact we aim to remain calm, focused and independent in our thinking. *SFM*

### Some Facts

In our earlier article above we posed the following question.

When are things ever really certain?

Well let's look at some facts.

	<b>Certain</b>	<b>Our View</b>
US in recession	No	Yes
US rate cycle bottom	No	1 more cut
Aussie interest rate cycle peak	No	Yes
Unprecedented urbanisation in China	Yes	Yes
Unprecedented urbanisation in India	Yes	Yes
World credit markets re opening	No	Some signs
World wide economic growth 08-09	No	Yes
Inflationary pressures	Yes	Yes

We figure these are the big picture questions share markets are currently grappling with.

The answers to these and the flow on impacts are likely to be the drivers of markets during 2008-2009. The point here is that while it may be easy to identify the issues at hand, in 5 of the 8 items raised, we can't really be certain of the outcome. Sure, we all have an opinion, but by the time there is certainty the markets will have already shifted or "looked through" the events.

Let's consider a number of these. Firstly, unlike popular opinion, the academics at the National Bureau of Economic research that provide evidence of recession in the US, require a significant decline in economic activity across a number of months, normally visible in real GDP. Not the popular belief of two consecutive quarters of falling output. So you would bet that their definition of recession has been achieved. And recent comments from the Federal Reserve chairman that they will take "policy action where required" suggests there are more rate cuts to come. We think one.

We will consider the Australian interest rate policy question a little further on. There we state our views pretty clear.

And yes, China and India continue the massive drive to urbanisation. Tangible evidence is very apparent. But we think it is also clearly borne out in the International Monetary Funds (IMF) World Economic Outlook published on 9 April 2008. The expectation is for global growth of 4.9% in 2007 to

moderate to 3.7% in 2008. This is hardly cliff edge stuff. Yet at the same time they have slashed expectations for the US.

Our point here is that presently, fear and uncertainty remains top of mind for the majority of investors. We are seeing this played out daily and as such not only are our investment views being challenged but also the courage to see it through.

We believe a consistent investment philosophy will prevail under these difficult circumstances. Rightly or wrongly the stock market is not a one-way street, where prices just go up. Human psychology is involved here, and it swings wildly as a result of multiple external stimuli. At present the bulk of the stimuli are fear related.

We have also included some light reading, a little further in the report, on one "interesting scientific body of thought," relating to fear and the potential physiological impact on humans. *SFM*

### **Good surf**

Bumpy markets aside, we continue to wear out the shoe leather, get outdoors and visit companies. But this time it was board shorts and thongs. At Manly Beach one sunny morning in March we paddled out for a surf with Luke Egan, a former world number two rated surfer, Derek O'Neill, Billabong CEO and Shannon North, Billabong Australia's general manager. It was a good way to get to know the management team at the start of the first Billabong investor day.

There are no "John Fletcher's" in Billabong (former Coles boss who had famously never been in a supermarket), as all these guys could surf well and obviously love the industry. Listening to a CEO give a full day presentation in thongs and boardies takes a little getting used to.

Billabong is a company with \$1.2B in sales and “is putting systems in place to handle future sales of \$2B, \$3B, \$5B” (no time frame given) by owning and managing the best youth brands around the globe. They delivered no financials. The day was all about the brand intangibles.

First up we toured a couple of surf shops. We visited one competitor shop (Quiksilver) that was 3000sq metres of prime retail space, requiring staffing of up to 90 in peak season. For retail, this is big business and just a small part of the global \$7.4 Billion surf industry that grew at 14% last year. Snow and skate sales are not included in this figure.

Next we heard from the group heads of the Australasian, European and American operations. From their presentations it became apparent that the Billabong business remains immature in many countries and territories globally, with Europe and Asia particularly attractive. Globally sales per capita range from \$12 in the mature Australian and New Zealand markets to 10 cents in Germany and less than 1 cent in Asia.

While they do not have a predetermined store roll out programme Billabong plans to open new shops in nearly all developed countries and in seemingly odd places like Italian cities (no surf) and Peru. Sales in Eastern Europe (land locked), while early days, are performing strongly. Mall based store exposure across the USA also remains a big opportunity in the group’s brand coverage, not to mention Asia.

CEO Derek O’Neill explained that the Japanese youth market follows US youth trends and the larger Asian markets - China in particular, follow Japanese youth culture.

To supplement growth in the core Billabong brand, an array of emerging businesses have been acquired within the board sports industry with the aim of maintaining fully independent management teams,

focused on nurturing the brand’s identity and culture. Management note this as the key to maintaining credibility within the targeted youth demographic.

This strategy enables Billabong to take charge of the critical areas where strong experience counts and where many start-ups stumble. They include product-sourcing, manufacturing, supply chain and financial support, while also providing a strong distribution channel to market, developed over 35 years.

Under Billabong’s corporate wing these new businesses now include Nixon, a sport watch company; Element, a skateboard and apparel company; Tigerlily, a bikini company; Mrs Palmers, a surf wax company; and Von Zipper a sunglasses company; They are generally fast growing businesses. Von Zipper for example has seen sales grow from \$1M to \$38M while rival surf sunglasses company Oakley, with sales of \$700M, was recently sold to Luxottica for \$2.1B.

Half way through the day we noticed a sun grizzled mature gent sitting quietly at the back. Gordon Merchant and his wife founded Billabong in 1973, cutting board shorts on his kitchen table in their Gold Coast flat. Today he retains 16% and is the largest shareholder.

As one surf industry identity noted “guys used to surf in stubbies, which gave a horror rash, took a full week to dry and stunk the back of the panel van”.

While the memories are colourful the industry has morphed. We asked Merchant about some of the surf brands we wore in our teens that had since disappeared. He put this down to focus. Merchant believes some of his peers didn’t see or grasp the opportunity. His father had instilled in him that if you are lucky enough to get an opportunity you better take it for all it’s worth.

Our fear is that the industry is more fashion oriented today than at any time previously. Gordon Merchant didn't agree. He thought this was an internal control issue. Merchant noted that designers would come up with new ideas every day and that was their job. But they needed to be controlled and focused. The reason is that commercialisation of product requires a fundamental understanding of other elements including resources, buying power and supply chain to name a few. He boiled it down to people. He thought that today as an "observer" the Billabong management team was the strongest in the company's 35-year history.

Overall we see a low debt, high margin business, operating in an under penetrated, growing surf and sports market and competing as either market leader or number two against main rival Quiksilver.

Concerns of a US slow down and or slowing retail sales globally are a real concern. Yet to date Billabong has not felt any push back. That said, Volcom, another surf label that recently listed in the US downgraded sales guidance this quarter.

Global under penetration and a stable of emerging brands are exciting. And PER contraction from the 20's to below 13 on certain days in the quarter no doubt provide a long-term opportunity and certainly factors in a slowing retail environment. We haven't acted yet but we are getting to know this business and the people who run it. *SFM*

### **Inflation and interest rates**

We recently read that the best Reserve Bankers, if required, acknowledge the error of their ways and make policy adjustments accordingly.

How long before Governor Glenn Stevens, the forty something career reserve banker changes policy is anyone's guess. What impact Federal Treasurer Swan's hatchet job on Stevens character

will have is another interesting undercurrent.

In relation to the Reserve Bank's inelastic 2-3% inflation band, Woolworth's are also seeking answers to questions.

An article that appeared in a national paper suggested the Reserve Bank's leading inflation indicator, the consumer price index (CPI) was out dated and not reflecting consumer behaviour.

As a result of an ACCC investigation into food prices and the fact that Woolworth's couldn't reconcile its own food sales with the Australian Bureau of Statistics (ABS) measure of food prices - which have been the second largest contributor to inflation over the last 2 ½ years - Woolworth's commissioned economic consultancy, CRAI, to seek some answers.

According to the ABS, food prices have risen 12.6% when overall prices have increased 7.9%.

But when Woolworth's analyses its sales, it finds prices have increased less than the overall CPI. So how does this work?

CRAI pinned most of the difference on two weather events. Namely Queensland's Cyclone Larry, which destroyed all the bananas in March 2006, and Victoria's Gippsland floods that destroyed lots of veggies last year.

From our experience, when banana's go up 400% our 3 year old son is given apples and vegetable juice rather than \$10+ banana smoothies from BOOST Juice. Likewise when bean prices scaled record heights we swapped to spinach. This is normal consumer behaviour.

Woolworth's figures show that households' weekly fruit and vegetable spending has not changed in 5 years.

Meanwhile the ABS shows that costs have risen over 40% in that period.

Some of the problem lies in the fact that the ABS calculates the cost of living on a basket of goods that is fixed every five years. They give the consumer no credit for bargain hunting or substitution.

And they compound the problem using a statistical smoothing method that removes large price spikes. The result is the CPI doesn't go as high but the impact lasts much longer. For instance, bananas contributed to higher prices six months after supply normalised.

So by using measures that are inaccurate it would seem that Governor Glenn Stevens, with all his commercial nous, is starting behind the 8-ball on setting interest rate policy.

Combine this with the fact that he is fighting an unwinnable war. He is battling the beast that is "imported inflation" as China and India absorb our commodities with increasing voracity.

And it gets worse. His sole weapon, monetary policy doesn't work in a uniformly strong economy, let alone a two tiered economy where one half is hobbled.

Bill Wavish, CEO of the new Myer Group, in a private letter, splashed through the national papers by Treasurer Swan, wrote that the recent rate rises had taken a "sledge hammer" to retail sales. April house financing statistics have fallen off a cliff and the last rise in March has not even hit bank statements yet.

We question any career reserve banker who publicly states he has to stop a growing economy. So that question again, how long before rates are cut? Well let's see how good this Governor is at correcting errant policymaking. No certainty here.

*SFM*

### The message in Water

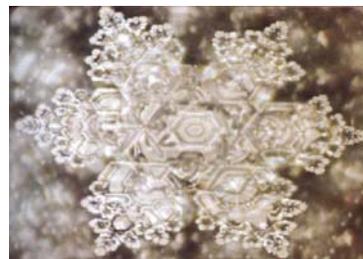
We recently came across an interesting Japanese study when doing some research into water. While the study may be a little extreme it's scientifically based. We'll keep it short so we don't lose you on this one.

People live their daily lives surrounded by various kinds of water until they die. In fact, earth is called the "Water Planet" and 70% of its surface is covered by water. Similarly at the human level a newly fertilised egg, the union of an ovum and sperm, is initially 95% water while a matured adult, like planet earth, is 70% water.

In 1984 Dr Lee H Lorenzen a biochemist and water researcher at the University of California at Berkley developed "micro cluster water" or Magnetic Resonance Water (MRW).

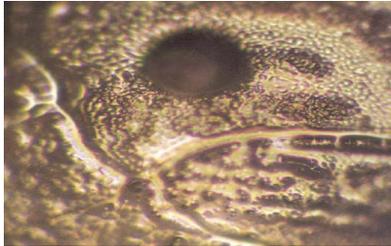
MRW uses a magnetic resonance analyser to measure "HADO" an electrons negatively charged orbit around a positively charged nucleus at an ultra high speed. The motion forms a pattern of which no two are alike. This is the basis of what is called "Chaos" in modern science. And it is also the reason why all snowflake crystals differ.

In 1986 Japanese researchers led by Dr Masaru Emoto extended the study using high-resolution photographic techniques to record the physical water crystal formation in a refrigerated room that retained the shape of frozen crystals.



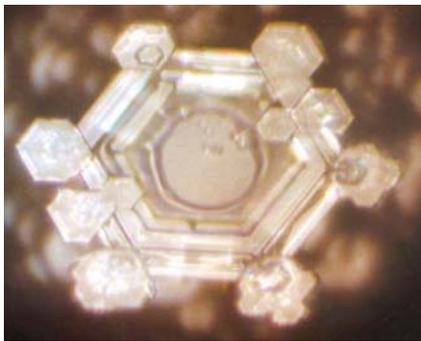
**Hado photo 1: Spring water**

Initial work examined various clean and dirty water sources. Structural deformation in crystal shapes were apparent in dirty water samples, photo 2 below, while clean water sample showed strong crystal structures as in photo 1 above.



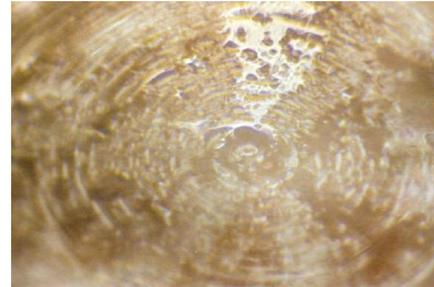
**Hado photo 2: Contaminated water**

Later studies showed crystal formations of water samples exposed to sound vibrations including music. Photo 3 is the crystal shape formed when exposed to Bach's famous "Goldberg Variations". The crystal formation is complete.



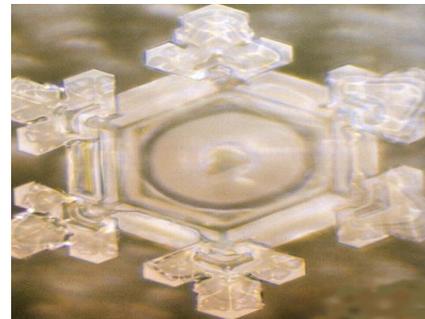
**Hado photo 3: Bach's famous "Goldberg Variations"**

The photo below is the crystal structure formed when the same sample of basic distilled water is exposed to Heavy metal music. Here parts of the crystal have struggled to fuse together.



**Hado photo 4: Heavy metal music**

Further studies showed crystal structure formations when words were written on labels attached to distilled water samples. Below are examples of "Thankyou" and "kill".



**Hado photo 5: Japanese word "Thankyou"**



**Hado photo 6: Japanese words "kill"**

In summary Dr Emoto's research suggested that negative stimulus such as fear or emotion from a diverse variety of sources have a significant impact on a water molecules ability to form true crystal structures. His research demonstrated these using photographic techniques.

Dr Emoto has postured that this in turn may result in many different physical responses. And drawing a reasonably long bow, since the human body is 70% water, both positive and negative stimulus will effect human cell structure that are predominantly water based.

Hado structures aside, we have no doubt the share market is a melting pot of emotions including fear and greed and these behavioural types cannot necessarily be rationalised or factored into valuations.

As we noted earlier, investors now seek certainly. The various shades of grey that often exist in life don't seem to fit in this current environment. There is no tolerance for disappointment and even where things appear white the general view is to think black. We are not saying this is good or bad. It simply reflects what is taking place.

Communicating with you in the manner that we do goes some way to explain our thinking and our investment process. We have little doubt that our actions will reap long term rewards and that our

Road Map (below) will allow us to stay focused.

***Disclosure:** The Directors of Selector Funds Management Limited own units in the funds managed by Selector Fund Management Limited.*  
**SFM**

Qualitative			Quantitative		
Managem't Qualities	Owner Qualities	Focus	Growth	Business Qualities	Balance Sheet
Individuals we can trust	Material equity holding	Niche or franchise	Reinvesting in the business	Businesses that we can understand	Low debt levels
Drive to take the business forward	Share a common bond with ordinary shareholder	Adapt to business condition	Drive & resource to deliver real EPS growth	Well positioned in chosen industry	Simple structure
Clear articulation & consistent business strategy	Track record	Do not succumb to share market pressure	Free cash flow	Strong or improving ROE ROCE ROA	Manageable Capital Expenditure

## COMPANIES VISITED DURING THE 3rd QUARTER 2007-2008

### *February*

MUN	Mundo Minerals briefing	4/02/08
MQG	Macquarie Group investor briefing	6/02/08
PXS	Pharmaxis conference call	7/02/08
RMD	Resmed Sleep Apnea conference call	7/02/08
RMD	Resmed 2Q Earnings result briefing	8/02/08
SOT	SP Telemedia acquisition briefing	8/02/08
PRY	Primary Healthcare interim results briefing	11/02/08
MQG	Macquarie Group site visit	11/02/08
SAI	SAI Global interim results briefing	12/02/08
PXS	Pharmaxis briefing	12/02/08
COH	Cochlear interim results briefing	12/02/08
CPU	Computershare interim results briefing	13/02/08
PRY	Primary Healthcare new issue briefing	13/02/08
ASX	Australian Securities Exchange interim result briefing	14/02/08
SYB	Symbion Health interim results briefing	15/02/08
CAB	Cabcharge Australia interim results briefing	19/02/08
SEK	Seek interim results briefing	19/02/08
CSL	CSL interim results briefing	20/02/08
PPT	Perpetual interim results briefing	20/02/08
TLS	Telstra interim results briefing	21/02/08
AUW	Australian Wealth Management interim results briefing	21/02/08
BNB	Babcock & Brown full year results briefing	21/02/08
BBG	Billabong interim results briefing	22/02/08
FXL	Flexigroup interim results briefing	25/02/08
FLT	Flight Centre interim results briefing	26/02/08
QBE	QBE Insurance full year results briefing	26/02/08
ALL	Aristocrat Leisure full year results briefing	26/02/08
NHF	NIB Holdings interim results briefing	27/02/08
BBP	Babcock & Brown Power interim results briefing	27/02/08
TRG	Treasury Group interim results briefing	27/02/08
ROC	Roc Oil full year results briefing	28/02/08
TTS	Tatts Group interim results briefing	28/02/08

### *March*

ALL	Aristocrat Leisure management meeting	2/03/08
BKL	Blackmores interim results briefing	5/03/08
IBA	IBA Health Group management meeting	7/03/08
AUW	Australian Wealth Management management meeting	10/03/08
BBG	Billabong management meeting open day	13/03/08
SIP	Sigma full year results briefing	25/03/08

## FUND REPORT as at 31 March 2008

Issued by Selector Funds Management Limited ABN 85 102 756 347, AFSL 225 316. The investment information in this Fund report is historical and refers to the period to 31 March 2008. **Past performance is not an indicator of future performance** for this fund.

### PERFORMANCE SUMMARY

	3 months (%)	6 months (%)	1 Year (%)	Compound Annual Return		
				2 Year (%)	3 Year (%)	Inception <sup>1</sup> (%)
<b>Total</b>	<b>-28.10</b>	<b>-23.67</b>	<b>-22.52</b>	<b>-2.67</b>	<b>10.78</b>	<b>13.28</b>
Distribution	0.00	0.00	0.61	1.46	1.69	1.51
Growth	-28.10	-23.67	-23.13	-4.13	9.09	11.77
<b>S&amp;P/ ASX All Ordinaries Accumulation Index</b>	<b>-14.68</b>	<b>-16.15</b>	<b>-6.02</b>	<b>7.23</b>	<b>14.15</b>	<b>15.51</b>

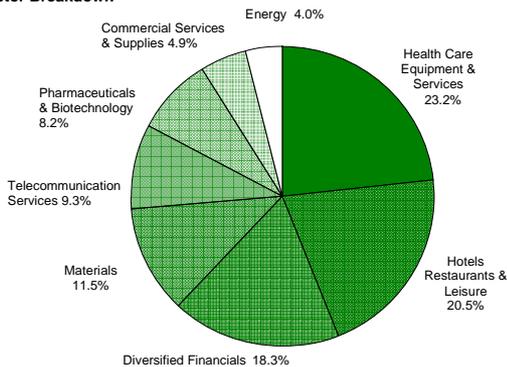
Returns are calculated using exit prices, and are calculated after all fees have been deducted with distributions included and no allowance made for tax. The 'distribution' component represents the amount paid by way of distribution, including net realised capital gains.

1. Inception date - 1 November 2004

### MONTHLY DETAIL (past 12 months)

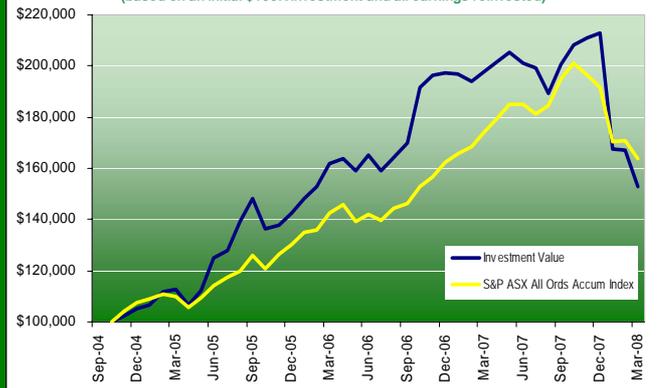
Month ending	Exit Price (\$)	Distribution per Unit (\$)	Month Gain (%) Fund	Compound Inception Gain (%) Fund	Index Level	Month Gain (%) Index	Compound Inception Gain (%) Index
31 Mar 08	1.4624	-	-8.28	13.26	34,554	-4.11	15.51
29 Feb 08	1.5944	-	-0.39	16.63	36,036	0.26	17.40
31 Jan 08	1.6006	-	-21.31	17.21	35,942	-11.25	17.77
31 Dec 07	2.0340	-	0.93	26.96	40,498	-2.36	22.83
30 Nov 07	2.0153	-	1.28	27.42	41,478	-2.35	24.49
31 Oct 07	1.9898	-	3.86	27.72	42,478	3.07	26.23
30 Sep 07	1.9158	-	5.92	26.97	41,211	5.78	25.78
31 Aug 07	1.8087	-	-4.88	25.29	38,961	1.70	24.14
31 Jul 07	1.9015	-	-0.91	28.48	38,310	-1.94	24.20
30 Jun 07	1.9189	0.0154	-2.17	29.95	39,070	-0.07	25.99
31 May 07	1.9771	-	1.80	32.16	39,096	3.19	26.95
30 Apr 07	1.9422	-	2.09	32.47	37,887	3.05	26.39

#### Sector Breakdown



#### Investment Growth

(based on an initial \$100K investment and all earnings reinvested)



#### To receive an Information Memorandum

Phone: 61 2 9241 5830, email [corey@selectorfund.com.au](mailto:corey@selectorfund.com.au) or visit the website: [www.selectorfund.com.au](http://www.selectorfund.com.au)

Applications for units can only be made on the application form in the Information Memorandum (IM) dated 15 October 2004 and Supplementary Information Memorandum (SIM) dated 1 January 2006. Potential investors should consider the IM and SIM before deciding whether to invest in the Fund.

This document provides general information only and is not financial product advice. It does not take into account your individual objectives, financial situation or needs. Information used in this publication, is believed to be accurate. However, subject to any contrary provision in any applicable law, neither Selector Funds Management Limited nor any of its related parties, their employees or directors, provides any warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it.