

Selector Funds Management (“Selector”) specialises in high conviction, index agnostic, concentrated portfolio management (AFSL 225316). The investment team have a high level of experience, are owners of the business and invest in the funds alongside clients. Selector has a long term track record of performance. We offer the Selector High Conviction Equity Fund and the Selector Australian Equities Fund in addition to institutional mandates.

Market Insights

During December the All Ordinaries Accumulation Index rose 2.0%. Markets trended higher in the U.S. and the U.K. while other European markets underperformed. Results throughout Asia were mixed.

On 20 December the U.S. Senate passed the Government’s Tax Cuts and Jobs Act bill to amend the 1986 Internal Revenue Code. The amendment will see the corporate income tax rate cut from 35% to 21% while the highest rate for individuals will be lowered from 39.6% to 37%. Tax breaks should provide a boost to the already strongly performing U.S. economy. Companies will see returns on already deployed capital rise, while improved economics will presumably allow management and boards to approve more capital expenditure plans.

Following much fanfare, Amazon launched their online retail offering in Australia but failed to live up to initial expectations. The event set in motion their long awaited assault of retailers including consumer electronics merchants JB Hi-Fi and Harvey Norman. A relatively narrow product range and poor price competitiveness saw many shoppers disappointed. Bill Gates has suggested in the past that we overestimate change that will occur in the next two years, but underestimate how much will occur in ten. The disruption that Amazon and broader e-commerce can be expected to have on the retail landscape should be evaluated in this light.

The announcement that France based Unibail-Rodamco would acquire Australia shopping centre owner, operator and developer Westfield Corporation came as a surprise to some, however, the deal is consistent with the theme of disruption within the retail industry. Unibail-Rodamco will acquire Westfield for \$32b in cash and script offer at a relatively modest premium of 18%. The transaction will help Unibail bulk up in the U.S. and European “marquee” or “destination” shopping centre offerings that are proving somewhat more resilient than suburban malls which are seeing tenants struggle to afford rental increases.

Media magnate Rupert Murdoch announced a significant change in direction of the 21st Century Fox empire with the sale of most of the company’s content generating assets to entertainment goliath Disney in a US\$52b deal. Similar to Lowy, Murdoch understood the need to either bulk up or re-focus, as new competitors appeared from multiple directions. The transaction represents an effort to avoid what will invariably be a long and costly battle with the emerging online streaming powerhouse Netflix.

We continue to seek businesses with:

1. Competent management teams
2. Business leadership qualities
3. Strong balance sheets
4. A focus on capital management

Portfolio Snapshot

The strategy is focused on identifying and investing in listed businesses that sit largely within the ASX 300 Index.

Within this universe, we exclude many of the Top 50 listed stocks as we believe the greatest value lies in the smaller, less researched businesses.

The investment style is both high conviction and index agnostic. Individual portfolio holdings range from 25-40 businesses.

For the financial year to date the Fund has delivered a gross positive return of **15.61%** compared to an Index rise of **9.31%**, representing an outperformance of **6.30%**. The Fund held **31** businesses at month end.

Gross Performance	Portfolio %	All Ords Acc (%)	Difference %
1 Month	3.17	2.03	1.14
3 Months	12.27	8.20	4.07
6 Months	15.61	9.31	6.30
1 Year	24.78	12.47	12.31
3 Years annualised	18.35	9.23	9.12
5 Years annualised	19.08	10.37	8.71
10 Years annualised	8.11	4.01	4.10
Since Inception annualised	12.58	7.93	4.65
31 December 2017 Unit Mid Price			\$1.9699

Top Ten Investments	Code	Industry	Weight %
ALTUM	ALU	IT	5.98%
ARISTOCRAT LEISURE	ALL	Consumer Disc.	5.64%
SEEK	SEK	Industrials	4.53%
NIB HOLDINGS	NHF	Financials	4.52%
REECE	REH	Industrials	4.46%
RESMED	RMD	Health Care	4.24%
BLACKMORES	BKL	Consumer Staples	4.01%
COCHLEAR	COH	Health Care	3.66%
JUMBO INTERACTIVE	JIN	Consumer Disc.	3.57%
CARSales.COM	CAR	IT	3.54%

Investment Attribution

For the month, the portfolio delivered a gross positive **3.17%** return against a **2.03%** rise in the Index. The portfolio held **31** stocks at the end of the period and the performance was primarily driven by:

Top Five % attribution		Bottom Five % attribution	
ACONEX	0.95%	COCHLEAR LTD	-0.21%
ARISTOCRAT LEISURE	0.46%	ARB CORPORATION	-0.20%
SIMS METAL MANAGEMENT	0.31%	IOOF HOLDINGS	-0.11%
INFOMEDIA LIMITED	0.29%	RESMED INC	-0.09%
SIRTEX MEDICAL	0.28%	BREVILLE GROUP	-0.05%

GICS Groups	Weight
Software & Services	23.72%
Consumer Services	21.76%
Health Care Equipment & Services	10.71%
Cash & Other	7.34%
Capital Goods	6.68%
Materials	4.92%
Diversified Financials	4.76%
Commercial Services & Supplies	4.53%
Insurance	4.52%
Household & Personal Products	4.01%
Automobiles & Components	3.13%
Pharmaceuticals & Biotechnology	2.94%
Retailing	0.98%
Total	100.00%

Investment Philosophy

Selector's consistent bottom up process looks at a combination of the quantitative and qualitative attributes of a business. We seek businesses with competitive advantages that drive industry leadership positions.

Portfolio construction is driven by Selector's consistent investment process combined with the Portfolio Managers' deep industry experience rather than benchmarking to an index. Selector believes indexing limits returns to investors over the long run. Selector's long term investment horizon aims to capture real earnings per share growth over time.

Selector invests in Australian equities, does not use leverage or derivatives and avoids start-ups and turnaround situations. Experience has shown that these simple constraints when combined with Selector's hard risk limits provide significant protection to the portfolio with limited impact on the performance of the fund.

Portfolio Particulars

Stocks in Portfolio	25-40
S&P ASX Ex 50 Target Portfolio Weighting	80%-100%
Cash Holdings	0%-20%
Stock Position (max per stock at cost)	4%
Stock Position (max per stock at market)	8%
Sector Limit	0%-30%
Portfolio Weighting <\$100M Market Cap	0%-20%
Benchmark Index	S&P All Ords Acc. Index
Frequency of Distributions	Annual
Management Fee	1.00%
Performance Fee	10% of hurdle outperformance
Minimum Investment	\$2,000.00
Entry and Exit Fees	Nil

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*Hurdle is the return of the S&P ASX Accumulation Index

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