

Selector Funds Management ("Selector") specialises in high conviction, index agnostic, concentrated portfolio management. 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 September, the All Ordinaries Accumulation Index closed the month flat. Janet Yellen, Chair of the U.S. Federal Reserve, confirmed there would likely be one further rate rise during 2017 and noted continued optimism about the economy despite persistently low inflation. Federal Reserve Board members now expect the cash rate could reach 2.75% in 2020 from current levels of 1.00%-1.25%. Yellen indicated that starting in October, the Federal Reserve would look to reduce their bond holdings by ending the practice of fully reinvesting portfolio cash flows. In aggregate, the Federal Reserve currently owns around US\$4.5 trillion which makes up roughly 17% of all mortgage backed securities and 29% of all U.S. government issued securities.

The Australian Bureau of Statistics released figures showing the economy expanded by 0.8% in the June quarter on a seasonally adjusted basis. Employment statistics also helped paint a positive picture as full-time jobs increased by 54,200 positions in August compared with expectations of 15,000. While monthly and quarterly figures are notoriously prone to statistical errors and revisions, the overall trend is decidedly positive.

Nowhere is this more evident than in NSW with the State Budget warning that the \$73 billion earmarked for infrastructure projects including WestConnex, the Sydney Metro, NorthConnex and stadium construction, could push the State's economy past full employment.

In the fields of Science, Technology, Engineering and Mathematics (STEM) the shortage of qualified talent for employment is already upon us. Tim Reed, the CEO of accounting software company MYOB, highlighted this. Reed said *"The number one risk that we identified in our business plan going into 2017 was our ability to find the skills to do all of the things that we wanted to get done in our business. It's very, very tough. Particularly for software engineers of design based capabilities, we're probably 100 people down on our target headcount at this moment in time and that's simply because we can't find enough people."*

Despite the strong outlook for infrastructure on the Eastern Seaboard, a cooling housing market poses a real threat to the economy. Post month end CoreLogic data showed that house price growth in NSW and Melbourne has continued to moderate. This slowdown comes amid increased restrictions on borrowing. The importance of the residential building and construction sector to Australia's economic health since the end of the mining boom should not be underestimated.

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 **2.97%** compared to an Index rise of **1.02%**, representing an overperformance of **1.95%**. The Fund held **32** businesses at month end.

Gross Performance	Portfolio %	All Ords Acc (%)	Difference %
1 Month	0.14	0.05	0.09
3 Months	2.97	1.02	1.95
6 Months	10.93	-0.53	11.46
1 Year	3.58	8.53	-4.95
3 Years annualised	15.47	7.30	8.17
5 Years annualised	19.29	10.08	9.21
10 Years annualised	7.41	3.01	4.40
Since Inception annualised	11.83	7.43	4.40
30 September 2017 Unit Mid Price			\$1.7633

Top Ten Investments	Code	Industry	Weight %
ALTUM	ALU	IT	7.21%
ARISTOCRAT LEISURE	ALL	Consumer Disc.	6.60%
NIB HOLDINGS	NHF	Financials	5.00%
REECE	REH	Industrials	4.48%
SEEK	SEK	Industrials	4.46%
RESMED	RMD	Health Care	4.24%
COCHLEAR	COH	Health Care	4.21%
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	3.92%
TECHNOLOGY ONE	TNE	IT	3.68%
AINSWORTH GAME TECHNOLOGY	AGI	Consumer Disc.	3.55%

Investment Attribution

For the month, the portfolio delivered a gross positive **0.14%** return against a **0.05%** rise in the Index. The portfolio held **32** stocks at the end of the period and the performance was primarily driven by:

Top Five % attribution		Bottom Five % attribution	
ALTUM	0.64%	SIMS METAL MANAGEMENT	-0.28%
IMPEDIMED LIMITED	0.27%	SIRTEX MEDICAL	-0.21%
RELIANCE WORLDWIDE	0.21%	FLIGHT CENTRE	-0.21%
BLACKMORES	0.17%	IRESS	-0.17%
COCHLEAR LTD	0.12%	JUMBO INTERACTIVE	-0.16%

GICS Groups	Weight
Software & Services	25.89%
Consumer Services	23.59%
Health Care Equipment & Services	11.35%
Capital Goods	7.01%
Diversified Financials	6.11%
Insurance	5.00%
Materials	4.57%
Commercial Services & Supplies	4.46%
Automobiles & Components	3.26%
Household & Personal Products	3.15%
Cash & Other	2.51%
Pharmaceuticals & Biotechnology	2.10%
Retailing	0.99%
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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