

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 Strategy

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

Within this universe, we focus on stocks outside of the Top 20 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 typically range from 15-30 businesses.

For the financial year to date the Fund has delivered a gross positive return of **3.03%** compared to an Index rise of **1.02%**, representing an overperformance of **2.01%**. The Fund held **33** businesses at month end.

Gross Performance	Portfolio %	All Ords Acc (%)	Difference %
1 Month	0.46	0.05	0.41
3 Months	3.03	1.02	2.01
6 Months	10.70	-0.53	11.23
1 Year	5.18	8.53	-3.35
3 Years annualised	14.91	7.30	7.61
5 Years annualised	20.09	10.08	10.01
10 Years annualised	7.43	3.01	4.42
Since Inception annualised	12.11	7.76	4.35
30 September 2017 Unit Mid Price			\$2.2199

Top Ten Investments	Code	Industry	Weight %
ARISTOCRAT LEISURE	ALL	Consumer Disc.	7.69%
ALTIUM	ALU	IT	6.53%
SEEK	SEK	Industrials	4.76%
RESMED	RMD	Health Care	4.16%
CSL	CSL	Health Care	4.09%
COCHLEAR	COH	Health Care	3.98%
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	3.85%
AINSWORTH GAME TECHNOLOGY	AGI	Consumer Disc.	3.79%
TECHNOLOGY ONE	TNE	IT	3.50%
NIB HOLDINGS	NHF	Financials	3.50%

Investment Attribution

For the month, the portfolio delivered a gross positive **0.46%** return against a **0.05%** rise in the Index. The portfolio held **33** stocks at the end of the period and the performance was primarily driven by:

Top Five % attribution		Bottom Five % attribution	
ALTIUM	0.58%	SIMS METAL MANAGEMENT	-0.27%
IMPEDIMED	0.26%	FLIGHT CENTRE TRAVEL GROUP	-0.21%
RELIANCE WORLDWIDE	0.24%	SIRTEX MEDICAL	-0.20%
CSL	0.19%	AINSWORTH GAME TECHNOLOGY	-0.16%
BLACKMORES	0.17%	JUMBO INTERACTIVE	-0.16%

GICS Groups	Weight
Software & Services	26.49%
Consumer Services	24.75%
Health Care Equipment & Services	10.92%
Diversified Financials	6.87%
Pharmaceuticals & Biotechnology	6.10%
Capital Goods	5.39%
Commercial Services & Supplies	4.76%
Insurance	3.50%
Energy	3.29%
Household & Personal Products	3.14%
Materials	2.54%
Cash & Other	1.29%
Retailing	0.96%
Total	100%

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

Target Stocks in Portfolio	15 - 30
S&P ASX 200 Target Portfolio Weighting	40% - 100%
S&P ASX Ex 200 Target Portfolio Weighting	0% - 60%
Cash Holdings	0% - 20%
Stock Position (max per stock at cost)	5%
Stock Position (max per stock at market)	10%
Portfolio Weighting <\$100M Market Cap	0% - 20%
Benchmark Index	S&P ASX All Ords Acc. Index
Frequency of Distributions	Annual
Management Fee	1.25%
Performance Fee	20% of hurdle outperformance
Minimum Investment	\$500,000
Entry and Exit Fees	Nil

Executive Team

Tony Scenna | Managing Director, Portfolio Manager

30 years investment experience
 14 years Selector Funds Management Limited
tony@selectorfund.com.au +61 2 8090 3612
 +61 413 235 803

Corey Vincent | Managing Director, Portfolio Manager

20 years investment experience
 14 years Selector Funds Management Limited
corey@selectorfund.com.au +61 2 8090 3611
 +61 401 000 037

John Maragiannis | Managing Director

30 years funds management experience
 5 years Selector Funds Management Limited
jmaragiannis@axiuspartners.com +61 2 8090 3613
 +61 419 689 503

George Giovas | Managing Director

30 years finance, banking, funds management experience
 5 years Selector Funds Management Limited
ggiovas@axiuspartners.com +61 2 8090 3614
 +61 435 763 045

Rob Lapsley | Senior Analyst

5 years funds management experience
 5 years Selector Funds Management Limited
rob@selectorfund.com.au +61 2 8090 3617
 +61 425 842 951

Kari Humphrey | Manager Compliance & Administration

20 years finance, accounting, administration experience
kari@selectorfund.com.au +61 2 8090 3618
 +61 420 358 485

Kristen Mackey | Junior Analyst

kristen@selectorfund.com.au +61 2 8090 3617

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

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