

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 February the All Ordinaries Accumulation Index rose 2.09%, with our main Index closing at 5,761. Globally, markets moved sharply higher, particularly in the U.S.A. where the Dow Jones Industrial Average and the S&P 500 gained more than 4.7% and 3.7% respectively.

Shortly after month end the Australian Bureau of Statistics announced GDP growth of 1.1% for the December quarter. Household consumption and capital investment were the drivers of the increase. RBA Governor Philip Lowe found positives in the national income accounts and noted the reduced economic drag from the dissipation of the resources investment boom. The national accounts have been boosted by higher commodity prices which have lifted our terms of trade.

Despite a more rosy outlook at the national level, some states and industries face headwinds. Ongoing power network issues in South Australia have made national headlines. During the month, stifling temperatures led to widespread blackouts that disrupted corporates and manufacturers alike. While renewable energy has an important role to play, these events demonstrate the consequences of poorly thought out policy. Wind farms may be capable of producing base load energy at low cost but can be unpredictable and lead to shortfalls in network power supply.

The issue is further complicated by the rising demand for gas from Asian focused LNG exporters. When combined with restrictive exploration and production regulations, these factors are driving east coast gas prices higher. This makes fast start generators less economic, even in times of peak power demand. Industry also suffers. Manufacturers who are heavily reliant on gas are being forced to throttle consumption. There is no quick fix to this. The development of new resources and infrastructure takes time, investment and negotiation of complex regulatory settings. It is clear that change is required if Australia is to compete efficiently in a global setting.

Reporting season moved into full swing in February. The desire to “focus” was a recurring theme. Increasingly, companies are choosing to focus on their core operations, eschewing parts of the business which may have been distracting management and staff or even investors. Notable examples include, Woolworths exiting Masters, Crown Resorts selling out of Macau and REA disposing of their European assets.

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 delivered a gross positive return of **2.15%** compared to an Index rise of **11.38%**, representing an underperformance of **9.23%**. The Fund held **33** businesses at month end.

Gross Performance	Portfolio %	All Ords Acc (%)	Difference %
1 Month	1.51	2.09	-0.58
3 Months	-2.97	5.53	-8.50
6 Months	-8.71	6.20	-14.91
1 Year	8.64	21.33	-12.69
3 Years annualised	11.86	6.54	5.32
5 Years annualised	20.19	10.22	9.97
10 Years annualised	6.38	4.27	2.11
Since Inception annualised	11.42	7.91	3.51
<b>28 February 2017 Unit Mid Price</b>			<b>\$1.9691</b>

Top Ten Investments	Code	Industry	Weight %
ARISTOCRAT LEISURE	ALL	Consumer Disc.	7.11%
SEEK	SEK	Industrials	5.27%
ALTIUM	ALU	IT	5.12%
RESMED	RMD	Health Care	4.68%
CSL	CSL	Health Care	4.21%
TECHNOLOGY ONE	TNE	IT	4.10%
COCHLEAR	COH	Health Care	3.82%
NIB HOLDINGS	NHF	Financials	3.81%
INFOMEDIA	IFM	IT	3.76%
IRESS	IRE	IT	3.53%

### Investment Attribution

For the month, the portfolio delivered a gross positive **1.51%** return against a **2.09%** 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
ARISTOCRAT LEISURE 0.57%	GBST HOLDINGS -0.99%
NIB HOLDINGS 0.52%	OZFOREX GROUP -0.65%
SEEK 0.42%	ALTIUM -0.59%
INFOMEDIA 0.38%	BLACKMORES -0.37%
NAVITAS 0.32%	IOOF HOLDINGS -0.16%

GICS Groups	Weight
Software & Services	28.75%
Consumer Services	22.57%
Health Care Equipment & Services	11.53%
Pharmaceuticals & Biotechnology	7.03%
Diversified Financials	5.72%
Capital Goods	5.35%
Commercial Services & Supplies	5.27%
Insurance	3.81%
Household & Personal Products	2.89%
Materials	2.78%
Energy	2.02%
Retailing	1.24%
Cash & Other	1.05%
<b>Total</b>	<b>100%</b>

**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

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

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