

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 January the All Ordinaries Accumulation Index fell 0.77%, with the our main Index closing at 5,675. Globally, markets trended higher despite the U.S. Presidential inauguration causing unease.

Data released during January by the Australian Bureau of Statistics showed that the Consumer Price Index rose 0.5% in the last quarter of December, bringing the annualised rise in inflation to 1.5%. Tobacco and fuel prices were key contributors to the increase.

During December, Australia and China reached an agreement to establish an "open aviation market". Under this deal the two countries have agreed to remove all capacity limitations, liberalise traffic rights and enable code share agreements. The potential contribution to Australia's tourism trade should not be underestimated. Over one million Chinese tourists visited our country in 2016, up 22%. Looking out, the China outbound market is predicted to double to more than 200 million travellers annually by 2020.

Further afield, The World Bank noted that global growth in 2016 was estimated to have hit a post-crisis low of 2.3%. For 2017, the group projects this will rise to 2.7%, with both emerging and developing countries expected to pick up during the year. Commentary stated, "Fiscal stimulus and other growth-enhancing policies in key major economies - in particular, the United States - could lead to stronger than expected activity and thus represent a substantial upside risk to the outlook."

On the flip side, U.S. President Donald Trump immediately withdrew from the Trans Pacific Partnership post his inauguration. The reactions globally demonstrated that there remains considerable uncertainty about the impact that the Trump Administration will have on U.S. and global GDP. A number of Trump's proposed policies in respect of trade agreements and protectionism represent threats to US importers and nations that consider the U.S. an important trade partner.

Despite these concerns, an improving outlook in world growth is evident in the trend being seen in global container traffic. Following on from the fallout of 2008, which saw container traffic growth plunge into negative territory, the past few years have seen relatively flat container growth. This trend reflected in the most recent numbers indicates annual growth is now back at 3.7%. This has also been accompanied by a strong rebound in air freight, up 6.8% for the year, well above the average of the past decade of 2.6%.

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 delivered a gross negative return of **0.88%** compared to an Index rise of **9.10%**, representing an underperformance of **9.98%**. The Fund held **33** businesses at month end.

Gross Performance	Portfolio %	All Ords Acc (%)	Difference %
1 Month	-4.44	-0.77	-3.67
3 Months	-4.92	5.92	-10.84
6 Months	-9.56	2.65	-12.21
1 Year	4.39	17.09	-12.70
3 Years annualised	14.23	7.49	6.74
5 Years annualised	19.77	10.29	9.48
10 Years annualised	6.07	4.22	1.85
Since Inception annualised	11.12	7.44	3.68
<b>31 January 2017 Unit Mid Price</b>			<b>\$1.5876</b>

Top Ten Investments	Code	Industry	Weight %
ARISTOCRAT LEISURE	ALL	Consumer Disc.	6.74%
ALTUM	ALU	IT	6.15%
REECE	REH	Industrials	5.31%
NIB HOLDINGS	NHF	Financials	4.58%
RESMED	RMD	Health Care	4.44%
SEEK	SEK	Industrials	4.42%
TECHNOLOGY ONE	TNE	IT	4.31%
IRESS	IRE	IT	3.83%
COCHLEAR	COH	Health Care	3.78%
GBST HOLDINGS	GBT	IT	3.75%

### Investment Attribution

For the month, the portfolio delivered a gross negative **4.44%** return against a **0.77%** fall 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	
BLACKMORES	0.31%	IMPEDIMED LIMITED	-0.48%
RESMED INC	0.17%	ACONEX LIMITED	-0.48%
GBST HOLDINGS	0.09%	AINSWORTH GAME TECHNOLOGY	-0.47%
COCHLEAR LTD	0.08%	TECHNOLOGY ONE	-0.41%
JUMBO INTERACTIVE	0.07%	VIRTUS HEALTH	-0.37%

GICS Groups	Weight
Software & Services	26.54%
Consumer Services	21.83%
Health Care Equipment & Services	11.22%
Capital Goods	6.87%
Diversified Financials	6.13%
Materials	5.07%
Insurance	4.58%
Commercial Services & Supplies	4.42%
Automobiles & Components	3.49%
Household & Personal Products	2.99%
Pharmaceuticals & Biotechnology	2.58%
Retailing	1.94%
Cash & Other	1.67%
Banks	0.66%
<b>Total</b>	<b>100.00%</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**

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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