

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 private and institutional mandates.

### Market Insights

For May the All Ordinaries Accumulation Index gained **3.09%**. The rise was driven by strong performances from the Industrial and Financial sectors while the Energy and Materials sectors gave up some ground, following their strong starts to the new year.

The Reserve Bank of Australia (RBA) was quick to respond to the weak inflation numbers released during April, cutting the cash rate to a record low 1.75% after having left them on hold for the best part of a year. Despite having previously stated that monetary settings were loose enough to facilitate an orderly transition from mining investment, the RBA minutes also noted that risks posed by lower interest rates to housing prices had lessened.

The rate cut also coincided this year's Federal Budget. The headline numbers point to a deficit of \$37 billion in 2017, before improving to a deficit of \$6 billion by 2020. Despite the suggestion of an improving budget trend, no amount of rejigging will address the key structural issues facing our country's financial position. Unfortunately, the difficult decision of cutting expenditure in an election year proved unpalatable, choosing instead to increase taxes on retirement savings by capping superannuation contributions and applying the changes retrospectively. In spite of these unwelcome developments, the most pleasing aspect of the budget were the modest tax cuts promised for small and medium businesses for 2017 and beyond, all be it at risk with a hostile senate.

All the major banks communicated with the market during May, either by way of trading updates or profit results. ANZ became the first of the big four banks to cut their dividends, with the lower payout ratio aimed at bolstering capital levels. Westpac's decision to keep dividends steady masked a tougher commercial environment with an increase in bad debts a timely reminder of the substantial leverage inherent in any banking operation. To put this into some context, Westpac has assets of \$830 billion the balance sheet supported by Tier 1 equity of \$38 billion and with the balance financed from borrowings that rank ahead of shareholders' equity. Whilst their impairments stepped up by 96% to \$667 million during the half, they occurred in what can only be described as "benign" credit conditions, illustrating the earnings sensitivity should circumstances deteriorate more substantially.

A number of investor briefings took place during the month, including a **Blackmores** site visit, with specific emphasis on China as well as management meetings with **Ainsworth Game Technology** and Austrian based **Novomatic AG** as they seek shareholder approval to acquire the founder, Len Ainsworth 53% shareholding. Portfolio holdings including **ARB, Computershare, IOOF, NIB Holdings, Oil Search, OzForex, MYOB, Navitas, SEEK, Infomedia, Flight Centre Travel Group and The Star Entertainment Group** all communicated with the market during the month.

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 **25.48%** compared to an Index rise of **4.39%**, representing an outperformance of **21.09%**. The Fund held **32** businesses at month end.

| Gross Performance                 | Portfolio % | All Ords Acc (%) | Difference %    |
|-----------------------------------|-------------|------------------|-----------------|
| 1 Month                           | 4.37        | 3.09             | 1.28            |
| 3 Months                          | 11.34       | 11.47            | -0.13           |
| 6 Months                          | 10.42       | 6.67             | 3.75            |
| 1 Year                            | 14.09       | -1.25            | 15.34           |
| 3 Years annualised                | 20.61       | 8.11             | 12.50           |
| 5 Years annualised                | 17.97       | 7.28             | 10.69           |
| 10 Years annualised               | 9.22        | 5.37             | 3.85            |
| Since Inception annualised        | 12.31       | 7.29             | 5.02            |
| <b>31 May 2016 Unit Mid Price</b> |             |                  | <b>\$1.8140</b> |

| Top Ten Investments | Code | Industry       | Weight % |
|---------------------|------|----------------|----------|
| ARISTOCRAT LEISURE  | ALL  | Consumer Disc. | 6.16%    |
| SEEK                | SEK  | Industrials    | 4.70%    |
| ALTUM               | ALU  | IT             | 4.60%    |
| TECHNOLOGY ONE      | TNE  | IT             | 4.32%    |
| GBST HOLDINGS       | GBT  | IT             | 4.31%    |
| NIB HOLDINGS        | NHF  | Financials     | 4.31%    |
| REECE               | REH  | Industrials    | 4.29%    |
| CARSALES.COM        | CAR  | IT             | 3.77%    |
| OZFOREX GROUP       | OFX  | Financials     | 3.64%    |
| IRESS               | IRE  | IT             | 3.47%    |

### Investment Attribution

For the month, the portfolio delivered a gross positive **4.37%** return against a **3.09%** 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 |        |
|------------------------|-------|---------------------------|--------|
| ARISTOCRAT LEISURE     | 1.44% | FLIGHT CENTRE             | -0.76% |
| GBST HOLDINGS          | 0.58% | SIMS METAL MANAGEMENT     | -0.29% |
| TECHNOLOGY ONE         | 0.50% | IOOF HOLDINGS             | -0.23% |
| COCHLEAR LTD           | 0.38% | BLACKMORES                | -0.20% |
| OZFOREX                | 0.35% | INTUERI EDUCATION GROUP   | -0.14% |

| GICS Groups                      | Weight         |
|----------------------------------|----------------|
| Software & Services              | 24.44%         |
| Consumer Services                | 23.07%         |
| Health Care Equipment & Services | 10.40%         |
| Cash & Other                     | 6.22%          |
| Diversified Financials           | 6.21%          |
| Commercial Services & Supplies   | 4.70%          |
| Capital Goods                    | 4.68%          |
| Insurance                        | 4.31%          |
| Materials                        | 4.19%          |
| Automobiles & Components         | 3.37%          |
| Pharmaceuticals & Biotechnology  | 3.24%          |
| Household & Personal Products    | 2.87%          |
| Retailing                        | 1.71%          |
| Banks                            | 0.58%          |
| <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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Over 30 years investment experience

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

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