

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

During March the All Ordinaries Accumulation Index gained **4.74%** as the banks and materials staged strong recoveries. Australia's largest export, iron ore finished up \$5/tonne to \$54/tonne, having earlier spiked to \$64/tonne. While the broad based move in commodities was partly a function of investor short covering, the outcome is a welcome tonic for the local economy despite the offset of the strengthening dollar.

The US Federal Reserve chaired by Janet Yellen maintained its prudent approach in setting rates, noting that the decision to keep rates on hold was driven by an approach where, "caution is appropriate" as it seeks to take slow and deliberate moves that, "will allow us to verify that the labour market is continuing to strengthen despite risks from abroad." With this as a backdrop Yellen also prepared the market for the likelihood of two rate rises later this year in anticipation of an improving U.S economy and a eventual pickup in underlying inflation within the target range of 2%. The difficulty for the Federal Reserve in setting rates lies with the impact that the global economy can have on domestic activity, a scenario that is proving to be more difficult to forecast.

Locally, the banking sector was given a jolt following updates from both ANZ and Westpac that they expected bad debts to come in above expectations by year end. The increase was driven by provisions for souring loans in the resources sectors. Westpac also disclosed that corporate loan provisions would also be higher along with higher consumer loan arrears. While higher provisions are reflective of the tougher environment we now find ourselves in, it is important to note that falling bad debt expenses, which are now at record lows as a percentage of loans, have been a tailwind for bank earnings since the global financial crisis and a reversal of this trend will do exactly the opposite for bank earnings.

The Reserve Bank of Australia opted once again to leave rates on hold and their guidance suggests they are not expecting to need to cut rates. Governor Glenn Stevens stated in a speech during the month that the Australian economy is "successfully rebalancing following the mining investment boom". In spite of these comments many market pundits continue to expect the RBA to cut rates multiple times before the end of the year. In contrast the Reserve Bank of New Zealand has been forced to cut rates yet again from 2.5% to 2.25% as their economy faces continued pressures particularly in the agricultural sector.

Politically, two big events that are likely to impact investor sentiment are the United Kingdom's June referendum to decide on whether the nation should exit the European Union and the U.S. November Presidential Election which is turning into a two horse race between Democrat Hillary Clinton and Republican Donald Trump. The potential consequences of both events are enough to inflict short term pain on investors who are growing weary of short term geopolitical risk.

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 **17.17%** compared to an Index fall of **1.92%**, representing an outperformance of **19.09%**. The Fund held **31** businesses at month end.

Gross Performance

Portfolio % All Ords Acc (%) Difference %

1 Month	4.42	4.74	-0.32
3 Months	-0.34	-2.35	2.01
6 Months	11.53	4.11	7.42
1 Year	7.36	-8.05	15.41
3 Years annualised	19.90	5.63	14.27
5 Years annualised	16.33	5.43	10.90
10 Years annualised	8.10	4.50	3.60
Since Inception annualised	12.00	7.19	4.81

31 March 2016 Unit Mid Price

\$2.0567

Top Ten Investments

Code Industry Weight %

SEEK	SEK	Industrials	5.96%
ALTUM	ALU	IT	5.32%
ARISTOCRAT LEISURE	ALL	Consumer Disc.	5.25%
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	4.75%
TECHNOLOGY ONE	TNE	IT	4.27%
RESMED	RMD	Health Care	4.08%
CSL	CSL	Health Care	3.98%
BLACKMORES	BKL	Consumer Staples	3.88%
CARSales.COM	CAR	IT	3.87%
GBST HOLDINGS	GBT	IT	3.86%

Investment Attribution

For the month, the portfolio delivered a gross positive **4.42%** return against a **4.74%** rise in the Index. The portfolio held **31** stocks at the end of the period and the performance was primarily driven by:

Top Five % attribution

Bottom Five % attribution

SIMS METAL MANAGEMENT	0.50%	SIRTEX MEDICAL	-0.38%
BLACKMORES	0.46%	RESMED	-0.37%
IRESS	0.37%	DOMINO'S PIZZA ENTERPRISES	-0.06%
ALTUM	0.36%	IMPEDIMED	-0.03%
IOOF HOLDINGS	0.32%	CSL	-0.02%

GICS Groups

Weight

Software & Services	27.35%
Consumer Services	23.93%
Health Care Equipment & Services	10.95%
Pharmaceuticals & Biotechnology	7.42%
Diversified Financials	6.35%
Commercial Services & Supplies	5.96%
Household & Personal Products	3.88%
Cash & Other	3.21%
Insurance	3.07%
Capital Goods	2.37%
Materials	2.09%
Energy	1.83%
Retailing	1.58%
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

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**

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

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