

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 performance track record, offering the Selector High Conviction Equity Fund and the Selector Australian Equities Fund in addition to private and institutional mandates.

Market Insights

During February the All Ordinaries Accumulation Index ended down **1.47%**, which belies the significant volatility that featured during the month.

These are tricky times indeed and the big issues at the macroeconomic level, be they oil prices, negative interest rates, global growth expectations or China's economic health are unlikely to be resolved to the satisfaction of many market watchers anytime soon.

That said, the United States economy appears to be in a much better position than most other advanced nations. The US Federal Reserve continues to take into account the global setting when considering any future rate rise, although the data being released relating to unemployment levels and gross domestic product continues to paint a positive picture.

Closer to home, the Reserve Bank of Australia cut its forecast for economic growth for 2016 from 3.5% to 3.0% despite strong jobs growth, which continues to trend lower than economic forecasts. The biggest risk to our economy remains a slowing of China's economic growth and its potential impact on the mining and property sectors. Interestingly, however, there are signs that China's efforts to transition from an investment-led model to a consumption-led model is giving rise to increased export opportunities for Australian companies in sectors such as tourism, education and locally sourced and manufactured goods.

This was certainly evident during the recent reporting season, with a clear distinction between companies that are delivering and those that are not. The best management teams are driving top line growth while continuing to invest in new products and seeking to streamline and optimise their businesses, all without compromising their balance sheets. These companies include the likes of **Cochlear, Domino's Pizza Enterprises, Treasury Wines, Sydney Airports, The Star Entertainment Group, Reece, Blackmores, SEEK** and **Harvey Norman**. In stark contrast, the current landscape has also exposed a raft of businesses ill prepared for this challenging environment. Many have resorted to cutting costs and pulling back on investing in an attempt to shore up earnings and reduce debt, especially in the resources sector. The message from management of operators such as **Worley Parsons** has clearly shifted to one of capital preservation and survival.

Investors in turn are showing little tolerance for disappointment and placing further pressure on management teams to deliver. Many argue that these times are not conducive for taking on risk, however, in our experience it is in these environments where the prudent selection of investments yields the greatest financial reward.

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 **12.21%** compared to an Index fall of **6.36%**, representing an outperformance of **18.56%**. The Fund held **31** businesses at month end.

Gross Performance

Portfolio % All Ords Acc (%) Difference %

1 Month	-1.81	-1.47	-0.34
3 Months	-1.62	-4.31	2.69
6 Months	9.86	-3.09	12.95
1 Year	5.12	-12.23	17.35
3 Years annualised	18.55	3.23	15.32
5 Years annualised	15.52	4.59	10.93
10 Years annualised	8.25	4.50	3.74
Since Inception annualised	11.67	6.80	4.86

29 February 2016 Unit Mid Price

\$1.9719

Top Ten Investments

Code Industry Weight %

SEEK	SEK	Industrials	6.12%
ARISTOCRAT LEISURE	ALL	Consumer Disc.	5.45%
ALTUM	ALU	IT	5.41%
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	4.86%
RESMED	RMD	Health Care	4.75%
TECHNOLOGY ONE	TNE	IT	4.45%
CSL	CSL	Health Care	4.31%
CARSales.COM	CAR	IT	4.10%
SIRTEX MEDICAL	SRX	Health Care	4.08%
GBST HOLDINGS	GBT	IT	4.00%

Investment Attribution

For the month, the portfolio delivered a gross negative **1.81%** return against a **1.47%** fall 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

ALTUM	0.65%	OZFOREX GROUP	-1.86%
SEEK	0.40%	BLACKMORES	-0.73%
IRESS	0.38%	SIRTEX MEDICAL	-0.70%
BREVILLE GROUP	0.33%	INFOMEDIA	-0.66%
JUMBO INTERACTIVE	0.32%	COMPUTERSHARE	-0.26%

GICS Groups

Weight

Software & Services	27.86%
Consumer Services	24.21%
Health Care Equipment & Services	11.61%
Pharmaceuticals & Biotechnology	8.38%
Diversified Financials	6.40%
Commercial Services & Supplies	6.12%
Household & Personal Products	3.72%
Insurance	3.02%
Capital Goods	2.48%
Energy	1.94%
Materials	1.74%
Retailing	1.65%
Cash & Other	0.90%
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

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

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