

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 September, the All Ordinaries Accumulation Index fell **2.5%**, rounding out a quarterly fall of **5.8%**, one of the worst performances by the index since 2011. Concerns surrounding the Chinese economy weighed on investor expectations for our local market. This led to steep falls, particularly for energy and material stocks, which dropped 26% and 13% respectively, as commodity prices drifted.

Mid-month Malcom Turnbull, took over as Australia's fifth Prime Minister in five years after a leadership challenge, less than two years into the Government's first term. Disposed Prime Minister Tony Abbott and ex Treasurer Joe Hockey both struggled to sell their economic message, reflected by poor polling among the electorate. Putting aside the political upheaval that this type of event creates, expectations are now high that Turnbull can do a better job.

The US Federal Reserve chose to leave rates on hold but indicated it will likely raise rates from near zero at one of two remaining meetings this year. Fed Chair Janet Yellen's consistent message has been that the effect of falling commodity prices and a rising US Dollar have masked core inflation and are viewed as transitory in nature. With the US maintaining low levels of unemployment and the economy continuing to grow at a healthy clip, the Fed views the 2% inflation target as achievable once the deflationary factors dissipate.

At home and abroad, investor nervousness spread to the balance sheet health of resource companies. It is concerning that seven years since the financial crisis of 2008 and following one of the biggest commodity cycles in history, that management teams have not better prepared for a slowdown. Perhaps few could have envisaged crude oil prices halving or the continued fallout of a world economy struggling to post real growth but surely the idea of not carrying too much debt isn't rocket science. It is clear that some things are never learnt. Origin Energy's unveiling of a 4:7 rights issue to raise \$2.5 billion, is illustrative of what can and does go wrong. An "optimised balance" sheet may tick all the boxes for financial modelling purposes but in reality, when things don't quite go according to plan, companies need an exit strategy. With too much debt, the options can quickly run out.

In corporate news, Woodside Petroleum saw fit to lob what can only be described as a non-bid for PNG LNG producer Oil Search. Vitamins business, Swisse, was bought out by Hong Kong listed Biostime while US listed Equifax lodged a board recommended takeover offer for Veda Group. During the month I-Med Network Radiology, Link Market Services and Integral Diagnostics all signalled their intentions to float.

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 15-25 businesses.

For the financial year to date the Fund has delivered a gross positive return of **5.06%** compared to an Index fall of **5.79%**, representing an outperformance of **10.85%**. The Fund held **30** businesses at month end.

Gross Performance

Portfolio % All Ords Acc (%) Difference %

1 Month	2.86	-2.50	5.36
3 Months	5.06	-5.79	10.85
6 Months	-3.74	-11.68	7.94
1 Year	13.33	-0.16	13.48
3 Years annualised	23.10	9.31	13.79
5 Years annualised	15.30	6.28	9.02
10 Years annualised	7.99	5.37	2.62
Since Inception annualised	11.46	7.13	4.33
30 September 2015 Unit Mid Price			\$1.8581

Top Ten Investments

Code Industry Weight %

ARISTOCRAT LEISURE	ALL	Consumer Disc.	7.75%
ALTUM	ALU	IT	4.64%
RESMED	RMD	Health Care	4.46%
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	4.42%
SIRTEX MEDICAL	SRX	Health Care	4.36%
OZFOREX GROUP	OFX	Financials	4.34%
SEEK	SEK	Industrials	4.31%
GBST HOLDINGS	GBT	IT	4.24%
BLACKMORES	BKL	Consumer Staples	3.97%
CSL	CSL	Health Care	3.90%

Investment Attribution

For the month, the portfolio delivered a gross positive **2.86%** return against a **2.50%** fall in the Index. The portfolio held **30** stocks at the end of the period and the performance was primarily driven by:

Top Five % attribution

Bottom Five % attribution

BLACKMORES	1.60%	SIMS METAL MANAGEMENT	-0.39%
ALTUM	0.65%	SIRTEX MEDICAL	-0.24%
GBST HOLDINGS	0.39%	INFOMEDIA	-0.21%
TECHNOLOGY ONE	0.32%	AINSWORTH GAME TECHNOLOGY	-0.18%
NIB HOLDINGS	0.25%	BREVILLE GROUP	-0.10%

GICS Groups

Weight

Software & Services	29.59%
Consumer Services	21.20%
Health Care Equipment & Services	9.38%
Pharmaceuticals & Biotechnology	8.26%
Diversified Financials	8.01%
Commercial Services & Supplies	4.31%
Household & Personal Products	3.97%
Cash & Other	3.56%
Insurance	2.86%
Capital Goods	2.76%
Materials	2.61%
Energy	2.17%
Retailing	1.33%
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

Executive Team**Tony Scenna | Managing Director, Portfolio Manager**

30 years investment experience
12 years Selector Funds Management Limited

tony@selectorfund.com.au +61 2 8090 3612
+61 413 235 803

Corey Vincent | Managing Director, Portfolio Manager

20 years investment experience
12 years Selector Funds Management Limited

corey@selectorfund.com.au +61 2 8090 3611
+61 401 000 037

John Maragiannis | Managing Director

27 years funds management experience
4 years Selector Funds Management Limited

imaragiannis@axiuspartners.com +61 2 8090 3613
+61 419 689 503

George Giovas | Managing Director

27 years finance, banking, funds management experience
4 years Selector Funds Management Limited

ggiovas@axiuspartners.com +61 2 8090 3614
+61 435 763 045

Rob Lapsley | Analyst

4 years funds management experience
4 years Selector Funds Management Limited

rob@selectorfund.com.au +61 2 8090 3617
+61 425 842 951

Adrian Lamari | Analyst

8 years banking & finance experience
Joined Selector Funds Management Limited in July 2015

adrian@selectorfund.com.au +61 2 8090 3615
+61 430 537 957

Selector Funds Management Limited

Level 3, Suite 4
10 Bridge Street
Sydney
NSW 2000

www.selectorfund.com.au

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

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