

Selector Funds Management ("Selector") specialises in high conviction, index agnostic, concentrated portfolios using a Value Based Growth ("VBG") approach. 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

The All Ordinaries Accumulation Index rose **3.03%** for the month as investors shook off a series of external shocks. In large part this is a function of economies moving in different directions. The fallout from the drop in oil prices continued unabated during the month, giving rise to all matter of scenarios. Markets rarely wait for consensus to emerge and this is the case for oil markets today. Whether oil prices fall further or stabilise from here, time will tell, however, the era of above USD100 per barrel oil prices appears some way off.

Already the direct implications of lower prices is an expected drop in inflation. This in turn will give politicians and central bankers more ammunition in hastening slowly when considering the touchy issue of when and how much rates should be lifted. In the meantime, global investors have maintained their affinity with bonds, pushing prices up and yields lower. Locally 10-year bonds traded at record lows of 2.55% during January while US Treasuries traded below 1.75% along with UK gilts at 1.57%. So despite a weaker economic backdrop and expectations of lower official interest rates, Australia still stands out as a high yielding AAA investment, which will continue to provide underlying support to our weakening local currency. And despite general consensus that the local unemployment rate was heading north, the December figures showed a welcome drop from November's 6.3% to 6.1%.

Underlying the difficulties confronting investors, the World Bank cut its forecast for global growth to 3.0%, which follows earlier projections of 3.4% in June 2014 and 3.2% last October. This downturn is despite an expected boost to global growth from lower oil prices. As noted previously, developed economies are moving down different paths with the US and UK recovering well, while the euro zone and Japan are still struggling. In brighter news, the World Bank is expecting gross domestic product growth in high income economies to average 2.2% between 2015 and 2017, up from 1.8% in 2014. In developing countries growth is expected to rise to 4.8% and reach 5.4% by 2017.

Having defended the Swiss currency against the euro since 2011, Switzerland's central bank finally abandoned its floor of 1.20 Swiss francs per euro, triggering a series of knock on effects globally before closing at 1.05 francs per euro. The dislocation of monetary policies evident in different regions of the world is testing financial markets and is a consequence of major developed economies entering quite different phases post the crisis of 2008. Rather than receding, the immediate outlook suggests more dislocation is on the way.

This was evident when the European Central Bank (ECB) unleashed its own Quantitative easing program totalling €1 trillion, with a commitment to buy a total of €60 billion in assets for at least 18 months. This program when compared to the recent US experience is about 24% bigger as a percentage of GDP but will be somewhat more complicated with the buying undertaken by 19 member central banks. This action reinforces the deep seated issues facing the European region with the ECB prioritising inflation of 2%.

A fallout from this latest move is the ongoing pressure on interest rates, with more countries looking to cut further. Equities on the other hand have been the main beneficiary, a situation unlikely to change in the immediate future. And yet throughout these worrying times, the markets have continued to climb higher, perhaps suggestive of better times ahead.

We continue to favour businesses with;

1. Strongly aligned management teams
2. Business leadership qualities
3. Conservatively positioned balance sheets
4. 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 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.

Over the financial year to date the Fund has delivered a gross positive return of **12.72%** compared to an Index rise of **5.38%**, representing an outperformance of **7.34%**. The Fund held **31** businesses at month end.

Gross Performance

	Portfolio %	ASX All Ords Acc %	Difference %
1 Month	2.55	3.03	-0.48
3 Months	3.01	1.66	1.35
6 Months	8.38	0.85	7.54
1 Year	20.44	11.28	9.16
3 Years annualised	25.81	13.50	12.31
5 Years annualised	12.29	8.38	3.91
Since Inception annualised	11.10	7.80	3.30
31 January 2015 Unit Mid Price			\$1.5848

Top Ten Investments

	Code	Industry	Weight %
ARISTOCRAT LEISURE	ALL	Consumer Disc.	6.06
SEEK	SEK	Industrials	5.57
SIRTEX MEDICAL	SRX	Healthcare	5.41
RESMED	RMD	Healthcare	4.69
DOMINO'S PIZZA ENTERPRISES LIMITED	DMP	Consumer Disc.	4.68
NIB HOLDINGS	NHF	Financials	4.43
IOOF HOLDINGS	IFL	Financials	4.21
IRESS	IRE	IT	4.11
OZFOREX GROUP	OFX	Financials	3.85
TECHNOLOGY ONE	TNE	IT	3.70

Investment Attribution

For the month, the portfolio delivered a gross positive **2.55%** return against a **3.03%** 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

RESMED INC	0.67	INFOMEDIA	-0.73
AINSWORTH GAME TECHNOLOGY	0.48	OZFOREX	-0.44
FLIGHT CENTRE	0.47	SIRTEX MEDICAL	-0.29
SUPER RETAIL GROUP	0.46	ALTUM	-0.24
ARISTOCRAT LEISURE	0.40	IRESS MARKET TECHNOLOGY	-0.15

GICS Groups

	Weight
CONSUMER DURABLES & APPAREL	23.25%
SOFTWARE & SERVICES	20.82%
DIVERSIFIED FINANCIALS	11.08%
HEALTH CARE EQUIPMENT & SERVICES	8.27%
COMMERCIAL & PROFESSIONAL SERVICES	8.03%
PHARMACEUTICALS, BIOTECH & LIFE SCIENCES	5.41%
INSURANCE	5.21%
RETAILING	4.80%
AUTOMOBILES & COMPONENTS	3.36%
CASH & EQUIVALENTS	3.16%
CAPITAL GOODS	2.45%
HOUSEHOLD & PERSONAL PRODUCTS	2.09%
MATERIALS	1.16%
BANKS	0.94%
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

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

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
3 years Selector Funds Management Limited

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

George Giovas | Managing Director

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

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

Rob Lapsley | Analyst

3 years funds management experience
3 years Selector Funds Management Limited

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

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

The information presented in this fact sheet is not intended to be advice. It has not been prepared taking into account any particular investor or class of investors investment objectives, financial situation or needs, & should not be used as the basis for making investment, financial or other decisions. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. SFML does not guarantee the repayment of capital, payment of income or performance.