

Selector Funds Management

Selector High Conviction Equity Fund - 30 April 2014



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 Insight

The All Ordinaries Accumulation Index ended the month up 1.29%, led largely by the major banks. While offshore sentiment continues to dictate the market's short term direction, the upcoming Federal Budget and release of key economic data dominated domestic affairs during April. Treasurer Joe Hockey opened up the debate on the long term structural reforms that needed to take place. Next, Reserve Bank Governor Glenn Stevens and Treasury Secretary Martin Parkinson entered the tax debate, making the case for raising the Goods and Services Tax (GST) and cutting personal income tax. While Treasurer Hockey's focus is on improving the nation's bottom line and reducing the budget deficit, Parkinson's long term focus is on getting the tax mix right. While raising the GST is a step in the right direction, Parkinson argues that Australia needs to rely more on indirect taxes like other developed nations. Without changes, the reliance on the income tax base to support continuing growth and higher living standards will leave the economy vulnerable to global shocks. As Parkinson explains, since an individual's tax bracket is not indexed, over time it leads to an increasing number of employees paying higher marginal tax rates, a phenomenon known as "bracket creep". The numbers suggest that in 2015-16 the average full time employee will be paying a marginal tax rate of 39 cents in the dollar up from 31 cents a decade ago. In March unemployment came in better than expected at 5.8%, down from its 10 year high of 6.1% posted in January. This along with a slew of positive indicators pushed the Australian dollar towards USD \$0.95. Minutes from the Reserve Bank's April policy meeting indicated a keenness to hold the cash rate at 2.5% for a "period in time". Inflation fell short of expectations, coming in at 2.9% for the year ending March 31 compared to 3.2% many had forecasted. In contrast, New Zealand raised its cash rates to 3.0% with many predicting 4.5% by the end of 2015. This was the government's first tightening since 2012 and underscores their desire to react quickly to GDP growth already running at 3.5%. Finally, housing starts are as good a barometer of an economy's health as any and the numbers for Australia are mostly positive, with Housing Institute of Australia (HIA) Chief Economist Harley Dale noting that the construction market, on aggregate, looks set to beat its previous peak of 187,000 housing starts posted in 1994. With this as a backdrop we remain positive on the economy's medium term direction. We continue to be selective in the businesses we seek and favour those with,

1. Strongly aligned management teams
2. Business leadership qualities
3. Conservatively positioned balance sheets
4. 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. Gross performance for the 2014 financial year to date has the Fund delivering a positive **25.88%** return compared to the Index rise of **18.60%**, representing an outperformance of **7.28%**. The Fund held **32** businesses at month end.

Gross Performance

	Portfolio %	All Ords Acc %	Difference %
1 Month	-0.75	1.29	-2.04
3 Months	6.62	6.46	0.16
6 Months	3.85	3.03	0.82
1 Year	25.31	10.43	14.88
3 Years annualised	16.39	8.41	7.97
5 Years annualised	18.69	12.51	6.19
Since Inception annualised	11.08	8.42	2.66
30 April Unit Mid Price			\$1.7865

Top Ten Investments

	Code	Industry	Weight %
SEEK	SEK	Industrials	8.41
SIRTEX MEDICAL	SRX	Healthcare	7.13
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	6.49
RESMED	RMD	Healthcare	5.73
ARISTOCRAT LEISURE	ALL	Consumer Disc.	5.06
CARSALSA.COM	CRZ	IT	4.26
IOOF HOLDINGS	IFL	Financials	4.18
TECHNOLOGY ONE	TNE	IT	3.8
DOMINO'S PIZZA ENTERPRISES	DMP	Consumer Disc.	3.59
COMPUTERSHARE	CPU	IT	3.48

Investment Attribution

For the month, the portfolio delivered a gross negative **-0.75%** return against a **1.29%** 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	
RESMED	0.71	JUMBO INTERACTIVE	-0.81
TECHNOLOGY ONE	0.35	IPROPERTY	-0.38
AINSWORTH GAME TECHNOLOGY	0.26	ARISTOCRAT LEISURE	-0.35
FLIGHT CENTRE	0.15	SEEK	-0.33
ECHO ENTERTAINMENT	0.15	OZFOREX	-0.25

GICS Groups

	Weight
SOFTWARE & SERVICES	20.74%
CONSUMER SERVICES	20.14%
PHARMACEUTICALS, BIOTECH & LIFE SCIENCES	10.57%
DIVERSIFIED FINANCIALS	9.27%
HEALTH CARE EQUIPMENT & SERVICES	9.93%
COMMERCIAL & PROFESSIONAL SERVICES	8.41%
RETAILING	4.80%
INSURANCE	4.90%
ENERGY	3.23%
CAPITAL GOODS	2.72%
CASH & EQUIVALENTS	1.92%
FOOD & STAPLES RETAILING	1.88%
TRANSPORTATION	1.49%
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	15-25
S&P ASX 200 Target Portfolio Weighting	40%-100%
S&P SAX 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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