

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 alongside its clients. Selector has a long term performance track record, offering the Selector High Conviction Equity Fund, the Selector Australian Equities Fund portfolio, in addition to private and institutional mandates.

Market Commentary

Global share markets fell sharply during January with our main index receding 2.8%, its worst start to a year since 2009. The US Dow Jones index fared little better, retreating 5.3% as investors contemplated the implications of the Federal Reserve's latest \$10 billion monthly tapering of its Quantitative Easing (QE) program. Since December, the Federal Chairman Ben Bernanke has begun winding back the bond buying program from its original \$85 billion per month to the current \$65 billion. While investors should view this process as both necessary and reflective of improving macroeconomic conditions, it nevertheless brings with it unintended consequences. As bond markets begin to accommodate the Federal Reserve's actions, investors are also reassessing the implications of a stronger US dollar. Already the early signs point to a period of currency instability for a number of countries, prompting some to lift rates sharply in a move designed to promote stability. And yet despite this backdrop, The World Bank gave further reasons for optimism during January, forecasting a boost to global growth of 3.2% this year up from 2.4% in 2013. Furthermore, the main drivers to this pickup are the advanced countries, particularly the US. As World Bank President Jim Yong Kim noted, "The performance of advanced economies is gaining momentum, and this should support growth in developing countries in the months ahead." However, the flip side is renewed attention on the tapering of the QE program, and again the World Bank suggests that "if the normalisation of US monetary policy ran smoothly, it would push global bond rates up by 50 basis points by the end of next year and one percentage point by 2016." On this score, 2014 is likely to create a fair degree of anxiety among investors as they grapple with improving economic activity and rising bond rates. The release of the Australian consumer price index for the final quarter of 2013, saw a jump of 0.8%, lifting the annual inflation rate to 2.7%. The sharp jump has led to speculation that our central bank may have no choice but to lift interest rates to keep inflation in check. In truth, we struggle to see how rates will be allowed to rise in an economy posting sluggish growth and competitive cost pressures, as evidenced by recent company profit downgrades. 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. Shareholder return focus

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 **18.07%** return compared to the Index rise of **11.40%**, representing an outperformance of **6.67%**. The Fund held 31 businesses at month end.

Gross Performance

	Portfolio %	All Ords Acc %	Difference %
1 Month	-2.35	-2.76	0.41
3 Months	-2.60	-3.22	0.62
6 Months	10.83	5.63	5.19
1 Year	23.12	10.73	12.39
3 Years annualised	14.15	6.96	7.19
5 Years annualised	18.73	13.19	5.55
Since Inception annualised	10.62	7.92	2.70
31 January Unit Mid Price			\$1.6830

Top Ten Investments

	Code	Industry	Weight %
SIRTEX MEDICAL	SRX	Healthcare	6.85
SEEK	SEK	Industrials	6.70
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	6.15
TWENTY-FIRST CENTURY FOX	FOX	Consumer Disc.	6.12
RESMED	RMD	Healthcare	5.70
IOOF HOLDINGS	IFL	Financials	4.66
ARISTOCRAT LEISURE	ALL	Consumer Disc.	4.18
IRESS	IRE	IT	3.91
CSL	CSL	Healthcare	3.79
TECHNOLOGY ONE	TNE	IT	3.51

Investment Attribution

For the month, the portfolio delivered a gross negative **2.35%** return against a **2.76%** 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	
SIRTEX MEDICAL	1.19	21ST CENTURY FOX -0.57
OZ FOREX	0.15	JUMBO INTERACTIVE -0.53
ALTIUM	0.15	SEEK -0.47
NAVITAS	0.11	CARSales.COM -0.37
CSL	0.07	RESMED -0.37

GICS Groups

	Weight
CONSUMER SERVICES	18.53%
SOFTWARE & SERVICES	15.92%
PHARMACEUTICALS, BIOTECH & LIFE SCIENCES	10.64%
HEALTH CARE EQUIPMENT & SERVICES	10.15%
DIVERSIFIED FINANCIALS	10.11%
COMMERCIAL & PROFESSIONAL SERVICES	6.70%
MEDIA	6.12%
RETAILING	6.00%
INSURANCE	5.08%
CAPITAL GOODS	3.25%
ENERGY	3.24%
FOOD & STAPLES RETAILING	1.84%
TRANSPORTATION	1.49%
CASH & EQUIVALENTS	0.93%
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

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

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