

Selector Funds Management

Selector High Conviction Equity Fund - 31 October 2013



Selector Funds Management ("Selector") specialises in high conviction, index agnostic, concentrated portfolios using a Value Based Growth (VBG) approach. The investment team is highly experienced with over 60 years of combined experience. Selector has leveraged this experience into creating a long term, consistent performance track record. Selector offers the High Conviction Equity Fund and the Selector Australian Equities Fund together with private mandates on behalf of institutional investors.

Market Commentary

The US just can't help stealing the limelight. Five years ago it was the Lehman Brothers collapse that caught world markets off-guard. This time round the focus has fallen on the US government as it attempted to lift its own debt ceiling in order to meet public expenditure payments. To overcome this impasse, Treasury sought approval from the US Congress to lift the debt ceiling but politicians never miss an opportunity to exploit an opponents weakness and in this instance the Republicans argued for broader spending cuts including a review of President Obama's health care reforms. This level of brinkmanship that exposed the US to possible default, was met with distain among world leaders still grappling with the Lehman fallout. The 16 day political standoff that ended mid month remains an ongoing issue. With the US budget funded until next January, the ongoing threat of default remains alive, underlying the imperative to implement a longer term solution to the problems the US faces. And yet despite these issues, the US market still managed to hit a record high, with the Dow Jones Index closing **2.75%** up for the month. Our local market responded in kind, lifting **3.91%**. While a **24.6%** rise over the past year has caught many by surprise, investors are being buoyed by improving market conditions evident in the resurgent property market and new company listings. This was evident with foreign exchange operator **OzForex** hitting the boards at a 30% premium to its listing price. This is a business we rate and despite concerns regarding its current valuation we expect management will continue to carve out a very profitable franchise both locally and abroad. In the UK, in a move that may have repercussions here, shares in the British postal service Royal Mail soared on listing, rising nearly 40% above the Government's original offer price of 330p and valuing the business at £4.5 billion. The sale of a 52% stake to the public forms part of the government's plan to sell off state assets to help cut Britain's budget deficit. Our newly elected Liberal Government is likely to take these positive developments on board with assets including private health insurer Medibank and our own postal operator Australia Post high on the list for privatisation.

1. Strongly aligned management team.
2. Business with leadership qualities.
3. Balance sheet, conservatively positioned.
4. Shareholder returns paramount.

Portfolio Strategy

The strategy is focused on identifying and investing in listed business that sit largely within the ASX 300 Index. Within this universe. We focus on companies outside of the top 20 stocks by market capitalisation.

The investment style is both high conviction and index agnostic, while individual Portfolio holdings can range in number anywhere from 15-25 businesses.

Gross Performance	Portfolio %	All Ords Acc %	Difference %
1 Month	3.88	3.91	-0.04
3 Months	13.79	9.15	4.64
6 Months	20.67	7.18	13.48
1 Year	41.48	24.68	16.80
3 Years annualised	15.45	9.26	6.19
5 Years annualised	17.91	11.09	6.82
Since Inception annualised	11.26	8.54	2.72

Top Ten Investments	Code	Industry	Weight %
SEEK LIMITED	SEK	Industrials	7.13
FLIGHT CENTRE LIMITED	FLT	Consumer Disc.	6.89
TWENTY-FIRST CENTURY FOX	FOX	Consumer Disc.	6.37
RESMED INC CDIS	RMD	Healthcare	6.33
SIRTEX MEDICAL LIMITED	SRX	Healthcare	6.18
IOOF HOLDINGS LIMITED	IFL	Financials	4.93
ARISTOCRAT LEISURE LIMITED	ALL	Consumer Disc.	4.65
IRESS LIMITED	IRE	IT	4.44
CSL LIMITED	CSL	Healthcare	3.81
COMPUTERSHARE LIMITED	CPU	IT	3.29

Investment Attribution

For the month, the portfolio delivered a gross positive **3.88%** return against a **3.91%** rise in the Index. The portfolio held **27** stocks at the end of the period and the performance was primarily driven by:

<u>Top Five % attribution</u>		<u>Bottom Five % attribution</u>	
SEEK	0.57	SIRTEX	-0.69
ARISTOCRAT	0.52	RESMED	-0.39
DOMINOS PIZZA	0.43	CARSALES.COM	-0.28
IRESS	0.38	WORLEYPARSONS	-0.27
OZFOREX	0.36	NAVITAS	-0.13

GICS Groups	Weight
CONSUMER SERVICES	17.28%
SOFTWARE & SERVICES	12.29%
DIVERSIFIED FINANCIALS	10.50%
CASH & EQUIVALENTS	10.02%
PHARMACEUTICALS, BIOTECH & LIFE SCIENCES	9.99%
HEALTH CARE EQUIPMENT & SERVICES	9.03%
COMMERCIAL & PROFESSIONAL SERVICES	7.13%
MEDIA	6.37%
RETAILING	5.50%
INSURANCE	5.13%
ENERGY	2.06%
FOOD & STAPLES RETAILING	1.93%
TRANSPORTATION	1.57%
CAPITAL GOODS	1.19%
Total	100%

Investment Philosophy

Selector's consistent bottom up process looks at a combination of the quantitative and qualitative attributes of a business with their competitive advantage derived from the ability of their experienced Portfolio Managers to access the people managing a business and assess the sustainability of its model.

Selector is benchmark agnostic. In essence Selector are backing a consistent investment process and their Portfolio Managers' deep industry experience, rather than benchmarking against an Index. Selector believes Indexing limits returns to investors over the long run. The long-term investment horizon aims to capture real earnings per share growth.

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	\$500,000.00
Entry and Exit Fees	Nil

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

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