

Selector Funds Management (“Selector”) specialises in high conviction, index agnostic, concentrated portfolios using a Value Based Growth (VBG) approach. The investment team at Selector is highly experienced and has over 60 years of combined experience on it’s Investment Committee. Selector has leveraged this experience into creating a long term, consistent performance track record.

Market Commentary

What started as a trickle has ended in a flood. A cut to official cash rates to a record low 2.75 % set the tone for a month of surprises and disappointments. This was followed by the Federal Government’s tabling of its fifth consecutive Budget deficit with another projected for the current year and any surplus some years off. However, nothing unnerves investors more than profit downgrades and on this score May didn’t disappoint with companies exposed to our mining services industry feeling the full brunt. With our major miners BHP Billiton and Rio-Tinto already imposing severe reductions to their capital expenditure programs, the impacts have already been felt with the likes of UGL, WorleyParsons, Coffey International, Transfield Services and Fleetwood, to name just a few, cutting profits. To the contrary, the US economy displayed an improving outlook that has seen both the stock-market and currency on the up. By month’s end the Dow Jones Industrial Index closed up 1.92% while the US dollar appreciated against most currencies, clearly evident with our own Australian dollar trading below US parity for the first time in more than a year. However, unlike cuts to capital expenditure, any benefits to arise from a lower dollar will take time to unfold while the strains of a globally competitive environment continues on relentlessly, as evident by local car manufacturer Ford’s decision to cease local production by 2016. Companies that are positioned for both local and global growth are best positioned and on that score businesses including the likes of ResMed, Aristocrat and Computershare should benefit in the current climate. That said, as we have noted for some months, caution is now the order of the day but as investors tend to do, distressed selling will lead to buying opportunities. On that basis we will continue to seek businesses with the following best of breed qualities:

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

Stock Comments

The Fund returned a negative result during the month, delivering a gross return of **-0.36%** against an index fall of **-4.54%**. Attribution wise, the top contributors included Sirtex (+0.87%), ResMed (+0.85%), Flexigroup (+0.76%), Aristocrat (+0.59%) and Breville Group (+0.29%). Negative contributors included Super Retail (-0.86%), Jumbo (-0.68%), Seek (-0.57%), Fleetwood (-0.46%) and Echo (-0.36%). Gross performance for 2013 financial year to date has the Fund delivering a positive **39.06%** to an index rise of **24.90%**, an outperformance of **14.16%**. Investments held at month end 24.

Performance %	Ex-50 Portfolio	S&P/ASX 300	Difference
1 Month	-0.36	-4.54	+4.18
3 Months	+3.67	-2.68	+6.35
6 Months	+14.85	+11.16	+3.69
1 Year	+40.43	+25.57	+14.86
3 Years	+10.37	+8.16	+2.21
5 Years	+7.43	+1.59	+5.84
Since Inception	+9.54	+7.15	+2.39

Portfolio Strategy

The Ex-50 Portfolio is focused on identifying and investing in listed business that sit largely within the ASX 300 Index. Within this universe, we exclude the Top 50 listed stocks as our experience shows the greatest value resides in the smaller, less researched businesses. The Manager’s style is both high conviction and index agnostic while individual Portfolio holdings can range in number, between 25 to 40 businesses.

Top 10 Investments	Code	Industry	Weight %
Flexigroup	FXL	Financials	7.28
ResMed	RMD	Healthcare	7.21
Sirtex Medical	SRX	Healthcare	6.31
SEEK	SEK	Industrials	6.27
IOOF	IFL	Financials	5.37
ARB	ARP	Consumer	5.24
Flight Centre	FLT	Consumer	5.07
Aristocrat	ALL	Consumer	4.64
Super Retail	SUL	Retail	4.63
NIB Holdings	NHF	Financials	4.38

Fund Facts

- The objective is to provide long-term capital growth from exposure to a set of non-core Australian shares.
- The Fund aims to outperform the S&P/ASX 300 Accumulation Index.
- The portfolio holds between 25 and 40 stocks.
- Selector does not use any derivatives or leverage and avoids start-ups and turnarounds.
- Selector manages a concentrated portfolio to maximise attribution from its “best ideas” investments.

About Selector

Selector was established in 2003 by Tony Scenna and Corey Vincent and the team was expanded in 2011 with Axius Partners Pty Limited (“Axius”) joining Selector to undertake the distribution and marketing. George Giovas of Axius also joined the Investment Committee.

Tony is one of Australia’s most experienced Fund Managers with over 29 years of continuous experience. In 1988 Tony was a founder of Harper Bernays Limited and was the Managing Director from 1994-2002. Prior to this Tony spend five years as an Investment Analyst and then Portfolio Manager at Perpetual Trustees Australia with joint responsibility for the Perpetual Industrial Fund.

Corey has 9 years experience as a Portfolio Manager with 10 years experience on sell side stockbroking. In 2001 Corey founded VBM Capital Limited and completed a sell down to staff in 2006 to focus on the operations of Selector.

George Giovas makes up the third member of the Selector Investment Committee and has 26 years experience in finance, banking, property, funds management, risk and credit analysis. George heads Selector’s investment committee and is a founding principal of Axius Partners who specialise in Funds Management distribution.

John Maragiannis has 26 years experience in institutional distribution. John was head of distribution at Credit Suisse, Schroder's and Zurich Scudder. His most recent role was Director of Distribution at Credit Agricole Asset Management. John leads Selector's distribution capability and is a founding principal of Axius.

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.

Ex-50 Portfolio Criteria and Risk Limits*

Stocks in Portfolio	25-40
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%
Minimum Monthly Liquidity	>75%
Standard Deviation	15.4%
Tracking Error	9.3%

Fund Statistics

Entry Fee and Exit Fees	Nil
Minimum Investment	A\$2,000
Management Fee	1.00%
Performance Fee (of outperformance)	15%
Benchmark	S&P ASX 300
Frequency of Distributions	Annual

Executive Team

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*Since inception model portfolio gross performance.

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