

Selector Funds Management

Selector Australian Equities Fund - 30 April 2013

selector

Funds
Management
Limited

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 its Investment Committee. Selector has leveraged this experience into creating a long term, consistent performance track record.

Market Commentary

World equity markets kept their poise during April with the US, Japan and Australia posting solid gains while European bourses consolidated around recent new highs. Market commentators are still coming to grips with the current state of play. While share market valuations have moved ahead strongly, it has largely been achieved without a corresponding increase in underlying earnings. In addition, loose monetary policies designed to stimulate economic growth has yet to deliver the consistent results expected. This has led to a lively debate as to the likely future direction of equity markets. Certainly valuations can only stay up for so long before relief in the form of higher earnings is needed to sustain confidence. The necessary pieces required for this to happen are, in our opinion, in place although not all sectors or businesses will benefit. The collapse of the gold price during April, the devaluation of the Japanese yen, the slow down in Chinese GDP growth and businesses in general re-evaluating their capital priorities are leading to heightened levels of investor activity across the investment landscape. Closer to home, resource based businesses remain on the nose while the chase for yield continues with a lesser regard to the risks attached. While we applaud Woodside Petroleum's decision to restrain from undertaking costly projects that struggle to meet economic return hurdles, we are uneasy with its policy of returning such high levels of earnings considering the capital intensive nature of its business. In short, are their actions to please the market or a prudent use of company capital and will they make the tough decisions down the track to turn the dividend tap off should circumstances dictate. We are not so sure as QBE Insurance so clearly demonstrated quite recently when they sought to raise new capital yet maintained a high dividend payment ratio. As always we 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 positive result during the month, delivering a gross return of **1.75%** against a rise of **4.30%** in the Index. Attribution wise, the top contributors included Flight Centre (+0.75%), Seek (+0.66%), Breville Group (+0.49%), ResMed (+0.35%) and Super Retail (+0.34%). Negative contributors included Jumbo (-0.87%), Sirtex (-0.75%), Monadelphous (-0.28%) and Austin (-0.21%). Gross performance for 2013 financial year to date has the Fund delivering a positive **39.57%** to an index rise of **30.83%**, an outperformance of **8.74%**. Investments held at month end 24.

Performance %

	Ex-50 Portfolio	S&P/ASX 300	Difference
1 Month	+1.75	+4.30	-2.55
3 Months	+3.99	+7.34	-3.35
6 Months	+17.83	+16.90	+0.93
1 Year	+31.50	+22.67	+8.83
3 Years	+8.06	+7.01	+1.05
5 Years	+6.93	+2.88	+4.05
Since Inception	+9.69	+7.82	+1.87

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 %
SEEK	SEK	Industrials	6.82
Flexigroup	FXL	Financials	6.74
ResMed	RMD	Healthcare	6.36
IOOF	IFL	Financials	5.66
Super Retail	SUL	Retail	5.66
ARB	ARP	Consumer	5.42
Sirtex Medical	SRX	Healthcare	5.29
Flight Centre	FLT	Consumer	4.90
NIB Holdings	NHF	Financials	4.53
Carsales.com	CRZ	IT	4.34

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

The Team**Tony Scenna | Founder, Portfolio Manager & Director**

29 years investment experience
Perpetual Trustees Australia | Harper Bernays
tony@selectorfund.com.au | +61 2 8090 3612
+61 413 235 803

Corey Vincent | Founder, Portfolio Manager & Director

19 years investment experience
Cameron Stockbrokers | VBM Capital
corey@selectorfund.com.au | +61 2 8090 3613
+61 401 000 037

John Maragiannis | Executive Director

26 years Funds Management experience
Zurich Scudder | Schroders | Credit Suisse | Credit Agricole | Axius Partners
jmaragiannis@axiuspartners.com | +61 419 689 503

George Giovas | Executive Director

26 years Finance, Banking, Funds Management experience
ANZ Bank | Axius Partners
ggiovas@axiuspartners.com | +61 435 763 045

Selector Funds Management Limited

Level 3, Suite 4
10 Bridge Street
Sydney
NSW 2000
www.selectorfund.com.au

*Since inception model portfolio gross performance.

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.