

Selector Funds Management

Selector Australian Equities Fund - 31 August 2018

selector

Funds
Management
Limited

Selector Funds Management ("Selector") specialises in high conviction, index agnostic, concentrated portfolio management (AFSL 225316). 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 track record of performance. We offer the Selector High Conviction Equity Fund and the Selector Australian Equities Fund in addition to institutional mandates.

Market Insights

By all accounts, August was full of surprises. Reporting season shared the headlines with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The extent of misconduct exposed is likely to reshape how the industry operates, with the Commissioner, Kenneth Hayne expected to submit an interim report no later than September 2018, and a final report by February 2019.

While enduring the fallout of the Royal Commission, investors braced for the avalanche of annual company reports. In all, the financial results were relatively pleasing, but some general observations can also be drawn. The first surrounds our largest companies, those that make up the ASX 20 Index. Companies with a purely domestic focus have struggled. The banks, Telstra, Wesfarmers and Woolworths have begun cost cutting, downsizing, divesting non-core operations and refocusing. Competition and regulatory imposts have eroded once mighty competitive advantages, while a lack of prudent long-term investment combined with a series of well publicised failed investments has left these businesses vulnerable to changing consumer demands.

The second observation is that businesses which have expanded offshore and reinvested in their core competencies have fared far better. This is a journey that requires management with a strong constitution and a clearly articulated strategy that justifies investment for tomorrow at the expense of higher profits today. Reporting season illustrated the success of this strategy, with companies held within our portfolios, including SEEK, Carsales.com, CSL, Cochlear and Altium delivering positive results.

The final observation is that there are a variety of businesses which are caught in the middle. Those offering generic products or services, that are being impacted by rising costs and a more competitive environment. In this bucket, we include local manufacturers and many retailers.

As August came to a close, Scott Morrison became Australia's newest Prime Minister, the 30th to be exact, taking over from Malcolm Turnbull. In essence, the country's CFO took over as CEO. This caps a thoroughly disappointing period which has seen no elected Australian Prime Minister last a full term since John Howard in 2007. On this subject, the less said the better.

We continue to seek businesses with:

1. Competent management teams
2. Business leadership qualities
3. Strong balance sheets
4. A focus on capital management

Gross Performance	Portfolio %	All Ords Acc (%)	Difference %
1 Month	7.06	1.71	5.35
3 Months	10.85	5.99	4.86
6 Months	15.63	7.28	8.35
1 Year	37.75	15.96	21.79
3 Years annualised	23.03	11.82	11.21
5 Years annualised	19.76	9.19	10.57
10 Years annualised	15.14	6.62	8.52
Since Inception annualised	13.60	8.07	5.53
Since Inception cumulative	476.65	190.49	286.16
31 August 2018 Unit Mid Price			\$2.1697

Top Ten Investments	Code	Industry	Weight %
ALTIUM	ALU	IT	5.46%
JUMBO INTERACTIVE	JIN	Consumer Disc.	5.13%
ARISTOCRAT LEISURE	ALL	Consumer Disc.	4.93%
RESMED	RMD	Health Care	4.73%
REECE	REH	Industrials	4.70%
RELIANCE WORLDWIDE CORPORATION	RWC	Industrials	4.67%
SEEK	SEK	Industrials	4.41%
BLACKMORES	BKL	Consumer Staples	4.00%
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	3.61%
DOMINO'S PIZZA ENTERPRISES	DMP	Consumer Disc.	3.36%

Investment Attribution

The portfolio held **29** stocks at the end of the period and the performance was primarily driven by:

Top Five % attribution		Bottom Five % attribution	
JUMBO INTERACTIVE	2.16%	SIMS METAL MANAGEMENT	-0.98%
ALTIUM	1.58%	RELIANCE WORLDWIDE CORPORATION	-0.60%
INFOMEDIA	0.95%	FLIGHT CENTRE TRAVEL GROUP	-0.60%
IRESS	0.46%	MYOB GROUP	-0.15%
RESMED	0.45%	ARB CORPORATION	-0.15%

Portfolio Snapshot

The strategy is focused on identifying and investing in listed businesses that sit largely within the ASX 300 Index.

Within this universe, we exclude many of the Top 50 listed stocks 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 range from 25-40 businesses.

For the month, the portfolio delivered a gross positive **7.06%** return against a **1.71%** rise in the Index. For the financial year to date the Fund has delivered a gross positive return of **6.70%** compared to an Index rise of **2.95%**, representing an outperformance of **3.75%**.

GICS Groups

GICS Groups	Weight
Consumer Services	21.29%
Software & Services	19.69%
Health Care Equipment & Services	14.46%
Cash & Other	11.14%
Capital Goods	9.37%
Materials	4.88%
Diversified Financials	4.54%
Commercial Services & Supplies	4.41%
Household & Personal Products	4.00%
Insurance	3.11%
Automobiles & Components	2.36%
Retailing	0.75%
Total	100.00%

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	25-40
S&P ASX 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%
Benchmark Index	S&P All Ords Acc. Index
Frequency of Distributions	Annual
Management Fee	1.00%
Performance Fee	10% of hurdle outperformance
Minimum Investment	\$2,000.00
Entry and Exit Fees	Nil

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

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