

# Selector Funds Management

## Selector Australian Equities Fund - 31 July 2018



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

The local market started the financial year, rising a moderate 1.22% during July. Telecommunications was the standout sector, as Telstra partially regained the ground it lost after announcing its group-wide restructure.

While our attention is on individual businesses, markets remained fixated on macro noise. The closely followed trade wars kicked off during July, with the U.S. imposing new 25% tariffs on a range of Chinese goods valued at almost US\$50b. Chinese leaders retaliated, as they threatened duties of a similar magnitude on American products.

Trade negotiations between U.S. President Donald Trump and European Commission President Jean-Claude Juncker stole the headlines briefly during the month. Similar trade disputes earlier this year saw tariffs placed on European steel, American bourbon and Harley Davidson motorcycles. Agreements reached by the two parties at the meeting will see steps taken towards the removal of the tariffs as well as increased future purchases of American soybeans and natural gas by European Union. Juncker was quick to point out though, that the planned increases in imports were not so much a commitment to Trump, but a natural function of supply and demand. The two sides agreed to hold off on implementing further tariffs such as the one proposed on cars imported into the U.S., thereby bringing discussions to a head.

Globally, benign inflation is a strong talking point. In Australia the latest Consumer Price Index reading for the June quarter came in 0.4% higher, bringing the increase over the last 12 months to 2.1%. While this sits at the bottom end of the Reserve Bank's target range, the rate of price rises has weakened recently. This trend has led to concerns that weak wages growth is leaving many worse off and unable to offset increases in non-discretionary areas such as healthcare, education and energy which are growing at a faster rate.

The economy continues to strengthen, with exports rising and a boom in infrastructure spending underway. This is supporting growth in employment, and the Federal Budget now looks in better shape. This rosy picture is being offset somewhat by declining residential real estate prices and subdued wages growth, which can be blamed on technological and structural changes affecting businesses and the fiercely competitive landscape holding down margins. We all want lower prices and more competition but ultimately this comes at a cost; as profit growth for businesses moderates they are forced to focus on holding down expenses.

We continue to seek businesses with:

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

### 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 negative **0.34%** return against a **1.22%** rise in the Index, representing an underperformance of **1.56%**.

Gross Performance	Portfolio %	All Ords Acc (%)	Difference %
1 Month	-0.34	1.22	-1.56
3 Months	7.05	5.67	1.38
6 Months	10.26	5.67	4.59
1 Year	31.98	14.91	17.07
3 Years annualised	19.03	8.42	10.61
5 Years annualised	18.89	9.38	9.51
10 Years annualised	15.18	6.86	8.32
Since Inception annualised	13.12	7.99	5.13
Since Inception cumulative	438.64	185.61	253.03
<b>31 July 2018 Unit Mid Price</b>			<b>\$2.0290</b>

Top Ten Investments	Code	Industry	Weight %
RELiance WORLDWIDE CORPORATION	RWC	Industrials	5.92%
ARISTOCRAT LEISURE	ALL	Consumer Disc.	5.67%
REECE	REH	Industrials	5.17%
ALTium	ALU	IT	4.49%
RESMED	RMD	Health Care	4.38%
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	4.23%
SEEK	SEK	Industrials	4.10%
BLACKMORES	BKL	Consumer Staples	4.07%
JUMBO INTERACTIVE	JIN	Consumer Disc.	3.59%
SIMS METAL MANAGEMENT	SGM	Materials	3.57%

### 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	
RELiance WORLDWIDE CORPORATION	0.59%	JUMBO INTERACTIVE	-0.80%
TECHNOLOGY ONE	0.38%	ALTium	-0.47%
FLIGHT CENTRE TRAVEL GROUP	0.27%	ARB CORPORATION	-0.25%
SIMS METAL MANAGEMENT	0.23%	CARSales.COM	-0.24%
ARISTOCRAT LEISURE	0.23%	REECE	-0.18%

GICS Groups	Weight
Consumer Services	21.06%
Software & Services	18.66%
Health Care Equipment & Services	14.17%
Capital Goods	11.09%
Cash & Other	10.17%
Materials	5.96%
Diversified Financials	4.19%
Commercial Services & Supplies	4.10%
Household & Personal Products	4.07%
Insurance	3.04%
Automobiles & Components	2.83%
Retailing	0.67%
<b>Total</b>	<b>100.00%</b>

**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

**Executive Team****Tony Scenna | Managing Director, Portfolio Manager**

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

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