# Selector Funds Management

## Selector High Conviction Equity Fund - 30 June 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 finished the year strongly, rising 2.95% during June and 13.73% across the financial year. Much of the gain occurred during the last quarter, spurred by the release of data which showed that the global economy has strengthened. Many expect this trend to continue. This was most evident in the U.S. where unemployment reached an 18 year low of 3.8%. This prompted the U.S. Federal Reserve to raise interest rates to the 1.75%-2.00% range. Fed Chair Jerome Powell put things into perspective saying *"The main take away is that the economy is doing very well. Most people who want to find jobs are finding them and unemployment and inflation are low. Growth is strong, labour markets are strong, inflation is close to the 2% target.''*

Domestically, infrastructure spend across the eastern states has been driving an expanding economy. The New South Wales Government outlined a four year investment program totalling $87b in the budget, underpinning economic growth for a number of years, while also placing additional pressure on the labour market. Reserve Bank Governor Philip Lowe explained that low wage inflation might be explained by competition, with industry leaders using technology more effectively while laggards face shrinking margins and an inability to hire. Notwithstanding this, the percentage of companies reporting shortages of skilled workers reached 25-year highs, suggesting a rise in wage growth.

Despite the share market's strong performance, not all companies ended the year unscathed. The Financial Services Royal Commission uncovered serious governance issues at the large banks and wealth managers including AMP. Elsewhere, Telstra CEO Andy Penn, delivered a painful reality check when addressing investors at the company's annual investor day stating *"Our legacy is now holding us back. It is time to take a bolder step and leave the past behind. We are at a point where we have to let the old world go. We are at a tipping point."*

For Telstra shareholders, of which we are not one, there is something quite frightening in what Penn is highlighting. He is calling out some of the new realities of modern business. The pace of change is increasing, posing a significant threat to traditional businesses. Importantly, boards, management teams and shareholders cannot expect once defendable businesses to survive, let alone thrive, without concerted attempts to serve customers in new ways. Success will favour those investing ahead of the curve in a technologically driven world. It is clear that market leadership in itself is no longer a sufficient defensive barrier. The critical piece to focus on is not how a business looks appears today but how well it is positioned for the future.

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

| Gross Performance | Portfolio % | All Ords Acc (%) | Difference % |
|---|---|---|---|
| 1 Month | 4.16 | 2.95 | 1.21 |
| 3 Months | 10.35 | 8.03 | 2.32 |
| 6 Months | 16.10 | 4.04 | 12.06 |
| 1 Year | 33.78 | 13.73 | 20.05 |
| 3 Years annualised | 22.24 | 9.48 | 12.76 |
| 5 Years annualised | 21.47 | 10.28 | 11.19 |
| 10 Years annualised | 15.11 | 6.16 | 8.95 |
| Since Inception annualised | 13.56 | 8.25 | 5.31 |
| Since Inception cumulative | 468.92 | 195.66 | 273.26 |
| **30 June 2018 Unit Mid Price** | | | **$2.8525** |
| **30 June 2018 Unit Mid Price - Ex Distribution ($0.1474 per unit)** | | | **$2.7051** |

### Top Ten Investments

| Top Ten Investments | Code | Industry | Weight % |
|---|---|---|---|
| ARISTOCRAT LEISURE | ALL | Consumer Disc. | 7.78% |
| RELIANCE WORLDWIDE CORPORATION | RWC | Industrials | 5.58% |
| ALTIUM | ALU | IT | 5.25% |
| REECE | REH | Industrials | 4.83% |
| SEEK | SEK | Industrials | 4.57% |
| RESMED | RMD | Health Care | 4.40% |
| CSL | CSL | Health Care | 4.30% |
| OIL SEARCH | OSH | Energy | 4.20% |
| JUMBO INTERACTIVE | JIN | Consumer Disc. | 4.17% |
| FLIGHT CENTRE TRAVEL GROUP | FLT | Consumer Disc. | 3.98% |

### 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 | |
|---|---|---|---|
| ALTIUM | 0.45% | BLACKMORES | -0.28% |
| IRESS | 0.44% | IMPEDIMED | -0.16% |
| NANOSONICS | 0.41% | OFX GROUP | -0.07% |
| JUMBO INTERACTIVE | 0.37% | TECHNOLOGY ONE | -0.03% |
| SEEK | 0.35% | THE STAR ENTERTAINMENT | -0.02% |

### Portfolio Strategy

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

Within this universe, we focus on stocks outside of the Top 20 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 typically range from 15-30 businesses.

For the month, the portfolio delivered a gross positive **4.16%** return against a **2.95%** rise in the Index. For the financial year the Fund has delivered a gross positive return of **33.78%** compared to an Index rise of **13.73%**, representing an outperformance of **20.05%**.

### GICS Groups

| GICS Groups | Weight |
|---|---|
| Consumer Services | 23.61% |
| Software & Services | 21.28% |
| Health Care Equipment & Services | 12.20% |
| Capital Goods | 10.41% |
| Diversified Financials | 4.85% |
| Cash & Other | 4.62% |
| Commercial Services & Supplies | 4.57% |
| Pharmaceuticals & Biotechnology | 4.30% |
| Energy | 4.20% |
| Household & Personal Products | 3.90% |
| Materials | 2.79% |
| Insurance | 2.56% |
| Retailing | 0.72% |
| **Total** | **100%** |

## 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

| | |
|---|---|
| Target Stocks in Portfolio | 15 - 30 |
| S&P ASX 200 Target Portfolio Weighting | 40% - 100% |
| S&P ASX 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 |
| Entry and Exit Fees | Nil |

## Executive Team

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