

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

Locally, the All Ordinaries Accumulation Index rose 1.40% while equity markets delivered mixed results abroad. In the U.S. the technology behemoths that make up "FANG" drove the NASDAQ sharply higher. Companies such as Facebook and Amazon continue to attract new users and grow revenue per user, even in the face of increasing privacy issues. These results show that their monetisation strategies are still yet to reach maturity despite the change they have already driven in consumer behaviour over the past decade.

European markets were held back after a strong showing at the Italian parliamentary elections from anti-establishment parties with rhetoric threatening a breakup of the Euro. Brexit notwithstanding, the Greek debt crisis is evidence of smaller nations' desire to negotiate more favourable borrowing terms rather than quit the Monetary Union.

Asian and emerging markets lagged as a strong U.S. dollar placed pressure on countries with high levels of U.S. denominated sovereign debts.

Domestically, the Federal Government Budget took centre stage. The key themes were moderate corporate and personal income tax cuts, \$75b of investment in transport infrastructure, and importantly, a path to surplus by 2020-2021. While the budget laid out a plan to deliver a surplus in 3 years time, stronger than expected exports and lower welfare payments may see the government go close to delivering a surplus as early as this year. Strong oil and iron ore prices combined with booming export volumes have provided a strong boost to income receipts for the government. The upshot of this is the cumulative net operating deficit for the financial year has fallen from \$18.8b in October 2017 to \$8.8b in April 2018 following seven consecutive months of budget surpluses.

All of this points to a strong economy, however, unemployment ticked up to 5.6% as growth in the labour force outpaced jobs growth. Unlike the U.S., where the labour market is now tight and pushing wages higher, there appears to be some slack remaining in the Australian economy and wages growth has been benign. The Reserve Bank of Australia left rates on hold but noted that macroprudential controls have reduced the build-up of risks in the housing market.

During the period we attended investor days for Aristocrat Leisure, Wisetech, Cochlear, Sydney Airport, IRESS, Technology One, Blackmores and The Star Entertainment Group as well as visiting a number of companies in both Japan and Europe.

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 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 **3.71%** return against a **1.40%** rise in the Index. For the financial year to date the Fund has delivered a gross positive return of **28.44%** compared to an Index rise of **10.47%**, representing an outperformance of **17.97%**.

Gross Performance	Portfolio %	All Ords Acc (%)	Difference %
1 Month	3.71	1.40	2.31
3 Months	4.87	1.22	3.65
6 Months	15.52	3.12	12.40
1 Year	32.57	10.79	21.78
3 Years annualised	17.01	6.44	10.57
5 Years annualised	20.01	9.06	10.95
10 Years annualised	13.11	5.05	8.06
Since Inception annualised	13.31	8.07	5.24
Since Inception cumulative	446.19	187.20	258.99
31 May 2018 Unit Mid Price			\$2.7418

Top Ten Investments	Code	Industry	Weight %
ARISTOCRAT LEISURE	ALL	Consumer Disc.	8.43%
ALTium	ALU	IT	5.78%
REECE	REH	Industrials	4.76%
SEEK	SEK	Industrials	4.44%
RESMED	RMD	Health Care	4.43%
BLACKMORES	BKL	Consumer Staples	4.37%
CSL	CSL	Health Care	4.35%
OIL SEARCH	OSH	Energy	4.09%
JUMBO INTERACTIVE	JIN	Consumer Disc.	4.06%
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	4.04%

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	
ARISTOCRAT LEISURE	0.97%	AINSWORTH GAME TECHNOLOGY	-0.85%
BLACKMORES	0.94%	TECHNOLOGY ONE	-0.42%
RELIANCE WORLDWIDE CORPORATION	0.70%	MYOB GROUP	-0.33%
DOMINO'S PIZZA ENTERPRISES	0.39%	THE STAR ENTERTAINMENT GROUP	-0.18%
FLIGHT CENTRE TRAVEL GROUP	0.38%	IOOF HOLDINGS	-0.06%

GICS Groups	Weight
Consumer Services	24.26%
Software & Services	21.05%
Health Care Equipment & Services	12.17%
Capital Goods	8.63%
Cash & Other	5.30%
Diversified Financials	5.13%
Commercial Services & Supplies	4.44%
Household & Personal Products	4.37%
Pharmaceuticals & Biotechnology	4.35%
Energy	4.09%
Materials	2.90%
Insurance	2.56%
Retailing	0.75%
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

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

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