

Selector Funds Management ("Selector") specialises in high conviction, index agnostic, concentrated portfolio management. 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

During October, the All Ordinaries Accumulation Index rose 4.1%. Global equity markets were strong as a slew of economic indicators reinforced the view that, for the first time since the financial crisis, all major economies are experiencing synchronised growth.

In the U.S., a strengthening manufacturing sector saw factory activity in September hit a 13 year high as the Index of National Factory Activity surged to 60.8, up from 58.8 in August. The Bureau of Labor Statistics also reported that unemployment fell to 4.2%. While inflation remains below the U.S. Federal Reserve's target range, the continued improvement provides the Fed with further justification for interest rate rises.

Growing confidence in OPEC's agreement to cut crude oil production saw the price of Brent rise to US\$61 a barrel. Further, there are signs that U.S. shale oil producers are not prepared to, or cannot ramp up production as fast as markets previously anticipated. The number of active drill rigs in the U.S. at the end of October was 737, down from a peak of 768 in August.

Although Australia's unemployment rate remained unchanged in September, more than 315,000 jobs were created in the last 12 months, a nine year high. As we have previously noted, strong and sustained increases in employment are providing robust support to the economy despite numerous headwinds. The ongoing rollout of new infrastructure projects on the eastern seaboard will drive further demand for labour domestically in the medium term.

While the outlook for the economy remains strong, the housing market has begun to soften in some areas. Stricter residential lending criteria has seen home buyers finding it difficult to borrow sufficient funds. This has placed apartment developers, particularly in Sydney, Melbourne and to a lesser extent, Brisbane, under some pressure as committed buyers of apartments struggle to fund settlements. While employment levels remain strong, the risk to the property market appears limited. However, the less attractive economics of residential property development will lead to lower levels of residential construction activity in the near term.

We attended the annual general meetings of a number of companies during the period including Reece, GBST Holdings, Cochlear, Blackmores, CSL, Infomedica and Sirtex Medical.

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 financial year to date the Fund has delivered a gross positive return of **8.75%** compared to an Index rise of **5.13%**, representing an outperformance of **3.62%**. The Fund held **31** businesses at month end.

| Gross Performance | Portfolio % | All Ords Acc (%) | Difference % |
|---------------------------------------|-------------|------------------|-----------------|
| 1 Month | 5.61 | 4.06 | 1.55 |
| 3 Months | 8.48 | 4.94 | 3.54 |
| 6 Months | 13.23 | 2.71 | 10.52 |
| 1 Year | 16.80 | 15.45 | 1.35 |
| 3 Years annualised | 16.13 | 7.34 | 8.79 |
| 5 Years annualised | 19.17 | 10.31 | 8.86 |
| 10 Years annualised | 7.63 | 3.11 | 4.52 |
| Since Inception annualised | 12.22 | 7.71 | 4.51 |
| 31 October 2017 Unit Mid Price | | | \$1.8591 |

| Top Ten Investments | Code | Industry | Weight % |
|----------------------------|------|------------------|----------|
| ARISTOCRAT LEISURE | ALL | Consumer Disc. | 5.73% |
| ALTUM | ALU | IT | 5.51% |
| SEEK | SEK | Industrials | 4.47% |
| NIB HOLDINGS | NHF | Financials | 4.31% |
| RESMED | RMD | Health Care | 4.27% |
| REECE LIMITED | REH | Industrials | 4.20% |
| BLACKMORES | BKL | Consumer Staples | 3.87% |
| COCHLEAR | COH | Health Care | 3.84% |
| FLIGHT CENTRE TRAVEL GROUP | FLT | Consumer Disc. | 3.69% |
| CARSAL.COM | CAR | IT | 3.43% |

Investment Attribution

For the month, the portfolio delivered a gross positive **5.61%** return against a **4.06%** rise in the Index. The portfolio held **31** stocks at the end of the period and the performance was primarily driven by:

| Top Five % attribution | | Bottom Five % attribution | |
|------------------------|-------|---------------------------|--------|
| BLACKMORES | 1.06% | OFX GROUP | -0.52% |
| ARISTOCRAT LEISURE | 0.74% | AINSWORTH GAME TECHNOLOGY | -0.36% |
| ALTUM | 0.61% | RELIANCE WORLDWIDE | -0.13% |
| RESMED INC | 0.45% | IOOF HOLDINGS | -0.11% |
| SEEK | 0.45% | IMPEDIMED | -0.09% |

| GICS Groups | Weight |
|----------------------------------|----------------|
| Software & Services | 23.38% |
| Consumer Services | 21.47% |
| Health Care Equipment & Services | 10.63% |
| Cash & Other | 10.36% |
| Capital Goods | 6.37% |
| Diversified Financials | 4.84% |
| Commercial Services & Supplies | 4.47% |
| Materials | 4.31% |
| Insurance | 4.31% |
| Household & Personal Products | 3.87% |
| Automobiles & Components | 3.11% |
| Pharmaceuticals & Biotechnology | 1.95% |
| Retailing | 0.93% |
| 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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