

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 July the All Ordinaries Accumulation Index rose 0.18%, lagging most stock markets globally. Health care, utilities and telco sectors posed the largest drag on the All Ordinaries while materials, financials and consumer staples outperformed.

The U.S. Federal Reserve opted not to raise interest rates in July, having already raised them at both the March and June meetings earlier this year. While rates were left unchanged, Federal Reserve Chairperson Janet Yellen indicated a desire to begin reducing the U.S. Government's bond portfolio should the economy continue to recover as expected. Despite this, both U.S. rates and the U.S. Dollar fell.

The Reserve Bank Governor Philip Lowe put recent interest rate hikes by central banks around the world into some context as he explained *"These central banks lowered their interest rates to zero and also expanded their balance sheets greatly. Just as we did not move in lockstep with other central banks when the monetary stimulus was being delivered, we don't need to move in lockstep as some of this stimulus is removed."* The latest inflation numbers showed that price growth slowed from 2.1% to 1.9% in the June quarter. Lowe noted there was no guarantee the RBA would look to raise rates soon, particularly with local wage growth remaining subdued.

As the tax debate continues, the Opposition party has proposed increasing tax rates for high income earners should they be elected. Productivity Commission findings show 40% of families pay no net tax, while the top 10% of earners pay an effective rate of almost 50%. Within this cohort, the top 1% of earners pay 17% of all personal income tax collected.

According to the Business Council of Australia (BCA) a reduction in corporate taxes is the only option available to the government to boost economic growth back above 3%, a level seen as necessary to boost wages and employment. While the BCA doesn't expect the government to do this given the political stalemate, its importance should not be underestimated. BCA President Grant King, former Origin Energy CEO, explained the difference between 2% and 3% growth would be enough to make many of the hard decisions that Australia currently faces disappear. King also called out excess regulation as an impediment to productivity growth, which, in the absence of rising export prices and population growth, is the most important factor driving GDP growth. Investment by corporations is now at its lowest level as a percentage of GDP since 1994, hardly a situation that can be expected to stimulate the economy.

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 financial year to date the Fund has delivered a gross negative return of **0.15%** compared to an Index rise of **0.18%**, representing an underperformance of **0.33%**. The Fund held **33** businesses at month end.

Gross Performance	Portfolio %	All Ords Acc (%)	Difference %
1 Month	-0.15	0.18	-0.33
3 Months	3.96	-2.13	6.09
6 Months	13.51	3.87	9.64
1 Year	4.23	6.62	-2.39
3 Years annualised	14.40	5.34	9.06
5 Years annualised	21.98	10.82	11.16
10 Years annualised	7.21	3.68	3.53
Since Inception annualised	12.00	7.79	4.21
<b>31 July 2017 Unit Mid Price</b>			<b>\$2.1565</b>

Top Ten Investments	Code	Industry	Weight %
ARISTOCRAT LEISURE	ALL	Consumer Disc.	7.63%
ALTIUM	ALU	IT	5.44%
SEEK	SEK	Industrials	5.05%
RESMED	RMD	Health Care	4.25%
CSL	CSL	Health Care	3.96%
TECHNOLOGY ONE	TNE	IT	3.85%
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	3.82%
AINSWORTH GAME TECHNOLOGY	AGI	Consumer Disc.	3.68%
COCHLEAR	COH	Health Care	3.67%
NIB HOLDINGS	NHF	Financials	3.60%

### Investment Attribution

For the month, the portfolio delivered a gross negative **0.15%** return against a **0.18%** rise in the Index. The portfolio held **33** stocks at the end of the period and the performance was primarily driven by:

Top Five % attribution		Bottom Five % attribution	
FLIGHT CENTRE TRAVEL GROUP	0.46%	ARISTOCRAT LEISURE	-0.87%
AINSWORTH GAME TECHNOLOGY	0.38%	CSL	-0.38%
JUMBO INTERACTIVE	0.29%	COCHLEAR	-0.32%
GBST HOLDINGS	0.28%	TECHNOLOGY ONE	-0.28%
CARSales.COM	0.21%	BLACKMORES	-0.20%

GICS Groups	Weight
Software & Services	27.31%
Consumer Services	25.11%
Health Care Equipment & Services	10.64%
Diversified Financials	6.79%
Pharmaceuticals & Biotechnology	6.46%
Capital Goods	5.07%
Commercial Services & Supplies	5.05%
Insurance	3.60%
Energy	3.21%
Materials	3.01%
Household & Personal Products	2.42%
Retailing	0.88%
Cash & Other	0.47%
<b>Total</b>	<b>100%</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**

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

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