

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

November saw the All Ordinaries Accumulation Index rise **2.46%** in the wake of the U.S. Presidential Election and followed the Dow Jones Industrial Index breaking through 19,000 points for the first time.

Republican candidate Donald Trump defied the polls and the odds to become the 45th elected president of the United States of America, beating Hillary Clinton 290 votes to 228, following an 18 month long presidential campaign. Despite concerns prior to the election, that financial market turmoil would follow a Trump victory, markets reacted positively as economists dissected the implications of his proposed ultra loose fiscal policies and protectionist agenda. It remains to be seen which policies will be enacted, but corporate confidence, which has languished in the decade since the global financial crisis, appears to have increased markedly.

Bond yields rose globally in the lead up to the election and continued higher post the result with U.S. 10-year government bond yields hitting 2.4% from a low of 1.3% in June. In Australia, the move has been less dramatic, although 10-year bonds at 2.7% are similar to levels recorded in early 2016. While these moves are a welcome sign that yields are trending away from negative rate settings, we would caution that a sudden uptick in rates will do more harm than good in a world still awash with debt. The more likely scenario is a gradual return to more appropriate rate settings.

A number of businesses including, Sydney Airports and the Transurban Group were sold off sharply, largely seen as “bond proxy investments” that would be adversely impacted by increased rates. Logically, one of the main drivers of higher rates is the expectation of improving economic growth and higher inflation. An inflationary environment should push bonds prices lower and yields higher but we would caution investors from assuming that this will have a blanket impact on equities. Rather, the individual merits of each business should be considered, as this will dictate how well it performs if such an environment eventuates.

Building group Boral announced the takeover of U.S. based building materials manufacturer, Headwaters for \$3.5b. The highly dilutive issue of new shares received a mixed response, particularly when viewed against the group's pre-deal market capitalisation value of \$4.5b. The management team's high confidence in the merits of the deal, should be tempered by the fact that Boral has had mixed success in the U.S. market, as well as its reliance of extracting significant synergies in justifying the price paid.

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 delivered a gross positive return of **4.91%** compared to an Index rise of **5.54%**, representing an underperformance of **0.62%**. The Fund held **32** businesses at month end.

Gross Performance	Portfolio %	All Ords Acc (%)	Difference %
1 Month	0.64	2.46	-1.82
3 Months	-6.28	0.63	-6.91
6 Months	0.54	3.13	-2.59
1 Year	11.02	10.01	1.01
3 Years annualised	14.87	5.64	9.23
5 Years annualised	21.76	10.33	11.43
10 Years annualised	7.00	4.45	2.55
Since Inception annualised	11.81	7.25	4.56
<b>30 November 2016 Unit Mid Price</b>			<b>\$1.6873</b>

Top Ten Investments	Code	Industry	Weight %
ARISTOCRAT LEISURE	ALL	Consumer Disc.	7.24%
ALTIUM	ALU	IT	6.15%
REECE	REH	Industrials	5.04%
TECHNOLOGY ONE	TNE	IT	4.65%
NIB HOLDINGS	NHF	Financials	4.59%
SEEK	SEK	Industrials	4.31%
RESMED	RMD	Health Care	3.92%
IRESS	IRE	IT	3.72%
ARB CORPORATION	ARB	Consumer Disc.	3.52%
GBST HOLDINGS	GBT	IT	3.51%

### Investment Attribution

For the month, the portfolio delivered a gross positive **0.64%** return against a **2.46%** rise in the Index. The portfolio held **32** stocks at the end of the period and the performance was primarily driven by:

Top Five % attribution	Bottom Five % attribution
SIMS METAL MANAGEMENT 0.53%	IMPEDIMED -0.69%
ALTIUM 0.48%	VIRTUS HEALTH -0.38%
RESMED INC 0.23%	COCHLEAR -0.27%
TECHNOLOGY ONE 0.23%	ARISTOCRAT LEISURE -0.16%
THE STAR ENTERTAINMENT GROUP 0.18%	MYOB GROUP -0.11%

GICS Groups	Weight
Software & Services	25.69%
Consumer Services	22.92%
Health Care Equipment & Services	11.17%
Capital Goods	6.63%
Diversified Financials	5.73%
Materials	5.11%
Insurance	4.59%
Commercial Services & Supplies	4.31%
Automobiles & Components	3.52%
Household & Personal Products	2.92%
Pharmaceuticals & Biotechnology	2.87%
Cash & Other	2.01%
Retailing	1.94%
Banks	0.59%
<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

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

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