

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 performance track record, offering the Selector High Conviction Equity Fund and the Selector Australian Equities Fund in addition to private and institutional mandates.

Market Insights

During January the All Ordinaries Accumulation Index fell **5.38%**. Likewise, most global markets closed significantly lower than where they began the year. Languishing oil prices and the ongoing concerns surrounding China's economic growth dominated headlines and markets experienced significant volatility throughout the period.

Iran returned to the global economy during the month, following the lifting of international sanctions that had stood against them since 2006. As the world's fourth largest oil producer, their re-entry is expected to add to the oversupply of the global oil market. The sustained pressure that the oil price has come under has surprised both investors and businesses alike. Although many producers have dramatically cut back on capital expenditures, existing wells continue to produce. Hedging contracts locked in at prices as high as USD80 a barrel also allow producers who would otherwise be uneconomic at current prices to continue contributing to global supply. This situation cannot continue indefinitely, however we suspect there may also be a number of longer term shifts occurring, other than the current supply glut, which will change the face of the oil and gas industry in the years to come.

While these pressures are forcing many of the 13 OPEC member nations to review their national budgets, which have previously been heavily dependent on the revenues of the oil and gas industry, consumers of oil are now enjoying much improved purchasing power, having already benefitted from a sustained period of low interest rates.

China's National Bureau of Statistics reported headline GDP growth of 6.8%, the lowest figure posted since Q1 2009. Investors understandably reacted negatively and equities in China experienced significant outflows. As we discussed in our December 2015 quarterly newsletter, we believe it is important that investors explore the composition of Chinese GDP more closely. As China's GDP expands, the law of large numbers makes it harder to maintain the same rate of growth that it has in the past, even though the nominal amount that China is adding to its GDP each year remains impressive. Further, while investment and construction as a percentage of GDP has fallen, the services sector is growing at a robust pace.

The Bank of Japan took further steps at the end of the month to accelerate business investment and portfolio reallocation from cash and bonds to equities by setting negative deposit rates for the first time ever. We have talked about negative rates before but it now appears to be mainstream central bank policy, which means yesterday's perceived limits to monetary policy no longer apply.

The gyrations that accompany such events give rise to new investment opportunities.

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 positive return of **14.27%** compared to an Index fall of **4.96%**, representing an outperformance of **19.23%**. The Fund held **30** businesses at month end.

Gross Performance

Portfolio % All Ords Acc (%) Difference %

1 Month	-2.80	-5.38	2.58
3 Months	2.89	-3.54	6.43
6 Months	7.34	-8.82	16.16
1 Year	15.77	-4.69	20.46
3 Years annualised	19.93	5.50	14.43
5 Years annualised	15.82	5.35	10.47
10 Years annualised	8.80	4.73	4.06
Since Inception annualised	11.94	7.00	4.94

31 January 2016 Unit Mid Price

\$2.0109

Top Ten Investments

Code Industry Weight %

ARISTOCRAT LEISURE	ALL	Consumer Disc.	5.75%
SEEK	SEK	Industrials	5.53%
OZFOREX GROUP	OFX	Financials	4.71%
SIRTEX MEDICAL	SRX	Health Care	4.65%
ALTIUM	ALU	IT	4.60%
RESMED	RMD	Health Care	4.58%
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	4.44%
TECHNOLOGY ONE	TNE	IT	4.36%
BLACKMORES	BKL	Consumer Staples	4.32%
CSL	CSL	Health Care	4.22%

Investment Attribution

For the month, the portfolio delivered a gross negative **2.80%** return against a **5.38%** fall in the Index. The portfolio held **30** stocks at the end of the period and the performance was primarily driven by:

Top Five % attribution

Bottom Five % attribution

RESMED	0.34%	BLACKMORES	-0.61%
ALTIUM	0.23%	IOOF HOLDINGS	-0.51%
THE STAR ENTERTAINMENT GROUP	0.18%	SEEK	-0.34%
DOMINO'S PIZZA ENTERPRISES	0.09%	SIRTEX MEDICAL	-0.30%
INFOMEDIA	0.06%	BREVILLE GROUP	-0.29%

GICS Groups

Weight

Software & Services	26.82%
Consumer Services	23.39%
Health Care Equipment & Services	10.06%
Pharmaceuticals & Biotechnology	8.87%
Diversified Financials	7.98%
Commercial Services & Supplies	5.53%
Household & Personal Products	4.32%
Cash & Other	2.98%
Insurance	2.91%
Capital Goods	2.35%
Energy	1.82%
Materials	1.70%
Retailing	1.27%
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

Tony Scenna | Managing Director, Portfolio Manager

30 years investment experience
12 years Selector Funds Management Limited

tony@selectorfund.com.au +61 2 8090 3612
+61 413 235 803

Corey Vincent | Managing Director, Portfolio Manager

20 years investment experience
12 years Selector Funds Management Limited

corey@selectorfund.com.au +61 2 8090 3611
+61 401 000 037

John Maragiannis | Managing Director

27 years funds management experience
4 years Selector Funds Management Limited

jmaragiannis@axiuspartners.com +61 2 8090 3613
+61 419 689 503

George Giovas | Managing Director

27 years finance, banking, funds management experience
4 years Selector Funds Management Limited

ggiovas@axiuspartners.com +61 2 8090 3614
+61 435 763 045

Rob Lapsley | Analyst

4 years funds management experience
4 years Selector Funds Management Limited

rob@selectorfund.com.au +61 2 8090 3617
+61 425 842 951

Selector Funds Management Limited

Level 3, Suite 4
10 Bridge Street
Sydney
NSW 2000

www.selectorfund.com.au

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

The information presented in this fact sheet is not intended to be advice. It has not been prepared taking into account any particular investor or class of investors investment objectives, financial situation or needs, & should not be used as the basis for making investment, financial or other decisions. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. SFML does not guarantee the repayment of capital, payment of income or performance.