

Selector Funds Management ("Selector") specialises in high conviction, index agnostic, concentrated portfolios using a Value Based Growth ("VBG") approach. 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

The All Ordinaries Accumulation Index gained **1.93%** for the month as markets continued to trade erratically. The Murray Committee undertaking the Financial System Inquiry (FSI) into Australia's financial system reported its key recommendations during the month, that covered a broad range of activities including the banking and superannuation industries. The 320 page report will aim to address the risks inherent in our financial system, however, the forty four recommendations resulting from the inquiry will be subject to considerable debate. The Government will now consult with stakeholders until March 2015 before releasing a formal response in mid 2015.

Oil remained under pressure having now fallen over 50% in recent months to be trading sub USD60. The fallout is being felt widely as economies readjust to lower prices. For consumers and importing countries the news is good, however, for exporters, including OPEC producers and countries like Russia, lower revenues are placing considerable strain on balancing national budgets. The Russian Rouble is illustrative of the challenges, having recently lost close to fifty per cent of its value.

Locally, the Federal Government handed down its Mid-Year Economic and Fiscal Outlook noting the Budget deficit for 2015 is set to rise by \$10 billion to \$40 billion, impacted by lower revenues, principally from iron ore, coal and wheat. Deficits are forecast to continue, only returning to surplus by the end of the current decade. Even with this as a backdrop, the Australian economy is still expected to record GDP growth of 2.5% and 3.0% respectively for 2015-16.

In company news an increasing number of businesses are preparing investors for lower first half earnings including retailers Kathmandu Holdings and Flight Centre Travel Group who both highlighted weaker consumer demand. Despite a buoyant housing market and low interest rates, retailers continue to bear the brunt of a competitive landscape where consumers are reluctant to re-engage. Along with the oil price fallout and its impacts on the resources sector, the list of companies making twelve month share price lows continues to grow. In this context the upcoming February reporting season will be most telling as investors are updated on the immediate earnings outlook.

Whilst it is difficult to read too much into the short term market gyrations, we suspect that investors will continue to react to events as they unfold. On this score it is highly likely that many existing and newer investment opportunities will present themselves, although individual stock selection remains critical. We continue to favour businesses with;

1. Strongly aligned management teams
2. Business leadership qualities
3. Conservatively positioned balance sheets
4. 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 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.

Over the financial year to date the Fund has delivered a gross positive return of **9.91%** compared to an Index rise of **2.28%**, representing an outperformance of **7.64%**. The Fund held **31** businesses at month end.

Gross Performance	Portfolio %	ASX All Ords Acc %	Difference %
1 Month	1.63	1.93	-0.30
3 Months	4.29	2.58	1.71
6 Months	9.91	2.28	7.64
1 Year	12.76	5.02	7.74
3 Years annualised	26.13	14.30	11.83
5 Years annualised	10.10	6.44	3.65
Since Inception annualised	10.92	7.55	3.37
31 December Unit Mid Price			\$1.5513

Top Ten Investments	Code	Industry	Weight %
SIRTEX MEDICAL	SRX	Healthcare	5.80
ARISTOCRAT LEISURE	ALL	Consumer Disc.	5.76
SEEK	SEK	Industrials	5.49
DOMINO'S PIZZA ENTERPRISES	DMP	Consumer Disc.	4.58
OZFOREX GROUP	OFX	Financials	4.37
IRESS	IRE	IT	4.34
NIB HOLDINGS	NHF	Financials	4.28
RESMED	RMD	Healthcare	4.10
IOOF HOLDINGS	IFL	Financials	4.04
TECHNOLOGY ONE	TNE	IT	3.63

Investment Attribution

For the month, the portfolio delivered a gross positive **1.63%** return against a **1.93%** 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
SIRTEX MEDICAL 0.50	FLIGHT CENTRE -0.71
RESMED INC 0.41	JUMBO INTERACTIVE -0.25
VIRTUS HEALTH 0.40	INFOMEDIA -0.24
TECHNOLOGY ONE 0.37	SUPER RETAIL GROUP -0.12
IRESS MARKET TECHNOLOGY 0.34	IOOF HOLDINGS -0.10

GICS Groups	Weight
SOFTWARE & SERVICES	22.14%
CONSUMER DURABLES & APPAREL	21.88%
DIVERSIFIED FINANCIALS	11.54%
PHARMACEUTICALS, BIOTECH & LIFE SCIENCES	5.80%
HEALTH CARE EQUIPMENT & SERVICES	7.66%
COMMERCIAL & PROFESSIONAL SERVICES	8.03%
INSURANCE	5.12%
RETAILING	4.16%
AUTOMOBILES & COMPONENTS	3.36%
CASH & EQUIVALENTS	3.77%
CAPITAL GOODS	2.54%
HOUSEHOLD & PERSONAL PRODUCTS	1.85%
MATERIALS	1.20%
BANKS	0.95%
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

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

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
3 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
3 years Selector Funds Management Limited

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

Rob Lapsley | Analyst

3 years funds management experience
3 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.