

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 overcame a sharp sell off early in the month to post an overall gain of **3.96%**. Led by offshore markets, investors looked for the exits following the release of data pointing to ongoing economic weakness within the European market economies including Germany. Finally the penny has dropped that the real cause for concern is not the imminent return of inflation, driven by lax monetary policies but the slow grinding threat of deflation. We are not surprised having noted our concerns in our June 2014 quarterly report that investors would do well to consider the implications of economies undergoing structural challenges. As the IMF noted, world growth is now forecast to hit 3.8%, revised down from 4.0% for 2015. But more sobering is the outlook for countries including the Euro nations, Brazil, Japan and Russia. Governments have little room to move, with near zero interest rates and debt plagued balance sheets making it difficult to stimulate demand. Similarly consumers appear to be in no rush, mindful of the high rates of unemployment and a plethora of data pointing to world economies on a slow mend. And yet in many ways current conditions are more supportive for businesses, with labour in abundance, interest rates at historical lows, lower commodity prices and slumping oil prices all providing a positive backdrop. Interestingly, the US economy is showing all the signs of improving, having closed the month up strongly, with the US Dow Jones Industrial Index hitting an all time high of 17,390 points. That said, wages growth is still missing, undermining consumer confidence and buying power. From all this one thing is certain, any recovery will be slow and uneven. Yet uncertainly brings its own rewards with a number of attractive investment opportunities now on offer. The upcoming float of medical insurer **Medibank Private** has dominated the headlines and driven investor interest into a frenzy. We certainly like the space and our investment in fellow insurer **NIB Holdings** has delivered for shareholders since listing in 2007. However both are captive to rising claims inflation and increasing competitive pressures. The industry is not without its risks and the **Medibank** management team will now have to account to a new set of shareholders, the general public. During October we attended a number of annual meetings and investor day presentations including that given by PNG LNG producer **Oil Search**. The company presented a business in fine financial shape and one well positioned to handle the rapid adjustment to world oil prices that saw crude finish the month at USD80 a barrel, a near 25% fall since August. CEO Peter Botten has now been at the helm for 20 years and is now focused on expanding further into PNG's LNG opportunities as well as rewarding shareholders with a material lift to the group's dividend payout ratio. We are treading carefully noting that economic conditions are uneven but mindful of opportunities as and when they present. 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 **9.43%** compared to an Index rise of **3.66%**, representing an outperformance of **5.77%**. The Fund held **31** businesses at month end.

Gross Performance	Portfolio %	ASX All Ords Acc %	Difference %
1 Month	3.83	3.96	-0.13
3 Months	5.22	-0.80	6.02
6 Months	9.10	2.82	6.28
1 Year	12.93	5.94	6.99
3 Years annualised	22.87	12.89	9.99
5 Years annualised	11.91	7.92	3.99
Since Inception annualised	11.06	7.83	3.24
<b>31 October Unit Mid Price</b>			<b>\$1.5565</b>

Top Ten Investments	Code	Industry	Weight %
SIRTEX MEDICAL	SRX	Healthcare	7.50
TECHNOLOGY ONE	TNE	IT	5.67
ARISTOCRAT LEISURE	ALL	Consumer Disc.	5.51
SEEK	SEK	Industrials	5.15
DOMINO'S PIZZA ENTERPRISES	DMP	Consumer Disc.	4.81
NIB HOLDINGS	NHF	Financials	4.36
IOOF HOLDINGS	IFL	Financials	4.01
IRESS	IRE	IT	3.91
ARB CORPORATION	ARP	Consumer Disc.	3.79
OZFOREX GROUP	OFX	Financials	3.78

### Investment Attribution

For the month, the portfolio delivered a gross positive **3.83%** return against a **3.96%** 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 1.31	IPROPERTY GROUP -0.32
ARISTOCRAT LEISURE 0.50	SUPER RETAIL GROUP -0.29
NIB HOLDINGS 0.49	TOX FREE SOLUTIONS -0.14
TECHNOLOGY ONE 0.31	VIRTUS HEALTH -0.14
CARSales.COM 0.26	INTUERI EDUCATION GROUP -0.11

GICS Groups	Weight
SOFTWARE & SERVICES	22.47%
CONSUMER DURABLES & APPAREL	22.32%
DIVERSIFIED FINANCIALS	11.44%
PHARMACEUTICALS, BIOTECH & LIFE SCIENCES	7.50%
HEALTH CARE EQUIPMENT & SERVICES	6.73%
COMMERCIAL & PROFESSIONAL SERVICES	6.59%
INSURANCE	5.14%
RETAILING	4.23%
AUTOMOBILES & COMPONENTS	3.79%
CASH & EQUIVALENTS	3.62%
CAPITAL GOODS	2.49%
HOUSEHOLD & PERSONAL PRODUCTS	1.70%
MATERIALS	1.07%
BANKS	0.90%
<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**

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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