# Selector Funds Management
# Selector Australian Equities Fund - 30 June 2014

selector Funds Management Limited

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 Insight

The All Ordinaries Accumulation Index fell **1.41%** for the month but returned a positive **17.6%** for the financial year. This follows up on the positive **20.7%** return delivered during 2013. Despite these impressive gains global economic conditions remain mixed. In our December 2013 quarterly newsletter we outlined our concerns around the possible onset of deflation. On 5 June 2014, in an historical move the European Central Bank (ECB) dropped the rate on bank deposits parked overnight with the Central Bank to minus 0.1%, thereby charging commercial banks for keeping money at the ECB. That rate had been set at zero for the past two years, but ongoing concerns that inflation would remain stubbornly low continues to threaten the Eurozone's fragile recovery. While other Euro nations are holding rates or even cutting them, Bank of England is poised to lift rates for the first time since the financial crisis. Currently sitting at a record low of 0.5%, the expected rise reflects a UK economy experiencing GDP growth of 3.1%. In the US, the Federal Reserve continued to wind back its bond buying program with another $10 billion reduction, taking the monthly buyback to $35 billion. More importantly the Fed confirmed that the program will end this year, while also noting that US economic growth for 2014 would now range between 2.1% to 2.3%, falling below previous guidance of 2.9%. In her address Chairwoman Yellen also reaffirmed the US recovery was on track, with interest rates on hold until 2015. In Japan Prime Minister Shino Abe continues to pursue pro-growth policies. This time it is Japan's $US1.3 trillion public pension fund which is being targeted. For a country that has largely avoided taking risk when it comes to investments, the government is now proposing a change to the asset allocation mix. If implemented, domestically held bonds will fall from the current 60% allocation to 40% while domestic and foreign equity holdings will rise from 24% to 34%. The aim is twofold: to boost returns to ensure Japanese retirees get the payouts they expect and secondly to stimulate risk taking at home by funnelling money into Japanese businesses. In contrast to our anaemic economy, the New Zealand central bank lifted rates from 3.00% to 3.25% as strong GDP continues to underpin the economy. During June, local retail operators continued to post negative trading updates with Pacific Brands and The Reject Shop downgrading profits following sluggish consumer activity. This is The Reject Shops 2nd downgrade following the disappointing first half result and the subsequent loss of its CEO. We suspect structural change may be required in this business. Finally, Royal Dutch Shell sold down its remaining 23% stake in Woodside to 4.5%, following a decision to exit an investment that was first made in 1976. In 2001 a full takeover offer for Woodside was rejected by the then Treasurer Peter Costello. This ultimately led to the decision to exit the holding. For its part, Woodside is now free to pursue its own corporate strategy under new CEO Peter Coleman. We continue to favour businesses with:

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

## Gross Performance

| | Portfolio % | All Ords Acc % | Difference % |
|---|---|---|---|
| 1 Month | -1.94 | -1.41 | -0.53 |
| 3 Months | -1.53 | 0.47 | -2.00 |
| 6 Months | 2.59 | 2.68 | -0.09 |
| 1 Year | 21.59 | 17.64 | 3.95 |
| 3 Years annualised | 17.99 | 9.68 | 8.31 |
| 5 Years annualised | 15.19 | 10.99 | 4.21 |
| Since Inception annualised | 10.43 | 7.71 | 2.72 |
| **30 June Unit Mid Price—Cum Distribution** | | | **$1.4819** |
| **30 June Unit Mid Price—Ex Distribution ($0.0375 per unit)** | | | **$1.4444** |

## Top Ten Investments

| | Code | Industry | Weight % |
|---|---|---|---|
| SIRTEX MEDICAL | SRX | Healthcare | 5.57 |
| SEEK | SEK | Industrials | 5.23 |
| TECHNOLOGY ONE | TNE | IT | 4.78 |
| RESMED | RMD | Healthcare | 4.65 |
| NIB HOLDINGS | NHF | Financials | 4.61 |
| ARISTOCRAT LEISURE | ALL | Consumer Disc. | 4.09 |
| DOMINO'S PIZZA ENTERPRISES | DMP | Consumer Disc. | 4.05 |
| IOOF HOLDINGS | IFL | Financials | 3.96 |
| ARB CORPORATION | ARP | Consumer Disc. | 3.75 |
| CARSALES.COM | CRZ | IT | 3.74 |

## Investment Attribution

For the month, the portfolio delivered a gross negative **1.94%** return against a **1.41%** 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 | |
|---|---|---|---|
| NIB HOLDINGS | 0.17 | FLIGHT CENTRE | -0.44 |
| ALTIUM | 0.16 | SEEK | -0.36 |
| IPROPERTY | 0.16 | FLEXIGROUP | -0.28 |
| ECHO ENTERTAINMENT | 0.13 | NAVITAS | -0.22 |
| INTUERI EDUCATION | 0.09 | STEADFAST | -0.22 |

## 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.

Gross performance for the 2014 financial year saw the Fund deliver a positive **21.59%** return compared to the Index rise of **17.64%**, representing an outperformance of **3.95%**. The Fund held **30** businesses at month end.

## GICS Groups

| | Weight |
|---|---|
| CONSUMER SERVICES | 20.43% |
| COMMERCIAL & PROFESSIONAL SERVICES | 17.78% |
| SOFTWARE & SERVICES | 10.51% |
| RETAILING | 8.66% |
| INSURANCE | 8.11% |
| DIVERSIFIED FINANCIALS | 7.36% |
| HEALTH CARE EQUIPMENT & SERVICES | 7.17% |
| PHARMACEUTICALS, BIOTECH & LIFE SCIENCES | 5.97% |
| CASH & EQUIVALENTS | 5.57% |
| BANKS | 3.75% |
| CAPITAL GOODS | 2.42% |
| MATERIALS | 1.30% |
| ENERGY | 0.96% |
| **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**
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*Hurdle is the return of the S&P ASX Accumulation Index