

Selector Funds Management

Selector Australian Equities Fund - 31 December 2013

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 alongside its clients. Selector has a long term performance track record, offering the Selector High Conviction Equity Fund, the Selector Australian Equities Fund portfolio, in addition to private and institutional mandates.

Market Commentary

As we rule off for another year, December proved anything but quiet. The market having soured early in the month on growing domestic concerns, rallied strongly at the back end, following strong offshore leads, with the All Ords Accumulation Index finishing up 0.9% for the month and 19.7% for the calendar year. The trigger for the turnaround was the US Federal Reserve's decision to begin a gradual winding back of its quantitative easing monetary program dubbed QE. The announcement by Fed Chairman Ben Bernanke on 18 December to curb its \$US85 billion a month bond buying program, by \$10 billion, starting in January 2014, was greeted positively by investors. Underpinning the US Federal Reserve's decision was a slew of economic data that continues to point to an improving economic outlook. This was highlighted by the US Government's main growth gauge, gross domestic product (GDP), which grew at a 4.1% annual rate in the third quarter, marking only the second time since the recovery began in 2009, that GDP has expanded above 4.0%. For the calendar year the US Dow Jones Industrial Index gained 26.5%. Closer to home, numerous new company listings, including Dick Smith, Pact Group, Nine Entertainment and Cover-More, failed to live up to expectations as investors grew wary of the high multiples being demanded. However, it was on the earnings front where attention was most centred, with a raft of trading updates exposing worryingly weak activity, including Qantas, Wotif, Silverchef, SkyCity, Fantastic Furniture and Data3. Also finding things tough was QBE Insurance, announcing an expected full year reported loss of US\$250m, compared to a cash profit of US\$850m, following an internal review that led to raft of write-offs. Not to be out done, the Federal Government also released the Mid Year Economic and Fiscal Outlook (MYEFO) that forecasted combined deficits of \$123 billion over the next four years, a decline in economic growth and a growing debt pile. Despite the Government's sombre assessment, equity markets remain buoyed by low interest rates and improving consumer sentiment. As we head into 2014, individual stock selection will become even more critical, in what is clearly a difficult economic environment. On this score we continue to seek new opportunities with;

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

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 to date has the Fund delivering a positive **18.47%** return compared to the Index rise of **14.57%**, representing an outperformance of **3.90%**. The Fund held 28 businesses at month end.

Gross Performance

	Portfolio %	All Ords Acc %	Difference %
1 Month	0.05	0.92	-0.87
3 Months	2.88	3.42	-0.54
6 Months	18.47	14.57	3.90
1 Year	28.04	19.66	8.39
3 Years annualised	11.64	7.99	3.65
5 Years annualised	18.54	12.67	5.87
Since Inception annualised	10.74	7.83	2.91
31 December Unit Mid Price			\$1.4786

Top Ten Investments

	Code	Industry	Weight %
FLEXIGROUP LIMITED	FXL	Financials	5.63
RESMED INC	RMD	Healthcare	5.22
SEEK LIMITED	SEK	Industrials	5.14
IOOF HOLDINGS LIMITED	IFL	Financials	4.91
TECHNOLOGY ONE LIMITED	TNE	IT	4.77
SUPER RETAIL GROUP LIMITED	SUL	Consumer Disc.	4.73
IRESS LIMITED	IRE	IT	4.61
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	4.56
SIRTEX MEDICAL LIMITED	SRX	Healthcare	4.50
NIB HOLDINGS LIMITED	NHF	Financials	4.49

Investment Attribution

For the month, the portfolio delivered a gross positive **0.05%** return against a **0.92%** rise in the Index. The portfolio held **28** stocks at the end of the period and the performance was primarily driven by:

Top Five % attribution	Bottom Five % attribution	
NIB HOLDINGS	0.46	JUMBO INTERACTIVE -0.43
BREVILLE GROUP	0.23	ARB CORPORATION -0.22
DOMINOS PIZZA	0.19	IRESS -0.19
NAVITAS	0.19	TECHNOLOGY ONE -0.18
CARSales.COM	0.18	SUPER RETAIL GROUP -0.14

GICS Groups

	Weight
RETAILING	17.97%
SOFTWARE & SERVICES	17.19%
CONSUMER SERVICES	16.37%
DIVERSIFIED FINANCIALS	13.69%
HEALTH CARE EQUIPMENT & SERVICES	8.24%
COMMERCIAL & PROFESSIONAL SERVICES	7.70%
INSURANCE	6.47%
PHARMACEUTICALS, BIOTECH & LIFE SCIENCES	4.50%
CASH & EQUIVALENTS	3.20%
CAPITAL GOODS	2.09%
MATERIALS	1.42%
BANKS	1.17%
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

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

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