

Selector Funds Management

Selector Australian Equities Fund - 30 November 2013



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

Investors remained buoyed by strong leads from offshore markets as the US Dow Jones Industrial Index maintained a cracking pace, up 3.5% for the month and in the process hit an all time high of 16,174. This saw the US market notch up a 22.8% rise for 2013, underscoring how investor confidence has returned despite economic data that continues to send mixed messages regarding the country's economic health. Our local market struggled to stay positive, with the main index retreating 1.4% for the month, as the slowdown in mining activity continues to feed its ways through the economy. A change of government has provided some impetus to confidence, however, the general feedback from many annual meetings is one of sluggish activity levels and tough conditions. Yet despite this backdrop, new company listings are hitting the market at a feverish pace. Recent successful IPO's including **Virtus Health**, **Steadfast**, **OzForex** and this month's high flyer, online operator **Freelancer**, have given investors the green light to aggressively pursue new offerings, often without sufficient due diligence being undertaken. Vendors who have had few opportunities to sell their businesses in recent years have rushed to list prior to the year's close. The list of upcoming floats includes consumer retailer **Dick Smith**, education group **Vocation**, credit bureau **Veda** and media player **Nine Entertainment**. As to the broader market, the shift currently underway from mining related activities to the more traditional housing sector was best illustrated with the latest company updates from leading players **WorleyParsons** and **James Hardie**. At **WorleyParsons**, a disappointing trading update was met with investor disdain, with the shares slumping 26% as delays to a number of customer mining projects saw management cut 2014 profits by some 25% below consensus. In contrast, **James Hardie** shares rose 19% following half year earnings that hit the high end of company guidance. Management backed this up with a bullish assessment on the outlook, particularly in reference to US activities, providing further validation that the economy is on the mend. These two events underscores perfectly the market's mood behaviour and reinforces the importance of considering the merits of any investment on a case by case basis. On this score we continue to seek new opportunities with;

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

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 **18.41%** return compared to the Index rise of **13.52%**, representing an outperformance of **4.89%**. The Fund held 29 businesses at month end.

Gross Performance

	Portfolio %	All Ords Acc %	Difference %
1 Month	0.54	-1.38	1.92
3 Months	7.52	4.93	2.59
6 Months	16.34	10.55	5.79
1 Year	33.61	22.64	10.97
3 Years annualised	13.30	9.01	4.29
5 Years annualised	18.81	12.45	6.36
Since Inception (Dec 2004) annualised	10.84	7.80	3.04
30 November Unit Mid Price			\$1.4836

Top Ten Investments

	Code	Industry	Weight %
FLEXIGROUP LIMITED	FXL	Financials	5.55
RESMED INC	RMD	Healthcare	5.25
SEEK LIMITED	SEK	Industrials	5.11
TECHNOLOGY ONE	TNE	IT	5.04
SUPER RETAIL GROUP	SUL	Consumer Disc.	4.86
IRESS LIMITED	IRE	IT	4.78
IOOF HOLDINGS	IFL	Financials	4.77
FLIGHT CENTRE TRAVEL GROUP	FLT	Consumer Disc.	4.65
SIRTEX MEDICAL	SRX	Healthcare	4.50
ARB CORPORATION	ARP	Consumer Disc.	4.37

Investment Attribution

For the month, the portfolio delivered a gross positive **0.54%** return against a **1.38%** fall in the Index. The portfolio held **29** stocks at the end of the period and the performance was primarily driven by:

Top Five % attribution	Bottom Five % attribution	
TECHNOLOGY ONE	0.75	FLEXIGROUP -0.35
OZFOREX	0.39	FLIGHT CENTRE -0.34
ARB CORPORATION	0.29	CARSAL.COM -0.26
REECE AUSTRALIA	0.26	IOOF HOLDINGS -0.22
JAMES HARDIE	0.19	SIRTEX MEDICAL LTD -0.20

GICS Groups

	Weight
RETAILING	19.96%
SOFTWARE & SERVICES	17.40%
CONSUMER SERVICES	16.10%
DIVERSIFIED FINANCIALS	13.50%
HEALTH CARE EQUIPMENT & SERVICES	8.28%
COMMERCIAL & PROFESSIONAL SERVICES	7.71%
INSURANCE	6.13%
PHARMACEUTICALS, BIOTECH & LIFE SCIENCES	4.50%
CAPITAL GOODS	1.99%
CASH & EQUIVALENTS	1.89%
MATERIALS	1.37%
BANKS	1.18%
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

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