

Selector Funds Management

All Cap Portfolio - 31 August 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

The market posted a solid 2.59% rise for August, having overcome domestic issues including the upcoming federal election and an escalating middle east conflict. However, above all August is reporting season. Much hangs on the two key outcomes that many investors initially pass judgment on, being whether earnings guidance was met and on a company's outlook statement. Such is the level of investor and media scrutiny that small misses can be severely punished, often forcing management to provide further clarity. However, the reality is that good management teams run their operations according to their own business plans and not necessarily to meet a financial time frame. As such our focus is on many levels but paramount in our analysis is on whether management has been prudent in its task of protecting and growing shareholder capital. To this end there was much to like about the businesses that make up our investable universe. In an environment of low consumer activity and heightened competitive pressures, maintaining the status quo was an achievement in itself. An avoidance of mining related stocks has allowed us to steer a steady course and pleasingly our focus on businesses that have leading market positions with accompanying strong financial metrics enabled many businesses including Flight Centre, ResMed, Austbrokers and Carsales to post higher profits and growing dividends. Opportunistic acquisitions also featured, illustrated by IRESS's \$360m buy of UK's Avelo Financial Services and Domino's Pizza's \$236m foray into the Japanese market. More broadly speaking, companies who possess leading market positions, enjoy improving business scale and importantly have a preparedness to invest ahead of the curve will be well positioned to tackle the market head on. As always we continue to seek businesses with the following best of breed qualities:

1. Strongly aligned management team.
2. Business with leadership qualities.
3. Balance sheet, conservatively positioned.
4. Shareholder returns paramount.

Stock Comments

For the month, the Fund delivered a gross positive **4.77%** return against a **2.59%** rise in the Index. Attribution wise, the top contributors included SEEK (+1.04%), ResMed (+0.70%), Sirtex (+0.55%), Fox (+0.46%) and Carsales (+0.42%). Negative contributors included NIB (-0.17%), Flexigroup (-0.09%) and Steadfast (-0.06%). Investments held totalled 25.

Performance %

	All Cap Portfolio	All Ords Acc	Difference
1 Month	+4.77	+2.59	+2.18
3 Months	+9.45	+5.36	+4.09
6 Months	+14.49	+2.25	+12.24
1 Year	+42.82	+23.23	+19.59
3 Years	+16.65	+9.57	+7.08
5 Years	+10.32	+4.11	+6.21
Since Inception	+10.45	+7.95	+2.50

Portfolio Strategy

The All Cap Portfolio is focused on identifying and investing in listed business that sit within the ASX Index. Within this universe, our holdings are predominantly focused on businesses that sit outside the Top 20 ASX Index. The Manager's style is both high conviction and index agnostic while individual Portfolio holdings can range in number anywhere from 15 to 25 businesses.

Top 10 Investments

	Code	Industry	Weight %
Sirtex Medical	SRX	Healthcare	8.01
ResMed	RMD	Healthcare	7.77
Twenty First Century Fox	FOX	Consumer	7.71
Flight Centre	FLT	Consumer	7.70
SEEK	SEK	Consumer	7.31
IOOF	IFL	Financials	5.69
Aristocrat Leisure	ALL	Consumer	5.25
CSL	CSL	Healthcare	4.64
IRESS	IRE	Financials	3.98
Computershare	CPU	IT	3.69

Fund Facts

- The objective is to provide long-term capital growth with an index agnostic portfolio.
- The Fund aims to outperform the All Ordinaries Accumulation Index.
- The portfolio holds between 15 and 25 stocks.
- Selector does not use any derivatives or leverage and avoids start-ups and turnarounds.
- Selector manages a concentrated portfolio to maximise attribution from its "best ideas" investments.

About Selector

Selector was established in 2003 by Tony Scenna and Corey Vincent and the team was expanded in 2011 with Axius Partners Pty Limited (“Axius”) joining Selector to undertake the distribution and marketing. George Giovas of Axius also joined the Investment Committee.

Tony is one of Australia’s most experienced Fund Managers with over 30 years of continuous experience. In 1988 Tony was a founder of Harper Bernays Limited and was the Managing Director from 1994-2002. Prior to this Tony spend five years as an Investment Analyst and then Portfolio Manager at Perpetual Trustees Australia with joint responsibility for the Perpetual Industrial Fund.

Corey has 10 years experience as a Portfolio Manager with 10 years experience on sell side stockbroking. In 2001 Corey founded VBM Capital Limited and completed a sell down to staff in 2006 to focus on the operations of Selector.

George Giovas makes up the third member of the Selector Investment Committee and has 26 years experience in finance, banking, property, funds management, risk and credit analysis. George heads Selector’s investment committee and is a founding principal of Axius Partners who specialise in Funds Management distribution.

John Maragiannis has 26 years experience in institutional distribution. John was head of distribution at Credit Suisse, Schroder’s and Zurich Scudder. His most recent role was Director of Distribution at Credit Agricole Asset Management. John leads Selector’s distribution capability and is a founding principal of Axius.

Investment Philosophy

Selector’s consistent bottom up process looks at a combination of the quantitative and qualitative attributes of a business with their competitive advantage derived from the ability of their experienced Portfolio Managers to access the people managing a business and assess the sustainability of its model.

Selector is benchmark agnostic. In essence Selector are backing a consistent investment process and their Portfolio Managers’ deep industry experience, rather than benchmarking against an Index. Selector believes Indexing limits returns to investors over the long run. The long-term investment horizon aims to capture real earnings per share growth.

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.

All Cap Portfolio Criteria and Risk Limits

Stocks in Portfolio	15-30
S&P ASX 200 Target Portfolio Weighting	40%-100%
S&P ASX Ex 200 Target Portfolio Weighting	0%-60%
Cash Holdings	0%-20%
Stock Position (max per stock at cost)	5%
Stock Position (max per stock at market)	10%
Portfolio Weighting <\$100M Market Cap	0%-20%
Minimum Monthly Liquidity	>75%
Standard Deviation (3yrs)	17.0%
Tracking Error (3yrs)	8.43%

Fund Statistics

Entry Fee and Exit Fees	Nil
Minimum Investment	\$500,000
Management Fee	1.25%
Performance Fee*	20%
Benchmark	All Ords Accumulation Index
Frequency of Distributions	Annual

Executive Team

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*Performance fee charged after 100% return on initial invested capital achieved.

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