

Selector Funds Management

All Cap Portfolio - 30 April 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

World equity markets kept their poise during April with the US, Japan and Australia posting solid gains while European bourses consolidated around recent new highs. Market commentators are still coming to grips with the current state of play. While share market valuations have moved ahead strongly, it has largely been achieved without a corresponding increase in underlying earnings. In addition, loose monetary policies designed to stimulate economic growth has yet to deliver the consistent results expected. This has led to a lively debate as to the likely future direction of equity markets. Certainly valuations can only stay up for so longer before relief in the form of higher earnings is needed to sustain confidence. The necessary pieces required for this to happen are, in our opinion, in place although not all sectors or businesses will benefit. The collapse of the gold price during April, the devaluation of the Japanese yen, the slow down in Chinese GDP growth and businesses in general re-evaluating their capital priorities are leading to heightened levels of investor activity across the investment landscape. Closer to home, resource based businesses remain on the nose while the chase for yield continues with a lesser regard to the risks attached. While we applaud Woodside Petroleum’s decision to restrain from undertaking costly projects that struggle to meet economic return hurdles, we are uneasy with its policy of returning such high levels of earnings considering the capital intensive nature of its business. In short, are their actions to please the market or a prudent use of company capital and will they make the tough decisions down the track to turn the dividend tap off should circumstances dictate. We are not so sure as QBE Insurance so clearly demonstrated quite recently when they sought to raise new capital yet maintained a high dividend payment ratio. 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

The Fund reported a positive month, delivering a gross positive **2.09%** return against a **3.82%** rise in the Index. Attribution wise, the top contributors included Flight Centre (+0.99%), SEEK (+0.82%), ResMed (+0.49%), IOOF (+0.39%) and News Corp (+0.38%). Negative contributors included Sirtex (-0.93%), Jumbo (-0.79%), Onthehouse (-0.30%) and WorleyParsons (-0.21%). Gross performance for the 2013 financial year to date has the Fund delivering a positive **41.23%** return in comparison to the Index rise of **29.60%**, representing an out-performance of **11.63%**. Investments held 23.

Performance %

	All Cap Portfolio	All Ords Acc	Difference
1 Month	+2.09	+3.82	-1.73
3 Months	+4.76	+6.75	-1.99
6 Months	+17.25	+16.33	+0.92
1 Year	+33.31	+20.96	+12.35
3 Years	+8.30	+6.75	+1.55
5 Years	+5.56	+2.60	+2.96
Since Inception	+9.52	+8.18	+1.34

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 %
ResMed	RMD	Healthcare	8.99
SEEK	SEK	Industrials	8.39
News Corp	NWS	Consumer	7.26
Flight Centre	FLT	Consumer	6.87
Sirtex Medical	SRX	Healthcare	6.55
IOOF	IFL	Financials	6.49
Aristocrat Leisure	ALL	Consumer	5.03
CSL	CSL	Healthcare	4.72
NIB Holdings	NHF	Financials	4.23
Computershare	CPU	IT	4.17

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 29 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 9 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

The Team

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

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