

Selector Funds Management

All Cap Portfolio - 28 February 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

Forrest Gump's memorable quote, "Life is like a box of chocolates. You never know what you're gonna get" can so easily be applied to investors who braced themselves for the latest reporting season. In some quarters, relief was the order of the day as cyclical businesses that have struggled for some time gave owners hope that things were on the mend, leading to strong price reactions. In other cases, investor expectations were already so high, that even a hint of disappointment was met with a quick rebuke. We suspect that in the weeks that follow, a better analysis of what each business has reported and is capable of delivering in future periods will influence share valuations more greatly. That aside, strong price moves, led in large part by the four major banks has further stoked investor interest towards equities. After a long period of resistance and setbacks the tide has certainly turned, however we urge caution. Identifying a good business is one thing but buying it at the right price and then having the preparedness to hold your ground is quite another. Certainly in some business quarters, this reporting season reinforced structural issues that are unlikely to dissipate any time soon. Traditional media continues to struggle, while the big miners have found a new fondness for cutting costs. Debt reduction remains a priority for some, while for the great bulk, anaemic levels of consumer growth continues to keep a lid on profits. Finally, the changing of the guard at Rio Tinto last month has been followed in quick succession both at BHP Billiton and Ten Network. Investors may support such action, but as is often the way, new management invariably undertakes a sweeping review of operations that almost always leads to transformational reviews and balance sheet write downs. Time will tell whether these businesses have already made the tough decisions. 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 another positive month, delivering a gross positive **1.66%** return against a **5.18%** rise in the Index. Attribution wise, the top contributors included SEEK (+1.33%), Flight Centre (+0.50%), News Corp (+0.43%), CSL (+0.39%) and Woolworths (+0.29%). Negative contributors included Sirtex (-0.83%), Jumbo (-0.74%), Blackmores (-0.26%) and Pharmaxis (-0.20%). Gross performance for the 2013 financial year to date has the Fund delivering a positive **37.06%** return in comparison to the Index rise of **27.70%**, representing an out-performance of **9.36%**. Investments held 25.

Performance %

	All Cap Portfolio	All Ords Acc	Difference
1 Month	+1.66	+5.18	-3.52
3 Months	+9.99	+14.31	-4.32
6 Months	+24.75	+20.53	+4.22
1 Year	+38.53	+21.88	+16.65
3 Years	+10.06	+7.83	+2.23
5 Years	+3.16	+2.36	+0.80
Since Inception	+9.32	+8.16	+1.16

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 %
News Corp	NWS	Consumer	8.81
ResMed	RMD	Healthcare	8.60
SEEK	SEK	Industrials	7.78
Sirtex Medical	SRX	Healthcare	7.56
Flight Centre	FLT	Consumer	7.51
IOOF	IFL	Financials	6.24
CSL	CSL	Healthcare	4.62
IRESS	IRE	IT	4.08
Blackmores	BKL	Healthcare	3.76
Aristocrat Leisure	ALL	Consumer	3.81

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

Tony Scenna | Founder, Portfolio Manager & Director

29 years investment experience
Perpetual Trustees Australia | Harper Bernays
tony@selectorfund.com.au | +61 2 8090 3612
+61 413 235 803

Corey Vincent | Founder, Portfolio Manager & Director

19 years investment experience
Cameron Stockbrokers | VBM Capital
corey@selectorfund.com.au | +61 2 8090 3613
+61 401 000 037

John Maragiannis | Executive Director

26 years Funds Management experience
Zurich Scudder | Schroders | Credit Suisse | Credit Agricole | Axius Partners
jmaragiannis@axiuspartners.com | +61 419 689 503

George Giovas | Executive Director

26 years Finance, Banking, Funds Management experience
ANZ Bank | Axius Partners
ggiovas@axiuspartners.com | +61 435 763 045

Selector Funds Management Limited

Level 3, Suite 4
10 Bridge Street
Sydney
NSW 2000
www.selectorfund.com.au

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

The information presented in this fact sheet is not intended to be advice. It has not been prepared taking into account any particular investor or class of investors investment objectives, financial situation or needs, & should not be used as the basis for making investment, financial or other decisions. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. SFML does not guarantee the repayment of capital, payment of income or performance.