

Selector Funds Management

All Cap Portfolio - 31 January 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

A new year, a new market, or that's what it would seem like, judging by the market's strong upward move during January. The big switch from cash to equities with investors citing higher yields as a prime motivating factor shouldn't come as a complete surprise but for many, the question of do we or don't we, has become a hot topic of discussion. In our last update we wrote "we suspect with so much money still on the sidelines, avoiding overpaying for investments will be a key theme in 2013". Getting your asset allocation right is certainly important but not at the expense of ignoring valuations. We remain positive on markets and in particular the US with data continuing to underpin our long held view that things are on the improve. Locally, reporting season has kicked off and investors should brace for some wild swings, with profit downgrades and significant asset write-downs likely, based on early evidence. The Government's decision to go early and announce an election for September simply adds to the uncertainty. Our message to the Reserve Bank of Australia is don't cut rates beyond current levels. They are low enough and certainly attractive for those undertaking prudent and sensible investments. What is more important is an acceptance that Governments do not create jobs, despite their best attempts to tell us otherwise. Businesses create jobs, they invest capital, and they take risks. The quicker the Reserve Bank and our Government understands this important point the quicker will capital be deployed both prudently and productively. Finally, RIO Tinto's decision to write-off over \$30 billion in shareholder value on acquisitions gone wrong once again clearly demonstrates the destructive dangers of seeking growth for growth's sake, particularly when company board and shareholder interests are not aligned.

We continue to seek businesses with the following 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 **4.95%** return against a **5.08%** rise in the Index. Attribution wise, the top contributors included SEEK (+1.08%), Flight Centre (+0.73%), IOOF (+0.84%), News Corp (+0.82%) and Jumbo (+0.26%). Negative contributors included Pharmaxis (-1.99%), Sirtex (-0.81%), Sydney Airport (-0.15%) and AMA Group (-0.05%). Gross performance for the 2013 financial year to date has the Fund delivering a positive **34.82%** return in comparison to the Index rise of **21.41%**, representing an out-performance of **13.41%**.

Performance %	All Cap Portfolio	All Ords Acc	Difference
1 Month	+4.95	+5.08	-0.13
3 Months	+11.93	+8.97	+2.96
6 Months	+31.25	+17.03	+14.22
1 Year	+43.20	+18.68	+24.52
3 Years	+8.75	+6.67	+2.08
5 Years	+2.78	+1.39	+1.39
Since Inception	+9.19	+7.58	+1.61

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	8.58
Sirtex Medical	SRX	Healthcare	8.57
ResMed	RMD	Healthcare	8.57
Flight Centre	FLT	Consumer	7.18
SEEK	SEK	Industrials	6.61
IOOF	IFL	Financials	6.36
Blackmores	BKL	Consumer	4.91
IRESS	IRE	IT	4.36
CSL	CSL	Healthcare	4.33
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 30 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 spent 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.

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