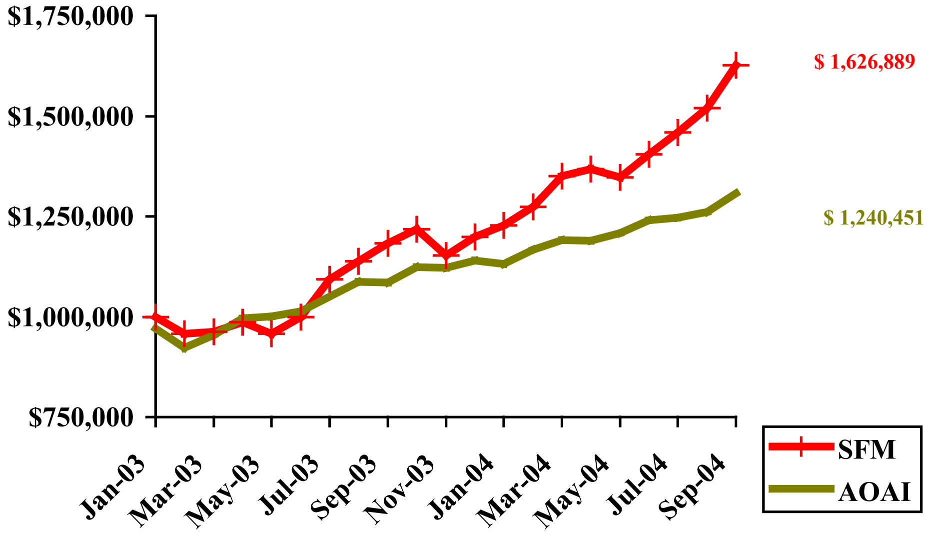
QUARTERLY GROSS RETURN WITH SFM_{MP} SINCE INCEPTION*

Last 4 Quarters	$ Valuation	% SFM Quarterly return	SFM return since inception	All Ords Accumulation Index	% AOAI Quarterly return	AOAI return since inception
Dec Q4 2003	1,199,095	1.33		17,787	4.99	
Mar Q1 2004	1,349,847	12.57		18,581	4.46	
Jun Q2 2004	1,404,822	4.07		19,356	4.17	
Sep Q3 2004	1,626,889	15.12	62.7 %	20,413	5.46	30.8 %

***Selector Fund Model Portfolio Start Date 21/01/2003. Only last 4 Quarters shown in table.**

GROSS VALUE OF $1.0M INVESTED WITH SFM_{MP} SINCE INCEPTION



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Model Portfolio:

The model portfolio has increased in value again this quarter. Just as the market has! Not much more comment required really other than we only made 3 changes to the portfolio in the September quarter.

As 2004 annual reports filter in we note two exceptions at different ends of the spectrum. **Wesfarmers** an old hand and **Pharmaxis** a newcomer. We would like to comment on both and recommend them as interesting reading. SFM

BIG PICTURE:

"Time risk" consistently surprises us. Invariably developments in a business happen more quickly or take longer than we anticipate. But this does not constitute a good or bad investment.

TIME – the lowest form of risk

Think about the panoply of risks in investing - management risk, industry risk, economic risk, interest-rate risk and time risk.

Analysts in top tier investment houses often treat time as the highest form of risk, which it isn't. We look to identify and evaluate the other business risks mentioned above. We don't worry about "time".

Take **Wesfarmers** in their latest annual report. They express the importance of marching to the beat of your own drum in your own time. We couldn't have said it any better than they did on pages 10 and 11 of the 2004 report. Their "drum beat" is long term TSR (total share holder return). And they are qualified to talk about it. An $8,000 investment in 1984 would now be worth about $1.0M

Wesfarmers have 16 business analysts focused on growth. Many opportunities are reviewed each year. On average a small number or none are chosen. As a result capital investments occur in a lumpy fashion and naturally enough profit growth is not even.

Invariably this has lead analysts and *investors* to lament that **Wesfarmers** has gone "ex growth" or run out of ideas. These analysts are really saying "time" is a major risk. In fact, it's just the reverse. If you trust management time is really your lowest form of risk.

A major reason why a patient investor can have great success…. is TIME

According to analysts another example of an "ex growth" company is **Cochlear**. We believe this is nonsense and that Cochlear will have continued success with time. A major reason why a patient investor can have great success in the long run is time. Time allows a good business to flourish. In a good business time even allows problems to be overcome. Just like the turnaround **Aristocrat** managed inside a year. SFM

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COMMENT:

Reading old annual reports issued by today's great companies can be frustrating. In these old reports the road to success is well mapped out. Even without the aid of hindsight it seems obvious that these companies were destined to become great.

this company was destined to be a winner

We had a good understanding of **Pharmaxis (PXS)** when the 2004 annual report landed on our desk. We already thought this company was destined to be a winner. And when it traded at close to cash backing you didn't need a time machine to see the way forward.

After multiple company visits we developed an understanding and confidence in this business.

The Chairman, CFO and COO had a track record of success from the ground up at Memtec. This time they appointed a "roll up the sleeves" MD in Alan Robertson. Alan has been successful in his own right in this field. And, he is passionate about his business.

PXS has multiple late development stage products that work. It has defined markets. Alternatives do not exist in key markets. And, importantly, **PXS** own 100% of the intellectual property and resultant end products.

The **PXS** annual report outlines a clear strategy that we believe will lead to success down the track. **PXS** is focused on respiratory diseases in big markets. These include Asthma, Chronic Obstructive Pulmonary Disease (COPD) and Cystic Fibrosis. COPD is the Western world's fourth leading cause of death after heart disease, cancer and stroke.

From the Chairman's address and CEO's report a clear road map unfolds. The milestones of the company are near term and apparent. And milestones often act as a share price catalyst. They are also a great yardstick. We use milestones to measure a companies performance.

The back of an annual report is always good reading. We note with interest that at **Pharmaxis** all senior appointments, including the CEO are on modest base salaries within a $10,000 range of each other. No high ground exists at **Pharmaxis** and if past performance is any indicator this is a quality team. We will certainly be watching it unfold with time. **SFM**

INVESTING:

So what is the first thing we look for in a business?

Can this company double its earnings

We ask ourselves. Can this company double its earnings before interest, tax and goodwill amortisation (EBITA) over 5 years?

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If the answer is YES, the market capitalisation and share price will generally take care of themselves, and likely deliver 15% compound growth per annum.

Take **Sigma** as an example. The five-year summary on page 5 of the 2004 annual report demonstrates the impact.

EBITA has more than doubled. Market capitalisation has more than doubled. Working capital has reduced! And net debt has fallen as a percentage of market capitalisation. SFM

Contact us to discuss the merits of investing with Selector Fund

The minimum investment in this fund is $500,000.

Back issues of this newsletter – www.selectorfund.com.au

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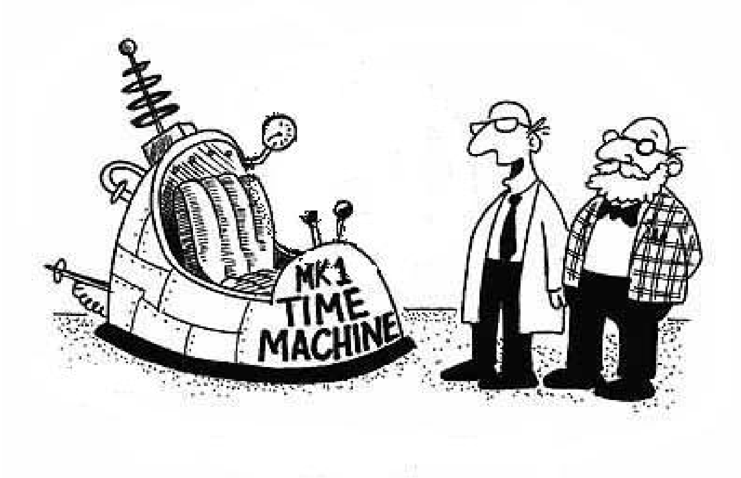
Selector Diary Q3 2004

Companies visited in Q3 2004		
13-07-04	ABB Grain	ABB
27-07-04	ALE Property Group	LEP
30-07-04	Senetas	SEN
16-08-04	United Group	UGL
17-08-04	Cochlear	COH
20-08-04	Flight Centre	FLT
20-08-04	Keycorp	KYC
24-08-04	Aristocrat Leisure	ALL
24-08-04	Macquarie Airports	MAP
25-08-04	SAI Global	SAI
26-08-04	AAV	AVV
26-08-04	Globe International	GLB
26-08-04	Rebel Sport	REB
27-08-04	Willmott Forests	WFL
27-08-04	Suncorp	SUN
27-08-04	Rural Press	RUP
27-08-04	Millers Retail	MRL
30-08-04	Bill Express	BXP
01-09-04	ABC Learning	ABS
07-09-04	Creatable Media	CLB
08-09-04	Sigma	SIG
16-09-04	Babcock & Brown	BNB
17-09-04	Scigen	SIE
23-09-04	Singleton Group	SGL
29-09-04	Washington Soul Pat	SOL
30-09-04	Hillgrove Resources	HGO

SFM MP Activities during Q2 2004	
Share transactions	3
Purchases	2
Sales	0
Takeovers (still current)	1
# Investments in fund	26
# Investments > 3% fund	13
# Anchor stocks	12
# Situations	12
# Turnarounds	2
# New Public Listings	0
# Placements	0
Other Issues	0
Company visits	17
New Companies Reviewed	9

"Success in the majority of circumstances depends on knowing how much time it takes to succeed"

Charles De Montesquieu 1689-1755, French Jurist & Political Philosopher



"It takes you back, doesn't it"?

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