

FUND PERFORMANCE

Since inception in November 2004 the Fund has delivered a net return of **96.28%** to 31 March 2007 inclusive of **\$0.0555** cents in total distributions to unit holders, out performing the All Ordinaries Accumulation Index, which has risen by 74.11% over the same period. Statistics page 10. *SFM*

BIG PICTURE

“Backing the man”

On 11 January 2007, English footballer (aka soccer player) David R.J. Beckham signed a five year US\$250 million contract to play for the Los Angeles Galaxy Club. This was headlined as the largest Los Angeles sports deal since Wayne Gretzky (Ice Hockey) joined the LA Kings nearly two decades ago.

In recent times, Beckham has seen his playing time decrease at Spanish club Real Madrid. This season, Beckham has started 10 of Real's 17 games and has come off the bench in two more, playing a total of 601 minutes so far. He's scored twice, including once off a free kick, and has provided one assist.

“Beckham has a tattoo written in Hindi, unfortunately it’s spelt incorrectly”

We did a quick Google search to learn more about “Becks”, aiming to work out what the Americans were paying up for. Google really does reveal all.

Firstly, Beckham has just secured a role to play “Prince David” for Disney Corporation.

Secondly, Google revealed that Beckham has 9 tattoos. One prominent tattoo is his wife’s name, written in Hindi rather than English because he thought inscribing it in English would be “tacky”.

Unfortunately, it is spelt incorrectly and reads **V**hictoria instead of Victoria. Obviously Galaxy is not paying for the smarts!

However, we didn’t have to look that much further. The last paragraph of Galaxy’s official press release detailing Beckham’s signing, pinpointed the attraction.

“In addition to being a talent on the field, Beckham has proven to be a massive boon to the bottom line. When he signed with Real Madrid, sales of jerseys and other merchandise skyrocketed, helping Real to eventually overtake United (Beckham’s previous club) as the richest club in the world.”

We couldn’t agree more, and echo similar views. When it comes to the all-important bottom line, individuals can and do make a huge difference.

But unlike Beckham who performs so spectacularly well off the field, in business we prefer to throw our support and money behind the people kicking the goals on the field. It’s all about backing the man or less colloquially, the key individuals entrusted to run the business.

Qualitative	
Management Qualities	Management Qualities
Individuals we can trust	Material equity holding
Drive to take business forward	Common bond with shareholders
Clearly articulated & consistent business plan	Track record

Table 1: Qualitative part of our “Roadmap” focuses on backing people

For our part, the captain (Chief Executive) and vice captain (Chief Financial Officer) are critical to



Global Warming? No signs here, Korea Zinc's Sun Metals.

success and it's worth doing some home work on them, so much so that it makes up six of the eighteen boxes on our investment "roadmap".

And homework can take many forms. Recently, we travelled to Townsville in Queensland to spend a few days with the management duo of Kim Robinson and Joe Treacy from **Kagara Zinc**.

On arrival to a wet and sticky Townsville, we made a beeline for the Sun Metals zinc refinery owned by Korea Zinc, the world's second largest zinc refiner. This was a chance to hear the good oil on Kagara's zinc product direct from the buyer's mouth.

Sun Metals has a 100% off take agreement with Kagara, which put simply, allows them to take all the zinc concentrate Kagara can produce.

"Kagara's production...is critical to Sun Metals"

Kagara's current production amounts to only 25% of the annual feed to the refinery but the role it plays is critical to Sun Metals because of the ore's fine grade. In turn, this is used to blend with typically courser feeds that can damage the refinery and reduce its throughput.

For Korea Zinc, the critical nature of this ore supply has translated into a passive 14.5% direct share holding in Kagara. Sun Metals explained that they needed to protect this type of ore supply, noting that their parent company continuously reviewed the risk of not owning or controlling feedstock to the refinery.

That evening we joined up with the full board of Kagara as well as Shad Linley, the Managing Director of Sun Metals and a non-executive director of Kagara Zinc.

Linley has got to be in his late 50's or 60 something, but is a ball of energy nevertheless. The strong working relationship between the parties is clearly evident. Simply put, Korea Zinc is swimming in cash and willing to finance Kagara's expansion plans both in North Queensland and potentially as far west as Admiral Bay in West Australia, should Kagara's aggressive \$15M drill program succeed.

"20 hours on an old school bus doing 110 k/m's per hour on the single lane cattle roads in torrential rain"

But back to the man we came to see. Kim Robinson is also late 50's, quietly spoken, unassuming and motivated. We had met Robinson on many previous occasions, and been shareholders in his earlier ventures, so we had ticked the "trust box" on the "roadmap" long ago.

Our "material equity" box also gets a tick. Today Robinson's 17.6 million share holding in Kagara is worth somewhere north of \$80M, and this being his second time around, it's pretty clear money is not the primary motivating factor. Kim Robinson was a major shareholder in Forrestania Gold, which he founded, floated and then on sold to LionOre.

Importantly, we see this as another big tick, this time in the “track record” box. Forrestania was also fond of rewarding shareholders with a constant stream of dividends, a feat now under way at Kagara.

While money might not be the key driver, Robinson doesn’t like to miss a quid either. On a previous trip that overlapped a weekend, Robinson had taken us Barramundi fishing in a swollen river near the mine. We had a couple of hours to pass before catching a plane home. He must have spent 15 minutes up a tree retrieving a favourite shiny lure worth less than \$10.

This time around we were expecting a wet trip but were somewhat surprised by the strength of tropical lows in the region.

All up, we spent nearly 20 hours out of 48 on an old school bus doing 110 kilometres per hour on the single lane cattle roads in torrential rain, occasionally slowing to pull onto the dirt to avoid a road train full of Kagara’s zinc concentrate.

Our “school bus” crossed with ease KZL Road train



Our two day trek with Robinson and Treacy, on the “old school bus” generously funded by Kagara, provided us with ample time to reflect on the big picture drivers for the business.

In simple terms, the execution of the group’s business plan remains consistent and tick goes another box. However in an environment of rising costs, getting a project up and away requires an experienced management team, capable of picking the right prospect with the right credentials – high grade and low operating costs. Fortunately for shareholders, Kagara has these qualities in abundance.

Increasing metal production and higher metal prices have translated into very strong cash flows, reducing group net debt to zero and allowed both Robinson and Treacy to internally fund a significant number of new prospects while continuing to pay dividends.

Two large opportunities worth keeping an eye on include Admiral Bay, a world-class zinc deposit in West Australia (originally discovered by Rio Tinto) and the old Forrestania assets. Yes, Forrestania is being recycled.

For Kim Robinson, developing these assets and bringing them into production is a powerful motivating factor and underscores the internal drive to take the business forward. Yet another “roadmap” box is ticked.

“Others lack the high degree of confidence that comes with experience.”

Importantly we also wanted to understand what gave management the confidence to pay \$25M for the yet to be drilled Forrestania tenements abutting the Western Areas, Flying Fox discovery.

Kagara had a high level of confidence when entering the tender process and were prepared to pay a significant premium to the price ultimately paid. Robinson had two reasons backing his conviction.

Firstly, he had cut his teeth on this ground in the mid seventies and understood precisely what he was hoping to snap up.

Secondly, all indications pointed to the ground hosting a very high-grade, low cost nickel operation capable of being brought into production within 18 months largely as a result of utilising Western Areas existing infrastructure. Most importantly the numbers stacked up for a very rapid payback, complimenting the company's long-term business goals.



Dry River South – flooded, we turned back.

This has been Kagara's biggest bet to date having paid less than \$2M for Admiral Bay and under \$1M for the Red Dome / Mungana assets. As Shad Linley noted, everyone had access to the same data and a similar ability to do the numbers, yet almost all lacked the high degree of confidence that comes with experience.

Honesty and a track record of success coupled with Robinson's significant monetary stake are all important elements we consider before making an investment for the long term. They are clearly defined qualitative markers on our "roadmap".

The bus says it all. Headlight marks the depth of floodwaters



Taking the time to better understand the "individuals" is an important part of our qualitative process.

Not surprisingly, you tend to get a pretty good feel for an individual once you've spent two soggy days driving thousands of kilometres, pushing a bus through flood waters and turning back multiple times, including the rather appropriately named Dry River South ~ which was flooded.

***"Kim Robinson could be Alan Robertson's brother!
Only Alan is a Scot"***

As we headed to Cairns Airport to catch the Friday night flight home, Robinson's son was flying over from Perth to spend the weekend in the bush with his dad. You can tell when someone loves what they do.

The plane trip home from a company visit is a time to reflect and share insights on the information overload.

One of our first reflections was that Kim Robinson could be Alan Robertson's (MD of pharmaceutical group Pharmaxis) brother! Only Alan is a Scot.

Like Robinson, Robertson (that's a mouthful) is an unassuming gent, also quietly spoken only with a Scottish lilt.

It was only days earlier that we had visited Pharmaxis's head office in Sydney's Frenchs Forest. With the visit still fresh in our minds the subsequent report written was our 26th since becoming shareholders in 2004.

That's 26 times we have put pen to paper and worked through the "roadmap", to assess where the company is in relation to its stated milestones and for any subtle changes to the company's business direction

This also means we have used the qualitative review in table 1 on page 1 of this newsletter 26 times during the investment period.

So what characteristics do a Geologist and a PHD in synthetic and organic chemistry share in common?

Most importantly, they each have an excellent track record. For his part, Robertson has done it all before, having invented the molecule behind the "Zomig" migraine therapeutic, now marketed worldwide by AstraZeneca.

"That said, there is no hint of arrogance. The genuineness and ethical nature of these individuals is easy to pick up on"

Being such high achievers, both men are very driven. Neither is inclined to promote or embellish.

So short, yes, no will be applied to questions that are not deserving of a full response. That said, there is no hint of arrogance. The genuineness and ethical nature of these individuals is easy to pick up on with a well prepared "big picture" question that allows them to unleash their vision.

And it is a vision they are quietly confident of advancing with no market fanfare but rather a dogged determination to get the job done. We find this a rare commodity in business managers but it seems to come easily for these two individuals.

As we write, it is evident that these leadership qualities are difficult to communicate on paper. And even more difficult if you purely relied on an annual report, company announcements or even an annual general meeting, which can be stilted affairs often hijacked by shareholders with agendas to push.

"Business leaders are the linchpins critical to the success of any business"

The qualitative section of our "roadmap" is designed to pick up on what the numbers in the annual report fail to highlight – the people. Obviously we want to invest in businesses that are leaders in their field, have a competitive advantage and have strong and improving financial ratios - most *investors* do. But experience tells us that business leaders, are the linchpins critical to the success of any business and hence we aim to continuously assess the subtleties at play when reviewing the qualitative aspects of a business.

Put another way, we are constantly amazed at the untold damage a good business can sustain in the hands of poor management. But let's look at the extreme, say a duopoly.

At both Tabcorp and the Coles Group, management have neglected to focus on the core businesses. Chronic under investing on routine maintenance spending has seen the jewels of these businesses tarnished. And whilst neither has been dealt a mortal blow they have nevertheless been set back many years.

As a consequence of poor positioning, Coles near death trampling by its competitors has seen the group take the extraordinary step of hanging out the “For Sale” sign. A now rudderless Tabcorp might be heading down a similar path, be that forced or planned.

As we write, the board of Tabcorp have seen the light and said enough is enough, asking Managing Director Matthew Slatter to leave...this afternoon no later! High profile shareholders who were baying for blood are victorious and probably cheering but on top of the damage and underperformance, the long term impact has got to be huge.

Why not keep it simple and seek excellent management in good to great business. The alternative in both these illustrations included former Managing Director Roger Corbett & current boss Michael Luscombe at Woolworths while Dick McIlwain formerly of Unitab now runs the show at Tattersalls. Both teams have delivered stellar results and find themselves in positions of strength today.

To this list of “doers” we can also add the following list of “captains’ including Chris Roberts of Cochlear, Elmo de Alwis of Sigma Pharmaceuticals, John Doran of ROC Oil, Robert Elstone of ASX, Reg Kermode of Cabcharge, Peter Farrell of Resmed and even Sol Trujillo and CFO John Stanhope of Telstra.

Obviously, not all investments have such “for and against” alternatives. But **to us** this only reinforces the importance of getting out and doing the homework on a consistent basis. And on this score

our qualitative process (the people) is just as meaningful as the quantitative process (the numbers).

Would you trust this man?



Alan Robertson

Or this man?



David Beckham

We often point out to new investors who see our “roadmap” for the first time, that if we can’t put a tick in the first box when considering a new investment we will move on to the next opportunity.

For our part, experience has taught us that qualitative measures (see table 1) are all too important to ignore if you want to have success as a long-term investor. **SFM**

Participating every day

Continuing with this quarterly’s “travel theme”, our itinerary shifted south with a visit to the Melbourne headquarters of national drug wholesaler Sigma Pharmaceuticals.

Our taxi driver thought he had hit the proverbial jackpot with a cab fare from the Melbourne CBD to Croydon. In actual fact, he hit the first gutter before hurtling off down the freeway. It was only when we arrived that we discovered the tyre was flat.

“The cost of the trip appeared to us to be a world record taxi fare. Being a shareholder in Cabcharge certainly made it a little easier to stomach”

The cost of the trip appeared to us to be a world record taxi fare. Being a shareholder in Cabcharge certainly made it a little easier to stomach when you consider the 10% service fee (on top of GST) is added to the bill. That’s Cabcharge’s take from its monopoly payments system.

You may or may not have noticed this “service fee” on your receipt, as it can be easily confused with GST or even a “booking fee”. If you happen to be one that simply pays the bill without double checking the meter it may be worth understanding why this isn’t the case and why the Cabcharge business model is so good ... but that’s another story for another newsletter.

For now our focus is on Sigma. Since taking over the reins in 2001, CEO Elmo de Alwis has undertaken a quiet transformation of this once sleepy co-operative whose origins date back almost one hundred years to 1912

Today it boasts one of the largest manufacturing and distribution capabilities in the country, covering branded and generic drugs as well as any number of over the counter medicines to the 5,000 odd retail pharmacists that cover the Australian landscape.

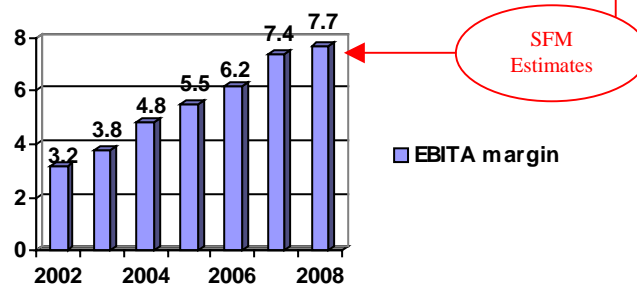
Sigma’s most recent numbers point to group sales of \$2.7 billion and operating earnings (EBITA) of \$200m. Not a bad outcome for a business many regard as highly competitive, operating on low margins.

And yet the “lack” of margins and the competitive nature of the industry are precisely the things that attracted us to this business in the first place. When you then add the important ingredient of de Alwis’s management approach into the mix, the potential to deliver is without limit.

Formerly a cost accountant, de Alwis is a disciplined, no nonsense operator with an eye for detail. This focus is clearly born out by the underlying numbers.

Since 2002, Sigma has consistently driven the top line with 2008 revenue now on track to pass the \$3.0 billion mark for the first time. But it is at the operating earnings line where de Alwis sets himself apart from his nearest competitors including API and Symbion.

\$M	2002	2003	2004	2005	2006	2007	2008 Est
Revenue	1664	1733	1909	2095	2168	2698	3000
EBITA	54.6	67.0	92.5	115.1	135.4	199.8	232.8
Amort’n	8.1	9.8	8.9	10.3	10.4	22.8	22.8
EBIT	46.5	57.2	83.6	104.8	125.0	177.0	210.0
Margin	3.2%	3.8%	4.8%	5.5%	6.2%	7.4%	7.7%



As the graph and table highlights, EBITA (earnings before interest, tax and amortisation) margins have more than doubled from 3.2% in 2002 to 7.4% in 2007.

In these circumstances it makes it difficult to compete when you are under pressure and your margins are less than 3% as is the case at API.

API’s experiences are not unlike the Coles Group and while the short term attraction of a take over

scenario may appeal to some, we believe a more profitable outcome is best achieved when the right management team is in place. Such is the way now, that the influx of private equity players and even conservative groups like Wesfarmers see enough merit in targeting these distressed assets with a longer term plan to better manage these businesses.

It was for this exact reason that we opposed the first management proposal to privatise Flight Centre. On 23 February 2007, the day after Flight Centre released an improved first half 2007 result, The Australian Financial Review reported.

“Selector Funds Management chief investment officer Tony Scenna, whose firm owns Flight Centre shares, said he was unwilling to sell up.

It would seem to me that we have been asked to leave this investment at an interesting time. We know there are challenges, but, that said, we’ve been through enormous difficulty and challenges over the last three years, so if the choice was ours, we wouldn’t want to leave”.

Another manager noted that

“Flight Centre is on a recovery trail and worth more than \$20 a share.”

“We recently challenged the board, in writing, to explain, in writing, management’s poor treatment of minority shareholders”

Having backed management for a great many years we have confidence in their ability to remove business costs, tackle the challenges confronting commission structures and expand into the lucrative corporate travel business.

That said, we don’t accept as gospel everything that management tell us, nor do we think they are

beyond reproach.

We recently challenged the board, in writing, to explain, in writing, management’s poor treatment of minority shareholders during the private equity buy out and to clarify an important accounting classification of company and client cash balances that significantly impacts on the group’s business worth. (Contact us if you wish to read our correspondence.)

As a result we have had personal contact with the non-executive chairman Bruce Brown promising a clarification on this matter. However in doing so the chairman made one mistake – he gave us his mobile number! We can assure our investors that should the need arise we will have no hesitation in giving his mobile phone a good work out.

As we write a new private equity proposal has come to light. While scant on detail, it is promising.

“the market is open every day, whether you choose to participate or not is left entirely up to you”

It raised the potential for a substantial capital return and the opportunity to participate in any future upside by remaining a listed vehicle supported by existing management and the very successful Pacific Equity Partners private equity group.

It has been said before “the market is open every day, whether you choose to participate or not is left entirely up to you”.

We believe active participation takes many forms and requires a great deal more effort than the simple act of buying or selling stocks. We trust this and other editions of our quarterly reviews provide some insight into the way we choose to participate each and every day. *SFM*

COMPANIES VISITED DURING THE 3rd QUARTER 2006-2007
January

PXS	Pharmaxis site visit	29-01-07
KZL	Kagara site visit	31-01-7 to 02-02-07

February

RMD	Resmed results briefing	07-02-07
SIP	Sigma site visit	09-02-07
VGH	Vision Group results briefing	12-02-07
RMD	Resmed management meeting	13-02-07
COH	Cochlear results briefing	13-02-07
ASX	ASX results briefing	15-02-07
TLS	Telstra results briefing	15-02-07
SAI	SAI Global results briefing	15-02-07
ALL	Aristocrat Leisure results briefing	20-02-07
WTF	Wotif results briefing	20-02-07
OSH	Oil Search results briefing	20-02-07
MMS	McMillan Shakespeare management meeting	22-02-07
BNB	Babcock & Brown results briefing	22-02-07
TTS	Tattersalls results briefing	22-02-07
CAB	Cabcharge results briefing	23-02-07
PBL	Publishing & Broadcasting results briefing	23-02-07
QBE	QBE Insurance results briefing	23-02-07
AUW	Australian Wealth Management results briefing	27-02-07
ROC	ROC Oil results briefing	28-02-07
PSA	Petsec Energy results briefing	28-02-07

March

IFM	Infomedia results briefing	01-03-07
N/A	CSG IPO management briefing	05-03-07
N/A	Stem Cell Sciences IPO management briefing	06-03-07
CAB	Cabcharge site visit	08-03-07
SAI	SAI Global site visit	13-03-07
MMX	Murchison Metals conference presentation	13-03-07
MGX	Mount Gibson Iron conference presentation	13-03-07
MIS	Midwest Corporation conference presentation	13-03-07
GBG	Gindalbie Metals conference presentation	13-03-07
SPH	Sphere Investments conference presentation	13-03-07
GRR	Grange Resources conference presentation	13-03-07
FRS	FerrAus conference presentation	13-03-07
FMG	Fortescue conference presentation	13-03-07
AGO	Atlas Iron conference presentation	13-03-07
GNC	Graincorp conference presentation	14-03-07
ABB	ABB Grain conference presentation	14-03-07
N/A	CBH Group conference presentation	14-03-07
ROC	ROC Oil site visit	14-03-07
AVX	Avexa capital raising briefing	20-03-07
N/A	Slater & Gordon IPO briefing	22-03-07
SIP	Sigma Pharmaceuticals results briefing	26-03-07
N/A	PR Finance IPO briefing	27-03-07
DMX	Dolomatrix conference briefing	28-03-07
PEO	People Telecom conference briefing	28-03-07
PPS	Praemium	28-03-07
TEN	TEN Network Holdings interim results briefing	28-03-07
WDS	Walter Diversified Services conference briefing	29-03-07
PBP	Probiotec conference briefing	29-03-07
ESV	Eservglobal conference briefing	29-03-07
CAF	Centrepoint Alliance conference briefing	29-03-07
SNO	Snowball Group conference briefing	29-03-07

FUND REPORT as at 31 March 2007

Issued by Selector Funds Management Limited ABN 85 102 756 347, AFSL 225 316. The investment information in this Fund report is historical and refers to the period to 31 March 2007. **Past performance is not an indicator of future performance** for this fund.

PERFORMANCE SUMMARY

	3 months (%)	6 months (%)	1 Year (%)	Compound Annual Return 2 Year (%)	Compound Annual Return Inception ¹
Total	0.24	16.60	21.81	31.85	32.23
Income	-	-	2.24	1.88	0.35
Growth	0.24	16.60	19.57	29.97	31.88
S&P/ ASX All Ordinaries Accumulation Index	7.09	19.17	22.34	25.80	25.83

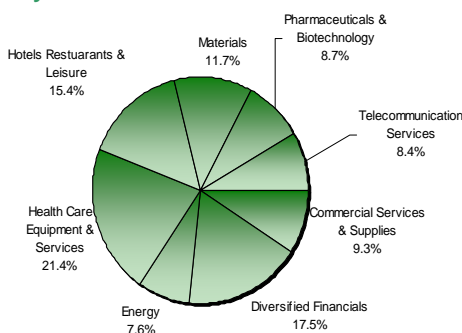
Returns are calculated on a using mid prices, and are calculated after all fees have been deducted with distributions included and no allowance made for tax. The 'income' component represents the amount paid by way of distribution, including net realised capital gains.

1. Inception date - 1 November 2004

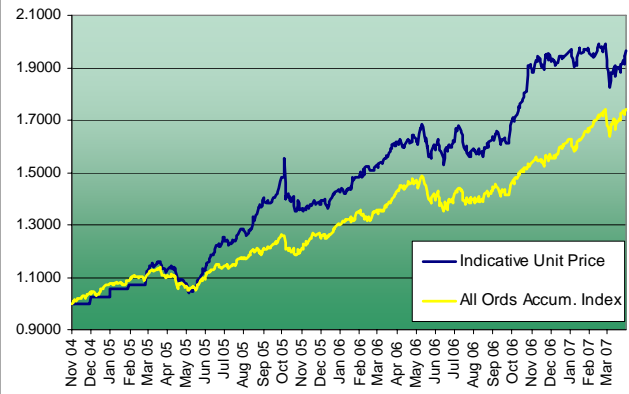
MONTHLY DETAIL (past 12 months)

Month ending	Mid Price	Distribution per Unit (\$)	Month Gain (%) Fund	Inception Gain (%) Fund	Index Level	Month Gain (%) Index	Inception Gain (%) Index
31 Mar 07	\$1.9073	-	1.92	96.28	36,767	3.33	74.11
28 Feb 07	\$1.8713	-	-1.56	92.68	35,584	1.59	68.51
31 Jan 07	\$1.9010	-	-0.09	95.65	35,026	2.01	65.87
31 Dec 06	\$1.9027	-	0.46	95.82	34,334	3.62	62.59
30 Nov 06	\$1.8939	-	2.45	94.94	33,136	2.48	56.91
31 Oct 06	\$1.8486	-	13.02	90.41	32,335	4.80	53.12
30 Sep 06	\$1.6357	-	3.32	69.12	30,853	1.25	46.10
31 Aug 06	\$1.5831	-	3.07	63.86	30,472	3.18	44.30
31 Jul 06	\$1.5360	-	-3.71	59.15	29,535	-1.51	39.86
30 Jun 06	\$1.5951	0.0357	3.98	65.06	29,988	1.85	42.01
31 May 06	\$1.5684	-	-2.96	62.39	29,442	-4.34	39.42
30 Apr 06	\$1.6163	-	1.33	67.18	30,777	2.41	45.75

Portfolio by GICS Sector



Unit Price Movement vs Index Since Inception



To receive an Information Memorandum

Phone: 61 2 9241 5830, email corey@selectorfund.com.au or visit the website: www.selectorfund.com.au

Applications for units can only be made on the application form in the Information Memorandum (IM) dated 15 October 2004 and Supplementary Information Memorandum (SIM) dated 1 January 2006. Potential investors should consider the IM and SIM before deciding whether to invest in the Fund.

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