Dear Investor,

For most investors during this past quarter, the morning ritual of checking up on overseas markets has been filled with trepidation. Some mornings left many feeling like the proverbial deer frozen in the headlights. On others, it was more akin to being hit by a runaway truck. Many investors simply took the safest option and stopped looking altogether.

As we close out the 2008 calendar year, it is pretty clear another Mack truck is rumbling through. Most people have already gotten out of the way. According to a recent consumer survey less than 10% of Australians now believe the share market is a good place to park their savings.

This time however, the truck bearing down on all of us is laden with government sponsored liquidity. It is of a size that we have never seen before. We don't know when it will deliver. And we don't yet know what "unintended consequences" may follow.

But with some US Treasury bills now yielding a big fat zero, equities and their accompanying dividend streams may actually provide a safer haven, which so many investors are now choosing to avoid. For those with a realistic time frame - and that may mean considerable patience - coupled with investable cash already deployed or on the sidelines, a significant opportunity to take advantage of businesses at attractive prices is with us today.

It is a time to look rather than turn away. However, we think the focus needs to shift from the all pervasive macro issues to the far more important micro drivers. Based on current valuations, fundamentals appear to have become irrelevant. They have been hijacked by the macro issues. And this is the focus of our quarterly update. Stock selection should be, and is, our number one focus.

This quarter we have moved office. We have added resources. As a result, we have increased our research and stock selection capabilities and are pleased to welcome Victor Gomes as a portfolio manager. Victor is a tax accountant with 16 years experience in funds management, formerly with BT Funds Management, Platinum Asset Management and Hayberry Funds Management.

In our December 2007 quarterly newsletter, we wrote about avoiding landmines. In our September 2008 quarterly newsletter, we followed up with our concerns on imminent capital raisings. We have to date, successfully avoided the many deeply discounted equity raisings, which have led to real and permanent loss of capital for a large number of shareholders.

That said the enormity and ferocity of the downturn during the second half of the year resulted in there being very few places to seek shelter. This was reflected in the performance of global equity markets, highlighted on page 10.

While we recorded a negative return for the quarter, for the financial year to date the fund has maintained a relative outperformance of 6.11% and 7.81% against the All Ordinaries Accumulation Index and the All Ordinaries Index respectively, in a very challenging environment.

Calendar 2009 will continue to produce its own set of challenges and surprises. But the investment landscape is now filled with many attractive business opportunities trading at knock-down prices. Staying focused on the stock selection process and having the confidence to grab opportunities during times of market pessimism will have its rewards.

Regards

Tony Scenna
Victor Gomes
Corey Vincent

Selector Funds Management Limited

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Performance December Quarter 2008

In what turned out to be an extremely challenging quarter the Fund fell 25.99%. The All Ordinaries accumulation index fell 20.20% and the All Ordinaries index fell 20.99%.

Jim Grant interview 4 December 2008

Jim Grant is renowned on Wall Street as the editor of *Grant's Interest Rate Observer*. This year he edited the 75th anniversary edition of Benjamin Graham and David Dodd's influential book *Security Analysis.*

On 4 December 2008 Grant spoke to CNBC US Television. Grant shared his views on markets and risk. His insights cut to the core issues. He noted that the time to act is when everyone else is streaming for the exits.

Q. In terms of Graham & Dodd aren't you seeing some sectors that you might consider cheap?

A. *"Yes"*

Q. And for you that is going a long way because you haven't been that bullish on equities for a long time.

A. *"Over reaction is the theme of every financial cycle as well as this one. In the thirties all markets were deranged, not only demoralised but deranged. That is, value was as irrelevant at the bottom as it had been at the top, which is always the way".*

"Value was irrelevant in 1988-89 and it is increasingly becoming irrelevant today, which is the opportunity for value seeking people and opportunists of all stripes."

Q. Without leverage, you should be ok then? If you can afford to wait you can buy something if not on margin.

A. *"Yes, because this too shall pass and it will seem in time, irrelevant. But to your first question, yes, the market is throwing up some terrific opportunities, especially we think in credit. Convertible bonds for example are completely orphaned now and you can find many bonds that are more attractive than the corresponding equity."*

Q. If the Fed didn't do anything else here would that change your view point?

A. *"It seems to me, in so far as there is a lesson from this book (Security Analysis), it is that one ought to pay less attention to the great macro considerations and more to individual securities and opportunities that the manic depressive Mr Market is always presenting to you."*

"In the flight from so called risk, people are paying less and less attention to the things they ought to pay more attention to, namely individual securities."

"When people speak about coming back to risk, what is risk? I think there is a lot more risk in things that people deem to be inherently safe and there is less risk in things that people think are inherently risky. Markets are all about paradoxes. So the things that are now officially deemed safe, cash and treasuries may present the greatest risk to investors."

And yet the evidence, both in the United States and our market clearly highlights why investors are shunning equities and running headlong into cash and treasuries.

On 10 December 2008, *The Australian* reported on a survey that *"Australians lose faith in share market"*. This all but summed up the present mood. The Westpac-Melbourne Institute of Consumer Sentiment report noted that,

"Just 8.1 per cent of Australians believe the share market is a good place to park their savings, down from 14.6 per cent this time last year. By comparison 37.9 per cent of people now believe savings should be kept in banks or building societies, up from 24.1 per cent."

Over in the United States, sentiment is even grimmer. On 11 December, in a morning note to clients JP Morgan reported,

"*Overnight, the US Federal Reserve sold $30 b-i-l-l-i-o-n worth of four week bills at an interest rate of...nothin'. A big donut. So the deal is, you give the Fed a big wad of cash. And the Fed gives the cash back to you in a month. You need to be lucky to get this deal. The auction was four times oversubscribed. Treasury also sold $27b worth of three month bills at 0.005%, which is the lowest since auctions started in 1929. Three month bills are trading in the secondary market at minus 0.01% - you can guarantee yourself a $25 loss on a $1,000 investment in this market! Investors are paying away to keep cash safe."*

European banks continue to hoard cash. Recently banks had deposited €244 billion with the European Central Bank (ECB) overnight, rather than lend funds to other banks. The total amount deposited with the ECB in more normal times is about €400-500 million. In the US, the figure deposited with the Federal Reserve was recently around $400 billion and was expected to reach $600 billion. In more normal times it is less than $2 billion.

Investors aren't even sure about government paper anymore. Credit default swaps suggest that UK Government debt is twice as risky as McDonald's bonds.

With all this confusion and fear we believe Jim Grant's words carry extra meaning and are worth repeating, *"One ought to pay less attention to the great macro considerations and more to individual securities and opportunities that the manic depressive Mr Market is always presenting to you."*

Today, more than ever, these words should be ringing in the ears of every investor prepared to look beyond the present market carnage. The smorgasbord of investment choices stretches from income securities trading at significant discounts to their face values, to plain vanilla equities feeling the direct heat of withering profits. And within our circle of competence, the investment choices we make are directly tied back to four critical aspects, namely the management team, the business, the balance sheet and the price on offer.

Top of our list is management, while the price to particpate is the ultimate deciding factor. Bookending these considerations are the businesses themselves and the balance sheets that underpin them. While many have put forward the view that you want to buy businesses that any fool could run, because one day a fool may be running it, our preference is to place greater importance on backing the right management team.

And the thinking behind this is relatively straight forward. Truly great businesses are today few and far between. Fewer monopolies exist and the encroachments of newer technologies are removing many of the advantages once enjoyed by market leaders.

Billabong downgrades - and is added to the portfolio

It's certainly not a monopoly but Billabong (BBG) is an example of one of those "few and far between" businesses referred to above. It is a company we have envisaged owning for several years. Previously price has stopped us. We had been observing from the sidelines and gathering information for some time. That changed with the macro driven downgrade on 4 December 2008. We used the downgrade as an opportunity to buy shares at very attractive valuations. Having started our research more than a year ago we were able to do this with some confidence.

Initially there were three catalysts for our research into Billabong;

1) Management;
2) Brand strength; and
3) Financials.

All three are important factors of our investment roadmap.

Firstly, post the Matthew Perrin (the previous CEO and lawyer by profession) and Gary Pemberton era (previous Chairman), Billabong installed a no nonsense, hands on management team. This team, led by very experienced retailers who have literally grown up in the surf as well as the surf industry. That was not the case previously. We now think the management box gets a big tick.

Secondly, it is clear that Billabong enjoys great brand loyalty. The core Billabong surf brand has stood the test of time. While its roots remain firmly established in youth board sports, it continues to hold appeal for the greying surfer (and surfer wannabe), who have worn the product since their youth. The brand appears to have developed longevity over two generations. That's certainly the case in each of the families at Selector.

Thirdly, Billabong's financials suggest this is a world class business. Gross profit margins and earnings before interest and tax (EBIT) margins have consistently been strong and lead the industry. The recent downgrade, driven by the current global upheaval, presents some near term challenges but it is unlikely, in our opinion, to damage the group's longer term earnings path. And Billabong may just fare a lot better than some of its peers.

Table 1. Surf apparel industry margin comparison for public companies

		FY 2006	FY2007	FY2008
Billabong	Gross Margin	53.5%	53.4%	54.9%
	EBIT Margin	21.4%	19.4%	19.7%
Quiksilver	Gross Margin	45.7%	46.0%	48.1%
	EBIT Margin	8.1%	9.9%	8.1%
Volcom*	Gross Margin	49.7%	48.4%	47.7%
***08 SFM est**	EBIT Margin	21.2%	18.8%	16.5%

Billabong has historically grown its bottom line in the high teens and has a strong and improving gross cash flow to EBITDA conversion rate of 80%. Return on equity is strong at 22% and when debt is accounted for, using a return on capital employed calculation, it is a very healthy 23%. In 2008, Australia represented some 30% of revenue and 38% of EBITDA. Herein lies the risk and opportunity. US sales represent circa 46% of revenue and 38% of EBITDA.

In October and November 2008, the US consumer finally threw in the towel. Retail sales tanked, retailers were frozen in the headlights and forward orders became the domain of the brave. And despite a better than expected foreign exchange-aided profit upgrade at the company's annual general meeting in August, the earnings downgrade that some of us were expecting, finally came.

On 4 December 2008, Billabong responded by downgrading expectations for the full year to around 8% net profit growth, down from an earlier 10-15%. Having tumbled all the way from an earlier peak of $18.81 in June 2007, the group's share price closed the year at $7.85.

With investors fleeing and the stock tumbling, we used the opportunity to accumulate a modest holding fully expecting that further opportunities may still await us. In the meantime and based on management's forecast, Billabong is expected to earn a net profit of around $180M for 2009, placing the group on a PER of 9.1 and a yield of 7.4%.

Back in March 2008 we attended the Billabong investor open day. On that occasion we got to meet, surf with and listen to the operational heads from Australia / Asia Pacific, the USA and Europe. The investor day also showcased some of the key brands Billabong has acquired and nurtured, and included presentations from the founders of Element (Skate), and Nixon (Watches & Accessories). It was notable that the founders from these and other acquisitions have typically stayed to grow “their” businesses within Billabong. Both the Element and Nixon founders highlighted that Billabong had proven to be the ideal partner, allowing for both brand growth and business expansion.

Not surprisingly, Billabong view themselves as brand managers or the custodians of brands with the aim of owning a portfolio of eleven relevant businesses under separate brands. Billabong operates on a decentralised basis. All businesses are run regionally under regional heads. But importantly, each brand is run independently, in order to avoid commoditising the individual internal strengths that make the brand relevant. And this is the key to Billabong, it is a business built on maintaining true brand relevance, focused on the core market of action sports.

In March 2008, the US economy was already starting to unravel. We focused our attention on the presentation by Paul Naude, a straight shooting South African veteran of the surf industry and General Manager of Billabong North America. He was under no illusions that the market was tough but forward orders for spring and summer 2008 had held up. With no downgrade forthcoming and still expecting the worst, we held off.

From CEO Derek O’Neill, we learnt that the Australian/Asia Pacific region was Billabong’s most mature and highly penetrated market, as one would expect. Sales per capita for this region sat at $12 per person. In comparison, the ratio in potentially larger markets like South America dips as low as cents per person. This might suggest that the global action sports market remains under penetrated when compared to the traditional beach culture markets of Australia and New Zealand. While this certainly provides some scope for Billabong to pursue offshore growth, we are wary of simply extrapolating these numbers.

But what of Billabong’s competitors?

Today, in revenue terms, Quiksilver is the market leader with sales of around $US2.3 billion through the Quiksilver, Roxy and DC brands.

Separately, DC (shoes) is still delivering growth and Quiksilver Europe remains a formidable business with EBIT of circa €100 million. It appears that Europe is holding up the Quiksilver Inc empire.

Overall however, Quiksilver Inc is struggling under a (ski) mountain of debt, following the group's acquisition of the Rossignol Group (ski boots and apparel) in a deal consummated in 2005. As a result of poor ski seasons and a failure to transition a seasonal business into a year round offer, Quiksilver reported a $US166 million write-off and a bottom line loss of $US121 million during 2007. The sale of Rossignol was finally completed in November 2008 and will result in an additional non-cash loss of $US150 million, to be reported in the first quarter 2009.

Having sold Rossignol, after trashing it, Quiksilver still hold the debt - a painful US$1.07 billion reminder of a deal gone bad. In comparison, Quiksilver's market capitalisation stands at just $US212 million.

We listened in to the Quiksilver Inc fourth quarter and full year conference call in late December. The call had a morbid tone. And most US analysts signed off saying "good luck" to the Quiksilver management team. Maybe that's just a nice American thing to say at Christmas time. But our suspicion is that with credit constraints, over $US1.0 billion in debt, and three separate refinancings taking place in Europe, the USA and Australia, Quiksilver's equity base is severely overstretched. The market capitalisation suggests that investors are questioning Quiksilver's viability or they are pencilling in a very desperate and dilutive equity raising.

As the number one competitor to Billabong, Quiksilver isn't in a strong position to grow market share. In fact, Quiksilver plans to close 25 non-performing shops in the USA and capital expenditure on new shops rollouts (66 in 2008) is being slashed during calendar 2009.

Like Billabong, both Quiksilver and Volcom announced deteriorating outlooks with very little visibility even into the next quarter. Results in the short term hinge on holiday sales, the level of retail store discounting and any inventory overhang extending into the northern hemisphere spring season. A below par performance in one or more of these variables could easily lead to further downgrades throughout the industry.

Another competitor of interest is Hurley Inc, manufacturer of the industry award winning "phantom board short" which retails at $130 a pair. In comparison, Billabong, Quiksilver and Volcom board shorts retail in the $60 - $90 price point range, while "dressy" board shorts such as the French Vilebrequin retail for up to US $250 a pair.

Interestingly, Hurley Inc was founded in 1999 by former surfboard shaper Mike Hurley who had earlier headed the team running the US licensee operations of Billabong. At the time of its licence expiry, Mike Hurley built Billabong's USA sales to around $US70 million per annum. Today, as a wholly owned subsidiary of Billabong, the number is closer to $US557 million, while total global revenue (including acquisitions) for the group has mushroomed to $A1.35 billion. In contrast, with Mike Hurley at the helm, Hurley Inc has taken revenue from a zero standing start to around US$200 million. Our understanding from an employee is that Hurley Inc, now owned by sporting giant Nike Inc with a market capitalisation of US$25 billion, continues to experience strong growth.

When looking at the current competitive landscape, one of the key take out points is the level of gross margins enjoyed by Billabong - *see Table 1*. At the EBIT margin level, Billabong's are double that of Quiksilver and a step above the much smaller Volcom, (Nike Inc do not split out results for Hurley Inc).

We have tried to understand the reasons why the Billabong EBIT margin stands head and shoulders above Quiksilver and importantly, if this margin is sustainable over the long run. The reasons as we see them are as follows;

1) Retail / wholesale mix
2) Geographic mix
3) Global structure and supply chain manufacturing strength
4) Management

Firstly, Quiksilver has a significantly larger retail footprint than Billabong. This requires upfront capital as well as additional ongoing working capital in the form of inventory, resulting in lower operating margins. Wholesaling to the independent retailers enjoys significantly higher margins without the added risk attached to any retail operation. Wholesaling was the traditional focus of Billabong.

If large independent retailers, such as the US based Pacific Sun, establish their own brands, they are able to gain the higher margins that are enjoyed by the wholesalers. This is a risk to wholesalers like Billabong and is one reason why they have and will continue to increase their own global retail footprint.

Secondly, it is more attractive for Billabong to sell into the Australasian market where it is a dominant local player, enjoying margins of circa 25%, compared to both US and European operations, which sit at 20% respectively. With Australian sales representing close to 39% of EBIT, this provides a positive skew for Billabong.

Thirdly, Billabong has history on its side and this translates into experience. Billabong was born out of manufacturing. They know intimately well what works and what doesn't work in relation to manufacturing. They also know what it takes to build a successful product and where the pitfalls are. This is critical information when a young brand like *Tigerlily* looks to ramp up production to meet growing demand.
Today, Billabong source product for all eleven brands on a global basis. This provides buying power across the entire brand suite with China supplying approximately 33% of company product.

Supply chain is all about fulfilment – and Billabong state that 99.6% of business is supplied accurately. This is critical to success, as is the need to deliver goods on time.

At the end of the day margins rely on it. Stores need to have inventory and they need confidence in the re-order process to manage their floor stock to maximise sales.

Management is the key driver, it wraps around each of the three factors listed above. Led by O'Neill, an employee since 1989, the group has embraced seasoned operators within its ranks. While a number of acquisitions have been undertaken over recent years, the vast majority of growth has come from within. Discounting is avoided at all costs and retail expansion is undertaken on a case by case basis. Collectively, directors speak for 37.3 million shares or some 17.8% of the issued capital, led by Billabong founder Gordon Merchant with 14.9%

Our key concern remains the fashion component of the business. Billabong has explained that fashion versus brand issue comes down to how it is managed. The Billabong brands must be relevant, they must be trusted and above all they must be consistent. Importantly, the group aims to avoid big swings in relevancy, having learnt from Merchant that changes are important but the buyer wants confidence that the look and feel of the product is timeless.

In short, when entering a new season of Billabong apparel the general rules that management follow typically include;

1. 50% of the new range carries a theme from the previous year
2. 25–35% of the range has a new feel
3. 10-15% of the range has more radical product options

The recent downgrade, driven by the current macro environment, is providing the opportunity to gain a stake in the Billabong growth story. While evidence provided by the company and its peers has suggested sales - are and will continue to be - slow in the near term, the current business valuation and buy in price open to investors more than compensates for the risk. The market upheaval is potentially providing a one-off buying opportunity because the long term growth prospects of Billabong are unlikely to be damaged by an economic recession.

Even though the lead Billabong brand was established 36 years ago we see strong potential for growth. Through acquisition, Billabong has added another ten brands to the portfolio, all focused on the youth market and covering some 80 product categories. As O'Neill noted, this translates into a possible 170 brands/country combinations. Today, less than a third of these opportunities have been exploited. While the Billabong brand is distributed in 100 countries the remaining ten brands are distributed in less than 40. The goal is to expand the ten additional brands into as many of the 80 categories and established global channels as possible over time. With more than 100 staff focused on product development categories, the list is also likely to expand.

Management seem quietly confident on the growth front. CEO O'Neill maintains that Billabong will continue to avoid giving forecasts. It's a policy that we agree with. He has noted, however, that the company took 33 years to earn its first $1.0 billion in sales but that the next billion and beyond would take but a fraction of that time to achieve.

The year that was 2008

Table 2. National stock exchange declines in 2008

Biggest stock market declines of 2008					
Iceland	**-94.4%**	Eygpt	**-56.4%**	Taiwan	**-45.2%**
UAE	**-72.4%**	Belgium	**-54.4%**	World MSCI	**-44.7%**
Romania	**-70.5%**	Finland	**-53.4%**	Australia	**-44.3%**
China	**-68.8%**	Hungary	**-53.3%**	Hong Kong	**-44.0%**
Russia	**-67.5%**	Norway	**-52.8%**	Japan	**-43.4%**
Ireland	**-66.2%**	India	**-52.5%**	Sweden	**-42.7%**
Vietnam	**-65.9%**	Netherlands	**-52.3%**	Germany	**-40.4%**
Greece	**-64.6%**	Turkey	**-51.6%**	USA S&P 500	**-40.8%**
Austria	**-60.2%**	Italy	**-48.6%**	Canada	**-37.6%**
Peru	**-59.9%**	Thailand	**-47.9%**	Britain FTSE	**-33.1%**
Pakistan	**-58.3%**	Singapore	**-47.4%**	South Africa	**-26.7%**
Saudi Arabia	**-57.8%**	Europe 300	**-46.2%**	Mexico	**-24.2%**

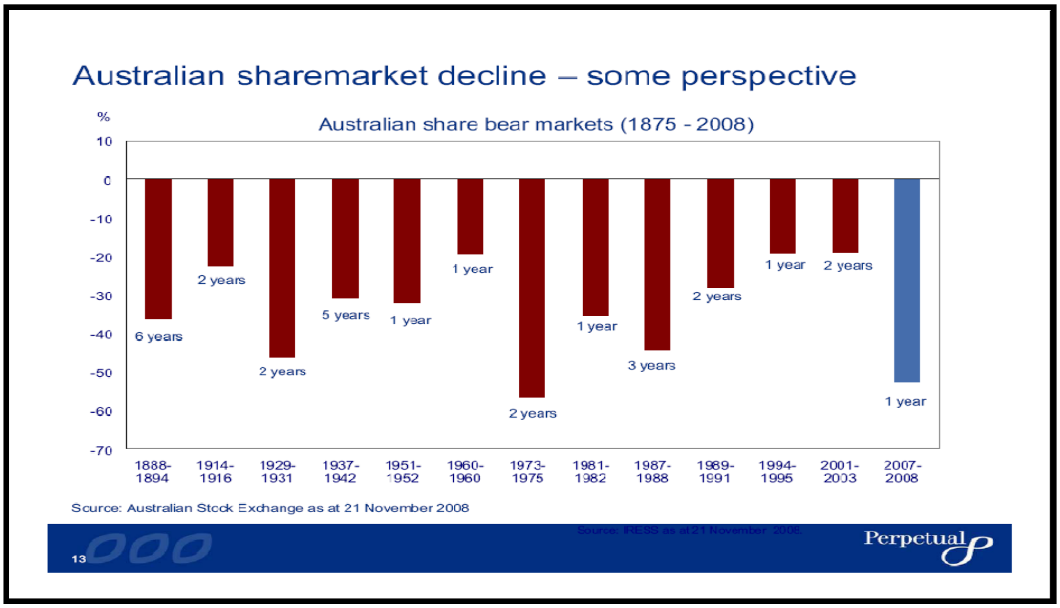
Source; The Economist

Table 2 represents the 1 year calendar fall in various equity markets in their local currencies. Falls from the high to low points were substantially more in many cases. It provides a global context to Australia's worst calendar year return on record.

We have also included a slide (Diagram 1) that was recently used in a Perpetual presentation. We think it helps to put 2008 in a historic perspective. The decline the Australian equity market in 2008 was not just historic, it was brutal in relation worst periods on record.

In the press 2008 has been compared to the bleak years of the early seventies. When in fact, Diagram 1 shows that in one year, the 2008 market decline rivals the two year decline experienced from 1973 – 1975. And for all the talk about depressions, the 2008 decline exceeds the two year decline that occurred from 1929 – 1931.

Diagram 1. Australia share market declines



Source. Perpetual Limted.

Looking Forward - 2009

In our opening letter we talked about the "liquidity truck" that is fast approaching. It will have both positive impacts and "unintended consequences". Credit spreads are a good early sign of the impact that large scale government interventions are having on global credit markets.

Some sixty per cent of corporate lending is tied into the London interbank offered rate (LIBOR) making it the world's most widely used benchmark interest rate. And recently we have seen the first sign of cheaper funding costs in world markets.

LIBOR is substantially off its October 2008 peak. At its peak, the funding premium attached to LIBOR (benchmark interest rate) was 364 basis points. In the first week of January the funding premium had fallen below 130 basis points.

The three month swap rates and the so called TED spread, the premium which banks pay above the official interest rates, have both declined in a similar manner to LIBOR.

These are all positive signs but it does not lead to us being either bullish or bearish. Both are emotional states and in looking forward we would rather deal with the facts as we know them.

We know lenders are still nervous and credit analysts still fear another wave of corporate collapses. So the upcoming reporting season will provide many surprises and a few casualties.

We also know that as a crude measure, the share market index reflects the collective views of investors at a given point in time. It is not surprising then, with doom and gloom all around, that investors will look to value all businesses in a similar vein. Yet, while the effects of an economic hit cannot be ignored, the broad brush sell off that we have witnessed has spared few and left many deserving companies unloved.

So to put it bluntly we will leave it to others to argue the merits of whether the share market will rise or fall in 2009. In January 2008 we wrote that we were actively trying to avoid landmines. In January 2009 we are trying to pick up discarded gems that will pay off handsomely in future years.

Companies Visited in 4th Q 2008

October

WES	Wesfarmers Open Day Briefing	14/10/08
CXS	Chemgenex Pharmaceuticals biotech conference	16/10/08
BTA	Biota Holdings biotech conference	16/10/08
PXS	Pharmaxis biotech conference	16/10/08
ACR	Acrux biotech conference	16/10/08
COH	Cochlear annual general meeting	21/10/08
PXS	Pharmaxis annual general meeting	23/10/08
API	Australian Pharmaceutical Industries health conference	23/10/08
BKL	Blackmores health conference	23/10/08
N/A	iNova health conference	23/10/08
N/A	Zuellig Pharma Australia health conference	23/10/08
SRX	Sirtex annual general meeting	28/10/08
PGA	Photon Group site visit	28/10/08
GCL	Gloucester Coal annual general meeting	29/10/08
API	Australian Pharmaceutical Industries full year results	30/10/08
WBC	Westpac full year results briefing	30/10/08
IFM	Infomedia annual general meeting	30/10/08

November

PTM	Platinum Asset Management annual general meeting	04/11/08
TLS	Telstra open day briefing	06/11/08
MSB	Mesoblast health conference	07/11/08
COH	Cochlear health conference	07/11/08
HSP	Healthscope health conference	07/11/08
PRY	Primary Health Care health conference	07/11/08
RMD	Resmed health conference	07/11/08
RMD	Resmed Q109 results briefing	07/11/08
CPU	Computershare annual general meeting	11/11/08
TRG	Tresaury Group annual general meeting	12/11/08
WPL	Woodside Petroleum open day briefing	13/11/08
MQG	Macquarie Group interim results briefing	18/11/08
CAB	Cabcharge Australia annual general meeting	18/11/08
TTS	Tatts Group annual general meeting	19/11/08
TLS	Telstra annual general meeting	21/11/08
HVN	Harvey Norman annual general meeting	25/11/08
RMD	Resmed US operations briefing	26/11/08
FPH	Fisher & Paykel Healthcare interim results briefing	26/11/08
QBE	QBE Insurance Group acquisition briefing	26/11/08

December

NCM	Newcrest Mining open day briefing	01/12/08
BBG	Billabong International update briefing	04/12/08
CPB	Campbell Brothers interim results briefing	04/12/08
NHF	NIB Holdings management briefing	08/12/08
ROC	ROC Oil site visit	10/12/08
CSL	CSL R&D briefing day	11/12/08

SELECTOR Funds Management

FUND REPORT as at 31 December 2008

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 December 2008. **Past performance is not an indicator of future performance** for this fund.

PERFORMANCE SUMMARY

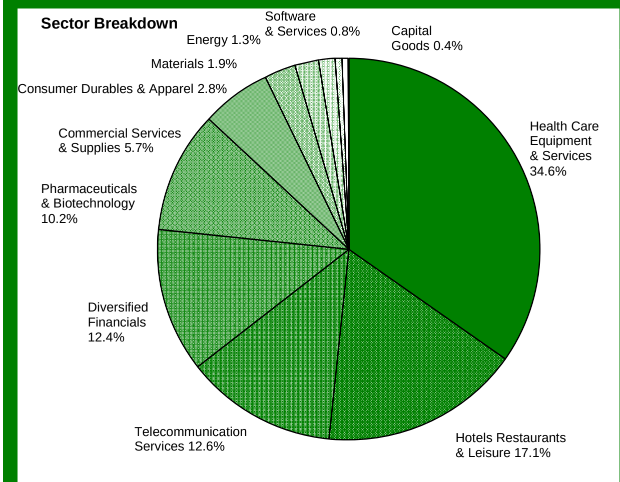
	3 months (%)	6 months (%)	1 Year (%)	Compound Annual Return		
				2 Year (%)	3 Year (%)	Inception[1] (%)
Total	**-25.99**	**-23.57**	**-53.82**	**-29.36**	**-11.65**	**-0.39**
Distribution	0.00	0.00	0.80	0.90	1.39	1.51
Growth	-25.99	-23.57	-54.62	-30.26	-13.04	-1.90
S&P/ ASX All Ordinaries Accumulation Index	**-20.20**	**-29.69**	**-40.38**	**-16.14**	**-4.22**	**3.26**

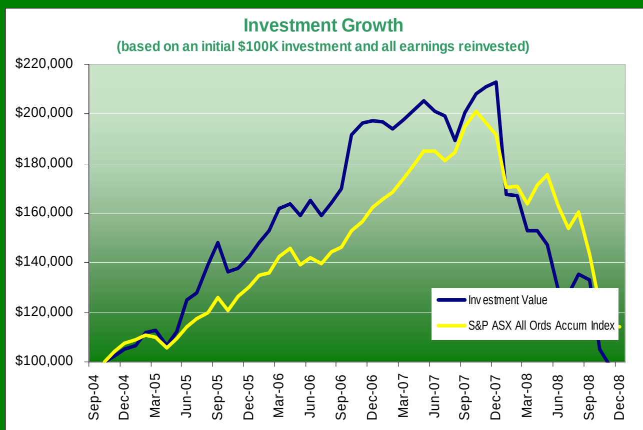
Returns are calculated using exit prices, and are calculated after all fees have been deducted with distributions included and no allowance made for tax. The 'distribution' component represents the amount paid by way of distribution, including net realised capital gains.

1. Inception date - 1 November 2004

MONTHLY DETAIL (past 12 months)

Month ending	Exit Price ($)	Distribution per Unit ($)	Month Gain (%) Fund	Compound Inception Gain (%) Fund	Index Level	Month Gain (%) Index	Compound Inception Gain (%) Index
31 Dec 08	0.9231	-	-0.09	-0.39	24,143	-0.08	3.26
30 Nov 08	0.9239	-	-6.30	-0.38	24,162	-7.22	3.35
31 Oct 08	0.9860	-	-20.95	1.24	26,042	-13.92	5.38
30 Sep 08	1.2473	-	-1.82	7.53	30,253	-10.62	9.61
31 Aug 08	1.2704	-	6.09	8.23	33,848	4.02	13.11
31 Jul 08	1.1975	-	-0.85	6.72	32,538	-5.23	12.22
30 Jun 08	1.2078	0.0215	-12.70	7.13	34,336	-7.32	14.18
31 May 08	1.4081	-	-3.53	11.45	37,046	2.45	17.00
30 Apr 08	1.4596	-	-0.19	12.89	36,159	4.64	16.62
31 Mar 08	1.4624	-	-8.28	13.26	34,554	-4.11	15.51
29 Feb 08	1.5944	-	-0.39	16.63	36,036	0.26	17.40
31 Jan 08	1.6006	-	-21.31	17.21	35,942	-11.25	17.77





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.