About Selector

We are a boutique fund manager and we have a combined experience of over 60 years. We believe in long term wealth creation and building lasting relationships with our investors.

Our focus is stock selection. Our funds are high conviction, concentrated and index unaware. As a result we have low turnover and produce tax effective returns.

First we identify the best business franchises with the best management teams. Then we focus on valuations.

When we arrive at work each day we are reminded that;

"The art of successful investment is the patient investor taking money from the impatient investor".

Our fund is open to new subscriptions. Please forward to us contact details if you would like future newsletters to be emailed to family, friends or business colleagues.

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Dear Investor,

These days it seems every time some degree of normality returns to the world, it gets hijacked by a materially adverse event. Already in 2011, we have had to come to grips with a fair number of painful episodes. In fact, the manner and frequency has been such, that the term “one-hundred year event” has surely lost its potency.

However what is also patently clear is how quickly markets and for that matter investors move on. While we don’t wish to downplay the long term effects these events can have on the economic front, the markets initial response is to panic first and ask questions later. We don’t expect this type of behaviour to change anytime soon but if you can keep your head when everyone around is losing theirs you have a much better chance of doing well, something we continually strive for.

The past quarter also saw the bulk of listed companies release their interim results. We pick up on a few general themes that emerged during the half in our article titled “Reporting season wash up”. In particular the speed of change in some quarters is such, that simply relying on historical valuation metrics like low price to earnings ratios (PER) may hide underlying structural issues as evident in industries like traditional media and retail. Competition is alive and well, with consumers benefiting at the expense of businesses, who are having to compete even more effectively.

We follow this up with our lead article “Lifting the lid on new stocks”. In all, six businesses are briefly reviewed, operating in an array of industries. They represent some of the many businesses that are reviewed during the normal course of a quarter, thereby providing us with greater management and business insight.

For the March quarter 2011, the Fund gave up some of the previous quarter’s gain, declining 3.66% against a 2.92% rise in the index. The main driver continues to be the strength in resource based stocks, an area where the Fund has little direct exposure.

We extent our best wishes to all our investors and trust that you enjoy this latest quarterly report.

Regards
Tony Scenna
Victor Gomes
Corey Vincent

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The HUB24 Portfolio Service is paradigm shift in the way an Adviser can engage professional investment managers on behalf of their clients. The Selector Australian Equities, Selector NO BASE FEE, and Selector Ethical Portfolio's are available on the HUB24 Portfolio Service. If you would like to access the Selector portfolios contact the HUB24 Sales team on:

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SMA Performance table since inception – net returns after fees

Selector Aust Equities portfolio	SMA %	ASX300AI %	Out performance
Since inception compound pa	12.91	11.67	1.24

Selector No Base Fee portfolio	SMA %	ASX300AI %	Out performance
Since inception compound pa	11.06	9.37	1.69

Selector Ethical portfolio	SMA %	ASX300AI %	Out performance
Since inception compound pa	15.72	11.67	4.05

Selector Bio - Health portfolio	SMA %	ASX300AI %	Out performance
Since inception compound pa	9.75	4.33	5.42

Top 10 March 2011*	Top 10 December 2010*
Blackmores	Billabong International
Cochlear	Cochlear
Flight Centre	Flight Centre
IOOF Holdings	IOOF Holdings
IRESS Market Technology	IRESS Market Technology
News Corporation Inc	Pharmaxis
Pharmaxis	ResMed Inc
ResMed Inc	SIRTeX Medical
SIRTeX Medical	Whitehaven Coal
WorleyParsons	WorleyParsons
Top 10 = 67.6%	Top 10 = 70.5%

*Listed in alphabetical order

Selector runs a high conviction index unaware stock selection investment strategy with typically 15-25 stocks chosen for the Fund. As shown above, the Fund's top 10 positions usually represent the great majority of its equity exposure. Current and past portfolio composition has historically been very unlike that of your average run-of-the-mill "index hugger" fund manager. Our goal remains to focus on truly differentiated broad cap stock selection rather than the closet index hugging portfolios offered by most large fund managers.

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Performance attribution for the quarter *

Top 5 stock contributors	%	Top 5 stock detractors	%
WorleyParsons	0.97	SIRTeX Medical	-1.46
Campbell Brothers	0.60	Pharmaxis	-1.32
IRESS Market Technology	0.56	Flight Centre	-1.22
News Corporation Inc	0.42	ResMed Inc	-1.17
Blackmores	0.30	Kagara	-0.85

During any given quarter, movements within a stocks share price can often be a misleading indicator as to the actual underlying performance of the business. In the past quarter the Fund's main positive contributors were broad based led by market data group IRESS Market Technology (reviewed in our March 2010 quarterly newsletter) and infrastructure services outfit WorleyParsons (reviewed in our March 2009 quarterly newsletter). However on our reading the positive sentiment towards each appears more than justified. A solid set of profit results and an equally positive outlook has reaffirmed why we rate both management teams and business models so highly. Having acquired our holdings during the 2008-09 financial crunch, it is pleasing to see these businesses continuing to flourish both locally and abroad.

On the opposite side of the ledger, SIRTeX Medical gave back some ground from the previous quarter, reporting the largest negative contribution. However, the group's market update in March and our subsequent meeting with management reaffirmed the SIR-Spheres liver cancer treatment continues to attract growing global recognition. With currently four major clinical trials underway, with partners including Bayer Healthcare, SIRTeX is aiming to lift its treatment option for patients from salvage to preferred status. Such success will see dosage sales of SIR-Spheres move from the current 5,000 per annum level to a figure north of 100,000. Management have committed to this task, both in terms of funding and building out the group's infrastructure and personnel requirements.

While the core building blocks are in place, namely a growing revenue stream, backed up by a profitable, dividend paying operation and with over $40M in the bank, the potential that awaits investors is significantly bigger than the current market capitalisation of $295M would suggest. Having fended off a 2003 takeover bid from US based biotechnology group Cephalon Inc at $4.85 per share, SIRTeX now finds itself in a position of strength. Executing on this plan will be critical, however we believe patience will be rewarded. A recent television feature on the SIR-Spheres treatment was shown on both the ABC and Channel Nine networks during March. Both can be viewed on our website www.selectorfund.com.au by clicking items of interest. *SFM*

** Ethical fund does not hold Kagara*

Reporting season wash-up

Big natural events have taken the gloss off this season's first half reporting numbers, which on the surface weren't too bad. In the wash up though, a few themes did emerge that suggest things are a lot tougher out in the real world than many in government or policy makers would acknowledge.

Australia's strong resource dynamics are certainly working to our advantage with obvious benefits. Big trade surpluses and a strong Australian dollar are driving up all matter of things. Profits for our large miners are surging, while the strong currency is allowing for cheaper imports and bargaining power when acquiring offshore assets. However on the flip side, concerns on rising cost pressures both in terms of raw material input and labour costs is starting to bite hard for many businesses.

The Reserve Bank ever vigilant on the inflation front remains on stand-by to hike rates, with genuine concerns that the back half of 2011 will see our economy experience strong robust growth. The so called two speed economy looks alive and well and with it come some challenges. Our view remains that the Reserve Bank has underestimated the softness in the general economy and would want to tread very carefully on pushing interest rates further.

We cover many businesses and invest in a few. The list of company visits outlined on pages 23 and 24 provides a quick snapshot on those we had contact with during the past quarter. Our aim is to understand a business first before venturing further. In the following pages we discuss a number of new companies that show promise. In some instances the real question comes down to whether we have missed the boat while on others whether we are too early.

As a general comment though, there are some business areas where it will be hard to make progress. The banks will find it especially tough to grow at anywhere near historical rates, having done a superb job during the financial crisis in turning away their business customers only to find themselves now hell bent on winning them back. Insurers are also finding that freakish weather events have become all too common while retailers are battling on all fronts - consumers who now want to save rather than spend and savvy internet buyers.

The markets are certainly fluid and the opportunities thrown up wide and varied. And whilst we appreciate that investors don't enjoy uncertainly and the volatility it brings, these are also the exact conditions when genuine value is on offer as the aftermath of 2008 so clearly demonstrated.

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Lifting the lid on some new stocks

When it comes to uncovering new investment opportunities, it's safe to say that in undertaking our due diligence, we ultimately place a lot more weight on who is running the business than the business itself. This is not to suggest that we can access every management team, nor does it exclude businesses where such access is difficult, but given the choice, we would always prefer an ordinary business run by a great management team over a great business run by a weak team.

Many may disagree with this approach, preferring instead to invest when the business stars align and the numbers stack up. A low price to earnings ratio (PER) and a good dividend yield is often seen as justification to buy up. However, our experience has underlined the importance of management in both creating and destroying shareholder value. So while a company's balance sheet reflects what can be numerically measured on both the assets and liabilities side of a business, there is no easy way to value what management brings to the table. In this regard, we are clearly making a judgement call on the people in charge. As highly subjective as this matter can be, we can't emphasis enough how important the due diligence process is in giving us comfort on this matter, one we undertake extensively during our company visits.

In our December 2010 quarterly newsletter we lifted the lid on two businesses that have succeeded in combining a great business franchise with a competent and honest management team. Bionic ear manufacturer Cochlear and blood plasma group CSL have set a high hurdle, however, as we hope to illustrate below, the promise of future great businesses can reside in the most unlikely of places.

During the past quarter we organised meetings and site visits with a number of businesses, some relatively unknown. Our company diary as set out on pages 23 and 24 lists many of the businesses reviewed during the past quarter. Below, our analysts briefly comment on six businesses that could have the makings of something bigger. The Fund currently has no holdings in the following businesses.

1. Warrnambool Cheese & Butter (WCB)

Company Statistics	
ASX Listed	May 2004
Listing Price	Compliance listing - no funds raised
Shares on Issue	53.8 million
Share price	$4.30
Market Capitalisation	$231 million
Share price range since listing	$1.60 - $5.51

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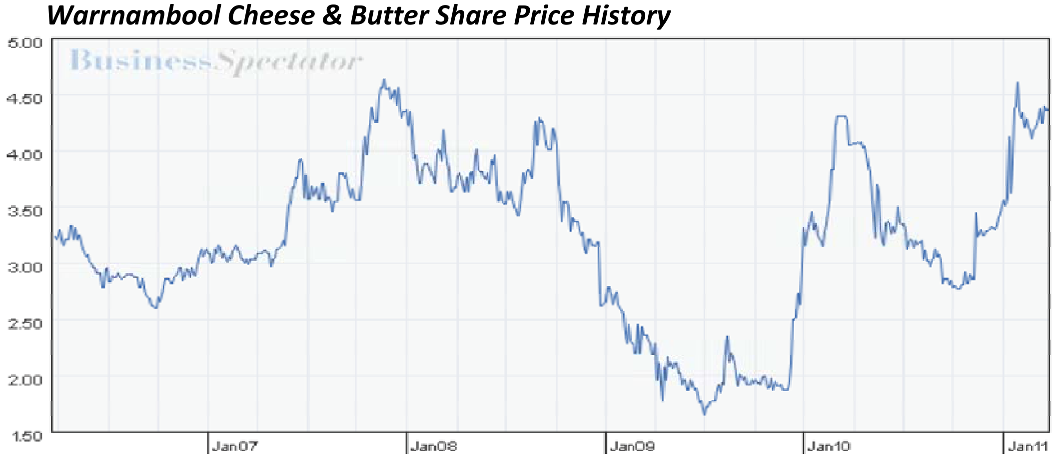
Company Financials	FY09	FY10	FY11 (e)
Sales ($m)	439.9	415.5	478.0
EBIT ($m)	-25.9	13.0	24.6
NPAT ($m)	-19.9	8.9	17.0
Net Debt / (cash) ($m)	101.8	101.4	45.0
EPS (¢)	n/a	22.1	35.3
DPS (¢)	2.0	10.0	16.0

Warrnambool's corporate history can be traced back to 1888, making it one of the oldest dairy companies in Australia. Situated in the south west region of Victoria, the company's processing facilities benefits from a plentiful supply of milk from the rich dairy regions of Warrnambool, Mt Gambier, Simpson and the Ballarat areas. Today, the group's single processing facility has an annual milk intake of some 900 million litres, representing 10% of Australia's total milk intake of 9 billion litres of milk. However, as the Warrnambool Cheese & Butter name implies, only 5% of its milk intake is used for milk production, with the balance used for the manufacture of dairy products ranging from cheeses to powders. As such, the business is driven by export demand and prices received are set by the global market.

Since listing in 2004, the company's financial record is chequered at best. This shouldn't come as a complete surprise once you realise that the business is a price taker in both the sourcing of its milk and the prices received. Having struggled to generate an adequate return, the events of 2008 exposed the business on a number of fronts, resulting in a earnings before interest and tax loss of $24.6M during 2009.

Warrnambool Cheese & Butter Share Price History



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A number of management mis-steps led to the appointment of new CEO David Lord in June 2010. A fourteen year veteran with global diary group Parmalat, he has acted quickly to address a number of issues including the need for new funding. This culminated in the placement of new shares at $2.90 per share, representing 15% of the capital with fellow milk processor Bega Cheese in November 2010. Prior to the placement, the group fended off a hostile takeover bid from rival processor Murray Goulburn Co-operative at $4.35 per share, ably assisted by the corporate watchdog, the Australian Competition and Consumer Commission (ACCC), which noted its objection to the offer.

As the company financials above show, the group is well on its way to reporting a meaningful turnaround in performance. Importantly, CEO Lord has taken a proactive approach to the assets held and the group's existing joint venture operations. Operating the largest and most efficient diary processing site in Australia, a key strategic focus will be on taking the group down the retail branded products path, thereby providing greater earnings stability and higher margin returns.

While the business will always be exposed to external pricing, the group's current net tangible asset backing of $3.20 per share and its strategic position within the diary industry continues to make it an attractive asset for others to own. By June 2011, the group's current 15% shareholder cap will be removed, further exposing itself to possible corporate action. Similarly, the recent decision by the fourth largest dairy processor in the country, Bega Cheese to seek a share market listing, sets the stage for further industry consolidation with a likely merger with Warrnambool a high possibility sometime down the track.

Irrespective of corporate events, Warrnambool now finds itself in a financially strong position and growing global demand for its dairy products. While it's early days to pass judgement on new CEO Lord, our initial impressions are positive. *SFM*

2. Cellestis (CST)

Company Statistics	
ASX Listed	April 2001
Listing Price	$0.25
Shares on Issue	96.1 million
Share price	$2.76
Market Capitalisation	$265 million
Share price range since listing	$0.26 - $4.72

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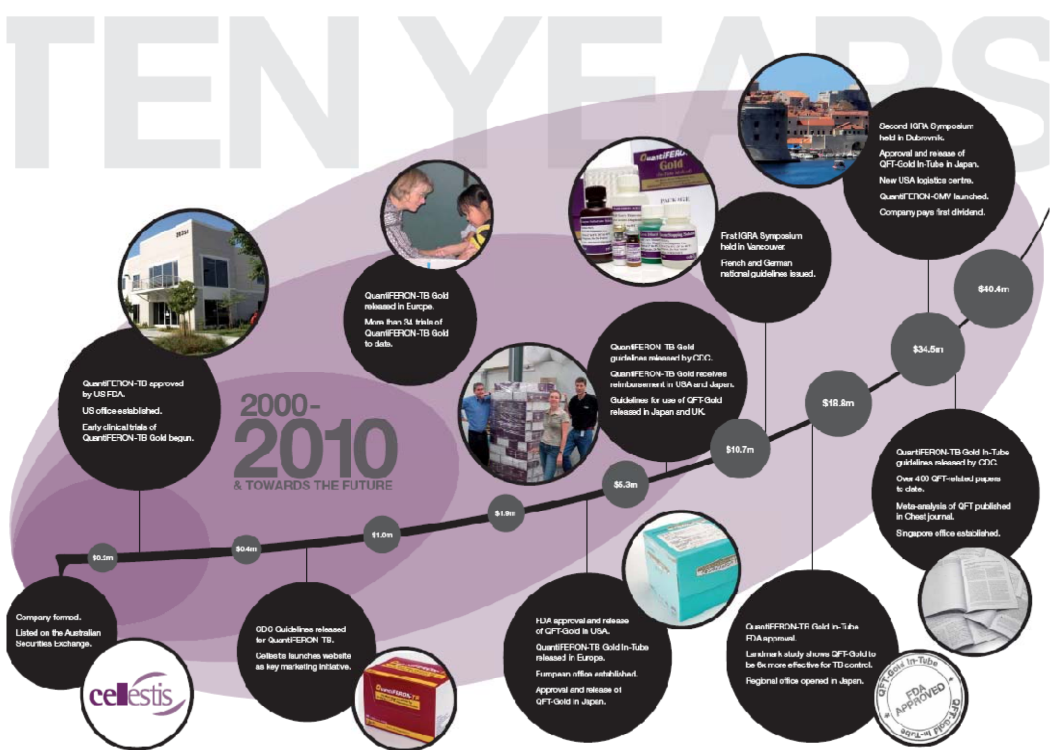
Company Financials	FY09	FY10	FY11 (e)
Sales ($m)	34.5	40.4	54.5
EBIT ($m)	8.7	9.5	12.9
NPAT ($m)	8.2	8.3	11.1
Net Debt / (Cash) ($m)	(19.7)	(22.6)	(25.0)
EPS (¢)	8.6	8.6	11.5
DPS (¢)	2.0	5.0	7.0

To the uninitiated, the name Cellestis provides precious few clues to its line of work. However in the world of biotechnology it has succeeded in building a better mouse trap or more precisely a better test for the detection of infection with the microbe that causes Tuberculosis, more commonly referred to as TB. The company's test, branded as QuantiFERON-TB Gold has sought to replace the over 100 year old Mantoux test, which still requires injecting a small amount of the tuberculin protein into a patient's skin to test for a reaction. Suffice to say that something had to give and in November 2001, Cellestis received US Food and Drug Administration (FDA) marketing approval for its lead product.



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Over the past 11 years, the group has sought to extend its advantage over the incumbents by improving its accuracy and convenience of testing. The basis of its test is to mix a sample of a person's blood with specific antigens from the TB microbe. Tested under pathology conditions, the process is highly automated, extremely accurate and provides a quick turnaround for the patient. Since gaining first approval, QuantiFERON is now approved in the majority of countries including the US, Japan, Canada, Australia, Europe, the Middle East and Africa.

TB is no longer the disease that was responsible for the deaths of one in every four in England during the eighteenth century, however even today the problem is far from removed. Estimates suggest that over one third of the world's population is currently infected with the TB microbe and over 2 million people die from the disease each year. However the majority of these active cases of TB disease currently occur in the developing countries like Africa. In developed countries, including regions like Europe and Japan the majority of expenditure is on managing and monitoring the TB infections.

Cellestis Share Price History

While health authorities estimate around 50 million tests for latent TB are undertaken globally each year, Cellestis management puts the addressable market for its QuantiFERON-TB Gold test at 25 million, focusing largely on the European, US and Japanese markets. With each test selling for about $20 each, the opportunity set is significant. The above financials show that the company is at the early stages of ramping up sales of its lead product. During 2010, the group sold around 2 million doses of QuantiFERON and based on current projections, this figure is set to jump to 5 million by 2013 on sales of $100 million with net profits set to double to $22M.

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While not without risk, the founding management team of Tony Radford and Dr James Rothel remain committed to the business and speak for some 24% of the share capital. Along with strong financial business metrics, a growing net cash position and a dividend stream targeting a 50-60% payout ratio, the business seems well set to deliver significant growth over the ensuing years and duly reward investors for their patience. As we go to print the group has received a $3.55 per share cash takeover offer for the business which the board have recommended. *SFM*

3. Austen Engineering (ANG)

Company Statistics	
ASX Listed	March 2004
Listing Price	$0.20
Shares on Issue	71.7 million
Share price	$4.40
Market Capitalisation	$315 million
Share price range since listing	$0.23 - $4.90

Company Financials	FY09	FY10	FY11 (e)
Sales ($m)	179.3	144.0	186.3
EBIT ($m)	21.6	26.5	34.8
NPAT ($m)	14.8	19.2	25.1
Net Debt / (Cash) ($m)	1.9	2.1	23.7
EPS (¢)	27.4	27.8	35.0
DPS (¢)	8.0	9.5	11.0

The global surge in resource demand has been well and truly documented over recent years, however the benefits that can be bestowed on investors takes many forms and extends well beyond the physical need to own resources. A case in point is listed engineering outfit Austen Engineering. Listed at an issue price of 20 cents per share in March 2004 as part of a de-merger from West Australian Metals, it has remained largely under the investment radar for many in the market.

While the company's origins can be traced back to 1982, under the ownership of original founders Ron and Gloria Austin, the business is today led by the current management team of CEO Michael Buckland and CFO Colin Anderson. We met with Anderson and senior management during the current reporting season and walked away more assured that what was being reflected in the company's rising profit numbers had as much to do with the way the business was being run as well as the growing demand for its products.

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However a significant turning point for the group came in 2004 when it entered the market to manufacture mining and construction equipment. More specifically, management focused its attention on delivering products where it had a clear competitive advantage augmented by aftermarket service.

The accompanying pictorial illustrates some of Austin's key product offerings including dump truck bodies, which contribute some 70% of group turnover as well as excavator buckets and tyre handling equipment. As a rough guide, Austin manufacturers dump truck bodies both locally, in Queensland and Western Australian and offshore including the US and Chile.

The business model is relatively straight forward involving the manufacture of key equipment, under contract with long time customers. In the case of dump truck bodies, the group's key competitive advantage resides in both the design and weight of the body providing customers with better utilisation and lower running costs. Locally, the truck's sell for around $370,000 each and management work on delivering an operating profit margin of around 14%-18%, equal to $60,000 on average. Importantly, the group is not exposed to what it can't control such as the price movement in its key input of steel. Rather the biggest operational risk lies in managing labour costs and manufacturing completion times and on this score the

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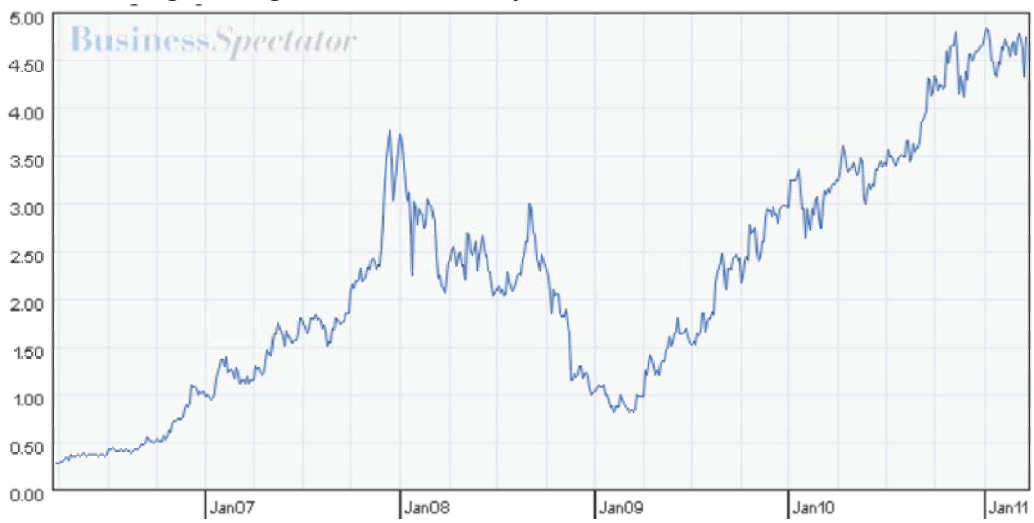
record is solid. In addition to supplying the market with its own branded Westech truck bodies, Austin also supplies the major original equipment manufacturers (OEM's), including Komatsu, Terex, Hitachi and Liebherr.

Austin Engineering Share Price History



Management have adopted a conservative path in growing the business, involving a number of bolt on acquisitions, in key strategic resource rich locations, including the Hunter Valley in NSW, Indonesia and South American countries Chile and Brazil. In each instance, management is entering these locations to service existing or newly established customer requests.

Despite these moves, the group's balance sheet carries little debt and dividend payments are set to rise in line with group profit, remaining within a stated payout ratio of 30% - 40%. Working capital needs are modest and the returns generated on capital employed have historically sat above 30%. The group's business advancements haven't gone totally unnoticed either, with listed mining manufacturer Bradken now sitting with a holding nearing 20% of the issued capital. With no board representation and a desire to grow, a full bid by Bradken for the remaining outstanding shares should not be ruled out.

Austin Engineering may not be the best, most direct way to participate in the resources sector, however in our opinion and based on our first impressions of management and the group's track record since listing, the steps taken to date in growing the business deserve serious investment consideration. *SFM*

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4. Nanosonics (NAN)

Company Statistics	
ASX Listed	May 2007
Listing Price	$0.50
Shares on Issue	227 million
Share price	$0.89
Market Capitalisation	$202 million
Share price range since listing	$0.14 - $0.99

In March we visited the Mascot offices and assembly facilities of Nanosonics Limited (NAN). With a market capitalisation of $200M, Nanosonics appears to be on the cusp of moving from research and development concept to serious revenue generation. Its lead device is the Trophon EPR, an ultrasound probe sterilization unit that was initially funded privately before interests associated with founders Maurie and Bernard Stang sought to take the business public in 2007.


Open


Shut

The Trophon EPR is a portable device that will be sold to and used within sonography clinics and hospitals that perform ultrasound examinations. It is used to sterilise the ultrasound probes after the mandatory 12 and 20 weeks examination of a developing embryo during pregnancy.

In terms of revenue, the Trophon EPR unit generates a one off sale followed by an annuity income stream. The annuity is based on the sale of a 100ml bottle of hydrogen peroxide (H_20_2). Inserted at the side of the Trophon EPR cabinet, this consumable product lasts for approximately 50 cleaning cycles. It is patent protected and cannot be substituted.

At the push of a button, approximately 2mls of H_20_2 is sucked out of the bottle, vapourised and pumped into the main cleaning chamber. High level disinfection occurs during a “closed system” 7 minute cleaning cycle with environmentally friendly by-products amounting to water and oxygen. The Trophon EPR is set to replace exiting sterilisation techniques which are time consuming and are often "open cycle", resulting in human exposure, since the procedure requires chemical based cleaning controlled by a fume hood. This process is also very hard wearing on the ultrasound probe, a $25,000 piece of kit.

Nanosonics Share Price History

The Trophon EPR device is seen to be safe, fast acting and cost effective. Nanosonics achieved regulatory approval from healthcare regulatory authorities including Australia's TGA and Europe's EMA in 2009, while US FDA approval was finally granted in February 2011. In addition to these significant regulatory achievements, the group is set to finalise a US marketing distribution agreement with GE Healthcare, one of the leading suppliers of ultrasound equipment in the US and Canadian markets.

We understand GE Healthcare's intention is to bundle the sale of ultrasound equipment with the Trophon EPR in a customised cabinet on wheels. The total global market is estimated to be 200,000 units, with the US representing 100,000 units. The US market is dominated by 4 players, namely Phillips, Siemens, Toshiba and market leader GE with a 25% market share. As a rule of thumb the ultrasound probe replacement cycle is 4 years and the market is growing at 4%-5% per annum. Crudely the US market opportunity for GE may be in the vicinity of 6,500 new installations per annum before any market share gains are considered. However in financial year ending 2012 we expect initial sales of 2000 units, ramping up strongly thereafter.

As noted above the revenue model is a two part story. Firstly, a one off sale followed by an annuity stream that reflects a growing installed base.

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1) Sale of Trophon EPR

a. $10,000 unit sale to clinic via GE distributor.
b. $6,000 gross proceeds to Nanosonics.
c. $2,500 cost of goods sold.
d. $3,500 net gross profit to Nanosonics.

2) Annuity attached to H_20_2 canister

a. $50 per 100ml bottle = 50 clean cycles.
b. $1 per clean cycle net Nanosonics. Assume 7 clean cycles per machine daily.
c. $7 x 365 days represent $2,555 annuity income per machine per year.

The company outlook is proving decidedly more attractive, in that it has been substantially de-risked through a string of regulatory approvals and the soon to be finalised GE Healthcare distribution agreement. In the meantime the key issues that remain in our opinion include the group's current cash burn rate, manufacturing risks including production capacity and product reliability, and dealing with industry gorilla GE Healthcare.

In terms of cash burn, Nanosonics is over spending to the tune of $1M per month with approximately $17M of cash in hand. Even if our expectations of 2,000 unit sales in 2012 are right, we believe a capital raising is still necessary, particularly when dealing with a major like GE Healthcare. Multinationals are notorious for patiently watching start ups struggle with dwindling cash reserves and the inevitable product launch delays.

Nanosonics does not see itself as a manufacturer long term and will progressively simplify and outsource this function. To date the product has had some component and assembly issues and our company visit confirmed outsourced assembly is the preferred route. Other than market acceptance we see capacity and reliability as the key risks for the business.

The company is ably led by CEO David Radford, an ex GE commercial executive and the driving force behind the GE deal. He has a good understanding of the internal business workings and maintains a good relationship with the GE Healthcare organisation. One analyst covering the stock described GE as the dream distribution partner in the space. Radford is also building out the Nanosonics management team with a new chief financial officer soon to be appointed.

To date the group has raised from investors, $9M pre float, $27M at public float in 2007 and $15.5M in December 2009. Having collected just over $50M and with $17M of cash remaining, Nanosonics has done well to get the business to its current position. The next twelve months will be critical in converting the potential of the Trophon EPR opportunity into a long term company success. *SFM*

5. Stanmore Coal (SMR)

Company Statistics	
ASX Listed	December 2009
Listing Price	$0.20
Shares on Issue	87 million
Share price	$1.18
Market Capitalisation	$103 million
Share price range since listing	$0.29 - $1.53

We attended a coal industry presentation with Stanmore Coal (SMR) during the quarter. We initially warmed to the management team, the resource location and wholly owned status of the group's early stage projects. These factors were the principle drivers of a follow up management meeting in our office.

Stanmore Coal has a market capitalisation of $103M with cash available of $20M and no net debt. The cash will be used to fund a resource upgrade targeting an additional 290Mt – 370Mt from a current JORC inferred resource of 318Mt. All in all, the cash provides the group with one year's worth of funding.

The group's initial focus surrounds two development regions, Mackenzie River and The Range Project, targeting a coking coal and thermal coal resource base. The most advanced is The Range Project, situated in the Surat basin, Queensland. With a thermal coal JORC inferred resource of 219Mt and working on a 70% conversion ratio to mineable reserve, the current thinking is that an open pit mine will produce 5Mt pa over an 18 year mine life resulting in total production of 90 Mt. Drilling to indicated levels and defining marketable reserves look set to be completed this half while 2012 should see the project advance to a bankable feasibility stage.

Conceptually the economics of The Range Project currently looks something like this; ROM (run of mine production) 7Mt X 18 years = 150Mt. A 70% yield will generate 90Mt of thermal coal after it is washed. The coal is at a depth of 9m – 100m enabling an open pit approach. The thermal product will be a high energy 11,650 Btu lb with low ash content at 10%.

Thermal coal currently trades for around $130 per tonne. In comparison, the group's freight on board (FOB) costs come in at $78 per tonne inclusive of royalties totalling $30 per tonne (includes port to rail charges) and compares to a more typical royalty charge of $13 per tonne. While Stanmore is at the upper end of the cost curve, they are working on the dual premise that there will be limited new sources of cheap thermal coal available in the future and cost improvements can be achieved on better yield outcomes.

Stanmore Coal Share Price History

A bank guarantee has been lodged to participate in the 2Mtpa port capacity at the Wiggins Island Coal Terminal (WICET) Gladstone stage II expansion. It is likely an additional 5Mt per annum capacity will be sought. The stage II development hinges on a rail line commitment from Xstrata although it could be potentially underwritten by a group of smaller players.

Obviously delays to WICET would translate in delays for Stanmore. Capital costs for the project development are in the region of $500M, likely to be partially funded through a partial sell down in the individual projects to minority parties, thereby allowing the company to maintain a high carried forward equity interest of circa 70%. This funding method has been successfully employed by other groups including Whitehaven Coal (WHC) and more recently Aston Resources (AZT).

The group aims to be producing first coal from The Range Project in 2015. A concept study at US$95t coal price has indicated a net present value (NPV) of $298M for this

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project. Hence management are of the clear opinion that advancing this project will continue to drive significant shareholder value.

The second development project is the Mackenzie River Project, situated in the coal rich Bowen Basin of Queensland. The current coking coal inferred resource stands at 99 Mt and Stanmore has an exploration target of an additional 70 – 80Mt. Data to date is insufficient to run any numbers here, however infrastructure wise, the project is located on an existing railway line to the port of Gladstone.

Companies like Stanmore, very much depend on the people who manage them. At such an early stage of its life cycle so much can go wrong. It is far too early to make a call on Stanmore just yet but management did strike us as being sensible and focused on the task at hand. Importantly they have significant skin in the game. *SFM*

6. Data#3 (DTL)

Company Statistics	
ASX Listed	December 1997
Listing Price	$1.25
Shares on Issue	15.4 million
Share price	$13
Market Capitalisation	$200 million
Share price range since listing	$0.31 - $16.38

Company Financials	FY09	FY10	FY11 (e)
Sales ($m)	529.7	598.6	658.5
EBIT ($m)	13.4	15.2	20.2
NPAT ($m)	9.8	10.9	15.1
Net Debt / (Cash) ($m)	(28.0)	(64.3)	(25.0)
EPS (¢)	63.5	70.9	98.2
DPS (¢)	50	56	70

Background

Data#3 started life back in 1977 as Powell, Clark & Associates (PCA), a business specialising in developing and implementing software applications for small to medium enterprises (SME's). In 1984 PCA merged with another business, Albrand Typewriters & Office Machines (an IBM typewriter dealer) to eventually become Data#3. Today, the company has a national footprint covering all mainland capital cities including Canberra and retains a particular focus on the smaller to mid tier enterprise part of the market.

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An early 1980's Data#3 team photo

Data#3's strength remains its ability to offer a wide range of business critical Information and Communication Technology (ICT) services to a broad array of clients. The reason for the early focus on smaller-to-medium corporate clients was owing to the fewer ICT service options available to this size of enterprise. These businesses were not often of sufficient scale to justify an internal IT department nor large enough to offer much interest to the global integrated ICT service providers such as IBM, EDS, and Fujitsu. Thus arose a unique market opportunity for Data#3 to fully exploit, enabling it to grow primarily in an organic fashion for almost three decades.

Today the Data#3 business is split into three main divisions; Licensing Solutions, Infrastructure Solutions and People Solutions.

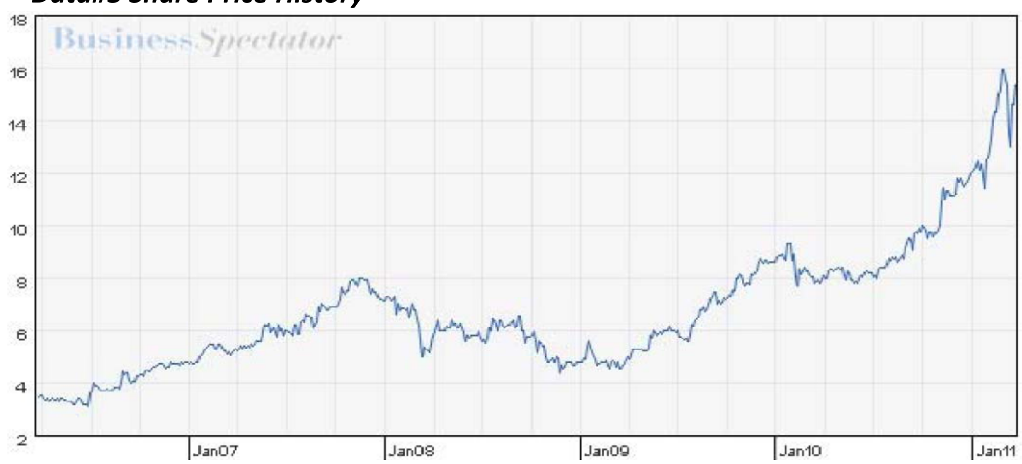
Licensing solutions surrounds the reselling and management of licensed software on behalf of organisations and represents a little more than 50% of total revenue. Margins are lower than ICT managed services due to the lower value add provided. Nonetheless the revenues are recurring in nature and offer the company some measure of stability. Data#3 has grown the division to the point where they are now the clear national leader in software licensing and software asset manager.

The need for this service arises from the fact that most companies have a history of poorly managing internal software licenses, often having too many (due to staff turnover) and at times even having non-genuine licenses. This exposes the business to legal risk and/or higher costs. Data#3 takes a whole of company approach to managing software licensing and can often deliver clients a much lower total cost solution yet with better productivity outcomes.

Key relationships with the main global software vendors (Microsoft, SAP, Symantec, Adobe etc) provides Data#3 with access to much of the key enterprise software used by clients. The Microsoft relationship is perhaps the most important to date, generating some 70% of divisional revenue while representing close to 40% of Microsoft's total Australian SME software licensing revenue.

Data#3's strong software licensing position also bodes well for trends to cloud computing. This is where all computing power is outsourced to a service provider via the internet ("cloud") thus eliminating the need for software licences and expensive hardware. This is akin to the "rent vs. buy" decision and DTL will be in pole position to sell the rental solution as this market develops.

Data#3 Share Price History



Infrastructure Solutions is the other key division. It accounts for a little over 40% of revenue and is involved in the design, deployment, operation and support of a client's physical ICT hardware infrastructure. Essentially it provides the critical outsourced "IT department" service to corporates and smaller enterprises with insufficient scale to justify their own in-house capability. Historically this has been an underserviced market segment.

The increasingly complex nature of business and its growing reliance and absorption of information technology especially across the range of on-line capabilities (e.g. PC, smart phone and tablet platforms) makes IT services a mission critical function for most businesses.

These services are no longer discretionary. They can at best only be deferred temporarily before they start to impact on the competitiveness of a business. As a critical service provider to these businesses, Data#3 builds a client relationship that is not easily abandoned. Moreover, the significant corporate memory built up by Data#3 over time makes switching from them as an ICT service provider a much higher risk proposition.

People Solutions is the smallest division accounting for about 5% of revenues. The business provides IT recruitment services and temporary IT contractors to its clients. Revenue tends to ebb and flow depending on the IT cycle.

What's to like about Data#3?

1. Has consistently grown earnings per share for 8 consecutive years and in 9 of the past 10 years.
2. Pays a generous dividend with a fully franked yield > 5%
3. Displays strong financial discipline which is reflected in a cost frugality (falling ratio of internal costs to total costs), tight management of working capital, eschewing of business acquisitions in favour of organic growth initiatives, and clean balance sheet with no debt and rising cash balances.
4. Highly competent and experienced leadership team reflected in long serving CEO (29 yrs at Data#3, 15 as CEO) and 6 senior management team members (averaging >16 years each at Data#3). Reflected in low staff turnover rates relative to industry (50% lower), high employee satisfaction levels (93%), very high customer satisfaction levels (92%), high tender win rate (53% - best in class) and multi industry award winner from major vendor partners.
5. Key services and products fall within operating expenses rather than capital spending for customers.
6. Attractive valuation: 13x PE 2012, 6% fully franked dividend, high returns on capital

BUT there are risks

1. Still constrained spending on ICT products and services by customers.
2. Rising pressure on staff costs as demand for good ICT people rises.
3. Rising occupancy costs following moves to new premises in Sydney, Brisbane and Perth.
4. Contracting basis of its industry although much of it with a recurring nature to it.
5. Risk of greater competition from global IT service providers although they have neither the cost base nor the flexibility to compete effectively at the smaller end.

Whilst Data#3 doesn't have the profile of its larger industry peers, as an attractive well managed business with strong returns on capital, an enviable track record in growing profits and dividends and continued opportunity for delivering strong organic growth, there is much to like about this company. *SFM*

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Company visit diary March Quarter 2011

January

HFA	HFA Holdings management site meeting	19/01/11
WOW	Woolworths Q2 conference call	24/01/11
PXS	Pharmaxis Q2 conference call	27/01/11
RMD	ResMed Inc.Q2 conference call	28/01/11
NVT	Navitas HY conference call	31/01/11

February

NWS	News Corp HY conference call	03/02/11
TAH	Tabcorp Holdings HY conference call	03/02/11
PXS	Pharmaxis site visit	04/02/11
QBE	QBE Insurance Group conference call	04/02/11
IPD	Impedimed company review	07/02/11
MQG	Macquarie Group operational update conference call	05/02/11
JBH	JB 23HiFi HY conference call	07/02/11
COH	Cochlear HY results briefing	08/02/11
CBA	Commonwealth Bank of Australia HY conference call	09/02/11
CPU	Computershare HY conference call	09/02/11
SGN	STW Communications FY results briefing	10/02/11
SLM	Salmat HY results briefing	14/02/11
PRY	Primary Health Care HY results briefing	15/02/11
SAI	SAI Global HY conference call	15/02/11
CSL	CSL HY results briefing	16/02/11
CVW	Clearview Wealth HY conference call	16/02/11
DMP	Domino Pizza Enterprises HY conference call	16/02/11
NBL	Noni B HY results briefing	17/02/11
WES	Wesfarmers HY conference call	17/02/11
BBG	Billabong International HY conference call	18/02/11
CST	Cellestis management meeting	18/02/11
FLT	Flight Centre HY results briefing	21/02/11
SEK	Seek HY conference call	22/02/11
MND	Monadelphous Group HY results briefing	22/02/11
REA	REA Group HY results briefing	22/02/11
CRZ	Carsales.com HY conference call	23/02/11
WOR	WorleyParsons HY results briefing	23/02/11
PPT	Perpetual HY results briefing	23/02/11
IRE	IRESS Market technology FY results briefing	24/02/11
ANG	Austin Engineering HY results briefing	24/02/11
IFL	IOOF Holdings HY results briefing	24/02/11
BKL	Blackmores HY results briefing	25/02/11

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QBE	QBE Insurance Group FY results briefing	28/02/11

March

FLT	Flight Centre HY results briefing	01/03/11
WTF	Wotif.com Holdings HY management briefing	01/03/11
MCC	MacArthur Coal coal conference	03/03/11
AZT	Aston Resources coal conference	03/03/11
SMR	Stanmore Coal coal conference	03/03/11
COK	Cockatoo Coal coal conference	03/03/11
GUF	Guildford Coal coal conference	03/03/11
NEC	Northern Energy coal conference	03/03/11
WOR	WorleyParsons investor day	04/03/11
DTL	Data#3 HY results briefing	08/03/11
QHL	Quickstep Holdings management briefing	08/03/11
WCB	Warrnambool Cheese & Butter HY results briefing	09/03/11
NAN	Nanosonics site visit	10/03/11
MYS	Mystate HY results briefing	10/03/11
SRX	Sirtex Medical HY results briefing	17/03/11
ORL	Oroton Group HY results briefing	17/03/10
PDN	Paladin Energy conference call	17/03/11
CGF	Challenger Group HY results briefing	21/03/11
PAB	Patrys management briefing	24/03/11
PXS	Pharmaxis management briefing	30/03/11
COH	Cochlear site visit new global headquarters	30/03/11
N/A	Phoenix Oil & Gas management briefing IPO	31/03/11

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