

Selector Funds Management ("Selector") specialises in high conviction, index agnostic, concentrated portfolio management. The investment team have a high level of experience, are owners of the business and invest in the funds alongside clients. Selector has a long term track record of performance. We offer the Selector High Conviction Equity Fund and the Selector Australian Equities Fund in addition to institutional mandates.

Market Insights

During March the All Ordinaries Accumulation Index rose 3.16%, with our main Index closing at 5,904. Globally, equity markets were mixed, with the main U.S. and U.K. indices weaker while European markets performed strongly. Oil and iron ore prices retreated from recent highs in the face of increasing supply.

A number of important global developments unfolded during the month. The U.K. Government confirmed its exit from Europe, nine months after Great Britain voted to leave the European Union. Prime Minister Theresa May officially kicked off the two-year Brexit process, triggering Article 50 of the Lisbon Treaty. The difficult task of negotiating new trade agreements will make this a testing process.

In the U.S., for the third time since the global financial crisis, the Federal Reserve lifted rates by 0.25%, to now sit within a range of 0.75% and 1.00%. At a conference post the meeting, Fed Chair Janet Yellen added, "*simple message is the economy is doing well.*" This is a welcome development and a far cry from the events of 2016 that saw some economies shift to zero or negative interest rate settings.

In Beijing China, news that the last large coal-fired power plant had suspended operations was noteworthy. The city's electricity is now generated entirely from natural gas in an effort to reduce pollution. As an exporter of LNG, Australia can expect to benefit from rising global demand for gas but this is causing short term dislocation issues domestically. Gas is becoming an increasingly important fuel source for power generation but a lack of affordable supply in the domestic market needs addressing. The South Australian Government's decision to pay royalties to farmers, where extraction of gas takes place on their properties, appears to be a step in the right direction.

Finally, housing affordability continued to dominate local headlines. Relaxation of capital gains tax breaks has been canvassed while the Victorian Government announced the removal of stamp duty for first time home buyers. Of some concern are media reports suggesting the Federal Government is considering allowing first home buyers access to their superannuation to fund deposits. Rather than improve affordability, our sense is that these actions may exacerbate the situation. On the regulatory front, APRA wrote to banks requesting they limit the share of interest only mortgages written to less than 30% of all residential loans. The new restrictions follow increasing concerns raised by the Reserve Bank of Australia that credit growth has continued to outpace income growth despite elevated levels of household debt.

We continue to seek businesses with:

1. Competent management teams
2. Business leadership qualities
3. Strong balance sheets
4. A focus on capital management

Portfolio Strategy

The strategy is focused on identifying and investing in listed businesses that sit largely within the ASX 300 Index.

Within this universe, we focus on stocks outside of the Top 20 as we believe the greatest value lies in the smaller, less researched businesses.

The investment style is both high conviction and index agnostic. Individual portfolio holdings typically range from 15-30 businesses.

For the financial year to date the Fund delivered a gross positive return of **6.47%** compared to an Index rise of **14.89%**, representing an underperformance of **8.42%**. The Fund held **33** businesses at month end.

Gross Performance	Portfolio %	All Ords Acc (%)	Difference %
1 Month	4.23	3.16	1.07
3 Months	1.77	4.50	-2.73
6 Months	-4.99	9.11	-14.10
1 Year	8.44	19.49	-11.05
3 Years annualised	13.16	7.56	5.60
5 Years annualised	20.09	10.66	9.43
10 Years annualised	6.60	4.25	2.35
Since Inception annualised	11.71	8.13	3.58
31 March 2017 Unit Mid Price			\$2.0500

Top Ten Investments	Code	Industry	Weight %
ARISTOCRAT LEISURE	ALL	Consumer Disc.	7.39%
ALTIUM	ALU	IT	5.16%
SEEK	SEK	Industrials	5.13%
RESMED	RMD	Health Care	4.46%
CSL	CSL	Health Care	4.30%
NIB HOLDINGS	NHF	Financials	4.06%
TECHNOLOGY ONE	TNE	IT	4.02%
COCHLEAR	COH	Health Care	3.80%
THE STAR ENTERTAINMENT GROUP	SGR	Consumer Disc.	3.72%
IRESS	IRE	IT	3.35%

Investment Attribution

For the month, the portfolio delivered a gross positive **4.23%** return against a **3.16%** rise in the Index. The portfolio held **33** stocks at the end of the period and the performance was primarily driven by:

Top Five % attribution	Bottom Five % attribution
ARISTOCRAT LEISURE 0.58%	INFOMEDIA -0.27%
NIB HOLDINGS 0.47%	NAVITAS -0.26%
THE STAR ENTERTAINMENT GROUP 0.41%	REECE AUSTRALIA -0.12%
SIRTEX MEDICAL 0.34%	IMPEDIMED -0.06%
ALTIUM 0.33%	RESMED -0.03%

GICS Groups	Weight
Software & Services	27.99%
Consumer Services	22.74%
Health Care Equipment & Services	11.22%
Pharmaceuticals & Biotechnology	7.34%
Diversified Financials	5.72%
Commercial Services & Supplies	5.13%
Capital Goods	5.07%
Insurance	4.06%
Household & Personal Products	3.05%
Materials	2.61%
Cash & Other	2.08%
Energy	2.01%
Retailing	0.98%
Total	100%

Investment Philosophy

Selector’s consistent bottom up process looks at a combination of the quantitative and qualitative attributes of a business. We seek businesses with competitive advantages that drive industry leadership positions.

Portfolio construction is driven by Selector’s consistent investment process combined with the Portfolio Managers’ deep industry experience rather than benchmarking to an index. Selector believes indexing limits returns to investors over the long run. Selector’s long term investment horizon aims to capture real earnings per share growth over time.

Selector invests in Australian equities, does not use leverage or derivatives and avoids start-ups and turnaround situations. Experience has shown that these simple constraints when combined with Selector’s hard risk limits provide significant protection to the portfolio with limited impact on the performance of the fund.

Portfolio Particulars

Target Stocks in Portfolio	15 - 30
S&P ASX 200 Target Portfolio Weighting	40% - 100%
S&P ASX Ex 200 Target Portfolio Weighting	0% - 60%
Cash Holdings	0% - 20%
Stock Position (max per stock at cost)	5%
Stock Position (max per stock at market)	10%
Portfolio Weighting <\$100M Market Cap	0% - 20%
Benchmark Index	S&P ASX All Ords Acc. Index
Frequency of Distributions	Annual
Management Fee	1.25%
Performance Fee	20% of hurdle outperformance
Minimum Investment	\$500,000
Entry and Exit Fees	Nil

Executive Team

Tony Scenna | Managing Director, Portfolio Manager

30 years investment experience
 14 years Selector Funds Management Limited
tony@selectorfund.com.au +61 2 8090 3612
 +61 413 235 803

Corey Vincent | Managing Director, Portfolio Manager

20 years investment experience
 14 years Selector Funds Management Limited
corey@selectorfund.com.au +61 2 8090 3611
 +61 401 000 037

John Maragiannis | Managing Director

30 years funds management experience
 5 years Selector Funds Management Limited
jmaragiannis@axiuspartners.com +61 2 8090 3613
 +61 419 689 503

George Giovas | Managing Director

30 years finance, banking, funds management experience
 5 years Selector Funds Management Limited
ggiovas@axiuspartners.com +61 2 8090 3614
 +61 435 763 045

Rob Lapsley | Senior Analyst

5 years funds management experience
 5 years Selector Funds Management Limited
rob@selectorfund.com.au +61 2 8090 3617
 +61 425 842 951

Alan Zou | Analyst

1 year funds management experience
 1 year Selector Funds Management Limited
alan@selectorfund.com.au +61 2 8090 3615
 +61 435 297 639

Kari Humphrey | Manager Compliance & Administration

20 years finance, accounting, administration experience
kari@selectorfund.com.au +61 2 8090 3618
 +61 413 599 464

*Hurdle is the return of the S&P ASX Accumulation Index

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