

SELECTOR AUSTRALIAN EQUITIES FUND

(previously referred to as Selector Ex 50 High Conviction Equity Fund)

Additional Information Guide

This Additional Information Guide (Guide) provides important additional information that forms part of the PDS.

Issue Date: 25 July 2018

This Guide is issued by DDH Graham Limited ABN 28 010 639 219, AFSL 226319 (DDH), the responsible entity of the Selector Australian Equities Fund. **Information in this Guide forms part of the Product Disclosure Statement, and the DDH Managed Funds Additional Information Guide and you should read it before making a decision to invest in the Fund**

1. ABOUT SELECTOR – THE INVESTMENT MANAGER

1.1 Who is Selector?

Selector Funds Management Limited (SFML) was established as an independent fund manager in 2003. Since then SFML has maintained a consistent investment process, stable team and track record of performance for our clients. SFML has an experienced team of seven led, since inception, by portfolio managers Tony Scenna and Corey Vincent. SFML is 85% owned by the management team who have invested alongside clients in the funds.

1.2 People

Tony Scenna

Founding Director and Portfolio Manager

Tony Scenna is a Founder, a Portfolio Manager, Director and major shareholder of Selector. Tony is also an investor in the funds alongside our clients. Tony has over 30 years of continuous funds management experience. In 1988 Tony was a founder of Harper Bernays Limited and was the Managing Director from 1994 to April 2002. Prior to this Tony spent five years as an Investment Analyst and then Portfolio Manager at Perpetual Trustees Australia Limited with joint responsibility for the Perpetual Industrial Share Fund, Perpetual's flagship product. Tony has a Bachelor of Economics from the University of Sydney.

Corey Vincent

Founding Director and Portfolio Manager

Corey Vincent is a Founder, a Portfolio Manager, a Director and a major shareholder of Selector. Corey is also an investor in the funds alongside our clients. Corey has over 20 years' experience in financial markets as an Analyst and Portfolio Manager and in sell side stockbroking. Corey was the founding Chairman of VBM Capital Limited from 2001-2006. Corey was an Affiliate of the Australian Stock Exchange, an Affiliate of the NSX, and a Fellow of the Australian Institute of Company Directors. Corey studied Science at the University of Sydney for four years, has a Diploma of Financial Advising (FINSIA), and a MBA awarded with Distinction from Edinburgh Business School.

George Giovas

Executive Director

George is a Director and a major shareholder and is the Head of the Investment and Compliance Committees. He is also an investor in the funds. A career senior banker and funds management executive, George is a co-founder of Axius Partners a diversified capital raising and advisory business. George has over 30 years' experience in Banking & Finance, Real Estate and Funds Management. He is an experienced senior leader with a history of successfully building teams and businesses. George has held Executive positions at ANZ Bank over a 24-year career across business divisions and client industry sectors. George held a number of roles, covering risk management, asset management, capital markets, relationship management and industry strategy. In his last role as Global Head of Property he was responsible for the bank's real estate and construction finance business a key component of the Bank's Institutional division. He a Director and Treasurer of The Hellenic Initiative (Australia). George has a Master of Commerce (Professional Accounting) from UNSW and a Bachelor degree in Commerce (Economics & Industrial Relations) from University of Wollongong. He is a Fellow of the Financial Services Institute of Australia (FINSIA).

John Maragiannis

Executive Director

John Maragiannis is a Director and major shareholder of Selector. John is also an investor in the funds alongside our clients. John has over 30 years Industry experience with leading International and Australian Funds Management firms. John worked in senior roles with Credit Suisse, Schroders, Credit Agricole and Zurich Scudder. John also worked at National Mutual and at AMP. John has a Bachelor of Commerce, University Wollongong and Masters of Commerce, UNSW. John is a founding principal of Axius Partners who specialise in Funds Management Advisory and Incubation, Third Party Distribution services and Capital Advisory.

Rob Lapsley

Senior Analyst

Rob Lapsley is a Senior Analyst and Dealer at Selector. Rob is also an investor in the funds alongside our clients. Rob has seven years of experience in Funds Management. As the Senior Analyst, Rob assists the Portfolio Managers across the entire research process. In his role as Dealer, he is responsible for all portfolio trading and execution. Over the past seven years Rob has also overseen as well as been responsible for Selector's operational procedures. Rob holds a Bachelor of Economics from the University of Sydney and is a CFA Charterholder.

Kari Humphrey

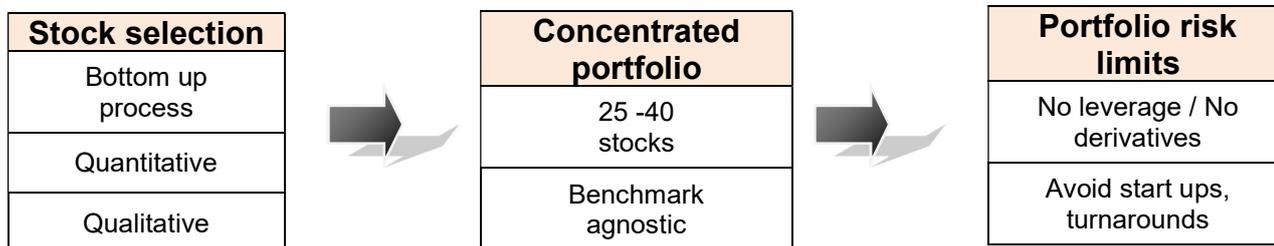
Manager Compliance and Administration

Kari is the Manager of Compliance and Administration and Company Secretary. Kari has 20 years' experience in Finance, Accounting and Administration. Kari had spent the prior 14 years working as the Chief Financial Officer for a medium sized retail business. Kari has a Bachelor of Commerce and Master of Accounting (Professional) both from Macquarie University.

2. THE FUND INVESTMENTS

2.1 Investment Strategy

As a good business evolves into a great business its underlying real earnings per share grows. SFML aims to capture as much of this earnings growth as possible over time, since it is real earnings growth that translates into share price appreciation.



The consistent **bottom up** process employed by SFML looks at a combination of the **quantitative** and **qualitative** attributes of a business. No “black box” methodology is employed. In short, our competitive advantage is the ability of our experienced portfolio managers to access the people managing a business and assess the sustainability of its model. This process generates our best ideas.

Our best ideas form a **concentrated portfolio** of Australian businesses. The portfolio will generally consist of 25 – 40 investments. As such, individual investments may initially represent up to 4% of the total investment portfolio. If selected correctly, individual stocks in a concentrated portfolio will have a meaningful impact on performance and may grow well beyond the initial 4% level to 8%.

SFML is **benchmark agnostic**. In essence, we are backing our consistent investment process and our portfolio managers’ deep industry experience, rather than benchmarking against an index. Selector believes indexing limits returns to investors over the long run. Our long-term investment horizon aims to capture real earnings per share growth.

Selector invests in Australian equities, **does not use leverage** or **derivatives** and **avoids start ups and turnaround** situations. Experience has taught us 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.

The following section provides an overview of Selector’s stock selection process, detailed research process and portfolio risk limits.

2.2 Stock selection

Selector’s stock selection process is sensible and consistent. The foundation for this common sense approach is the considerable industry experience of our portfolio managers. The stock selection process is termed “bottom up”, we focus on the business first, ensuring that investments are selected based on their individual merit. The portfolio is built stock by stock as each business is subjected to our rigorous stock selection process.

There are 4 steps in the stock selection process;

- i) Selector screen
- ii) Ideas shortlist
- iii) Detailed qualitative research
- iv) Portfolio construction

Each of these 4 steps in our stock selection process are outlined below.

i) Selector screen

Common Sense Investing	
Management	We seek honest, competent leadership. We expect high standards of corporate governance from the board and management, with these qualities reflected in the culture of a business.
Business	We seek a business with some uniqueness about it, including demonstrating leadership within its chosen space. This requires sustainable re investment ahead of the curve.
Balance Sheet	We prefer a strong balance sheet. This is our “get out of jail card” when things go wrong in a business.
Capital Management	We seek businesses that can grow organically, demonstrate strong cashflows and real EPS growth over the long term. Ultimately this drives higher dividends per share.

Simply put, we seek businesses with leadership qualities, run by competent management teams, underpinned by strong balance sheets with a focus on capital management.

ii) Ideas shortlist

The quantitative screen produces Selector’s ideas shortlist from a wide range and variety of businesses. The shortlist is typically 30 to 50 stocks principally from the ASX300. Detailed qualitative research or “due diligence” is then undertaken on the ideas shortlist.

iii) Detailed qualitative research

The portfolio managers undertake detailed qualitative research on each of the businesses on the ideas shortlist. This starts with researching the business, its industry, channel checks of the competitive landscape and importantly management interviews. This is where the experience of our portfolio manager becomes our key advantage and where we wear out the shoe leather visiting companies.

iv) Portfolio construction

As a result of detailed research on the ideas shortlist or our best ideas, a selection of 25 to 40 businesses is developed and reviewed for inclusion in the portfolio. Portfolio inclusion is based on a ranking of our best ideas. This ranking is based on,

1. BUYOUT valuation assessed
2. Roadmap checklist - The 18 point Qualitative and Quantitative factors of business
3. Implicit ranking of new ideas against existing portfolio

$\text{Buyout} = \frac{\text{EBITA}}{\text{Enterprise Value}}$ <p>Return generated if we were to “buy out” entire debt and equity. We compare this to a risk free rate to determine the premium we are getting for equity risk.</p>

Qualitative			Quantitative		
Management Qualities	Owner Qualities	Focus	Growth	Business Franchise	Balance Sheet
Individuals we can trust	Material equity holding	Niche or franchise	Reinvesting in business	Businesses we understand	Low debt levels
Drive to take business forward	Common bond shareholder	Adapt to business conditions	Capacity to grow EPS	Well positioned in industry Inc ESG	Simple structure
Clear articulation business strategy	Track record Inc ESG	Not react market pressure	Free cash flow	ROCE	Maintenance Cap Ex

Portfolio construction relies on the extensive experience of the portfolio managers. Here, it is important to note that, it is our portfolio managers, rather than investment analysts, who have undertaken the detailed research ensuring that high quality information is transmitted through the entire investment process. The portfolio managers have a track record of working together for more than 15 years. The portfolio is subjected to risk constraints outlined in section 2.3.

2.3 Portfolio risk limits

The portfolio management process is a risk out process. In addition, risk constraints have been established to ensure this is adhered to consistently.

Selector seeks businesses with leadership qualities, run by competent management teams, underpinned by strong balance sheets with a focus on capital management.

Selector's portfolio maintains a high level of portfolio liquidity and seeks to limit the maximum sector concentration of the portfolio.

Selector further reduces portfolio risk by preventing the inclusion of risky startup businesses.

Portfolio risk constraints include:

CONSTRAINT	RANGE
INDIVIDUAL STOCK LIMIT	0% - 8%
CASH	0% - 20%
SECTOR LIMIT	0% - 30%
STOCKS IN PORTFOLIO	25 - 40
BENCHMARK	XAOAI