SELECTOR FUND (SF) UNIT PRICE

Month Ending	Unit Price	SF Gain %	SF Monthly %	AOAI	AOAI Gain %	AOAI Monthly %
30 June 2005	$1.2556	25.56	11.62	24,146	14.68	4.46
31 May 2005	$1.1249	12.49	5.35	23,115	9.46	3.41
30 Apr 2005	$1.0678	6.77	(5.43)	22,352	6.16	(3.78)
31 Mar 2005	$1.1291	12.91	0.72	23,231	10.33	(0.74)
28 Feb 2005	$1.1210	12.09	4.68	23,405	11.16	1.80
30 Jan 2005	$1.0709	7.09	2.16	22,992	9.20	1.33
31 Dec 2004	$1.0483	4.82	2.33	22,690	7.77	3.07
30 Nov 2004	$1.0244	2.44	2.44	22,029	4.63	4.63
01 Nov 2004	$1.0000	0.00	0.00	21,055	0.00	0.00

The table above presents the Selector Fund performance for the June 2005 Quarter on a monthly basis and includes the period since you made your initial investment. The Fund gained **11.20%** (net of all fees) for the June Quarter. The All Ordinaries Accumulation Index rose 3.94% in this period. For the eight months ending June 30th 2005 the Fund gained **25.55%** (net of all fees). The fund will pay a **1.98cent** distribution for this period. The quarter is a good example of "normal" volatility in stock markets.

BIG PICTURE

SFM End of Year Multi Choice Exam: ***Please attempt all questions.***

Question 1

Volatility in stock markets is…

A) Really frightening for investors and fund managers alike
B) Totally normal – we should all sleep easy
C) Topical this quarter only
D) A reason to sell

Question 2

If a trader missed the best 10 months of share performance over 20 years, his performance would be…

A) Totally normal – he could sleep easy
B) Down Significantly!
C) A bit below the index
D) Pretty good if he / she was a snappy trader

Answers over page

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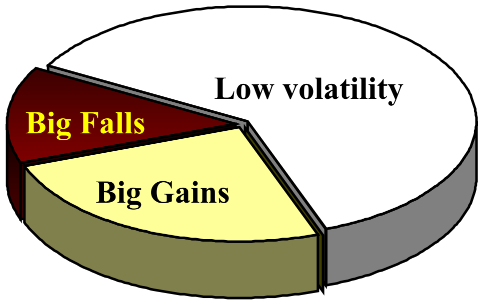
If you picked B&B you are correct! As you would be if you picked B&B (Babcock & Brown) on the day they listed. More on Babcock later. Firstly we will justify our exam marking methodology.

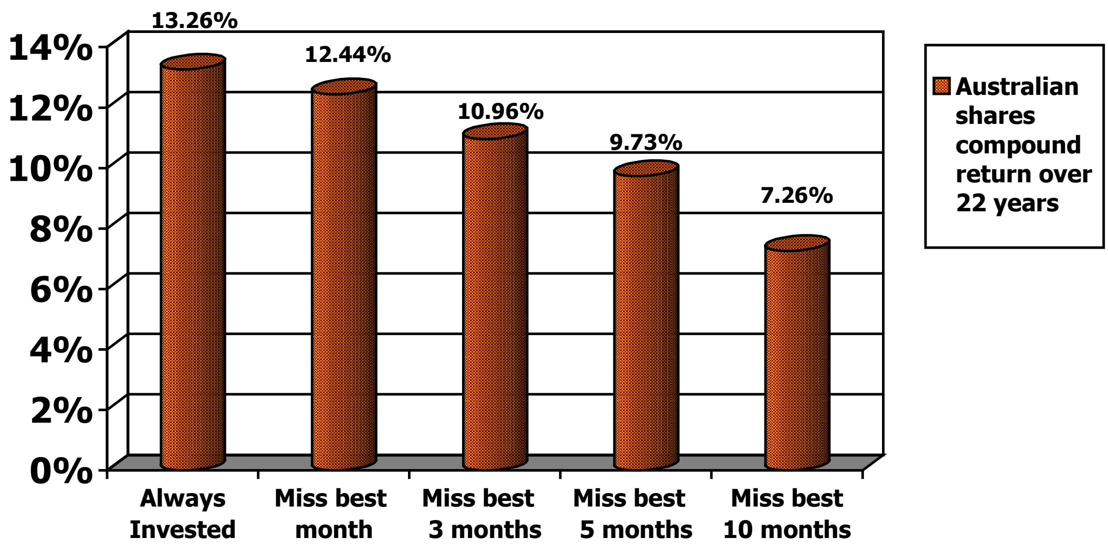
ANSWER 1 (B) Volatility is totally normal

294 months from Jan 1981 – June 2005 ASX All Ord Accumulation Index: Source: Bloomberg



Our study found that investors should expect the market to be highly volatile at least a third of the time. 113 of 294 (38.5 %) months had high volatility. (We define high volatility as greater than 4% gain or loss in a month). Of the 113 high volatile months, 40 months (13.6 %) had big falls and 73 months (24.9%) had big gains. Interestingly 12 months had falls and gains of more than 10% in a single month!

ANSWER 2 (B) Down Significantly!



Source: Frank Russell Australia: Australian Financial Review 12/04/2003
Australian share market January 1980 until December 2002 (263 months)

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We present *Answer 1* as long-term empirical evidence of the normality of volatility. In context, the Australian share markets volatility over the past two months has had a significant impact on our portfolio.

"expect the market to be highly volatile at least a third of the time"

We view this volatility as normal. And it presents opportunities. It is not something a long-term investor with a consistent investment process should fear.

Normally, we would not comment greatly on short-term results. However, the June 2005 quarter results provide an excellent example of volatility .We had a 15% swing within the quarter alone, including the 5% fall in April. We highlight this since the statistics do suggest that it will happen again. Being armed with this knowledge removes the surprise factor.

The historic "Frank Russell" data in *Answer 2* also highlights volatility. And it underlines the merit of long-term investment. The trader who sold out and missed the best 10 months in a 22 year period nearly halved his or her return. Investors and traders alike often sell out in periods of uncertainty created by volatility.

"opportunities are thrown up by volatility"

The key take away point is that your investment in Selector Fund is likely to remain volatile in the short term and that as Manager of the fund we expect this. It is our roll to communicate this to our investors. We believe it is part and parcel of successful long-term investing. Importantly as Manager, by accepting this fact and by embracing it we can find opportunities where others see fear.

It is at these volatile points that our process and inherent investment disciplines are most valuable. We stick to the plan. We continuously review our positions and our group of future potential investment targets, using our live dynamic modelling, by attending meetings and reading widely. And we aim to pounce on the right opportunities for the right reasons when they unfold.

Longer term, the opportunities that are thrown up by volatility, if selected correctly, should significantly outweigh the short term pain felt when our unit price dips. We know the volatility will occur. It is our job however, to get the stock selection correct.

Moreover, this is how we see the financial year 2005 -2006 unfolding – volatile - with opportunities for those who continue the search. **SFM**

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A QUALITATIVE APPROACH

Outstanding CEO's seem to run outstanding businesses. In the June quarter we were fortunate enough to spend time with Gail Kelly from St George, Allan Moss from Macquarie Bank and Chris Roberts from Cochlear. While there is no substitute for quantitative research – qualitative research is equally as important. Here are a couple of thoughts from our meetings with management.

FOUR BANK COMMENTS

Gail Kelly. Her address to a group of fund managers, in June, left us in no doubt (again) that she is a standout performer amongst her peers. You can hold St George and sleep soundly while Gail is at the helm – and our view is that she is very committed and not leaving any time soon. We highly recommend going along to a St George AGM to hear Gail speak – for young aspiring businesswomen it is a must!

"strong comparative advantage….
it is likely to survive the next bout of volatility"

In Contrast, it was cold comfort to hear ANZ's CFO state that IFRS (new international accounting standards to be adopted in the coming financial year) will have no real EPS impact even though the changes have not been modeled against historic numbers. We understand UK banks have seen an 8 – 10% earnings downgrade as a result of IFRS to date.

Macquarie Banks' Allan Moss impressed – Macquarie is setting itself apart on the world stage by partnering with dominant players in new regions rather than attempting greenfield operations. Macquarie has a strong deal pipeline and unlike most Wall Street banks will not reduce headcount in a tough market – this shows the high regard for human capital. Interestingly if you add together Macquarie Banks market capitalization with that of all its listed satellites it would rank around 23rd largest company in the world!

"Phil Green of Babcock and Brown is not a slick presenter"

Phil Green Managing Director of Babcock and Brown is not a slick presenter, yet his story is compelling. Like Macquarie they have a comparative advantage in intellectual capital. The way to measure this is to look at the bonus line paid to executives. It will remain at 50% of profit before tax. It seems large and it is, but it is precisely what will drive the business to higher levels.

Companies that have a strong comparative advantage like Macquarie, Babcock, Aristocrat and Cochlear rarely appear cheap. And selling these companies and others

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like them because the market seems sure to correct sometime in the future is rarely a successful strategy. If the company you own has unique qualities that make it great it is likely to survive the next bout of volatility. **SFM**

An hour with Dick McIlwain, CEO Unitab

Dick McIlwain is a refreshingly likeable chap. He is laid back and straightforward. The first insight he offered us was that Unitab was expensive when it listed in 1999 at $2.05. The market agreed and soon after marked Unitab down to $1.85.

This is an interesting point. As Unitab hovers around the $14 mark today, six years after listing, it still appears expensive. The price reflects a built in takeover premium and a very highly regarded manager in Dick amongst other things. The reality is that you do not often get to buy good companies cheap.

"you do not often get to buy good companies cheap"

Good businesses have unique characteristics. Unitab for example is the sole provider of wagering services in Queensland, South Australia and the Northern Territory of which the latter two acquisitions have delivered outstanding results for the group. Secondly, Unitab achieves +40% EBITDA margins on its gaming business (monitoring over 100,000 slot machines in Qld & NSW) where it is paid per machine to monitor machine payout ratios in accordance with gaming legislation in both states. Unitab has also added to this, the NSW linked jackpot business acquired from Tabcorp during 2004. With some 4,000 machines now linked and the company sharing in the pool, a move towards 5,500 to 6,000 machines would make this an exceptional business.

To complete the trifecta, in the past month we have also visited Aristocrat in Sydney and Tattersall's in Victoria. Aristocrat is one of the few examples of a great business that did get cheap. In contrast, and not unlike Unitab, we suspect that Tattersall's may be viewed as expensive from day one.

"takeover premiums are counter productive and a bit silly"

We have no doubt that Tattersall's would be a good fit with Unitab. And Unitab has an "open door" philosophy - always prepared to look at situations. That said we are certain of only one thing. Dick McIlwain is likely to "left foot" the market and his peers at least one more time before he hands over the reigns at Unitab.

The last insight he offered - Dick thinks takeover premiums are counter productive and a bit silly…. even in his own stock. While that may be true, it is not the only reason that Unitab has appeared expensive from $2.05 through to $14+. **SFM**

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Selector Diary Q2 2005

COMPANY MEETINGS JUNE QUARTER 2005			
04-04-05	Patrick Corporation	25-05-05	Peptech
05-04-05	Bill Express	25-05-05	Pharmaxis
11-04-05	Transpacific Industry Group	27-05-05	Babcock & Brown AGM
13-04-05	Select Managed Funds	03-06-05	Tattersalls site visit
13-04-05	Count Financial	10-06-05	Vision Group site visit
13-04-05	Investor Group	14-06-05	AAV AGM
13-04-05	Salmat	20-06-05	Alumina
14-04-05	AAV	20-06-05	Zinifex
14-04-05	Mortgage Choice	20-06-05	Smorgon Steel
14-04-05	Iinet	20-06-05	Onesteel
19-04-05	Buka Minerals	20-06-05	Macarthur Coal
21-04-05	Strathfield Group	20-06-05	Excel Coal
21-04-05	Customers	20-06-05	Centennial Coal
28-04-05	SFE Corporation AGM	20-06-05	Newcrest Mining
03-05-05	Genepharm Australasia	21-06-05	Woodside Petroleum
03-05-05	Aristocrat AGM	21-06-05	Santos
04-05-05	Seek	21-06-05	Oil Search
04-05-05	Corporate Express	21-06-05	Origin Energy
04-05-05	DCA Group	21-06-05	Caltex
04-05-05	Sigma	21-06-05	Australian Worldwide Exploration
04-05-05	Cochlear	21-06-05	ARC Energy
05-05-05	Flight Centre	21-06-05	ROC Oil
05-05-05	Australian Pharmaceutical	21-06-05	Tap Oil
10-05-05	Macquarie Infrastructure Group	22-06-05	Commonwealth Bank
10-05-05	Harvey Norman	22-06-05	ANZ Bank
11-05-05	Roc Oil AGM	22-06-05	Westpac Bank
12-05-05	SFE Corporation	23-06-05	Macquarie Bank
16-05-05	Macquarie Capital Alliance	23-06-05	Babcock & Brown
18-05-05	Virgin Blue AGM	23-06-05	Challenger Financial Services
19-05-05	Patrick Corporation	23-06-05	AXA Asia Pacific
19-05-05	Petsec Energy	23-06-05	Perpetual Trustees
24-05-05	Aristocrat	23-06-05	Bendigo Bank
25-05-05	Acrux	23-06-05	Bank of Queensland
25-05-05	Agenix	23-06-05	SAI Global
25-05-05	Bone Medical		

> **"Infrastructure is a grubby little business and we don't want them to get dirty."**
>
> *Allan Moss CEO Macquarie Bank – on why Wall Street has stayed away from infrastructure deals*

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SMART MONEY

INTERROGATION

Tony Scenna
director
Selector Funds Management

Who are you and why should I give you my money?
I am one of three founders of Selector, along with Corey Vincent and our chairman, Martin Greenberg, a former partner at Babcock & Brown, so my money is in the business. In 2003, we tested and ran our systems in a model portfolio for more than a year before kicking off our two funds. Net of all expenses we returned 33 per cent in that first year. The driver for us is twofold: a desire to control how the business is run; and being prepared to back ourselves with our bottom-up stock selection.

What are you going to do with my money?
We'll invest it in the same place we put our own money. We are great believers in sticking to our core strengths and for that reason we only invest in Australian equities. We hold concentrated holdings in companies, believing that it is better to hold a few outstanding ones rather than a large number of average businesses. We would expect to hold a company for a reasonable period of time. We don't short sell or jump around like hedge funds. We have 17 investments at the moment and the fund is 92 per cent invested.

If I'd invested $10,000 in your funds, a) three months ago, b) 6 months ago, c) 1 year ago, what would it be worth now, net of fees?
a) $10,811
b) $11,727
c) Not applicable

Name your best and worst calls.
Aristocrat is an example of both our best and worst calls. Buying at $4.50 in early 2003 only to see it plunge below $1 was numbing. That said, we stepped up to the plate a few times as the price was smashed down by some reckless behaviour. The market panics too quickly and it reacts too quickly. [Aristocrat is now trading at more than $10.] We also look fondly on our first trip to Pharmaxis headquarters just after they listed in late 2003. We discovered a strong management team and a well-defined business plan trading close to cash backing. It's hit every important milestone since listing. An investor can't ask for much more, and we are patient investors.

What do independent researchers think of you, and what do you think of them?
They hate us because we fit outside the box and we love to hate them because of their narrow approach.

DISCLAIMER

Disclaimer: Initial applications for units can only be made on an application form attached to the Selector Funds Management Limited Information Memorandum dated 1 July 2003. Selector Funds Management Limited or any related entity does not guarantee the repayment of capital or any particular rate of return from the Trust. Past performance is no guarantee of future performance. Investment returns have been calculated in accordance with normal industry practice utilising movements in unit price and assuming reinvestment of all distributions of income and realised profits. This report does not constitute financial advice and readers of the report should consult their financial advisers before making any further investment in or withdrawal from the Fund. Tables and charts in this report are as accurate as possible on the date of publication. Please note that they are subject to continuous change. The past performance of Selector Fund managed by Selector Funds Management Limited represents a model portfolio simulated to test the systems used by Selector Funds Management Limited from 21 January 2003 through to the end of the 2nd Quarter, 30 June 2004. Due to volatility of underlying assets of the fund and other risks associated with investing, returns can be negative particularly in the short term. The model portfolio is calculated before fees are taken into account. Selector Funds Management Limited will apply an annual MER, which will reduce the reported performance. In circumstances where a performance level is achieved as set out in the Information Memorandum a performance fee is an additional charge, which will reduce the reported performance of the Selector Fund.

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