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IMPORTANT INFORMATION

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The contributors to this report own many of the stocks mentioned, personally and in the funds they manage.

PRICES CORRECT AS AT 25 June 2013

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Kerr Neilson

Platinum Asset Mangement

The shift from cash and perhaps bonds to equities has continued in recent months, due partly to unsatisfactory yields on the former but more importantly due to improving sentiment.

There has been a change in perception about tail risk (market disruptions from unexpected sources) and a growing acceptance that central banks will do what is necessary to suppress interest rates until their economies start growing again.

This has encouraged investors around the world to push up prices well ahead of earnings revisions, thereby expanding price-earnings ratios. But it is not that hope has buried fear and this is shown by the continuing preference for defensive companies, which are now at extreme valuations, both absolute and relative to their long-term history.

At the same time, companies with more cyclical characteristics reveal some evidence of neglect. Interestingly, this valuation bias is as true in the US as in other markets, which is strange given that US companies have delivered the most impressive earnings improvements since the crisis and that the market as a whole has expectations of low share price variability, as predicted by the VIX volatility index. This probably means we should expect some rotation to other markets in coming months as their underlying fundamentals gradually improve.

The suppression of borrowing costs by central banks is sure to have some negative long-term consequences, particularly in the misallocation of capital. For the time being, however, it is providing a sense of wellbeing and anything that disrupts this intravenous feed can be expected to unsettle markets.

Inflation is the most likely disruptive threat, but it needs greater selectivity of data to find evidence of it picking up speed. Even in countries with relatively weak currencies like the UK, inflation is still remarkably subdued.

Political disruption could be another destabiliser, but people are proving to be reasonably tolerant of financial austerity and the European Union seems to be softening its position on budget deficits.

Picks and profits

Earnings shortfalls also cannot be ruled out and analysis of the extraordinary resilience of US company profits reveals that productivity gains have been kept by companies. Obviously, European and Japanese companies do not, as yet, have the same buoyant economic conditions. Currency manipulation could also cause negative earnings surprises; with the weakness of the yen, for example, European manufacturers face greater competition.

There is certainly no shortage of social and economic issues that need to be addressed around the world but, so long as yields are suppressed, investors will face a difficult choice about how much risk they should carry. This should give sound companies a solid underpinning.

Here then are my three stock picks.

PDG Realty, a Brazilian homebuilder, and **Jaiprakash Associates**, a homebuilder and owner and builder of infrastructure based in India are two companies we added to the Platinum International Fund recently.

Both are tainted by large indebted balance sheets and have been stung by weaker economic activity that has seen their share prices decline to a fraction of their former glory. But, despite their reviled status, both companies have substantial equity that is realisable from their significant saleable assets.

While clearly constrained by tighter credit conditions, both companies face markets that are benefiting from the drift of people to the big cities and have sufficient scale to meet diverse sections of the market. We believe that neither company need aggressively realise its best assets to meet debt calls and, over the next three to five years, we expect them to achieve strong capital appreciation as market conditions normalise.

Ericsson, with its leading 38% global wireless infrastructure share and critical incumbency at leading carriers, is another of the fund's key holdings. A much-improved competitive landscape with Alcatel-Lucent, Nokia-Siemens and Nortel all losing market share, has left Huawei from China as the only aggressive contender.

PROFILE

After working in various broking and fund management roles in South Africa and London, Kerr was an Executive Vice President at Bankers Trust Australia, before setting up Platinum Asset Management in 1993.

He held the position of chief investment officer at Platinum until May 2013 and continues to manage its global mandates. Kerr remains chief executive and is the principal shareholder.

RETURNS

The Platinum International Fund, which Kerr has managed since it was established in 1995, has returned 12.7% a year, compared to the 5.8% a year return for the MSCI AC World Index in A$.

STOCK PICKS

- PDG Realty
- Jaiprakash Associates
- Ericsson

"At the same time, companies with more cyclical characteristics reveal some evidence of neglect.

Demand for Ericsson's products and services are leveraged to increasing wireless network density. As mobile broadband demand grows from both 3G and 4G, telecom carriers will shift spending from lower-margin build-out of new networks to higher-margin capacity additions.

European network modernisation has been a drag on profitability for the past few years as these projects carried lower upfront margins in exchange for longer-term financial gain from higher margin capacity purchases.

Lastly, Ericsson has profitably scaled-up its services businesses, which is an important countercyclical to the inherent cyclicality of equipment sales. The low-teen P/E valuation is attractive in light of the imminent profitability inflection point.

Chris Prunty

Ausbil Micro Cap Fund

PROFILE

Prior to joining Ausbil, Chris was most recently at IML, where he was responsible for small cap industrials and large cap specialty retail. His previous experience includes stints at Ivany Investment Group, Confluence Asset Management, CCZ Equities and AMP Capital Investors.

Chris is CFA qualified, has a Bachelor of Commerce/Arts (Distinction) from ANU and was recently named one of the top 14 buy-side analysts in the world by SumZero.

RETURNS

The fund targets stocks outside the S&P/ASX 200 and has returned 30% a year, net of costs, since its inception in February 2010.

STOCK PICKS

- Vision Eye Institute
- Vita Group
- Village Roadshow
- Infomedia
- Slater & Gordon
- Gage Roads Brewing

The market is very interesting at the moment but I suppose you could always say that. There are three features capturing my attention as a small cap manager at the moment. The first is the massive outperformance of large company benchmarks versus smaller stocks. The top 100 including dividends is up 29.4% over the past 12 months. Compare that with the Small Ords, which is flat.

The second factor is the huge divergence between small resources and industrials; small resources are down 40% for the rolling year versus small industrials, which are up 22.6%.

And finally, the quants tell me that the disparity between valuations of the top and bottom quartile stocks are as wide as they've ever been. This means high quality stocks with growth and a high degree of earnings certainty are very, very expensive on the one hand and stocks with cyclical earnings or commodity exposure are 'cheap' or, more likely, the earnings are wrong and will be downgraded.

Typically, trends persist in the short term and reverse in the medium to long term. Timing of any reversal in these trends is tricky; the best you can do is identify that we're at the extremes, avoid them and know they won't persist forever. My stock picks come from that perspective.

I like **Vision Eye Institute** (VEI). With 35 contracted doctors, 18 consulting clinics and eight day surgeries, it's Australia's largest eye doctor. Vision is an undiscovered 'defensive growth' company trading on a 'value' multiple (11x FY14 PE).

In the Ausbil Micro Cap fund we often come across cheap companies. Experience tells us that for the most part these companies are cheap for a reason. Because of this we spend time figuring out why something is cheap and what is likely to change in the future to act as a catalyst to remove this barrier to a re-rating.

In Vision's case the market perceives the stock as it was, not as it is. Before the global financial crisis, Vision was a debt-fuelled, growth-by-acquisition company. It bought eye doctors into the group, paying big multiples. When they worked only two days a week because they were nicely cashed up the company was oddly surprised. The debt grew and earnings fell, hardly a sound combination.

Six years later and Vision appears to have learnt its lesson. It no longer pays big sums to bring doctors into the group and debt has fallen from $110m to less than $45m. I expect dividends will resume in February next year, which ought to act as a catalyst for the stock.

I also like **Vita Group** (VTG), which operates 85 Telstra Stores. It gets paid sales commissions for signing up customers to the Telstra network and makes a margin on selling phones and accessories. I view the stock as an undervalued (8x FY14 PE) growth story.

The key to understanding the opportunity is that half its stores are under three years old and have yet to hit maturity. But at maturity the average store makes $450,000 pre-tax cash flow. So over the next few years VTG should be making somewhere in the vicinity of $38m in pre tax cash flow (85 x $450,000) versus the current market cap of just $88m.

Apart from the latent earnings growth, we believe VTG has completed its store roll out for now, which means it will go on a capex holiday. Lower capex will increase the capacity to pay dividends which should act as a medium term catalyst for the stock.

Licorice all sorts

In the Ausbil Micro Cap fund we hold about 40 stocks. The reason is that although we consider ourselves diligent and experienced (not to mention handsome) investment professionals, we are humble enough to recognise that 'change is the only constant' and that we will make mistakes.

To mitigate the impact of these mistakes and to be 'vaguely right than precisely wrong' we hold 40 small positions rather than three big ones. With this in mind, here are a few we're watching: **Village Roadshow** (VRL) and its Sydney Wet n 'Wild which opens in December and could add $30m EBITDA p.a.

Infomedia (IFM) is on our watch list because of its annuity style revenues and huge leverage to the falling Australian dollar. With an Australian dollar cost base and a majority of revenues denominated in US dollars and euros we can see strong positive earnings revisions for IFM in FY14 & FY15 should the Australian dollar stabilise at current levels or continue to fall.

We're also watching **Slater & Gordon** (SGH). We've held this stock before, but sold because its Australian business is mature and cash conversion was poor. However, its recent expansion in the UK has the potential to improve growth and cash conversion in the future, although the move is not without risk. The multiple of about 10 times FY14 earnings per share looks attractive if earnings materialise as forecast.

And finally, who doesn't want to own a brewery? Now you can with **Gage Roads Brewing** (GRB). When it ramps up to 3 million case capacity in FY15, it ought to be making $10m pre-tax cash flow.

> *"The disparity between valuations of the top and bottom quartile stocks are as wide as they've ever been.*

Erik Metanomski

Lanyon Asset Management

Superficially, the market looks fairy valued at the moment but the reality is that valuations are based on unsustainably high earnings and profit margins, a function of the positive multiplier effect from what has been a resources bonanza. This support, however, is falling away quickly as the Chinese economy begins to rely less on large infrastructure projects and more on the consumer.

This will affect Australia in a number of ways. First, there will be a very significant fall in government revenues, which will force tax increases and spending cuts and thereby damage business and consumer confidence.

Second, wage levels will have to come down in many areas. Wages in the mining and contracting sectors, in particular, have got way out of kilter with reality and the rest of the world, making Australia a very expensive place to do business. As the number and extent of resource projects fall, so too will wages in these areas, as well as in associated areas such as the legal and accounting professions. This in turn will put pressure on the retail and other service sectors.

As a result, we're taking a very cautious view of the more cyclical sectors. Mining and contracting are at the pinnacle, but retailers and retail and office property trusts are also highly exposed. We're also very wary of the banks, which have been driven to ridiculously high prices by the notion that their dividends are somehow sacrosanct. But much of their recent profit growth has come simply from reducing bad debt provisions and, with 8–10% equity and 90–92% debt, it doesn't take much for things to go wrong.

The trouble with the more defensive sectors—healthcare, gambling and grocery retailing—is that they tend to be on pretty extreme valuations. Healthcare is safer than most, but even these companies are exposed to reductions in Government spending.

In Australia, for example, we are seeing cuts in the number of products eligible for full rebates under the pharmaceutical benefits scheme. Drug companies need to make good returns on their successful products to make up for the ones that fail and restricting this could hurt investment.

Amongst all this, we're taking a very stock-specific approach. When bad news hits a sector, the good can sometimes be sold off with the bad, and this can create opportunities.

PMP (PMP), for example, has been a horrible business for long time, but new

PROFILE

Erik Metanomski is chairman and portfolio manager at Lanyon Asset Management. He previously managed the Value Growth Trust for MMC Contrarian.

RETURNS

As at 30 April 2013, the Lanyon Australian Value Fund had returned 18% a year since inception in July 2010, net of all fees, compared to 11% a year for the All Ordinaries Accumulation Index.

STOCK PICKS

- PMP Ltd
- Village Roadshow
- Austock Group

management has been taking action to turn things around. Costs are being cut and the incredibly high capital expenditure of the past ten years has been slashed. As a result, free cash flow is rising and debt is being reduced very quickly.

Consolidation in the printing sector might also lead to margin improvement and PMP's product mix has improved. About 80% of revenues now come from catalogue printing and distribution, which tends to be more stable than magazines. The stock is also attractively priced at about four times normalised cash flow.

> *Wages in the mining and contracting sectors, in particular, have got way out of kilter with reality and the rest of the world, making Australia a very expensive place to do business.*

Village Roadshow (VRL) is an example of a reasonably priced defensive stock. Theme parks and cinemas are surprisingly resilient; indeed recent experience in the US and the UK shows that cinema visits can actually increase in a downturn as it is a reasonably cheap form of entertainment.

Theme parks could also benefit from a falling Australian dollar, and we have high hopes for Wet 'n Wild Sydney, due to be opened in December 2013. The stock is priced at about 15 times forecast 2013 earnings per share and should generate steady if unspectacular growth.

We own about 9% of **Austock Group** (ACK), which has about 14 cents per share in net cash, but which is only trading at 17 cents. On top of the cash, Austock owns a small life company focusing on investment bonds. This business should have about $350m in funds under management at June 2013 and we expect that to grow by upwards of $50m a year. The business is also just moving past breakeven, yet it's being valued at almost nothing.

Geoff Wilson

Wilson Asset Management and WAM Capital

PROFILE

Geoff is founder and chairman of Wilson Asset Management and co-manager of the listed investment company WAM Capital.

RETURNS

WAM Capital has returned 12% a year over the past five years and 18% a year since inception in 1999, before costs, compared to 1% and 8% a year for the All Ordinaries Accumulation Index.

STOCK PICKS

CSG Limited

Slater & Gordon

Villa World

2013 was shaping as a vintage year for the Australian stock market. Now we'll have to wait. Lower interest rates usually lead to an expansion in price-to-earnings (P/E) ratios and a pickup in economic activity. We have seen the P/E expansion but the rebound in earnings hasn't occurred as the economy has slowed, affected by the calling of an election creates uncertainty which holds back consumption.

We expect the economy to remain sluggish for the remainder of 2013 and anticipate a pickup in economic activity in mid to late 2014 after the new government has completed its cost reduction program. Despite the current weak Australian economic environment, there's still value to be found in the equity market. Here are three stocks Wilson Asset Management currently finds undervalued.

CSG (CSV) is a print services company delivering managed print and document output solutions. Following the sale of their information technology business in 2012, CSG has a strong balance sheet with a net cash position of $36 million.

At the half yearly result in February, the board announced their policy to distribute 9 cents per annum to shareholders, a yield of 10.%. The company is trading on a P/E ratio of 10.5x with EPS growth of 20% in FY14. Catalysts which could lead to a re-rating of the company include further reductions in operating costs and growth in the recently launched printer leasing business.

Australian and UK-based law firm **Slater & Gordon** (SGH) specialises in insurance claims and commercial and family law. The company operates 69 offices across Australia and 10 locations in the UK.

Trading on a FY14 P/E of 10x with strong earnings per share growth of 24%, Slater & Gordon's future growth will be driven by their expansion into the UK. In early May, the company announced the acquisition of three leading UK personal injury litigation firms. A re-rating for the company is dependent on how successful they are at integrating these businesses.

Villa World (VLW) is a residential property developer with assets in Queensland and Victoria. The company is currently trading at $1.15, a 37% discount to the net tangible assets of $1.82. More than half the company's assets are located in South-East Queensland, a market experiencing a pickup in demand following 3–4 years of depressed house prices. The company recently confirmed the turnaround in market conditions, announcing a 14% increase in underlying operating profit for FY13.

Gareth Brown

Intelligent Investor International Fund

Over the past six months, we've looked at a lot of stocks around the world seeking bargains for International Fund investors. Dishearteningly, the typical high quality target is up 50% over the past 12 months and 25% or more since 1 January.

If you have value investing DNA, that prompts a flicking on of the fear gene rather than the greed chromosome. Yes, we're worried, but constructively so. Patiently awaiting bargains (while fastidiously continuing the search for them) is a crucial part of the value discipline.

About 40% of the funds entrusted to us have been put to work, mainly in high quality stocks that we remain very comfortable with. The remaining 60% sits in foreign (non-Australian) currencies, achieving the stated aim of international diversification. If there's a major market dislocation, we're ready to put much of that capital to work using our long and growing wish list.

In the absence of a market downturn, cash will fall more slowly as we uncover individual bargains.

Despite the market's rise, we've found pockets of good value; a basket of 25 Japanese 'net-nets' (stocks trading at less than 60% of their net working capital); a few interesting European holding companies (one outlined below); and some smaller capitalisation stocks that we're not yet ready to reveal to the world. But there are also some larger capitalisation stocks that remain quite cheap.

Global brands

American International Group (NYSE:AIG) was one of the poster children of the financial crisis, and was bailed out by the US Government in 2008 in exchange for an 80% equity stake. Management has spent five years untangling the mess, selling non-core assets and returning focus to the key property and casualty insurance and life insurance businesses.

The list of value investors who've bought substantial stakes in AIG in recent months and years is impressive—Berkowitz, Loeb, Klarman, Perry, Mandel, Romick and many others. Our investors don't pay us to be sheep, and one might (incorrectly) draw the conclusion that AIG is already too crowded a trade.

But there's a valid explanation for AIG's cheapness—it's in the process of passing hands from the government (which recently sold its last shares) to the mutual funds, ETFs and other natural holders that don't yet want to touch the stained fallen angel.

But eventually they will. In the meantime, value investors happy to deal with uncertainty and complexity have stepped into the breach, including us. Changes in the natural ownership of a company often lead to temporary market inefficiency, explaining why spin-offs are often bargains and why AIG remains too cheap, for now.

The stock is up nearly 10% from our purchase price, but still trades at a 37% discount to book value. Our thesis is that, a few years from now, the company will be earning decent returns on book value, and the stock price will be trading closer to or above book value.

By that time, Fairholme Fund, Baupost and Third Point will have moved on and more typical index huggers will dominate the share register. We'll be taking at least some chips off the table by then, too.

American Express (NYSE:AXP) is an unusual and misunderstood beast. It has a very attractive credit card business, but trades at a sharp discount to Visa and Mastercard because Amex operates as a bank in its own right, extending credit to customers.

This isn't just a clip the ticket business but a complex financial operation (and financials have been, until very recently, on the nose). But it's certainly no ordinary bank, generating returns on equity of around 20–25% with less leverage or risk found in a typical commercial operation.

The group generates plenty of free cash flow, which is mainly being returned to shareholders via buybacks and a small dividend. The stock is up 13% on our purchase prices and trades on a forward PER of roughly 15. But we think it's still pretty cheap.

Excluding some of the Japanese net-net basket, **Hornbach Holdings** (F:HBM) is the only stock in our portfolio that's down on our average purchase price, by about 5%. Yes, bull markets make anyone look like a genius.

It's a complex structure, but Hornbach Holdings is the controlling shareholder in

PROFILE

Gareth was formerly senior analyst with Intelligent Investor Share Advisor, a position he held for 10 years. He now manages the Intelligent Investor International Fund, which launched this year.

RETURNS

N/A

STOCK PICKS

American International Group

American Express

Hornbach Holdings

"Changes in the natural ownership of a company often lead to temporary market inefficiency, explaining why spin-offs are often bargains and why AIG remains too cheap.

Hornbach Baumarkt, a DIY-retailer in Germany and eight other European markets. It's like a European version of Bunnings, but in a much more fragmented and competitive market.

In case you missed it, retail sales in Europe fell off a small cliff over the last few quarters and Hornbach hasn't escaped unscathed. But we've bought the stock at about 15 times depressed earnings, and at a small discount to stated net tangible asset value, which itself undervalues the group's substantial property portfolio.

We think that's too cheap and don't need a rapid turnaround for this to work out well. An eventual return to 'normalcy' in Europe, hopefully combined with continuation of the market consolidation trend (Hornbach has been picking up market share for a decade), should see us do well.

Disclosure: The international fund owns shares in AIG, American Express and Hornbach Holdings.

Andrew Maple-Brown

Maple-Brown Abbott

PROFILE

Andrew Maple-Brown is Head of Global Listed Infrastructure at Maple-Brown Abbott. Together with Lachlan Pike, Steven Kempler & Justin Lannen, Andrew manages the recently launched Maple-Brown Abbott Global Listed Infrastructure Fund.

RETURNS

As at 31 May, the Maple-Brown Abbott Global Listed Infrastructure Fund had returned 16% since inception on 18 December 2012.

STOCK PICKS

Zurich Airport

Energias do Brasil

American Water Works

Market participants in recent years have better appreciated the attractive characteristics of infrastructure assets; the sector has performed well as the market has searched for reliable sources of yield.

Is it now too late to consider an investment in the infrastructure asset class? In our view, the answer is 'no'. Investors globally will continue to come to appreciate the attractive investment characteristics of long-dated, essential service infrastructure assets.

With current low levels of inflation, it appears to us that the equity market is placing very little value on inflation protection for stocks with explicit inflation linkages and/or the very strongest pricing power. This is in contrast to the debt markets, where real yields continue to be negative in many developed countries.

The global listed infrastructure market continues to trade at a significant discount to where infrastructure assets have been trading in the direct market. Provided that there are no corporate governance or management alignment issues (which can arise more commonly in the sector due to the historical ownership often having been in public hands), we believe that such a discount is unwarranted and will continue to be eroded.

So there remain good opportunities to invest in high-quality, core infrastructure assets within the global listed infrastructure market. Here are our three picks.

Flughafen Zurich operates **Zurich Airport** (SW:FHZN) as the concessionaire until 2051. As the largest airport in Switzerland, Zurich Airport handles approximately 25 million passengers annually. The flagship carrier is Swiss Air, and nearly 70% of traffic is by Star Alliance carriers.

From a qualitative perspective we like Zurich Airport because of the financial strength of the incumbent carriers, the improving regulatory environment, and the potential growth that exists (notwithstanding a current tough economic environment).

Of greatest interest to us though is its valuation. Zurich Airport has traded at a discount to peers over the last five years, mostly due to concerns over German airspace restrictions and continuing uncertainty over regulation, both issues that we see as largely resolved.

The airport currently trades at a 2013 Enterprise Value/EBITDA of 7.5x, which looks very favourable to the Australasian listed airports of Sydney Airport (13.6x) and Auckland Airport (14x).

Energias do Brasil (SA:ENBR3) owns electric generation and distribution assets in Brazil. The generation assets are contracted out on a long-term basis, with an average remaining contract length of 15 years. The distribution assets are regulated by the national energy regulator, ANEEL, for a similar period.

We are particularly attracted to EDB due to the predictability of its cashflows and the direct inflation protection within them. For example, the pricing that EDB sells electricity under the generation contracts is fixed, subject to an inflation escalator.

With Brazil requiring substantial new electricity capacity in coming years, there are also strong growth opportunities.

EDB has an attractive 7% yield and trades on an approximate 10x forward P/E (based

on consensus earnings)—both of which are attractive for a high quality growth company with strong inflation protection.

With about 52,000 community water systems and 16,000 community wastewater facilities, the US water system is extremely fragmented. Primarily government owned and operated, private operators like **American Water Works** (NYSE:AWK) constitute 16% of water and 2% of wastewater systems.

The Environmental Protection Agency estimates that about $335 billion of capital spending will be required between 2007 and 2026. With increasing involvement from the private sector, that's an attractive investment dynamic.

Regulation in the sector is generally constructive. Approved capital spending by private water companies adds to their rate base, which drives regulated returns in future periods. American Water Works is the largest player in the private water industry, and is very well positioned to leverage these positive dynamics for future growth.

In addition, AWK's valuation is attractive. For the reasons outlined above, water businesses have historically traded at a premium to other regulated assets. But AWK's forward P/E multiple is less than 15% higher than the regulated utility sector as a whole. And yet its long-term earnings growth guidance of 7–10% p.a. is about 50% higher than the regulated utility sector average. We think that makes for a strong investment case.

> *"With current low levels of inflation, it appears to us that the equity market is placing very little value on inflation protection.*

Tony Scenna

Selector Funds Management

The sharemarket's strong move over the past year has resulted in a dearth of investment grade opportunities. Combined with a local economy that is struggling with higher input costs and governments intent on imposing more regulatory hurdles and taxes, it's little wonder that business owners are under the pump just to maintain profits, let alone grow them.

But for investors prepared to look beyond the immediate future there are a number of businesses that are set to reap the rewards of considerable years of investment.

The first stock we would highlight is international pokies machine operator **Aristocrat Leisure** (ALL). This is a competitive field, requiring considerable product investment and long lead times. Aristocrat, led by CEO Jamie Odell have thus far worked hard to address some of the company's past shortcomings.

The balance sheet is now conservatively positioned and the group's attention to product design, particularly regarding the US market, appears sensible and targeted. While newcomers including Ainsworth Gaming have taken market share, it has also been a catalyst for change. As governments become more dependent on taxes, gaming remains a growth industry.

In keeping with the theme of gaming, a smaller player aiming to exploit the online adoption of lottery playing is **Jumbo Interactive** (JIN).

It's early days and business risks remain high, particularly regarding the group's ongoing licence relationship with fellow competitor Tatts Group. But as the company's largest shareholder, with some 21% of the shares, CEO Mike Veverka is not wasting time, taking the group's online lottery capability to offshore markets.

Already Veverka has signed deals to partner in the US, Mexico and the German markets. The company's preparedness to invest today to reap longer term rewards is both commendable and sensible. The sharemarket may not like the fact that profits will be sacrificed in the short term but if Jumbo can successfully exploit this shift to online, the group's current market capitalisation of $64m might look decidedly cheap a few years down the road.

Focused on providing a treatment for liver cancer patients, **Sirtex Medical** (SRX) remains a one product company. The group's SIR-spheres are approved for use globally, with some 600 hospitals on board and over 7,000 doses expected to be sold this year.

While management have invested considerably in growing market awareness, attention will shift over the near term to the results from a recently completely phase three trial that will determine the extent to which the medical community will adopt the company's lead product.

A positive result should elevate use from the current salvage setting. Sirtex is not without risk but the group's considerable investment thus far has the company well positioned.

PROFILE

Tony Scenna is a founding director of Selector Funds Management and manager of the Selector Fund. Previously he spent five years at Perpetual Trustees before leaving to set up and manage Harper Bernays Ltd between 1994 and 2002.

RETURNS

Selector Fund has returned 6.6% p.a. over the past 5 years and 9.6% since inception in 2004, outperforming its benchmark by 5.4% and 2.1% respectively.

STOCK PICKS

- Aristocrat Leisure
- Jumbo Interactive
- Sirtex Medical

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