

JUNE 2024 QUARTER REPORT

Quarter Commentary

The fund recorded a negative quarter with the unit price down 2.2% while the market also fell a modest 1.2% for the same period. For the past year the fund has delivered a return of 24.4%, outperforming the broader market return of 11.9% by 12.5%.

Over the longer term the fund has provided a return of 10.7% per annum for the past 20 years and 11.8% per annum since inception in 2002. The fund has outperformed the market by 2.8% per annum after all fees and expenses since inception. A \$10,000 investment made at inception is now worth \$111,843 against \$65,054 for the ASX300 benchmark.

The fund has enjoyed a second strong year of performance with the unit price up 24.4% following on from last year's 26.2%. The fund has also outperformed the market in 4 of the last 5 years. This should not be considered normal.

There hasn't been any change to our top 10 holdings since the last quarter, although we have trimmed our holdings in Altium and PSC Insurance. Both companies are currently subject to takeover offers and as such act as proxies for cash.

These funds were used to establish a new position which we will add to materially in the coming weeks and months as further funds become available. I expect the two new positions established in the past few months will become top 10 holdings in due course.

Our cash weighting is 3.1% at the end of June.

A distribution of 6.42c will be paid shortly to unitholders that have elected to receive their distribution in cash.

Performance as at 30 June 2024:

	Fund (net of fees)	ASX 300 Accum. Index
3 months	-2.2%	-1.2%
1 year	24.4%	11.9%
3 years p.a.	8.0%	6.1%
5 years p.a.	12.5%	7.2%
10 years p.a.	10.7%	8.0%
20 years p.a.	10.7%	8.5%
Since Inception (p.a.)*	11.8%	9.0%
Value \$10,000 invested since inception	\$111,844	\$65,054

*Inception date of Fund is 14/10/2002

Unit Prices as at 30 June 2024 (pre-distribution):

Entry Price	\$4.9751
Unit Price	\$4.9627
Exit Price	\$4.9503

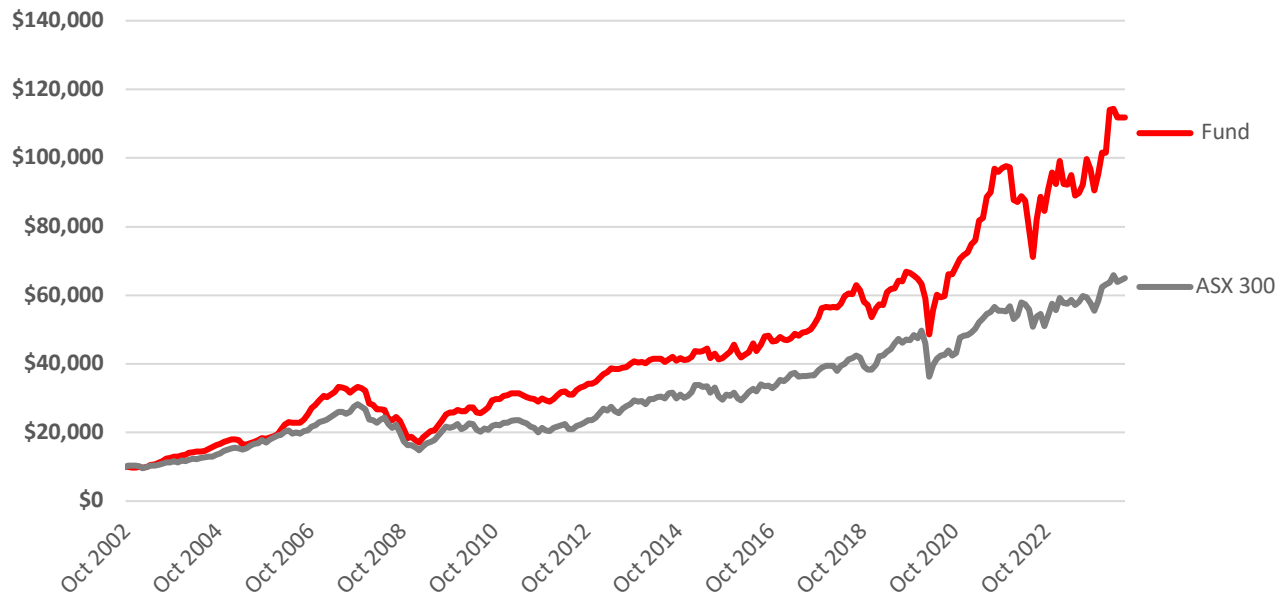
Top 10 Holdings:

Company	Code	Weight (%)
PWR Holdings	PWH	15.1
Lovisa	LOV	14.7
AUB Group	AUB	7.7
MFF Capital	MFF	7.2
Reece Australia	REH	6.9
ARB Corporation	ARB	6.6
PSC Insurance	PSI	6.3
Dicker Data	DDR	5.5
Altium	ALU	3.9
Cochlear	COH	3.8

Top 5 Sector Exposures:

Sector	Weight (%)
Consumer Discretionary	41.1
Financials	23.9
Information Technology	14.5
Industrials	10.3
Healthcare	3.8
Other (including Cash)	6.4

Fund Performance



While the table on the first page shows the performance of the fund over various time frames the graph above provides a visual representation of the fund against the ASX300 Accumulation Index benchmark since inception highlighting the benefits that accrue to compounding over the long term.

Portfolio Performance

The main contributors to fund performance during the quarter were AUB Group, Altium and PSC Insurance with two of these companies, namely Altium and PSC Insurance the subject of takeover offers. While these bids offer short-term gains, they are no reason for doing celebration laps. It removes two of the better performing businesses within the portfolio comprising slightly more than 10% of the fund and will not be easily replaced.

The main detractors for the quarter were a 10% fall in the Reece share price and PWR Holdings which fell modestly.

For the full year, by far our biggest winner was Lovisa which rose 70% and at one point in May was briefly our largest holding. Other large contributors were PWR Holdings up 26%, Altium up 85%, and MFF Capital up more than 40%. As highlighted in the March update MFF Capital enjoyed a strong year as its international portfolio rose strongly after a few years of modest returns.

We only had two companies that detracted from portfolio performance, Domino's Pizza and Smartpay. Smartpay was one our biggest winners last year when its share price rose 180% so it's not surprising to give up some of those gains. The business itself continues to grow with good growth prospects. While repeated profit downgrades and a lacklustre investor day has seen investors lose confidence in management at Domino's.

Portfolio Update

PSC Insurance received a takeover offer during the quarter which has been accepted by the major shareholders and should occur in the next few months. We have owned PSC since March 2021 and it has been a strong performer for the fund and one of our largest holdings. The takeover offer of \$6.19 per share will realise a gain of more than 60% over the past three years.

Lovisa announced that CEO Victor Herrero will be leaving the business in May next year which is a blow to the business and shareholders. Herrero joined the company in October 2021 and has been a key driver in the growth of the business since his appointment. No reason was provided as to why Herrero did not renew his contract, but last year Herrero was the second highest paid CEO in Australia due to his incentive compensation scheme, so maybe financial compensation was a factor. He will be replaced by John Cheston, the current CEO of Smiggle, on a far more modest compensation arrangement. Cheston has experience in Asian markets so we hope the change of CEO doesn't derail the China store rollout plans.

Smartpay announced their full year result during the quarter. Revenue was up 24% to \$96.5million and profit rose by 29% to \$9.8million. The company continues to grow nicely and now has 18,400 payment terminals in Australia alongside its 30,000 terminals in New Zealand. Each terminal in Australia generates \$4,640 per annum from transaction processing fees, while its New Zealand fleet generate less than \$500 per annum as a purely rental model. The company is now on the cusp of converting their New Zealand fleet of terminals to a transaction processing model similar to the Australian fleet which should see revenues, and profits, grow quickly and significantly despite a softening economy.

The share price was down 15% for the quarter and has finished the year down 27% on last year despite the good result and its growth prospects. Smartpay continues to develop scale in its business, and importantly can fund its growth from cashflow. As profits continue to fall through to the bottom line I imagine the share price in a few years could be materially higher than today's.

Distribution and Portfolio Turnover

Our final distribution of 6.42cents per unit is lower than previous years and so I thought I might explain the reason for those that rely on a certain level of income. The interim distribution paid at the end of December only includes the investment income of the fund, i.e. dividends and interest, for the first six months, while the full year distribution also includes capital gains from sales made throughout the entire year.

Under normal conditions capital gains in most years will be linked to portfolio turnover for the fund. And in most years this will be around 15% to 20%, of the portfolio however, our portfolio turnover for 2024 was closer to 3%. It could have been even lower except that I started trimming our Altium and PSC Insurance positions to initiate a new position. I have only trimmed these positions rather than sell them entirely so as to defer the bulk of the capital gains tax for unitholders to 2025.

The fund will be required to sell these holdings in the next few months and so, all things being equal, the distribution next year will return to more normal levels as these companies represent just over 10% of the fund's assets.

As a result of the lower activity brokerage paid by the fund for the whole year was just 2 basis points, or 0.02%, of the fund's assets.

It's only a point

On first glance there aren't too many similarities between tennis and investing. And there is probably even less reason to take investing advice from a tennis player, however, Roger Federer recently gave a commencement speech at Dartmouth University which was instructive.

You can find a full transcript of the speech [here](#) on the Dartmouth University website and I think if you read it you may come away with a new appreciation for the man.

Like all good speeches he limits himself to making three clear points that his audience could understand. His second point was 'it's only a point' and I will let him explain it further with this excerpt.

Financial Year	Fund Return	ASX300 Return	Difference
2015	2.6%	5.6%	-3.0%
2016	4.8%	0.9%	3.9%
2017	12.5%	13.8%	-1.3%
2018	23.2%	13.2%	+10.0%
2019	2.5%	11.4%	-8.9%
2020	-4.4%	-7.6%	+3.2%
2021	49.5%	28.5%	+21.0%
2022	-19.7%	-6.8%	-12.9%
2023	26.2%	14.4%	+11.8%
2024	24.4%	11.9%	+12.5%

In the 1,526 singles matches I played in my career, I won almost 80% of those matches... Now, I have a question for all of you... what percentage of the POINTS do you think I won in those matches?

Only 54%. In other words, even top-ranked tennis players win barely more than half of the points they play. When you lose every second point, on average, you learn not to dwell on every shot.

This led me to thinking that investing is not dissimilar. It has been reported that more than 90% of funds underperform the market over a 10-year timeframe, whereas we have outperformed the market by 2.7% per annum, or expressed differently, unitholder total returns are 50% higher than the market over the past 10 years. But if you look at the table above we have only outperformed the market in six of those ten years. Coincidentally not a dissimilar success rate to Federer throughout his tennis career.

Federer makes the point that whether it's a great overhead shot that no other player could make, or a double-fault, you cannot afford to dwell on the point, but instead focus on the match. We are in a similar situation whether we have outperformed or underperformed the market in any given year is unimportant, each year becomes "another point" while we focus on the long-term goal of building unitholder wealth.

Unitholders can add value, or not...

As I have written many times the investment philosophy of the fund is to find good quality companies and hold them for the long term, decades if possible. This means that portfolio turnover is very low by industry standards. As I wrote above, in 2024 it was just 3%. If the businesses grow, and we, (meaning me), remain patient then over the long term we should deliver attractive returns, and outperform the market in the process.

But one of the features required to do this is a stable, patient unitholder base. This is one of the reasons the fund letters are longer than most and provide more detail than most others you might read. I want unitholders to clearly understand what they are investing in so that if performance were to suffer, as it will from time-to-time, unitholders will be equally sympathetic.

You may not realise it but who you are invested alongside is important in a fund. Investors, and I use the term loosely, that purchase and redeem units based on short-term performance can cause havoc for a manager and fellow unitholders from both a returns and taxation perspective.

Unitholders that are patient can add value to a fund's performance by not requiring a manager to sell investments at either an inopportune time, affecting performance, or crystallising capital gains that requires tax to be paid by all unitholders from distributions.

In this sense we are very fortunate we have unitholders who are extremely patient and allow your manager to employ an investment strategy that caters to this. To highlight this, I have checked the current unitholder register and 60% of our unitholders representing 79% of the fund's assets have been with the fund for more than 10 years. I suspect that is very unusual by industry standards.

I sincerely thank you for your support and patience, our unitholders really do add to the fund's returns.

As always, feel free to call or email me if you require any further information about the fund.

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The Fund(s) Target Market Determination can be found at <https://fundhost.com.au/Ganes-Focused-Value-Fund-TMD.pdf>