Ganes Capital Management Ltd *ACN 102 319 675 AFSL 291 363*
Ganes Focused Value Fund *ARSN 117 119 712*
PO Box 3512 Newmarket Qld 4051
Phone: 1300 766 916 ● Fax 1300 766 917 ● admin@ganescapital.com.au ● www.ganescapital.com.au

GANES CAPITAL MANAGEMENT LTD

GANES FOCUSED VALUE FUND – MARCH 2015

Unit Prices*

	31.03.15	30.06.14	30.06.13	30.06.12	30.06.11	30.06.10	30.06.09	30.06.08	30.06.07
Entry Price ($)	$2.7095	$2.5716	$2.4721	$2.0377	$2.0438	$1.8024	$1.5322	$1.8130	$2.6617
Unit Price ($)	**$2.7001**	**$2.5626**	**$2.4635**	**$2.0306**	**$2.0366**	**$1.7961**	**$1.5268**	**$1.8067**	**$2.6525**
Exit Price ($)	$2.6906	$2.5537	$2.4549	$2.0235	$2.0295	$1.7898	$1.5215	$1.8003	$2.6432
Distribution (cents per unit)	**3.1451**	**4.0178**	**4.5014**	**4.8340**	**6.7378**	**5.8396**	**6.6702**	**11.6800**	**18.1078**

* Unit prices are quoted pre-distribution. The *total* distribution paid during the financial year is shown.

Past Performance*

	Ganes Focused Value Fund	ASX300 Accumulation Index	Margin
3 months	**5.5%**	**10.3%**	**-4.8%**
6 months	6.5%	13.6%	-7.1%
1 Year	**5.1%**	**13.9%**	**-8.8%**
2 Years (p.a. compound)	7.8%	13.4%	-5.6%
3 Years (p.a. compound)	**11.1%**	**15.3%**	**-4.2%**
5 Years (p.a. compound)	9.9%	8.3%	1.6%
10 Years (p.a. compound)	**9.4%**	**8.2%**	**1.2%**
Inception (p.a. compound)	12.6%	10.1%	2.5%
Value of $10,000 invested at inception (14/10/2002)	**$43,712**	**$33,888**	

Portfolio Allocation

Top ten	43.6%
Other shares	28.0%
Cash	28.4%

Largest Five Holdings

Flight Centre (FLT)
Treasury Group (TRG)
Woolworths (WOW)
Spark Infrastructure (SKI)
Austbrokers (AUB)

* Fund performance is net of all fees and expenses, and assumes reinvestment of distributions. Investments can rise and fall in value. Past performance is not necessarily indicative of future performance. The Fund currently invests substantially in smaller companies that may involve unique risks. The Product Disclosure Statement details the risks associated with an investment in the Fund and is essential reading for investors.

The local market was flat in March but this didn't prevent the first quarter of the calendar year producing an exceptionally strong 10.3% return to the S&P/ASX 300 Index. This performance was driven by the larger companies, as the table below indicates. The top 100 companies put on 10.6% for the quarter with the 50 mid cap stocks producing 12.6%.

Source: au.spindices.com

		Annualised Returns			
Accumulation Index	**3mth**	**1yr**	**3yr**	**5yr**	**10yr**
S&P/ASX 20	10.48%	14.00%	18.25%	9.46%	10.20%
S&P/ASX 50	10.38%	14.15%	17.18%	9.20%	8.91%
S&P/ASX 100	10.58%	14.96%	16.93%	9.10%	8.69%
S&P/ASX 200	10.33%	14.13%	15.82%	8.59%	8.33%
S&P/ASX 300	10.31%	13.90%	15.31%	8.32%	8.16%
All Ordinaries Index	10.21%	13.25%	14.72%	8.22%	8.13%
S&P/ASX Mid Cap 50	12.17%	21.91%	14.70%	8.22%	7.02%
S&P/ASX Small Ordinaries Index	7.30%	2.30%	-1.72%	-0.30%	2.72%

The **four major banks** which comprise roughly 28% of the market had a stellar quarter lead by Westpac (18.8%), NAB (14.7%), ANZ (14.2%) and Commonwealth Bank (11.4%). There is little doubt that record low interest rates have driven the appetite for the relatively high yielding bank stocks exemplified by the strong bank share price reaction to the 25bp cut in the cash rate by the RBA on the 3rd of February. With at call bank deposit rates now below 2% the hunt for yield is keen, and the banks are prime targets given their 4 to 5 percent fully franked yields. The table also shows that the top 20 companies have produced a 10.2% annualised ten-year return, no mean feat given it spans the GFC, and well ahead of the high single digit returns of the other indices. Not surprisingly, the banks have led the charge with double digit ten year returns from ANZ, Commonwealth Bank and Westpac. Our major banks now rank amongst the most expensive in the world, and as attractive as our financial system is, it is hard not to conclude that investors have grown complacent about business risk and valuation risk in this sector.

Beyond the top 100, the story for the last quarter and longer periods is much more sobering. The Small Ordinaries Index, covering companies ranked 101-300 generated 7.3% for the quarter but just look at those longer term returns. Investors in this index have gone backwards with an investment made five years ago and are ahead just 2.7% per annum over the last decade. The lower returns across time of the All Ordinaries Index against the S&P/ASX300 indicates that companies smaller than those in the Small Ordinaries Index have fared even worse. Ten year returns point to a starting point of March 2005 some two years before the market peaked in 2007. Investors in small stocks who bought at the top of the market in 2007 when the Small Ordinaries price index topped out at 4,177 points are looking at some sizeable losses with the index currently around 2,200.

The Fund reported a return of 5.5% for the quarter, lagging the benchmark index which generated a 10.3% return. It is difficult for us, as managers of the Fund, to not be disappointed by these sub-market returns which now stretch over periods of up to 4 years. However, our disappointment needs to be tempered by insights from the analysis above which suggest that the space in which we have primarily hunted over the life of the Fund, beyond the top 100 stocks, has produced poor share price returns. This under-performance has been tempered in recent years by a growing allocation in the portfolio toward larger companies as we saw opportunities for superior returns there. Nevertheless, our preference remains to find growing businesses in the smaller company universe. To that end we have identified several interesting smaller companies where we have established new positions during the last quarter including Isentia, Silver Chef and GBST.

Isentia (ISD) - $738m market capitalisation
Founded in 1982, iSentia was listed in June 2014 with 139m shares offered at $2.04. The company provides media intelligence services to a large number of corporates and government departments. It runs a software-as-a-service (SaaS) business which uses in-house software and systems to capture and analyse data from thousands of media outlets, online news and socia media to tell clients what is being said about them. Clients number more than 5,000 in the Asia Pacific region and it has 92% of world leading brands and 28% revenue share, 5 times bigger than nearest competitor. The media intelligence industry in the Asia Pacific has grown at nearly 19% CAGR for 2009-2012 a much higher rate than in the Americas and Europe/Middle East, reflecting a less developed market. Asia Pacific forecast growth for 2013 to 2016 is 13.7% and the company estimates that they only have 25% of their target businesses currently as clients. This is a high quality business, with a dominant market position and strong growth prospects reflected by strong revenue and profit growth reported for the first half of the year.

Silver Chef (SIV) - $243m market capitalisation
Silver Chef is primarily a small-scale financier for business equipment such as coffee machines and fridges in the hospitality industry. Although in recent years the company has expanded further afield through its Go-Getta business. Founded by the Chairman and major shareholder, Allan English, the company listed in 2005 and since then has performed well with profits growing from less than $1m in 2005 to $12.7m last year. And along with the solid business performance the share price rose from less than $2.00 to nearly $9.00 in mid 2013. However, the share price then gradually fell 25% and that's when we became interested, providing an entry point for the portfolio. The company has introduced some new funding models which we thought looked attractive from the business' perspective and the company upgraded its profit forecasts in tandem. Profits have grown at more than 20% per annum for the past five years and the $12.7m profit made last year was a 19% return on shareholders funds. Due to the nature of the business of financing, and the demand for the equipment, the company has borrowed to fund its expansion which means the company has more debt than others in the portfolio but so far this has meant the company has been able to grow profits at a rate much greater than many others since GFC and this shows no sign of slowing at this stage.

GBST Holdings (GBT) - $405m market capitalisation
GBST was founded in 1984 and was listed on the ASX in 2005. The company provides software and services to the financial services industry. Its two main divisions are Capital Markets and Wealth Management. The Capital Markets business provides sofware to institutional and retail stock brokers for the processing of transactions, and Wealth Management provides software to the wealth management industry for fund and registry administration. Wealth management now provides the larger share of both revenue and earnings. The company has clients in Australia, Asia, the UK and North America and recently, for the first time, international sales exceeded local sales. The company is now enjoying significant operating leverage, driven by corporate expenses becoming an increasingly smaller portion of revenue. EBIT margin has grown rapidly and now sits around 15% and ROE is also strong approaching 20%. Driving the current and future growth in the business is structural change in the UK pension industry driven by new regulatory requirements which have forced the industry to look to products like GBST Composer to provide better value to its customers. GBST says that the UK business is in early growth stage given the size of the market. Key risks for the business are exposure of the Capital Markets division to large equity market moves, and to regulatory changes in the markets in which it operates. GBST has come through a long period of product investment and is now reaping the benefit of strong revenue and profit growth driving healthy cashflow and delivering an ungeared balance sheet. This growth appears in place for the foreseeable future.

At this juncture, the world is a challenging place for Australian investors. Interest rates across the developed world, including Australia, are at historic lows which has seen income starved investors scramble for yield, driving up the prices across the sharemarket, and particularly stocks with high dividend yields. Few would have predicted current interest rate levels, and equally few will successfully execute an investment strategy based on their forecast of future interest rates. *Rather than be diverted by uncontrollable and unpredictable macroeconomic variables, we continue to focus on finding businesses that can grow and prosper in a range of economic seasons, and that we think will deliver sound longer term returns to unitholders*.