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Ganes Focused Value Fund *ARSN 117 119 712*
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GANES CAPITAL MANAGEMENT LTD

GANES FOCUSED VALUE FUND – JUNE 2015

Unit Prices*

	30.06.15	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 ($)	**$2.5890**	$2.5716	$2.4721	$2.0377	$2.0438	$1.8024	$1.5322	$1.8130	$2.6617
Unit Price ($)	**$2.5800**	**$2.5626**	**$2.4635**	**$2.0306**	**$2.0366**	**$1.7961**	**$1.5268**	**$1.8067**	**$2.6525**
Exit Price ($)	**$2.5709**	$2.5537	$2.4549	$2.0235	$2.0295	$1.7898	$1.5215	$1.8003	$2.6432
Distribution (cents per unit)	**8.0993**	**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	-4.5%	-6.5%	-2.0%
6 months	0.8%	3.2%	-2.4%
1 Year	2.6%	5.6%	-3.0%
2 Years (p.a. compound)	4.1%	11.3%	-7.2%
3 Years (p.a. compound)	10.3%	14.7%	-4.4%
5 Years (p.a. compound)	10.2%	9.5%	0.8%
7 Years (p.a. compound)	8.2%	5.1%	3.2%
10 Years (p.a. compound)	9.5%	6.9%	2.5%
12 Years (p.a. compound)	11.7%	9.6%	2.1%
Value of $10,000 invested at inception (14/10/2002)	**$41,768**	**$31,693**	

Portfolio Allocation

Top ten	44.2%
Other shares	34.4%
Cash	21.4%

Largest Five Holdings

Flight Centre (FLT)
Austbrokers (AUB)
Templeton Global Growth (TGG)
Sonic Healthcare (SHL)
Magellan Flagship Fund (MFF)

* 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.

In the June 2014 update we noted the difficulty in finding attractive investment opportunities and the consequent high cash level in the Fund. We are not then overly surprised then to see the mediocre market return (5.6%) of the last twelve months, though we are certainly disappointed to have under-performed for a second year in a row (2.6%), the first time in the history of the Fund that this has occurred. On the second page of this update we will identify and discuss the stocks that contributed most to this under-performance. High cash levels have also contributed to this under-performance, particularly when the interest earned on the cash is so pitifully low. We have always tended to have relatively high cash levels inside the Fund, and performance has generally been good in spite of this. However, we are aware that over most periods Fund performance would have been better with lower cash levels and have worked hard in the last year to bring the cash level down and will be particularly mindful of this moving forward.

Financial Year	Ganes Return	ASX300 Return	Difference
2004	33.2%	21.7%	11.5%
2005	15.5%	26.0%	-10.5%
2006	34.8%	24.0%	10.8%
2007	45.0%	29.2%	15.8%
2008	-27.6%	-13.7%	-13.9%
2009	-14.1%	-20.3%	6.2%
2010	24.5%	13.1%	11.4%
2011	17.8%	11.9%	5.9%
2012	2.9%	-7.0%	9.9%
2013	23.7%	21.9%	1.8%
2014	5.6%	17.3%	-11.7%
2015	2.6%	5.6%	-3.0%

There have been some significant changes inside the portfolio over the last year. We have sold out of large positions in Woolworths and Spark Infrastructure which we discuss on the next page. We also exited a small position in Westpac at a healthy profit before the recent slump in bank share prices. The large position in Treasury Group has been trimmed by around half, and positions in Fiducian, Invocare, Computershare, Coca Cola Amatil, Dulux were also trimmed or exited.

We have also initiated positions in a range of smaller listed businesses over the same period including GBST, Capilano Honey, Trade Me Group, Gentrack, Isentia, Nick Scali, Smartgroup, Silver Chef, Dick Smith, Centuria and Lifeheathcare. Templeton Global Growth is also a new holding comprising a portfolio of international stocks, and provides unitholders with what we think is an attractive exposure to a diverse range of overseas businesses.

The table overleaf shows the largest ten holdings in the portfolio one year ago. These companies represented 45% of the portfolio at June 2014. Unfortunately, the largest three positions in the portfolio at the start of the year had a dreadful year in share price terms. Flight Centre and Woolworths were down just over 20% for the twelve months and Austbrokers down 13.2% and we will talk in more detail below about what drove the share prices of these three companies down. The table also shows that the portfolio had some strong performers and these enabled the Fund to generate a positive return for the year.

continued overleaf...

This time last year we noted how **Flight Centre** had made the strongest dollar contribution to the Fund on the back of record revenue and profit. A stark reversal has occurred in the last 12 months with a return of minus 20% for the year, driven by a recent market update where the company announced pre-tax profit was expected to be around 4% lower than the prior year. This compares with guidance in August last year of 5-8% growth. Despite record total transaction value across their global business, management says that the lower than expected profits have been driven by several factors including slower than normal sales growth, discounting of fares by travel consultants in the leisure sector and competitive market pricing in corporate travel. While the business has a strong brand, it does operate in a very competitive market and we shouldn't be surprised to see volatility in operating performance from time to time. On a positive note, management recently said they believe the next 20 years will represent a Golden Era of Travel and Graham Turner said they had just been working on their 20 year plan, and we love managers who have such long term aspirations. We have held Flight Centre in the Fund now for more than a decade, through many ups and downs and are happy to continue to hold it at current prices, particularly with Turner at the helm.

Top 10 stocks as at June 2014

	% of portfolio (June 2014)	Total Return FY15	% of portfolio (June 2015)
Flight Centre	9.6%	-20.5%	9.3%
Woolworths	7.0%	-20.1%	0.0%
Austbrokers	5.3%	-13.2%	4.9%
Treasury Group	4.7%	3.6%	2.2%
Spark Infrastructure	4.5%	11.9%	0.0%
Computershare	3.7%	-3.8%	3.1%
ARB Corporation	3.1%	18.4%	3.7%
Magellan Flagship	2.3%	30.6%	4.0%
Sonic Healthcare	2.2%	28.0%	4.5%
Fiducian Portfolio	2.2%	10.9%	1.1%

Sometimes, as an investor, you have to admit that your investment thesis is wrong, cut your losses and look elsewhere for opportunity. Fortunately, in the case of **Woolworths,** we still managed a small profit even before including dividends received, but it's still an unsatisfactory return for a five year investment. Woolworths remains a dominant player in the Australian supermarket sector, but world best supermarket margins have enticed reformed existing competitors (Coles) and hungry new low-price, low-margin competitors (Aldi, Costco) , and shown Woolworths to be, at best, complacent. While we still believe there is room for another major big box hardware chain such as the Woolworths Masters offering, execution has been poor and there is no end to the bleeding in sight. Big W also has plenty of problems and again we were not convinced that current management were on top of the issues. We exited the position before the CEO announced his resignation, believing that the future as a shareholder was not likely to be attractive with the status quo.

In contrast to Woolworths, the Fund has done well out of insurance broker **Austbrokers**, making an initial investment at $3.61 at the depth of the GFC market carnage in March 2009. From there, the share price had a stellar run to a high of around $12 in late 2013 on the back of a combination of organic and acquisition driven growth. A year ago we noted some concerns we had which led to us trimming the holding, and earlier this year the company flagged a profit downgrade on the back of soft insurance premiums which sent the share price sharply lower. Corporate expenses have also risen under the new CEO appointed in 2013.

Treasury Group started and ended the year at an almost identical share price around $9.50, though it was above $13 in April this year. Early in the financial year the company announced a merger with a US based asset manager called Northern Lights that held investments in 13 boutiques with Funds Under Management of $24.2bn. It is not common for deals of this type to work out well for acquiring shareholders and we viewed the transaction with caution. It has since become evident that material funds outflow and weak investment performance has occurred in the acquired businesses though offset significantly by the declining Australian dollar, and we reduced the Fund exposure by a little more than half at around $11.

The bulk of the Fund holding in **Spark Infrastructure** was purchased in 2009 and 2010 at prices between $1 and $1.24 and the remaining holding that we had at the start of the year was sold recently between $1.96 and $1.99. This represented a handy capital gain on a boring old utility which has also paid distributions of around 55 cents over the last 5 years. We are of the view that the best of the gains here have been had and the business faces headwinds going forward in the form of a less favourable regulatory environment and a slow decline in electricity demand driven by the uptake of alternative energy sources such as solar.

Unitholders will note that there are two new names in the top 5 stocks, Templeton Global Growth, purchased in the last year, and Magellan Flagship Fund, purchased in 2010 and 2011. Both are listed investment companies and comprise an attractive portfolio of international listed stocks, and we think the Fund benefits from such an exposure.

The fund will pay a distribution of 4.95 cents per unit for the June half-year and unitholders should have received their Distribution statement and tax statements with this update.