

GANES FOCUSED VALUE FUND – DECEMBER 2013

Unit Prices*

	31.12.13	30.06.13	30.06.12	30.06.11	30.06.10	30.06.09	30.06.08	30.06.07	30.06.06
Entry Price (\$)	\$2.5915	\$2.4721	\$2.0377	\$2.0438	\$1.8024	\$1.5322	\$1.8130	\$2.6617	\$2.0250
Unit Price (\$)	\$2.5825	\$2.4635	\$2.0306	\$2.0366	\$1.7961	\$1.5268	\$1.8067	\$2.6525	\$2.0179
Exit Price (\$)	\$2.5735	\$2.4549	\$2.0235	\$2.0295	\$1.7898	\$1.5215	\$1.8003	\$2.6432	\$2.0108
Distribution (cents per unit)	2.2927	4.5014	4.8340	6.7378	5.8396	6.6702	11.6800	18.1078	15.3199

* 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	1.4%	3.4%	-2.0%
6 months	5.6%	14.0%	-8.4%
1 Year	16.4%	19.7%	-3.3%
2 Years (p.a. compound)	18.4%	19.7%	-1.3%
3 Years (p.a. compound)	9.9%	8.5%	+1.4%
5 Years (p.a. compound)	16.7%	12.3%	+4.4%
7 Years (p.a. compound)	4.8%	3.5%	+1.3%
10 Years (p.a. compound)	11.8%	9.5%	2.3%
Value of \$10,000 invested at inception (14/10/2002)	\$40,670	\$29,173	

Portfolio Allocation

Top ten	43.3%
Other shares	12.9%
Cash	43.8%

Largest Five Holdings

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

* 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.

Markets

A rally late in the month saw December produce another positive month rounding out another year of strong returns. The S&P/ASX300 was up 19.7% for the year and 3.4% for the December quarter. Overseas markets also reported very strong returns with the S&P500 in the USA up 29.6% for the year and the Nikkei index in Japan up 56% for the year.

During December the Australian dollar fell 2.1% against the US dollar following public statements by the Reserve Bank Governor he would like to see a lower dollar. Overall, the Australian dollar fell 14% against the US dollar during 2013, and similar amounts against most other major currencies except the Euro. This has greatly assisted local investors with unhedged overseas holdings, highlighted by the growth in international managed equity funds and their strong returns for the year.

Portfolio performance

The fund reported a return of 1.4% for the quarter and a 1 year return of 16.4%. Low interest rates, and rising equity markets, means our large cash weighting continues to detract from fund performance on a relative basis in the short term. In hindsight our decision to reduce or sell some of our positions due to valuation concerns now appears somewhat premature and conservative. However, this has served us well in the past and we believe is the most appropriate approach when acting as custodians of other people's money and their future (or current) retirement funds.

While much commentary appears to be now focused on further strong markets we remain cautious as we are not seeing justification for these expectations in future earnings against current share prices. In short, many companies are currently priced for perfection, something we regard as unlikely in most cases.

Flight Centre

The largest holding in the Fund, Flight Centre, was down 2.4% for the month and flat for the quarter following news the company has lost a test case in the Federal Court brought by the ACCC for alleged price fixing. The company announced it intends to appeal the decision and a hearing for the penalty has been adjourned until February 2014. This news notwithstanding, Flight Centre has been the standout performer in the fund for 2014 producing a return of 81% for the calendar year.

IMPORTANT INFORMATION: This update does not take into account any individual's investment objectives, particular needs or financial situation. It is general information only and should not be considered to be investment advice and should not be viewed or relied on as an investment recommendation. Ganes Capital Management Ltd (ACN 102319675) (AFSL 291363) is the Responsible Entity for the Ganes Focused Value Fund (ARSN 117119712). Decisions to invest should only be made after considering the information contained within the current Product Disclosure Statement (PDS). Initial application for units can only be made on an application form attached to the current PDS.

Austbrokers

Austbrokers is the second largest holding in the fund, and one of the fund's quiet achievers rarely receiving much business coverage, or even commentary from us. However it has delivered impressive results for shareholders over the past few years and 2013 was no exception. The share price was up 3.1% in December, but more importantly it has provided a return of more than 40% for 2013 and 31% per annum for the past 3 years for shareholders.

Austbrokers is an insurance broker to businesses receiving commissions on the insurance policies it places with underwriters. For 2013 the company reported an increase of 8% in revenues to \$273m and a 17% increase in profits to \$32m. The company has a track record of under-promising and over-delivering on profit expectations with profits growing at a compound rate of 15% per annum for the past five years. Management adopts a low-key approach and the company conducts its business with minimal fanfare. All the characteristics we seek in a business, along with its very strong Balance Sheet.

Like almost all our preferred investments the share price is not as attractive today as it has been but Austbrokers is typical of the type of high quality, conservatively run business we continually seek for the portfolio. With a market share of 10% of the insurance brokerage industry the company still has significant opportunities to grow and provide further returns for patient shareholders.

Magellan Flagship Fund

Magellan Flagship Fund provided one of the strongest returns for the fund with the share price up 12% in December, and a 1 year return of more than 50%. Magellan Flagship Fund is an international investment fund with a focus on global companies and as we noted in the introduction, international funds have benefitted from strong overseas markets and a falling Australian dollar. During 2013 the investment return of the fund aligned with the share price increase as the NTA of the fund rose an impressive 54% to \$1.519.

The fund's portfolio has a focus on major financial services businesses with its largest three holdings of Wells Fargo Bank, Visa and Bank of America comprising nearly 30% of the portfolio. Other significant holdings include Apple, Walmart and Home Depot, all high quality businesses we also admire.

However, even with a wider international investment universe to work in Magellan has also stated their concerns in their latest update from December: "We continue to be cautious about valuation risks as markets continue to rise."

The Magellan investment has served us well and one of the few times everything went as we had hoped and predicted but we are under no illusion that Magellan will produce another 50% return for 2014.

Outlook

Not much has changed since our last quarter update and we reiterate we are having difficulty finding value in the current market and we remain cautious on current valuations being applied to even the best companies – the ones we would like to own. However, we continue to scour the markets using various search tools and several small opportunities have presented themselves as worthy of further analysis. We have added a number of smaller positions to the portfolio in recent months and added to our larger position in Trade Me during December.

The fund is still small enough that we can take advantage of most investment opportunities that we find and we are prepared to take meaningful positions so we would only require a handful of good ideas to be fully invested again.

Distribution

The fund will pay a distribution of 2.2927c for the December half-year and funds for unitholders receiving cash distributions should already be deposited in their nominated bank accounts. We are conscious of providing income for investors and continue to seek that companies that pay dividends (usually fully franked) as well as the ability to increase their dividend over time as profits grow.