

GANES FOCUSED VALUE FUND – JUNE 2014

Unit Prices*

	30.06.14	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 (\$)	\$2.5716	\$2.4721	\$2.0377	\$2.0438	\$1.8024	\$1.5322	\$1.8130	\$2.6617	\$2.0250
Unit Price (\$)	\$2.5626	\$2.4635	\$2.0306	\$2.0366	\$1.7961	\$1.5268	\$1.8067	\$2.6525	\$2.0179
Exit Price (\$)	\$2.5537	\$2.4549	\$2.0235	\$2.0295	\$1.7898	\$1.5215	\$1.8003	\$2.6432	\$2.0108
Distribution (cents per unit)	4.0178	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	-2.1%	0.9%	-3.0%
6 months	0.1%	2.9%	-2.8%
1 Year	5.6%	17.3%	-11.7%
2 Years (p.a. compound)	14.4%	19.6%	-5.2%
3 Years (p.a. compound)	10.4%	10.0%	0.4%
5 Years (p.a. compound)	14.6%	11.0%	3.6%
7 Years (p.a. compound)	3.0%	2.1%	0.9%
10 Years (p.a. compound)	10.8%	8.9%	1.9%
Value of \$10,000 invested at inception (14/10/2002)	\$40,732	\$30,008	

Portfolio Allocation

Top ten	44.7%
Other shares	14.7%
Cash	40.6%

Largest Five Holdings

Flight Centre (FLT)
Woolworths (WOW)
Austbrokers (AUB)
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.

The 2014 financial year was another positive period for investors and one that saw most sectors handily outperform alternative asset classes. With interest rates being held low for some time this has virtually forced investors to equities and property seeking yield. In key overseas markets where interest rates are virtually zero, and it appears they will remain at that level for some time, the impact was even more acute with those markets producing strong returns. Indeed, the US market has hit 22 new record highs so far this calendar year. We began the 2014 year with a high cash weighting and unfortunately that remains the case today as opportunities have been few and far between to deploy the cash at what we believe will provide attractive returns.

The Australian market was up 17% for the year, defying underlying business performance, but spurred on by low interest rates and improved property markets. The banks, which constitute a big sector of our market, were all up around 20% as investors were attracted by the fully franked dividend yield and improved profits on the back of a more buoyant property market.

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%

In the table to the left we provide our last 11 years of performance on an annual basis. We have outperformed the market in 8 of the past 11 years and have only produced a negative return in the two years around the GFC. In a world of low interest rates and low inflation we improved the wealth of our unitholders in both absolute and real terms with a 1-year return of 5.6%. However, we underperformed the market that had another good year on the back of strong returns from the banks and large resources companies.

We have always sought to invest in quality businesses that we believe offer attractive returns over the medium to longer term and as a result the Fund does not in any way replicate the index. Owning a portfolio that doesn't seek to replicate the index means it is also inevitable that at times we will underperform the market, or outperform it as we have mostly done so. We hope for underperformance not to

happen, but unfortunately it is a part of the investment experience at times and one for which investors should be prepared.

Despite our relatively poor year the 1.9% outperformance over 10 years means that an investment in the fund is still worth nearly 20% more than a similar investment in the index over the same time frame – small compounding returns provide large benefits to investors over long time horizons. And remember, the index has no management or transaction costs associated with it - so to that extent it is an inflated return.

continued overleaf...

The table below shows the largest ten holdings in the portfolio one year ago. These companies represented 43% of the portfolio at June 2013 and because of our low turnover have a high impact on the performance of the portfolio in the 2014 financial year. In most years our outperformance comes from the heavy lifting that our larger holdings perform, but unfortunately this year only two of our larger holdings (Treasury Group and Computershare) outperformed the market.

Flight Centre made the strongest dollar contribution to Fund performance given its position as the largest holding in the portfolio and a solid 16.7% return for the year, even though it is down 20% from the \$55 it reached in just the last few months. The company achieved another record year of revenue and profit for the business and recently announced that it is expecting profits to be up another 8-11% for this year. Despite this, the price has fallen recently, along with many other companies exposed to discretionary spending. We have held Flight Centre for many years and with another solid year of growth expected in FY15, we are comfortable continuing to hold this company.

The **Austbrokers** share price ran well ahead of the underlying business in the previous financial year rising nearly 60% between June 2012 and June 2013 as the market fell in love with the company. The Fund enjoyed the run having purchased its stake at much lower prices between March 2009 and July 2010. We trimmed the holding in June 2013 and again in February this year following a half year result where the company failed to deliver a result above management guidance for the first time in quite a long time. Expense growth had exceeded revenue growth under the new CEO, a slightly worrying occurrence, and something we will monitor closely in the upcoming full year reporting season.

Top 10 stocks as at June 2013		
	% of portfolio (June 2013)	Total Return FY14
Flight Centre	8.1%	16.7%
Austbrokers	6.7%	2.3%
Woolworths	5.4%	11.5%
ARB Corporation	4.6%	9.9%
Spark Infrastructure	4.0%	13.0%
McMillan Shakespeare	3.6%	-40.9%
Treasury Group	3.3%	41.9%
Computershare	2.9%	24.2%
Invocare	2.5%	-8.1%
Magellan Flagship	2.1%	7.1%

Woolworths is a core holding in the portfolio and produced an 11.5% return for the year. Woolworths is somewhat unique as one of two dominant national supermarket chains, boasting world-class profit margins and supported by an almost un-assailable store footprint. It dominates the liquor retail business, well ahead of Coles, but is struggling to get its fledgling hardware business, Masters, viable in the face of the category-killer Bunnings. Mid single digit growth is on the cards going forward though we believe Masters could provide a significant upside option on this.

ARB Corporation navigated a difficult year well, as we have come to expect from this exceptionally well managed business, but produced a relatively subdued 10% return for the year. The business has been impacted by the struggling resources sector and by generally poor consumer sentiment, leading to a fall in margins and profits in the first half for the first time in many years. Our largest holding for some time, we had significantly trimmed the position in the Fund over the 2013 calendar year, concerned about valuation and how the business would fair under much less favourable demand conditions. The recent half year results and accompanying management commentary have reassured us that the company still has good growth prospects and can continue to deliver good returns for shareholders.

Spark Infrastructure, the owner of Victorian and South Australian power transmission and distribution facilities continues to chug along satisfactorily earning a decent relatively low risk return on capital. The company has provided distribution guidance for the full year of 11.5c, a 6.1% yield at the current price. This is a 4.5% increase over 2013 and a 4.8% increase over 2012. In summary the holding is producing a circa 10% return in a monopoly like asset.

McMillan Shakespeare: Our largest negative performer for the year and some explanation for unitholders.

We purchased most of the holding in early 2008 at an average price of \$3.25 when the company was out of favour amid fears around the future of favourable Fringe Benefits Tax regulations under the Henry review. These fears evaporated as the Henry review recommendations were largely ignored and the share price subsequently rose to a high of \$18 in July 2013. As the price continued to rise we gradually trimmed our position throughout 2010 and 2011 making good returns on our investment, and always with the regulatory risk in the front of our thinking. This risk came home to roost early in July last year when a policy change announcement by the then Prime Minister, Kevin Rudd, in the lead up to the Federal election, sent the share price plunging from over \$18 to \$6.75. The announcement saw the industry stop dead in its tracks and write almost no new business in the 3 months up to the election. The share price recovered to as much as \$13 when the Coalition was elected and we took the opportunity to significantly reduce our exposure again. As expected the first half result was significantly impacted by this disruption but indications are that the business has since fully recovered. At current prices, closer to \$9, value is more compelling but we are conscious the regulatory risks remain.

The fund will pay a distribution of 1.6835c per unit for the June half-year and unitholders should have received their Distribution statement and tax statements with this update.

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