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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 2017

Unit Prices*

	30.06.17	30.06.16	30.06.15	30.06.14	30.06.13	30.06.12	30.06.11	30.06.10	30.06.09
Entry Price ($)	$2.8741	$2.6379	$2.5890	$2.5716	$2.4721	$2.0377	$2.0438	$1.8024	$1.5322
Unit Price ($)	**$2.8641**	**$2.6287**	**$2.5800**	**$2.5626**	**$2.4635**	**$2.0306**	**$2.0366**	**$1.7961**	**$1.5268**
Exit Price ($)	$2.8541	$2.6195	$2.5709	$2.5537	$2.4549	$2.0235	$2.0295	$1.7898	$1.5215
Distribution (cents per unit)	**6.3040**	**8.8129**	**8.0993**	**4.0178**	**4.5014**	**4.8340**	**6.7378**	**5.8396**	**6.6702**

* 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	3.4%	-1.6%	5.0%
6 months	2.9%	3.1%	-0.2%
1 Year	12.5%	13.8%	-1.3%
2 Years (p.a. compound)	8.6%	7.2%	1.4%
3 Years (p.a. compound)	6.6%	6.6%	0.0%
5 Years (p.a. compound)	9.6%	11.6%	-2.0%
7 Years (p.a. compound)	9.8%	8.8%	1.0%
10 Years (p.a. compound)	4.0%	3.4%	0.6%
Inception (p.a. compound)	11.4%	9.0%	2.4%
Value of $10,000 invested at inception (14/10/2002)	**$49,250**	**$36,389**	

Largest Ten Holdings

Gentrack (GTK)
Reece Australia (REH)
Clydesdale Bank (CYB)
Smartgroup (SIQ)
PM Capital Global Opportunities (PGF)
PWR Holdings (PWH)
Nick Scali (NCK)
Trade Me Group (TME)
Beacon Lighting (BLX)
ARB Corporation (ARB)

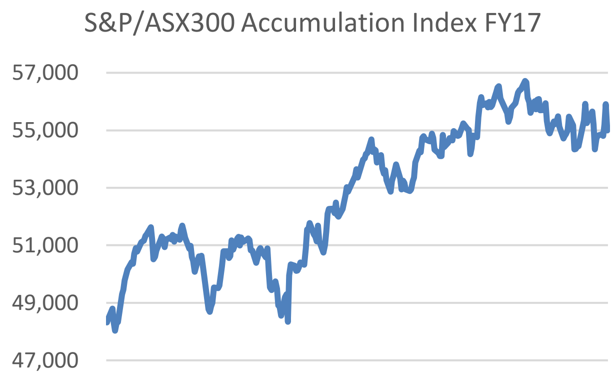
Portfolio Allocation

Top ten	54.5%
Other shares	41.7%
Cash	3.8%

* 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

The past financial year has highlighted the importance of staying in the market, rather than attempting to time it any way. The graph below shows the path of the S&P/ASX300 Accumulation Index over the year, with the bulk of the years returns generated in a short window following the election of President Trump at the end of 2016. For much of the rest of the year, the market whipped around quite a bit without doing too much. There is always something scary happening in the world, and it is easy as an investor to get frightened onto the sidelines by the most recent headline whether it be the election of Trump, Brexit, North Korean nuclear missile tests, rising interest rates, plunging oil prices. For the most part, these macro events are noise generated to sell newspapers and their short-term impact on markets will subside and largely be forgotten by markets within several weeks or months.



Turnover and Tax

We aim to find companies whose management plans for the long-term and where necessary will sacrifice short term profits to make long term investments. We aim to do behave in a similar way in managing the Fund. We like to find companies for the portfolio that we believe we can own for many years and so take advantage of the long term thinking of the managers in the companies we own. This also benefits us as shareholders by reducing transaction costs and postponing the payment of capital gains tax. Ideally, this will show itself in low portfolio turnover. Our turnover for the Fund for FY17 was 11.2% which we believe to be significantly lower than the average managed fund. You will see this low turnover reflected in the tables below where over the course of the year there have been just two changes to the top ten holdings. One of these changes, Magellan Flagship Fund, slipped out of the top ten simply due to market movements. The other, Flight Centre, was sold out of the portfolio after being held for 12 years.

Fund and Stock Performance

The Fund has reported its Eighth year in a row of positive returns with a gain of 12.5% representing a small underperformance against the Index but pleasing after three years of modest returns. It is worth noting that the Fund return is net of all fees and expenses whereas the Index return does not suffer the burden of any fees or expenses.

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%
2016	4.8%	0.9%	3.9%
2017	12.5%	13.8%	-1.3%

As we routinely do in this end of financial year update, we check back to the largest holdings of a year ago, and assess how these performed and contributed to Fund performance over the past year. In general the picture is a positive one with seven of the top ten holdings generating double digit returns and four of these circa 30%. Unfortunately, some of the weaker performances came from our largest five holdings with Beacon Lighting and ARB Corporation recording a negative return. Beacon Lighting generated a second consecutive year of negative returns, albeit modest. However, one year returns, good or bad are not something we should spend much time worrying about. For example, a poor one or two year return may simply follow several years of strong positive returns where the share price gets ahead of the good underlying business fundamentals. Our focus in the following discussion then, is much more on how the underlying business has progressed over the course of the year.

The largest holding in the portfolio at the end of June 2016, **Reece**, has had a satisfactory year generating a return of 16.1% for the Fund, and recording solid underlying business growth. After several years of modest growth, the last three years has seen a return to more significant improvement driven by improved construction activity with FY16 revenue up 9.2% and pre-tax profit up 23.2%. For the first half of FY17, the company reported revenue growth of 6.1% and profit growth of 7.5%. The company continues to invest in its business for the long term and has a strong balance sheet with plenty of capacity to fund future opportunities.

Clydesdale Bank produced a healthy 12.9% return for the year despite depreciation in the British Pound against the Australian Dollar. Clydesdale is a British bank spun off by the NAB and now under the stewardship of a new management team with a track record of getting a wayward ship back on course. A significant part of the bottom line improvement is expected to come from tackling a bloated cost base and the first half results released in May suggested management was on track in this area.

Top 10 stocks as at June 2016

	% of portfolio (June 2016)	Total Return FY17	% of portfolio (June 2017)
Reece Australia	6.0%	16.1%	6.2%
Clydesdale Bank	5.8%	12.9%	6.2%
Smartgroup	5.4%	29.4%	6.1%
Beacon Lighting	5.3%	-1.8%	4.6%
ARB Corporation	5.2%	-4.2%	4.4%
Nick Scali	4.8%	28.4%	5.3%
PM Capital Global	4.6%	37.7%	5.6%
Flight Centre*	4.6%	26.5%	2.3%
Trade Me	4.5%	18.9%	4.6%
Magellan Flagship Fund*	4.4%	5.2%	4.1%

* No longer in the top ten holdings as at June 2017

Smartgroup has a December financial year end, and reported very strong growth principally from acquisitions but organic growth was also a meaningful contributor. The bulk of the company's business comes from salary packaging and novated leasing and by year end it had 221,000 active packages and 53,000 active leases. Revenue was up 57% for the year and after tax profit (pre amortization of intangibles) up 68%. Debt levels are conservative despite the acquisitions and interest well covered by earnings.

Beacon Lighting has found life as a listed retailer difficult in recent times. The company went into FY16 with a very strong FY15 under its belt, and so 7.7% sales growth and 6.3% profit growth for FY16 was not too shabby under the circumstances. For the first half of FY17 the business generated 10.9% in sales growth with a modest 1.2% same store growth but a reduction in gross profit margin due to competitive pressures and foreign exchange headwinds saw profit margins lower and pre-tax profit down 15.9%. Beacon is a relatively new listed company but with a manager who has built the business from the ground up, and has a significant personal stake in the company. We like the company but will see how things play out over the next year or two.

ARB Corporation has been held by the Fund since 2003 and is the standard bearer for the type of company we like to see in the portfolio. It has an exceptional management with a long track record of delivering high quality products to a discerning customer base. Growth within the business is predominantly organic and underwritten by a commitment to new product development. High profit margins and returns on capital are made and the balance sheet is free of debt. The business continues to perform well but margins have compressed slightly following healthy expansion during the resources sector boom. The share price also appreciated greatly in 2015, and so it can take some time for the fundamentals to catch up with the share price, and our view is that this is worth waiting for. We are expecting single digit growth in revenue and profit for the 2017 financial year with further improvement in coming years.

Nick Scali backed up a strong year in FY16 with a 28.4% total return in the current year. This came despite the pessimism which has recently beset the listed retail sector, around the entry of Amazon into the Australian market. In August last year the company reported a 30% lift in sales for FY16 with 11.1% same store growth and a 53% increase in pre-tax profit. The company then backed up in February this year with a 16% increase in sales and 44% increase in profit for the first half of FY17. We would not be surprised to see these exceptional profit margins unwind somewhat going forward, but are happy to hold this well run family managed business as the store footprint continues to expand.

PM Capital Global Opportunities is a listed investment company with an international focus across banking, service monopolies, pharmaceuticals and stocks which will benefit from housing recovery in the US and Europe. The return of 37.7% closely followed the change in Net Tangible Assets (pre-tax) from $0.96 at 30 June 2016 to $1.25 at 30 June 2017. However, the share price continues to trade at a discount to asset backing finishing the year at $1.105.

Flight Centre produced a much stronger 26.5% in the last year, after reporting a small negative return in FY16. Over this period we have come to the view that, despite its good track record of growth and strong management, the future prospects of this business are not as bright. There are now many small, nimble, hungry competitors in the digital space who are having a growing impact on the economics of this largely bricks and mortar travel business. During the year we continued to sell down this position and completed the sell down just recently. The Fund had held Flight Centre since 2005 when it was first purchased near $16 with the bulk of subsequent purchases at lower prices, and so with dividends has produced good returns for unitholders over that period.

Trade Me has had a solid year generating an 18.9% return, and delivering on its promise to move back on a growth trajectory after several years of investment in the business. Trade Me is the owner of several dominant online marketplaces including Motors, Property and Jobs. For the first half of FY17 the company reported a 9% lift in revenue and a 12% increase in pre-tax profit and continues to enjoy exceptionally high profit margins.

Magellan Flagship Fund generated a second year of modest returns, despite a healthy improvement in pre-tax NTA from $1.914 at June 30, 2016 to $2.324 a year later. As is the nature of Listed Investment Companies (LICs), they can oscillate between premiums and discounts to NTA, and at year end its trading at quite a discount. There is little change in the largest holdings in the Fund with Visa, Home Depot, Mastercard and Bank of America accounting for around 40% of the portfolio. We continue to believe MFF provides unitholders with access to a diversified portfolio of high quality international businesses.

There are two newcomers to the top ten holdings as at 30 June 2017, Gentrack and PWR Holdings.

Gentrack was added to the portfolio in 2015, but a stellar 85.2% return for the year has launched it into the top ten holdings. Gentrack is a New Zealand based company that provides billing software for electricity, gas and water utilities and airport management software for airports. Much of this share price boost occurred in the last few months of the year following the announced acquisition of interests in two businesses allied to its airport management software, and the reporting of first half FY17 results. Reported revenue lifted 24%, and earnings was up 31%.

Top 10 stocks as at June 2017		
	% of portfolio (June 2016)	% of portfolio (June 2017)
Gentrack*	3.9%	6.3%
Reece Australia	6.0%	6.2%
Clydesdale Bank	5.8%	6.2%
Smartgroup	5.4%	6.1%
PM Capital Global	4.6%	5.6%
PWR Holdings*	2.6%	5.3%
Nick Scali	4.8%	5.3%
Trade Me	4.5%	4.6%
Beacon Lighting	5.3%	4.6%
ARB Corporation	5.2%	4.4%

* Not in the top ten as at 30 June 2016

PWR Holdings generated a negative return for the year but moved into the top ten holdings on the back of additional purchases of the stock after the share price fell heavily subsequent to a market update in December 2016. PWR designs and manufactures customised cooling systems for high performance automotive applications globally from its purpose built facility at Ormeau just south of Brisbane. The market update indicated that current year profit would be adversely affected by additional product development and staffing costs as well as a devaluation of the British Pound. We retain our confidence in management who are focused on the longer term growth of the business rather than short term profits.

Other than the stocks mentioned above, significant positive contributions to performance came from Fiducian Portfolio Services, Collins Food Group, Austbrokers and Cochlear while significant negative contributions were felt by GBST, Isentia and Silver Chef which were all sold and AP Eagers which the Fund continues to hold.

Outlook

At the conclusion of this volatile financial year, the market has forged a respectable 13.8%, making it the best return for the past 3 years. The 3, 5, 10 and 20 year average annual returns for the S&P/ASX300 Index are 6.6%, 11.6%, 3.4% and 8.2% respectively. The low ten year return reflects the fact that ten years ago the market was sitting around its pre-GFC peak, and was arguably somewhat inflated at those levels. The much longer 20 year return of 8.2% per annum is a better reflection of recent long run returns and is somewhat lower than the circa 10% per annum average return recorded over the last century. It seems fair to conclude at current levels the overall market appears neither particularly cheap nor expensive at current levels, suggesting reasonable future returns for the patient long term investor.

We remain optimistic about the future prospects of the portfolio of businesses held by the Fund and this continues to be reflected in the fully invested position of the Fund. The portfolio comprises a mixture of small and mid-cap companies with motivated and innovative managers, good revenue and profit growth potential, as well as strong balance sheets and healthy cash flow.

We look forward to reporting back to unitholders on the performance of the underlying businesses in the Fund following the end of the upcoming reporting season in August. A distribution of 4.1919 cents per unit has been paid to unitholders on the register at June 30.