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Ganes Focused Value Fund *ARSN 117 119 712*
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GANES FOCUSED VALUE FUND – DECEMBER 2017

Unit Prices*

	31.12.17	30.06.17	30.06.16	30.06.15	30.06.14	30.06.13	30.06.12	30.06.11	30.06.10
Entry Price ($)	$3.2673	$2.8741	$2.6379	$2.5890	$2.5716	$2.4721	$2.0377	$2.0438	$1.8024
Unit Price ($)	**$3.2559**	**$2.8641**	**$2.6287**	**$2.5800**	**$2.5626**	**$2.4635**	**$2.0306**	**$2.0366**	**$1.7961**
Exit Price ($)	$3.2445	$2.8541	$2.6195	$2.5709	$2.5537	$2.4549	$2.0235	$2.0295	$1.7898
Distribution (cents per unit)	**2.8620**	**6.3040**	**8.8129**	**8.0993**	**4.0178**	**4.5014**	**4.8340**	**6.7378**	**5.8396**

* 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	10.2%	7.7%	2.4%
6 months	15.4%	8.6%	6.7%
1 Year	18.7%	11.9%	6.7%
2 Years (p.a. compound)	11.6%	11.9%	-0.2%
3 Years (p.a. compound)	11.1%	8.8%	2.3%
5 Years (p.a. compound)	10.2%	10.1%	0.1%
7 Years (p.a. compound)	9.2%	8.1%	1.1%
10 Years (p.a. compound)	5.9%	4.0%	1.9%
Inception (p.a. compound)	12.1%	9.3%	2.8%
Value of $10,000 invested at inception (14/10/2002)	$56,810	$39,520	

Largest Ten Holdings

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

Portfolio Allocation

Top ten	60.2%
Other shares	37.8%
Cash	2.0%

* 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 Fund has reported its best year since 2012 with a return of 18.7% for the year. Our lack of exposure to the major banks and Telstra helped, along with the strong performance of a number of our larger holdings which we will elaborate on shortly.

So much about having a good year is not suffering shock developments in an individual holding, and to this extent the Fund had a good year with less than a handful of companies in the portfolio suffering negative returns during the year. However, much of the short-term return is more indicative of market sentiment than our stock picking skills and after a modest year last year, small companies were back in favour and the Fund was the beneficiary of this sentiment.

Our stockpicking skills are more accurately reflected in our longer-term results and we are pleased to report that these are positive and ahead of the market (ASX300 accumulation index) after payment of all fees and expenses. Please remember that the ASX300 is a hypothetical portfolio and does not suffer any fees or expenses.

To the lay person investing is likely a matter of buying shares and hoping they go up. However, as with any skill, there are many facets and Fund managers can generally go down various paths to achieve their objectives. We have long advocated buying quality companies rather than any other path – that is not to say it's the most successful, but that it more closely matches our temperament as investors.

We have generally found that good quality companies provide the least headaches to their shareholders, a more predictable future, and the ability to remain long term shareholders in a successful business accessing compounding returns. Quality businesses have generally created a competitive advantage in their market over many years and this competitive advantage is usually hard to destroy quickly, providing attractive returns for shareholders.

However, companies with little or no competitive advantage and no pricing power tend to provide miserable long-term results for shareholders and management become adept at providing a never-ending array of excuses as to why the current results are poor but next year's will be better. At various times these types of companies will become so cheap, or market conditions will temporarily change creating some short term favourable trading conditions, that they offer attractive returns. However, investors need to have both the temperament and the skill to recognise these turning points before they can expect to achieve good investment results. For many, however, they can also be what are known as 'value traps' where the business always looks cheap and eventually the poor underlying economics of the business come to the fore again and investors earn poor returns in tandem with the business. We have long recognised that this style of investing does not suit us and hence why the portfolio consists of what we believe are 'quality' companies. While they can sometimes appear expensive in the short-term we have usually found that the business value catches up to the share price and will often provide a favourable surprise along the way.

CY	GFVF	ASX300
2003	34.6%	15.0%
2004	31.6%	27.9%
2005	7.6%	22.5%
2006	55.8%	24.5%
2007	9.7%	16.2%
2008	-41.6%	-38.9%
2009	41.5%	37.6%
2010	15.2%	1.9%
2011	-5.3%	-11.0%
2012	20.3%	19.7%
2013	16.4%	19.7%
2014	1.9%	5.3%
2015	10.0%	2.8%
2016	5.0%	11.8%
2017	18.7%	11.9%

Four wheel drive components manufacturer ARB Corporation is a classic example of this type of business within the portfolio. It rarely ever looks 'cheap' but it has grown profits and achieves a high return on equity with little use of debt. Shareholders have received a 22% per annum return for the past decade while markets have provided a 4% per annum over the same time frame.

Currently the largest ten holdings in the Fund account for 60% of the portfolio, up from 53% last year. This has increased because of the strong performance by some of our larger holdings, most notably **Smartgroup** and **Gentrack**, the exercising of options in **MFF Capital**, and increasing our holding in **PWR Holdings**.

It was a very positive year for the Fund with seven of our top 10 holdings generating double-digit returns. The standout performers were Smartgroup (up 78%) and Gentrack (up 85%) with strong contributions also coming from CYBG PLC (up 20%) and PM Capital Global Opportunities (up 29%). Holdings outside the top ten which were in the portfolio for the full year and made good positive contributions were Cochlear (+42%), Adelaide Brighton (+25%), AUB Group(+30%), Steadfast Group (+31%) and Fiducian Group (+49%). On the negative side of the ledger, the worst performers of those holdings in the portfolio for the full year were GBST (-34%), Regis Healthcare (-19%) and Collins Foods (-14%).

Smartgroup has enjoyed another good year and has been the strongest performer in the portfolio since purchase in mid 2015 and is the largest holding in the fund due to its price appreciation. The company's business is salary packaging and novated leasing for employees of generally large government departments and not-for-profit organisations. During the year it made some further tuck-in acquisitions which has enabled it to gain synergies through overlapping of various clients as well as diversify its client base. The company recently released a trading update stating that profits are expected to be up 45% on the prior year.

Gentrack was also added to the portfolio in mid 2015, and a stellar 85% return for the year has launched it into the top five 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 increase came following the acquisition of their major competitor in Europe greatly increasing their product offering to the utilities market in the UK. And this has shown through in their results with additional clients, new contracts, and the expansion into South East Asia leading to revenue rising 43% (18% excluding acquisitions), and profits up 54% for the year.

MFF Capital Investments generated a 16% return for the year which is roughly in line with US returns after adjusting for the stronger Australian dollar during 2017. In a positive sign, the investment manager, Chris Mackay, increased his direct investment in the fund during the year to 11.3% of issued capital with a value of approximately $135m. In addition, Mr. Mackay adopts a strategy of investing in quality global businesses with strong competitive advantages which aligns with the investment strategy of the Fund. Its largest holdings remain Mastercard, Visa and Home Depot which are unique businesses not available to local investors. We added to our holding through the exercise of options that we had held for a number of years and expired in October.

The share price of **PWR Holdings** was static for the year but that doesn't reflect the progress, or potential, of the business. Currency movements affected profits and masked the underlying improvements being made within the business. With a more stable currency environment and a rejuvenated F1 competition under its new owners the future results for PWR should look much better than that of 2017. Led by founder Kees Weel, we believe PWR with its mission critical cooling equipment and lack of competitors in its niche areas provides the company with excellent pricing power and the opportunity to continue to earn very attractive returns on capital. We added to our position when the share price temporarily weakened during the year and we foresee PWR remaining a core holding within the portfolio for many years.

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 companies with motivated and innovative managers, good revenue and profit growth potential, as well as strong balance sheets and healthy cash flow.

A half-year distribution of 2.862 cents per unit has been paid to unitholders on the register at December 31.