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Ganes Focused Value Fund *ARSN 117 119 712*
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GANES FOCUSED VALUE FUND – JUNE 2018

Unit Prices*

	30.06.18	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 ($)	$3.4596	$2.8741	$2.6379	$2.5890	$2.5716	$2.4721	$2.0377	$2.0438	$1.8024
Unit Price ($)	**$3.4476**	**$2.8641**	**$2.6287**	**$2.5800**	**$2.5626**	**$2.4635**	**$2.0306**	**$2.0366**	**$1.7961**
Exit Price ($)	$3.4355	$2.8541	$2.6195	$2.5709	$2.5537	$2.4549	$2.0235	$2.0295	$1.7898
Distribution (cents per unit)	**21.2855**	**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	7.2%	8.4%	-1.1%
6 months	6.8%	4.3%	2.6%
1 Year	23.2%	13.2%	10.0%
2 Years (p.a. compound)	17.7%	13.5%	4.2%
3 Years (p.a. compound)	13.3%	9.1%	4.1%
5 Years (p.a. compound)	9.5%	10.0%	-0.5%
7 Years (p.a. compound)	10.5%	9.0%	1.5%
10 Years (p.a. compound)	9.7%	6.3%	3.4%
Inception (p.a. compound)	12.2%	9.3%	2.9%
Value of $10,000 invested at inception (14/10/2002)	**$60,686**	**$41,208**	

Largest Ten Holdings

Reece Australia (REH)
Smartgroup (SIQ)
Gentrack (GTK)
PWR Holdings (PWH)
MFF Capital Fund (MFF)
ARB Corporation (ARB)
Nick Scali (NCK)
Cochlear (COH)
Beacon Lighting (BLX)
AUB Group (AUB)

Portfolio Allocation

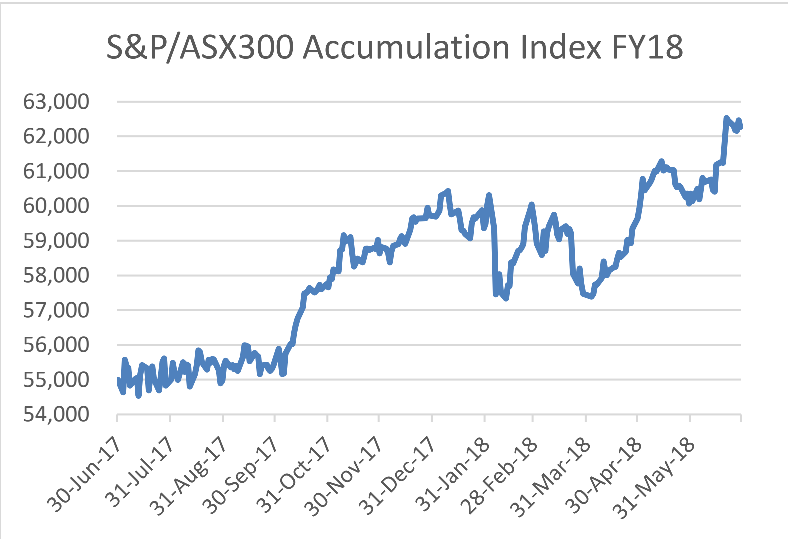
Top ten	68.2%
Other shares	29.1%
Cash	2.7%

* 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 Australian sharemarket has enjoyed a second consecutive double-digit return producing a 13.2% return following 13.8% return last year, all despite worrying developments in geo-politics. The global economy is doing well led by the USA which is benefiting from tax cuts, strong job growth and healthy corporate profits.

The S&P500 out-performed the Australian market with a 14.4% return despite a rising chorus of value-oriented investors and commentators claiming the US market appears to be very expensive. On the other hand, the Australian market in aggregate appears reasonably priced with the ASX200 price/book value sitting at 2 times, around its long-term average. Part of the value comes from the relative under-performance of large companies led by the big four banks and Telstra, though this was somewhat offset by the good performance of the mining companies. By contrast, it has been a stellar year for small cap companies and while some individual companies are looking expensive, in general the small cap index still lags the broader market over the past ten years.



Fund and Stock Performance

The Fund has reported its ninth year in a row of positive with a gratifying return of 23.2% representing a significant outperformance of the S&P/ASX 300 Accumulation Index. Over ten years the Fund has generated a return of 9.7% per annum, 3.4% ahead of the index return of 6.3% per annum. 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.

As we routinely do in this end of financial year update, we check back on the largest holdings of a year ago and assess how these performed and contributed to Fund performance over the past year. The return numbers in the table below are of a magnitude that could not have been anticipated a year ago, and beyond our expectations. As we have said before, with a concentrated portfolio we expect our top ten holdings to do the heavy lifting for the Fund and they have certainly delivered over the last year with all but one delivering solid double-digit returns.

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%
2018	23.2%	13.2%	+10.0%

New Zealand based software developer **Gentrack** has had an eventful and productive year signing new customers, opening new offices and making acquisitions. In its recently reported half year results (to 31 March 2018) revenue was up 80% and profit up 50% benefiting from acquisitions made in early 2017. Management restated their long term target of 15% compound annual growth in earnings. The market has reacted positively to these developments marking the stock up 44% over the last 12 months.

We have owned **Reece** in the portfolio since 2002 when we first purchased it at a split adjusted price of around $1.30 compared with the current price of $12.65. Reece maintained its position in the top ten this year on the back of a 54.7% return for the year and additional purchases for the Fund when we participated in a rights issue by the company to raise capital for the acquisition of Morsco. The acquired business is a US distributor of plumbing, waterworks and heating and cooling equipment (HVAC) products with $2.3B in sales in CY17. Reece paid $1.91B for the business and the company raised $560m from shareholders to help fund the purchase which we participated in. This is the first issue of any new shares by Reece in at least the 12 years we have owned the shares, so we also view this transaction positively in the context of the Wilson family prepared to see a dilution in their very large holding to secure this acquisition. Reece promotes the acquisition as providing a strategic platform into the US market, though we are ever mindful of the difficulties many Australian companies have had following promising US acquisitions.

Clydesdale Bank had a solid year up 19.9% with the new management team continuing to make progress in restoring profitability. However, we exited the position over the course of the financial year having achieved our targeted return ahead of time. The average purchase price was $3.92 with purchases made in early 2016. Our average sale price was $5.39 over the course of FY18 generating a return of 37% in less than 2 years.

Top 10 stocks as at June 2017

	% of portfolio (June 2017)	Total Return FY18	% of portfolio (June 2018)
Gentrack	6.3%	44.2%	8.0%
Reece Australia	6.2%	54.7%	11.9%
Clydesdale Bank*	6.2%	19.9%	0.0%
Smartgroup	6.1%	67.6%	9.3%
PM Capital Global*	5.6%	23.6%	3.5%
PWR Holdings	5.3%	17.8%	7.6%
Nick Scali	5.3%	16.4%	5.2%
Trade Me*	4.6%	-11.5%	3.0%
Beacon Lighting	4.6%	20.7%	4.8%
ARB Corporation	4.4%	47.6%	6.3%

* No longer in the top ten holdings as at June 2018

Smartgroup reported another strong year of growth in February 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 325,000 active packages (up 47%) and 62,500 active leases (up 18%). Revenue was up 40% for the year and after-tax profit (pre-amortisation of intangibles) up 46%. Net debt increased to $111m due to acquisition financing but the interest expense remains well covered by cashflows. Smartgroup is now the second largest position in the portfolio at June 30 due to its 67% return for the year.

The **PM Capital Global Opportunities Fund** owns a portfolio of international listed shares domiciled mainly in North America and Europe with a large exposure to the banking sector. In a recent update the investment manager noted the negative impact of political uncertainty in Italy and Spain, on the banks owned in the portfolio. Despite this, pre-tax NTA rose around 13% over the year and total return was 23.6% as the discount to NTA closed.

PWR Holdings listed on the ASX in late 2015 at $1.50 and currently trades at $2.71. The company has grown out of a small Gold Coast radiator factory started by Kees Weel in 1987. Today they specialize in customized cooling solutions for the automotive industry and motorsports in particular highlighted by their supply of cooling systems to nearly all Formula One teams. We have visited the business including their manufacturing facility located between Brisbane and the Gold Coast and were impressed with the management team, the workplace culture, the technology and pursuit of excellence, as well as their focus on profitability. As a result, we have continued to purchase shares in PWR over the last year.

In February **Nick Scali** reported solid like for like sales growth of 2.6%, total sales growth of 8.1% and an increase in after tax profit of 15%. We mentioned last year that we would not be surprised to see the exceptional profit margins unwind in the future, but they continued to expand in the first half. The company opened six new stores in the first half of the year and were targeting two new stores in the second half with the long-term target of 75 stores compared to the current 52 store network. The shares have produced a respectable 16.4% return for the year but the market was under-whelmed by full year guidance and by the announcement that the Managing Director, Anthony Scali, had sold half (11m shares) of his shares in the company to a Chinese based company that is also a supplier to Nick Scali.

New Zealand based **Trade Me Group** produced a solid first half result when they reported in February. Trade Me own and operate the leading online platforms for motor vehicles, real estate, jobs and private listings. In recent years the company has had to make significant investments in its business to maintain its market position as competitors aggressively sought to take market share in these high margin businesses. In the first half revenue lifted 7% with the motor and jobs classified business particularly strong. Profit growth, however, was just 3.1% due to higher cost of sales and employee benefits with the company continuing to invest to maintain its market position. Trade Me produced a negative 11.5% return for the year.

Beacon Lighting is best known for its network of 108 lighting stores across Australia having added 5 new stores in the first half. The stated long-term target is 146 stores with six openings expected each year. Beacon is different from many of its competitors in that it designs and develops many of the products it sells in its stores providing it with an edge in a very competitive industry. We are also attracted to the owner-manager nature of the business with the Robinson family owning around 55% of the shares on issue. The business produced a 12% lift in first half sales when it reported in February which translated into a 19.7% increase in after tax profit primarily due to an increase in gross margin. The shares return 20.7% for the year but the current market price is attractive in our view given the characteristics of the business.

ARB Corporation reported a solid half year result earlier in the year with sales up 12.4% and adjusted net profit up 13.4%. Importantly, the company continues to invest in research and development on new products and in expanding its distribution capability both here and internationally. This time last year we noted that ARB had produced a small negative return for FY17 but we remained confident in the business and its management. Our confidence has paid off in FY18 with a 47% return. The downside of a large single year return is that it can tend to pull forward future year returns which make the company look expensive currently.

There are three newcomers to the top ten holdings as at 30 June 2018, MFF Capital Fund, Cochlear and AUB Group.

After two years of modest returns, **Magellan Flagship Fund** produced a healthy 38.6% return for the year. Pre-tax NTA per share rose 18% to $2.76 from $2.32 a year earlier. Again, there was little change in the list of largest holdings over the year with Visa and Mastercard now 27.4% of the MFF portfolio.

Cochlear reported a solid result for the December half year in February with sales up 7% and NPAT up 1% with profit impacted by higher marketing, R&D and taxation expense. The Americas was a strong performer for the company with unit sales and dollar sales up 15%. Cochlear notes that 360 million people have disabling hearing loss and that this market is penetrated less than 5%, so there remains a significant runway for the company. We noted last year that after two years of strong share price gains, that we expected more subdued share price performance. However, in line with our inability to predict markets or share prices, the shares rose a further 30.6% this year which, while gratifying in the short term, has arguably brought forward future returns.

AUB Group operates a large network of insurance brokers across Australia and New Zealand representing $2.6B in Gross Written Premium across more than 1 million client policies. For the first half of the year underlying revenue lifted 7.2% and adjusted after tax profit was up 15.1% with management noting that the results were ahead of their expectations and that they expected full year results to be at the top end of their 5-10% guidance. Despite the positive results and outlook the shares produced one of the lowest returns amongst the top ten holdings, of 7.9% for FY18.

Top 10 stocks as at June 2018

	% of portfolio (June 2017)	% of portfolio (June 2018)
Reece Australia	5.2%	11.9%
Smartgroup	6.1%	9.3%
Gentrack	6.3%	8.0%
PWR Holdings	5.3%	7.6%
MFF Capital Fund*	4.1%	6.4%
ARB Corporation	4.4%	6.3%
Nick Scali	5.3%	5.2%
Cochlear*	4.3%	4.9%
Beacon Lighting	4.6%	4.8%
AUB Group*	4.1%	3.8%

* Not in the top ten as at 30 June 2017

Outlook

Our focus as managers of the Fund is to identify, buy and hold a portfolio of superior businesses characterised by owner-managers with a track record of allocating shareholder capital wisely, a product or service that is sought after and highly valued by its customers and not easily replicated by competitors, as well as above average profit margins and returns on capital. It's a long list but we believe this results in a portfolio with good growth prospects, strong cashflows and minimal need for additional capital diluting returns for investors.

We believe we have built a portfolio with these attractive features, and prefer to hold these positions in spite of share price movements which might prompt others to sell and move on elsewhere. Selling incurs transactions costs and brings forward tax payments, and requires us to find replacements for these hard to replace businesses. Consequently, given the high returns of the last year, parts of the portfolio are currently priced at levels which we would not find attractive as an entry point but are content to hold given their quality and future prospects.

We look forward to reporting back to unitholders on the performance of the underlying businesses in the Fund at the conclusion of the upcoming reporting season in August. A distribution of 18.42 cents per unit has been paid to unitholders on the register at June 30.