GANES
FOCUSED VALUE FUND

APIR GCM0001AU | ARSN 117 119 712

JUNE 2022 QUARTERLY REPORT

Quarter Commentary

The fund recorded a negative quarter with the unit price down 19.8% to $3.36 (pre-distribution) at the end of June. For the past year the fund reported a negative return of -19.7%, underperforming the market by 12.9%.

Over the longer term the fund has provided a return of 8.7% per annum for the last 10 years and 10.5% per annum since inception. A $10,000 investment made at inception is now worth $71,208 against $50,810 for the ASX300 benchmark.

In a year that has seen inflation returning to our lives the Reserve Bank recently started raising interest rates. These factors combined to weigh on equity markets as shown by the 12.2% fall of our benchmark over the past three months.

However, the past six months has seen an even more marked change in sentiment toward some of the businesses we own. PWR and ARB are both down more than 30% since March despite no news of any significance.

Counter-intuitively this gives me comfort. These businesses remain very profitable. I know them well and remain confident they possess competitive advantages that have not been diminished.

There were modest changes to the portfolio during the quarter with additional purchases of ARB Corporation and an increase in our exposure to the energy sector. There were no sales.

A distribution of 10.24c should be paid shortly to unitholders that have elected to receive their distribution in cash.

Performance as at 30 June 2022:

	Fund (net of fees)	ASX 300 Accum. Index
3 months	-19.8%	-12.2%
1 year	-19.7%	-6.8%
3 years p.a.	4.7%	3.4%
5 years p.a.	7.7%	6.9%
10 years p.a.	8.7%	9.2%
Since Inception (p.a.)*	10.5%	8.6%
Value $10,000 invested since inception	$71,208	$50,810

*Inception date of Fund is 14/10/2002

Unit Prices as at 30 June 2022 (pre-distribution):

Entry Price	$3.3696
Unit Price	$3.3612
Exit Price	$3.3528

Top 10 Holdings:

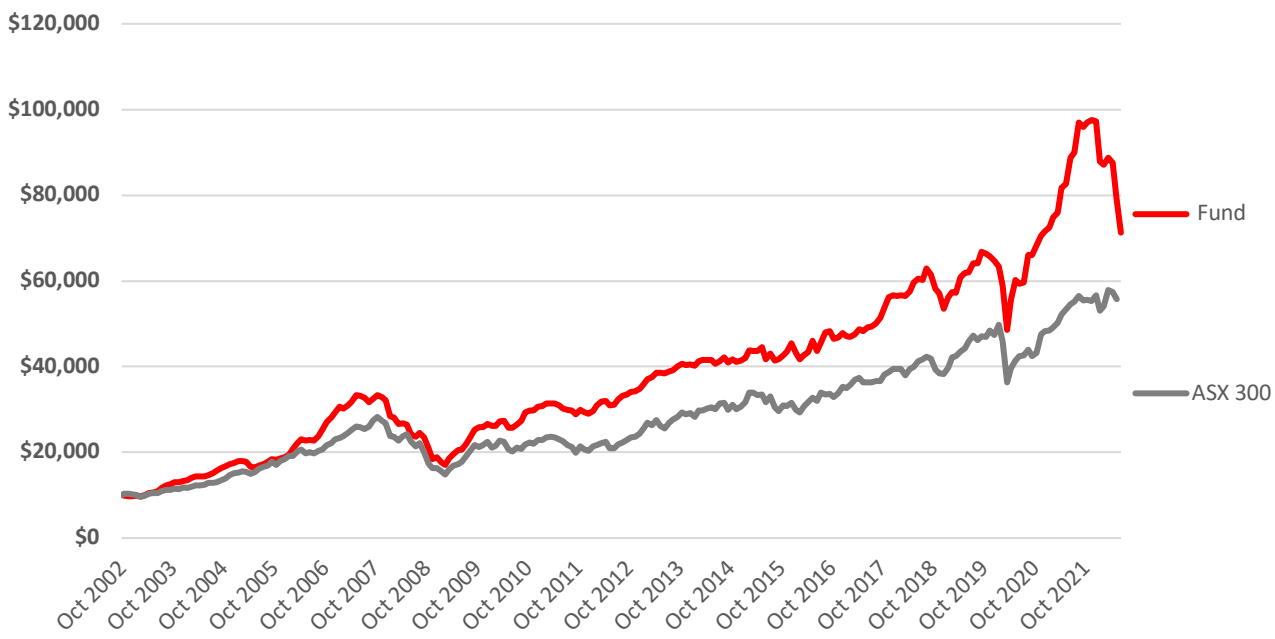
Company	Code	Weight (%)
PWR Holdings	PWH	14.5
Domino's Pizza Enterprises	DMP	8.6
Dicker Data	DDR	8.3
PSC Insurance	PSI	7.7
ARB Corporation	ARB	7.0
Whitehaven	WHC	6.6
Reece	REH	6.4
MFF Capital	MFF	5.8
Lovisa	LOV	5.4
AUB Group	AUB	4.5

Top 5 Sector Exposure:

Sector	Weight (%)
Consumer Discretionary	35.5
Financials	24.7
Information Technology	15.4
Energy	11.5
Industrials	6.4
Other (including Cash)	6.5

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Fund Performance



While the table on the first page shows the performance of the fund over various time frames, the graph above provides a visual representation of the fund against the ASX300 benchmark since inception.

Portfolio Performance

This was how I finished the December update after a year of strong returns:

> *The portfolio is now more expensive than it was last year. That's not a signal that I intend to sell any of these positions. They are unique businesses with the ability to reinvest capital and grow profits, but it could mean we experience some subdued returns while the underlying intrinsic value catches up. Prices always tend to move in wider ranges than the underlying intrinsic value of the business….*

The 2022 financial year has ended up a tale of two halves with the first six months to December providing a 9% return and many of our investments were selling at record high prices. The latest six months have seen some of our worst monthly returns since inception as sentiment towards these same businesses turned sour.

The largest detractors to our performance for the quarter came from our largest holdings. Reece accounted for 20% of our losses as its share price fell 28% during the quarter, ending the year down more than 40%. Domino's Pizza similarly fell 23% during the quarter and is down nearly 45% since June last year. It was the largest single negative contributor to our 1-year performance.

Rounding out the negative returns for the quarter as mentioned on the first page, were falls of more than 30% by PWR and ARB Corporation.

There wasn't any specific news to drive these movements. To the contrary, ARB provided an update during the quarter that suggests sales will be up more than 10% on last year, while Domino's and Lovisa both confirmed their store rollout programs are progressing well. I suspect commentary focused on inflation and increasing labour costs have led to these declines, and we are likely to see lower profit margins this year as a result. However, all these businesses are established, profitable, well financed, and with management teams that have dealt with these conditions before.

On the positive side our investment in the energy sector made a modest contribution as did insurance broker Steadfast. PSI Insurance was the largest positive contributor to 1-year performance rising 14% during the year.

At the start of May AUB announced the purchase of UK insurance broker, Tysers for $880 million. This is AUB's first move into the UK market, and it's a large one for their first offshore acquisition, so it carries some risk. However, as part of the transaction, AUB also announced a 50/50 joint venture for the retail part of the business with fellow broker PSI Insurance, defraying some of that risk. PSI Insurance has been in the UK broker market for several years so I expect they already know this business which should help. Both companies have successful track records in making acquisitions within the industry.

Energy investment

We currently have an 11.5% weighting to the energy sector via Whitehaven Coal and New Hope Corporation, two companies that are incredibly cheap by current metrics due to the increase in the spot coal price. I expect we will receive fully franked dividends of more than 10% per annum with the possibility of attractive capital gains as the market recognises the bumper profits these businesses are now making, along with their desire to reward shareholders after some lean years.

Current expectations are that we have bought these businesses for well under two times their current cashflow when I believe something like 3-4 times cashflow is probably more appropriate. I regard our investment in Whitehaven and New Hope in a similar vein to that of Carindale Property Trust during 2020. There is limited downside risk and quite a bit of upside potential that should work to our advantage regardless of where the general market heads over the next 12-24 months.

The long term is still what matters

It is unpleasant experiencing negative investment returns, but volatility is an unavoidable part of the investment journey. This is particularly so in a portfolio as concentrated as ours, I expect there will be bumps and dips along the way. Market commentary and headlines are almost entirely focused on the latest data and are usually presented in either dramatic fashion or with a negative viewpoint, and sometimes both, which is not helpful either.

Our portfolio contains small pieces of a number of publicly listed companies; however, I prefer to look at our portfolio as if we owned these businesses entirely. These companies were bought after careful consideration of all the thousands of businesses that were available to us. With that perspective, it is more instructive to look at

company results and their progress over the arc of time, rather than reacting to predictions of what will happen over the next six months. After all, that's what everyone else is doing as well.

To do this, it's helpful to view the growth of our largest investments over the past decade, or five years where a decade is not available. These are the ones doing the heavy lifting in generating our investment returns. And to keep the table manageable I have only highlighted sales, profits and return on shareholders' funds.

	Year	Sales $'000	Net Profit $'000	Dividend c/share	Return on Equity
PWR	2016	$47,348	$8,735	4.4c	n/c
	2021	$79,208	$16,797	8.8c	26.3%
Domino's Pizza	2011	$246,700	$21,435	21.9c	20.4%
	2016	$930,218	$86,592	73.5c	21.9%
	2021	$2,199,106	$193,143	173.5c	48.4%
Dicker Data	2011	$385,246	$6,132	5.0c	36.6%
	2016	$1,185,543	$25,624	15.5c	34.6%
	2021	$2,484,459	$73,562	37.5c	41.2%
PSI Insurance	2016	$67,766	$14,300	3.7c	21.1%
	2021	$207,200	$45,800	10.5c	13.3%
ARB Corporation	2011	$254,000	$37,854	23.0c	29.3%
	2016	$357,000	$47,439	31.5c	19.0%
	2021	$623,000	$112,985	68.0c	23.3%

When you look at this table you can see we own some truly wonderful businesses. To say they are growing nicely is an understatement in some cases. If I only reported on these numbers, rather than our investment performance from share price movements, you would wonder why we would ever want to sell any of them just because this year's results might be a bit leaner than usual. And we also own some others that look just as impressive, they are just not on this table.

A bad year here and there as a business owner is par for the course. But stand back and look at the progress of these high-quality businesses over a decade with their high returns on capital, growing profits and increasing dividends and the benefits of being a business owner are clear.

The pool of high-quality businesses like these is not deep. When we discover them and become owners, the patience to hold them is the key to long term rewards. Making sure not to overpay when we buy, and then not reacting to news headlines or selling because this year's profits might be down is the hard part.

As always, feel free to call or email me if you require any further information about the fund.

DISCLAIMER

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