GANES

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April Monthly Report

MACRO CAPITAL LIMITED
ABN 14 145 321 928 | AFSL: 392401

GANES INVESTMENT MANAGEMENT PTY LTD
ABN 86 113 032 741 | AFSL 287598

April continued the weakness displayed in the market in March falling a further 1.5% mainly as a result of falls in the financial sector, and specifically the banks. The Fund with virtually no exposure to Australian banks fell 0.5% during the month and despite the wonderful franchise the banks enjoy, we are on the side of commentators that are suggesting the best days of the bank's profits may be behind them for a while. We are not predicting share price falls or that investors sell, we just consider there are better risk / reward opportunities available in the market given the headwinds that banks may face in the near future.

Performance 30-Apr-15	Ganes	All Ord Index
1 Month	-0.46%	-1.47%
3 Month	3.74%	5.39%
6 Month	5.16%	7.14%
1 Year	6.37%	10.16%
2 Year (p.a.)	7.06%	10.29%
3 Year (p.a.)	11.90%	13.74%
5 Year (p.a.)	10.69%	8.16%
Since Inception (p.a.)*	7.78%	6.90%
NAV Unit Price ($)	1.5318	
Fund Assets ($ million)	35.39	

* Inception date of Fund 18/11/2005

Although we don't get excited about short-term results which are closer to luck than a repeatable skill, it is nevertheless disappointing that we continue to lag the market over a 1 year timeframe. Investment managers have to expect that occasionally, their investment style is out of favour and therefore managers should be measured over longer time periods and to that end, our 5 year return (after fees) remains ahead of the market by slightly more than 2.5%.

As we highlighted in the March update, the small company sector in Australia has been well and truly trounced by the large company sector and any believers of "return-to-the-mean" might be formulating a view that small companies will come back into favour at some point. In investment fields, predicting what will happen is far easier than predicting when it will happen. We are certainly finding far more value on offer in this sector recently and have been increasing our exposure to companies that we believe will provide attractive returns to investors and have the quality characteristics typical of other investments in the portfolio.

During the month, we initiated a new position in **Smartgroup** as well as increased our holdings in a number of other companies that have recently been added to the portfolio.

Top 10 Portfolio Holdings	
Cash	18.03%
Flight Centre	10.97%
Treasury Group Limited	6.20%
Austbrokers Holdings	5.30%
ARB Corporation Limited	4.33%
Magellan Flagship Fund	3.86%
Woolworths Limited	3.70%
Sonic Healthcare Limited	3.69%
Computershare Limited	3.28%
Cochlear Limited	3.07%
Other Holdings	37.57%
Total	100.00%

Smartgroup offers salary packaging for employers taking advantage of the FBT exemption for public servants, charities and hospitals etc. There are an estimated 550,000 employees using salary packaging within Australia and Smartgroup appear to have over 20% market share. Investors were scared of this sector when Kevin Rudd made an unexpected announcement changing the tax ruling they operate under, which saw the price of **McMillan Shakespeare** slashed in a day (but has since recovered). This ruling was subsequently overturned by the Abbott government and business has returned pretty much to normal in the sector.

We believe the reason **Smartgroup** represents such good value at current prices is that investors are gun-shy that this could happen again. While the risk is not zero, we think the risk is being over-priced because of its recency. In addition, the company's reported profits are significantly lower than its economic profits as it writes off intangibles from a previous acquisition.

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Reported profits will jump up quickly over the next two years as this amortisation ends. The company ticks all our boxes with attractive profit margins, high returns on equity without the use of debt (in fact the company has no debt), priced at less than 7 times EBIT or a 14.5% earnings yield and the prospect of growing earnings as the company increases its market reach.

The largest contributor to Fund performance for the month was **Flight Centre** which was up 9% during the month although there was little news to report on. Smartgroup also contributed strongly to portfolio performance, as it rose 20% during the month following its AGM and the announcement of a profit upgrade. **Dick Smith** also rose 7% during the month but there was little news to report on either.

A number of companies in the portfolio were down 7% during the month including **Treasury Group**, **Cochlear** and **Magellan Flagship Fund**. These are all relatively large holdings within the Fund and the common theme amongst them is their exposure to the US dollar, which weakened during the month (or the Australian dollar strengthened depending on your view point). We maintain a macro view that the Australian dollar is more likely overvalued than undervalued and have sought to find investments with solid underlying businesses that support this stance. In our opinion, the recent change in direction on the currency represents market volatility which investors will always experience rather than any reversal of trend requiring a change to our thesis.