GANES
APIR WPC0004AU | ARSN 115 121 527

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

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

Markets

The broader Australian market was up 5.7% for the year, a subdued performance after two very strong years, and more in line with prevailing economic conditions. If not for the decision to cut interest rates twice during the past six months, it is not hard to imagine returns would have been even more subdued. However, the broad market return masks the fact that some sectors have performed quite poorly over the past year and it has not been smooth sailing for all investors. The Small Ordinaries price index (which doesn't include dividends), produced a negative return for the year again, and remains around 50% below its peak 4176 in October 2007, and around the levels first reached in the late 1990's. The ten year price return for the index is -1.3% per annum and including dividends just 2.0% per annum. Resources have also performed poorly over the past year as well with weaker commodity prices and general oversupply in many commodity markets affecting profits and outlooks for the sector.

Performance 30-Jun-15	Ganes	All Ord Index
1 Month	-7.02%	-5.40%
3 Month	-5.32%	-6.25%
6 Month	0.89%	3.32%
1 Year	3.36%	5.67%
2 Year (p.a.)	4.88%	11.50%
3 Year (p.a.)	10.70%	14.47%
5 Year (p.a.)	10.78%	9.36%
Since Inception (p.a.)*	7.08%	6.23%
NAV Unit Price ($)	1.3905	
Fund Assets ($ million)	30.91	

* Inception date of Fund 18/11/2005

Similar to Australia after two robust years of returns, international markets, except for parts of Asia, have also reported lacklustre returns as the Euro crisis continues for yet another year, this time around the potential default on loans by Greece and a suggestion of their exit from the Eurozone. Similar to Australian markets, the US market has produced a modest return for the past year but consumer confidence continues to rise and the economy appears to continue to improve, although at a sluggish rate.

We continue to believe that companies that have international operations will benefit as these economies continue to improve along with further potential weakness in the Australian currency. The Fund is well positioned to take advantage of this, as some of the Fund's larger holdings with international exposure, such as Sonic Healthcare, Cochlear and Magellan Flagship Fund, produced strong returns.

Top 10 Portfolio Holdings	
Cash	17.59%
Flight Centre	9.89%
Austbrokers Holdings	6.10%
Sonic Healthcare Limited	5.66%
Magellan Flagship Fund	5.33%
ARB Corporation Limited	4.91%
Templeton Global Growth Fund	3.52%
Computershare Limited	3.41%
Adelaide Brighton Limited	3.37%
Cochlear Limited	3.22%
Other Holdings	37.00%
Total	100.00%

Fund Performance

The Fund has reported its sixth year in a row of positive returns albeit with a modest 3.4%, but unfortunately we underperformed the broader market by 2.3%, the first time the Fund has ever underperformed the market two years in a row. We note that our 4.1% outperformance over 7 years means that an investment in the Fund is worth over 30% more than a similar investment in the index over the same time frame – small compounding returns can provide large benefits to patient investors with long time horizons.

We are constantly seeking to invest in quality businesses that we believe offer attractive returns over the medium to longer term and as a result, the Fund does not replicate the index even closely. As stock pickers, it is inevitable that at times we will underperform the market. We endeavour for that not to happen, but unfortunately it is a part of the investment experience.

MACRO CAPITAL LIMITED ABN: 14 145 321 928 AFSL: 392401
Postal: PO Box 558, Wembley WA 6913 Street:Unit 2, 55 Salvado Rd Subiaco WA 6008 Telephone: 08 9217 3100 Facsimile: 08 9217 3111
Website: www.macrofunds.com.au Email: madmin@macrofunds.com.au

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

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

A significant contributor to the subdued return this year has been the poor performance by three of our largest holdings, **Flight Centre**, **Woolworths** and **Austbrokers**. **Flight Centre** and **Austbrokers** have faced more challenging trading conditions in the past year than previously, while **Woolworths'** problems appear more of their own making. In previous years, our outperformance against the market has usually occurred as a result of superior returns by our largest holdings. That is, our largest holdings, which represent our highest convictions, have done most of the 'heavy lifting' in producing the Fund's returns. Unfortunately in 2015, almost the exact opposite has happened with our largest holdings producing our worst returns while many of our smaller holdings produced quite outstanding returns. We will mention some of these companies in the Company Specific Performance section below.

The table below presents the Fund's yearly returns compared with the market for the past seven years. As noted above, over the longer term we have outperformed the market, and indeed the 2015 financial year is the first time we have underperformed the market in two consecutive years.

Fund return	Fund Return	Market	Outperformance
2015	3.36%	5.67%	(2.3%)
2014	6.4%	17.6%	(11.2%)
2013	23.3%	20.7%	2.7%
2012	5.1%	-7.0%	12.1%
2011	17.0%	12.2%	4.8%
2010	23.2%	13.8%	9.4%
2009	-11.9%	-22.1%	10.2%

There have been some significant changes inside the portfolio over the last year. We have sold our large positions in **Woolworths** and **Spark Infrastructure** after many years, and have also exited small positions in **Westpac** and **ANZ** at healthy profits before the recent slump in bank share prices. Our large position in **Treasury Group** has been trimmed by around half, and positions in **Fiducian**, **Invocare**, **Computershare**, **Coca Cola Amatil**, **Lend Lease**, **Dulux**, and **Shopping Centres Australia** were also trimmed or exited.

We have also initiated positions in a range of smaller listed businesses over the same period including **GBST**, **Trade Me Group**, **Gentrack**, **Isentia**, **Nick Scali**, **Smartgroup**, **Silver Chef**, **Dick Smith**, **Centuria** and **LifeHealthcare**. These are all companies that we believe have attractive features that provide the ability and opportunity to grow earnings over the coming years and offer attractive returns to shareholders.

Company Specific Performance

In keeping with previous years and given the end of the financial year, each year we review the portfolio to see where Fund performance has been gained and lost.

The Gains

The main contributors to Fund performance during the year, that is, the largest positive contributions in dollar terms came from **Magellan Flagship Fund**, **Beacon Lighting**, **Sonic Healthcare**, **Treasury Group**, **Cochlear**, **ARB Corporation**, **Spark Infrastructure** and **Invocare**. Six of these seven companies were in the largest ten Fund holdings at the start of the year and delivered the strong positive contribution by virtue of their weight in the portfolio and double-digit returns. Making a strong contribution from outside the top ten holdings were **Beacon Lighting** and **Invocare**.

Top 10 stocks as at June 2014

	% of portfolio (June 2014)	Total Return FY15	% of portfolio (June 2015)
Flight Centre	9.3%	-20.5%	9.9%
Woolworths	6.8%	-20.1%	0.0%
Austbrokers	5.5%	-13.2%	6.1%
Treasury Group	4.4%	3.6%	2.3%
Spark Infrastructure	4.2%	11.9%	0.0%
ARB Corporation	3.5%	18.4%	4.9%
Computershare	3.3%	-3.8%	3.4%
Sonic Healthcare	2.9%	28.0%	5.7%
Magellan Flagship	2.6%	30.6%	5.3%
Cochlear	2.6%	33.4%	3.2%

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

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

Magellan Flagship Fund delivered another strong return for the year as its portfolio of large US-based international businesses such as Visa, Mastercard and Wells Fargo all performed well and the weakening Australian dollar further boosted returns. The share price was up 26% for the year and in addition, the listed options rose 90% during the year. The shares have proven one of the Fund's best investments with a 3-year return of 33% per annum, as the US equity market has risen strongly and the US dollar has strengthened considerably against the Australian dollar. The underlying net assets of the portfolio rose nearly 40% over the course of the year. The company provides investors some international exposure for the Fund, and while the share price remains approximately in line with the underlying NTA we are content to hold.

Beacon Lighting is small lighting retailer with nearly 100 lighting stores that was added to the portfolio in August 2014 after listing on the ASX a few months earlier in April. Unlike most company IPO's, we were quite interested in becoming shareholders as there was a lot to like about the business and its founder. The company has so far comfortably exceeded its prospectus profit forecasts, and has an opportunity to grow its store network considerably and with changes to energy efficiency in lighting we are confident the company will be a core part of the portfolio for some time. The shares have provided a return of nearly 75% since purchase.

Sonic Healthcare had another good year with the weaker Australian dollar boosting its overseas earnings. Revenue and profits were up 5%-6% in local currency terms, which is very good for a mature business, but the currency tailwind meant reported profits were up nearly 15% for the year, and earnings per share increasing 13.3% for the year. From small beginnings in Perth, the company now earns 51% of its revenue overseas and is the third largest medical diagnostics company in the world and the market leader in Germany and the United Kingdom as well as Australia. The company continues to make bolt-on acquisitions in target markets with the recently announced purchase of Swiss based Medisupport. The shares were up 28% for the year and we increased our holding during the year.

Treasury Group started and ended the year at an almost identical share price around $9.50, though it was above $13 in April this year. Early in the financial year, the company announced a merger with a US based asset manager called Northern Lights that has investments in 13 boutique funds management businesses and Funds Under Management of $24.2bn. It is not unusual for deals of this type to work out poorly for acquiring shareholders, and we viewed the transaction with caution, although the market initially seemed to like it much more than we did. It has since become evident that material funds outflow and weak investment performance has occurred in the acquired businesses though offset significantly by the declining Australian dollar, and we reduced the Fund exposure by a little more than half at around $11.

Cochlear produced a very strong return of 33% for the year, in keeping with other businesses in the portfolio with a high proportion of overseas earnings. Since our purchase in late 2011 it has been a profitable, if somewhat volatile, investment as the company has produced patchy and inconsistent results following an unblemished record prior to that. The strong rise in the share price follows a 17% increase in revenue and record sales following the release of new products onto the market. It also follows recent news by its Swiss competitor, Sonova, indicating that Cochlear might be taking some market share in the United States.

Despite suffering through another difficult year, **ARB Corporation** produced a market-beating return of 18% for the year, maintaining a 10 year performance of more than 20% per annum. The business continues to be impacted by the resources sector slowdown and by weaker consumer confidence, leading to a fall in operating margins and flat profits for the first time in nearly a decade. Despite these issues during the year the company announced a special dividend of $1.00 per share and also took the opportunity to buy-back its manufacturing plant in Victoria. **ARB** is another company that has management capable of making investment decisions based on a long term outlook that has rewarded shareholders with growth over a long period. Its decision to buy-back its manufacturing plant in order to reconfigure the site and improve operating capacity is indicative of their long-term thinking. A recent presentation by the company has shown that sales growth has returned to double-digit levels and overseas sales were 24% of revenue for the latest nine months. It may take some time for profit margins to grow at the same rate but we believe the company still has good growth prospects and can continue to deliver good returns for shareholders.

Spark Infrastructure was purchased from late 2009 and mid 2010, at average prices of $1.20 and was exited in the latest quarter as well. The investment produced a solid return on a boring old utility which also paid attractive distributions over the last 5 years. We are of the view that the best of the gains here have been had and the business faces headwinds going forward in the form of a less favourable regulatory environment and a slow decline in electricity demand driven by the uptake of alternative energy sources such as solar. A large part of the capital gain in this year's distribution is as a result of the decision to sell Spark.

After a lacklustre 2014, **Invocare** has bounced back providing a strong return of 23% for the year. The death rate, which is critical to the financial performance of the business, returned to a more normal trend and losses in market share were arrested. Revenues were up 7%, operating profits were up 8.7% and earnings per share increased 11.4%. This was a good result for a mature business with very predictable growth trends and demographics. The rise in the share price and news that the company plans to expand into the US market provided us with some caution around future returns and we reduced our holding by almost half in the latest quarter.

The Losses

The largest negative contributions in dollar terms came from **Flight Centre, Woolworths,** and **Austbrokers**. All these holdings are, or in the case of Woolworths were, large positions within the fund so their negative returns during the year were felt keenly by the Fund.

Last year we noted that **Flight Centre** had made the strongest contribution to the Fund on the back of record revenue and profit and a 17% return for the year. A stark reversal has occurred in the last 12 months with a return of minus 20% for the year, driven by a recent market update where the company announced pre-tax profit was expected to be around 4% lower than the prior year. This compares with guidance in August last year of 5-8% growth. Despite record total transaction value across their global business, management says that the lower than expected profits have been driven by several factors including slower than normal sales growth, discounting of fares by travel consultants in the leisure sector and competitive market pricing in corporate travel. While the business has a strong brand, it does operate in a very competitive market and we shouldn't be surprised to see volatility in operating performance from time to time. On a positive note, management recently said they believe the next 20 years will represent a Golden Era of Travel and Graham Turner said they had just been working on their 20 year plan, and we love managers who have such long term aspirations. We have held **Flight Centre** in the Fund for nearly a decade, through many ups and downs and are happy to continue to hold it at current prices, particularly with Turner at the helm and an average purchase price of $16.10.

Woolworths has gone from a company with a seemingly impenetrable competitive advantage to one with significant challenges that we fear will see the company's earnings decline in the coming years. While the industry landscape has changed for the business, it is hard to not believe some of the decline has been brought on itself through poor marketing campaigns, poor execution within its Masters business, and a short-term view within their supermarket division. After much discussion we came to the view that despite the lower share price, the risks surrounding the industry landscape, our assessment of management and the potential earnings decline were too great to remain a shareholder and sold the holding during the latest quarter at a modest profit after being a shareholder for five years.

In contrast to **Woolworths**, the Fund has done well out of insurance broker **Austbrokers**, making an initial investment at $3.61 at the depth of the GFC market carnage in March 2009. From there, the share price had a stellar run to a high of around $12 in late 2013 on the back of a combination of organic and acquisition driven growth. A year ago we noted some concerns we had which led to us trimming the holding, and earlier this year the company flagged a profit downgrade on the back of soft insurance premiums which has sent the share price sharply lower. With interest rates low and plenty of capacity in insurance underwriting markets it is hard to see that profits will rebound in the short-term, absent some major catastrophe or a sharp unexpected rise in interest rates to reduce the oversupply of capital, however we believe this is an attractive business in a cyclical downturn and market conditions will improve at some point.

Other Top Holdings

Templeton Global Growth is a recent addition to the portfolio and similar to Magellan Flagship Fund, offers investors access to a diverse range of international companies and markets. However, the portfolios are quite different with Templeton using a more widely diversified approach and a higher emphasis upon European companies. European companies with exposure to Asian markets have been reporting particularly good results recently and we think this should prove a good long-term investment, particularly as the shares were purchased at below net asset backing.

Computershare has produced a disappointing first half result and the shares are down 4% for the year. Despite strong global equities markets in recent years, the company has not managed to improve profits, as it battles against limited acquisition opportunities and lower levels of corporate activity. Both of these were drivers of growth in previous years. Computershare is a truly global business and market leader offering exposure to overseas markets. Ironically, as the US dollar strengthens against world currencies, this hurts the company's earnings as it reports in US dollars.

Adelaide Brighton rarely gets a mention in Fund updates, but the cement and lime supplier produced one of the Fund's better returns rising more than 25% during the year. Initially purchased in 2011, we significantly added to the holding this year as the company continues to report solid results. Revenues and profits were up nearly 9% for the year to record levels and the outlook for 2015 remains promising.

Outlook

The modest returns of the past financial year, and more specifically the general apathy toward smaller companies has meant we have started to find better value on offer in areas that we believe will offer attractive returns for investors. To that end, and despite the general economic woes surrounding the Eurozone and parts of the Australian economy, we are feeling more confident now regarding the Fund's portfolio than we have in recent years. In recent months we have added a number of new companies to the portfolio, all of which are typical of the types of quality companies we like to own and appear to offer good growth prospects for shareholders. The cash levels of the Fund have reduced and it is likely it will reduce further as we add to these new investments or find additional investments for the Fund.