

April produced another strong positive return for the broader market with the All Ordinaries Accumulation Index up 3.2%, driven by the resources sector and a rebound in commodity prices. The despair evident around the market in February, after a fall of more than 10% from the end of 2015 appears now to be no more than a distant memory with all these losses now recouped. However, the one year return remains negative and the ten year return is still just 6.5% per annum. With the four banks such a large part of our market and the outlook for their businesses quite subdued for the foreseeable future, it is difficult to see the main market indices making a lot of progress.

On the other hand, we are finding a lot more to get excited about at the smaller end of the market, where we continue to locate high quality companies with good growth prospects. We also continue to top up on existing positions where we think value is on offer.

For example, we have been adding to the position in **Reece (REH)** which we first purchased for the Fund back in 2006 and it now sits just outside the top ten holdings. Reece is best known for its highly visible bathroom showrooms and associated retail bathroom business but also supplies plumbing products to the trade and commercial markets.

With its recent acquisition of Actrol, is now Australia's largest wholesaler of parts to the refrigeration and air conditioning industries. In the 2006 financial year, when we established the Fund's initial position, sales revenue was \$1.11bn, the company had a pre-tax profit of \$124.58m and it generated this on just \$376m of shareholder equity, including \$363m of retained earnings. At that time, it was virtually debt free and held around \$50m net cash. Since then, not a single new share has been issued despite sales growing in a difficult construction environment post GFC, to \$2.08bn in FY2015 and pre-tax profit of \$238.3m. Growth has been funded by the use of retained earnings which have grown to \$912.9m and a modest take-on of debt to fund the \$300m Actrol acquisition. Reece is a strong cash generator and we expect the company will use much of this cash to pay down debt and fund future growth in the business.

The resistance of Reece Directors to issuing shares signals the high value they place on the company's scrip and we admire this trait. Some simple math demonstrates the pedigree of Reece's management in managing shareholder capital. In the nine years from 2006 to 2015 pre-tax profit has increased by \$113.7m on increased equity of \$550m. In effect, this re-investment of profits has generated a 20.6% pre-tax return. Reece has always paid a minimal dividend thereby retaining a large part of profits to fund future growth and our strong preference is for this to occur given management's demonstrated ability to allocate capital to high return investments.

Performance 30-April-16	Ganes	All Ord Index
1 Month	1.54%	3.24%
3 Month	0.25%	6.54%
6 Month	1.64%	2.76%
1 Year	-0.38%	-3.65%
2 Year (p.a.)	2.94%	3.02%
3 Year (p.a.)	4.52%	5.43%
5 Year (p.a.)	7.83%	6.22%
10 Year (p.a.)	6.51%	9.71%
Since Inception (p.a.)*	6.96%	5.84%
NAV Unit Price (\$)	1.4315	
Fund Assets (\$ million)	27.30	

* Inception date of Fund 18/11/2005

Top 10 Portfolio Holdings	
ARB Corporation Limited	7.79%
Magellan Flagship Fund Ltd	6.75%
Flight Centre Travel Group	5.97%
Smart Group Corporation	5.90%
CYBG PLC	5.86%
Adelaide Brighton Limited	4.80%
Cochlear Limited	4.55%
Beacon Lighting Group	4.53%
PM Capital Global Opportunities	4.25%
AUB Group Limited	4.11%
Other holdings	45.49%
Total	100.00%

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The recent highly sought-after listing on the ASX of Reliance Worldwide (RWC), a manufacturer and distributor of behind-the-wall plumbing products, has brought some investor attention back to listed companies in this sector including Reece. As a result, the Reece share price is up around 10% over the last few weeks and trades on around 20x FY16 earnings compared to 29x for Reliance. While Reliance has good growth prospects, it will have to deliver on these to justify its hefty price tag. We prefer to stick with the more modestly priced Reece, its long listed track record and equally attractive growth profile.

During the month one new position was established and several existing holdings were added to including Clydesdale, Reece, Nick Scali and Beacon Lighting.

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