

The broader market has rallied hard off the lows of earlier this year, with each of the last three months producing 3% plus returns. This positive tone was assisted by the RBA 25bp cut to the cash rate to a new record low of 1.75%. Foreign developed markets were also mostly up, but other than Japan, were not as strong as our market.

The Fund performed exceptionally well during May up 7.1% compared to the broader market up 3.1%. There were two significant contributors to this performance. **Clydesdale Bank**, a relatively recent addition to the Fund, jumped 35% in May on the back of the company reporting better than expected half year results along with forecasts that the cost base will reduce further than previously expected in the next year. Following this result the share price has responded strongly and while our investment thesis remains intact, further upside in the short term may be minimal until the company delivers on market expectations. **Smartgroup** also rose 35% following confirmation that, if elected, Labor would retain the current Fringe Benefits Tax arrangements, in line with the Coalition policy. This removes some regulatory risk over the short to medium term that continually surrounds the sector. The company also held its AGM during the month and the general tone was quite positive, although the company fell short of announcing a profit upgrade.

On the other side of the coin, pre-election consumer caution took its toll on two key holdings in the portfolio, **Flight Centre** and **Beacon Lighting**. While Flight Centre expects record TTV (Total Transaction Volume) this year, it also expects pre-tax profit to be below its previous guidance with 2nd half profits impacted by a number of factors including: increasing uncertainty in some markets (Federal election, Brexit, Zika); airfare price was impacting over-rides; poor US leisure trading; and investment in long term strategies. Pre-tax profit is expected to be down 2-5% on FY15, and below the 4-8% initial guidance issued last year.

Similarly, **Beacon Lighting** has dragged back market expectations for the full year, which follows a significant leap in profits last year. While profit is still expected to be ahead of last year, the growth will be far more subdued. The company blamed weak consumer confidence, aggressive clearance activity by competitors (eg. Masters hardware) and the early Easter break for the weakness. Under most circumstances, we would be sceptical of a shopping list of reasons for an earnings downgrade, but the founders of the business which has been operating for 50 years, still retain an active role in the management and a big financial stake (which they have not reduced), and hence we took the opportunity to add to our position at what we think will prove to be attractive prices.

Performance 31-May-16	Ganes	All Ord Index
1 Month	7.10%	3.09%
3 Month	11.49%	11.47%
6 Month	6.28%	6.67%
1 Year	4.30%	-1.25%
2 Year (p.a.)	6.65%	4.28%
3 Year (p.a.)	7.17%	8.11%
5 Year (p.a.)	9.59%	7.28%
10 Year (p.a.)	7.23%	5.37%
Since Inception (p.a.)*	7.61%	6.10%
NAV Unit Price (\$)	1.5331	
Fund Assets (\$ million)	28.94	

\* Inception date of Fund 18/11/2005

Top 10 Portfolio Holdings	
CYBG PLC	8.48%
ARB Corporation Limited	7.56%
Smart Group Corporation	7.51%
Magellan Flagship Fund Ltd	6.52%
Adelaide Brighton Limited	4.97%
Cochlear Limited	4.79%
Flight Centre Travel Group	4.53%
PM Capital Global Opportunities	4.12%
Trade Me Group Limited	4.02%
AUB Group Limited	4.00%
Other holdings	43.50%
Total	100.00%

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Other notable developments inside the portfolio included: **Nick Scali** upgrading profit guidance; **Gentrack** reporting a strong half year result with revenue up 26% and profit up 21%; **ARB** updating the market with sales up 8.1% for the first nine months of the year; **AP Eagers** at its AGM noting a good start to the new financial year with record revenue and profit; and **Collins Foods** reporting that it had acquired 13 KFC stores around the NSW/Victoria border.

During the month, we initiated a new position in an exciting high growth business which we will refrain from identifying until we have better established the Fund position. We have also added to several existing holdings including Clydesdale Bank, Nick Scali, Gentrack and Beacon Lighting. We also disposed of the small holdings in the major banks to increase our position in Clydesdale Bank, and trimmed our Austbrokers holding.

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