

After trading water for much of October, a sell-off in the last few days of the month saw the market finish down 2.2% and the Fund down 4.3%. October is the first of two AGM months and company updates given at various AGMs led to some heavy losses amongst individual names such as Healthscope, AMP and Wesfarmers. Interest rate sensitive sectors such as Utilities and Real Estate were also marked down on the back of rising long term bond yields.

October sees a large number of listed companies hold their Annual General Meeting, and is therefore a month where material share price movements are often the result of the Chairman or CEO providing the AGM with a trading update for the first few months of the new financial year and/or providing guidance for the upcoming half or full year. A number of companies amongst the Fund's largest holdings held their AGM in October and we highlight these below.

ARB looked back at a solid 2016 financial year, with sales up 8.2% and pre-tax profit up 7.3%, but made special note of the company's inability to match product development with the unusually high number of new vehicle releases in the first half of the year, which hampered sales. The Company says the development backlog has now largely been resolved and reported sales growth of around 8% in the first quarter. Also highlighted, was the significant change in new vehicle sales mix over the last several years with SUV and 4WD Utility sales making up 48.7% of total sales in 2016, up significantly from 32.7% in 2011. These categories are core target markets for ARB.

The **Magellan Flagship Fund** held its AGM at the end of October. Managing Director and Portfolio Manager, Chris Mackay, outlined the core mandate to buy quality companies when they are out of favour and listed the Fund's largest holdings which include Visa, MasterCard Home Depot, Lowe's, Bank of America and Wells Fargo which collectively account for 59% of the portfolio. We were pleased to see the MD comment on the very low portfolio turnover in the Fund over the past year.

Cochlear Chairman Rick Holliday-Smith reiterated the importance of R&D to the company with \$143m or 12% of sales spent in FY16. The Chairman commented on the adverse changes to R&D tax incentives which until recently generated an annual tax benefit of about \$10m. The company expenses all R&D costs in the year incurred which is a conservative accounting treatment but doesn't reflect the longer term benefits that come from this expenditure, and so has the effect of artificially depressing current profitability along with the value of the company's asset as recorded in the balance sheet. The Company expects net profit for FY17 of between \$219m and \$225m, an increase of 10-20%.

Beacon Lighting reflected on a more subdued FY16 compared to the bumper FY15 year, with sales up 7.7% and EBIT up 6.3%. Performance was not helped by the dramas at Masters hardware, and this is likely to also impact first half sales with Masters expected to be liquidating stock prior to its closure in mid December this year. During the year, Beacon opened 5 new company stores and purchased 2 franchised stores bringing the store portfolio to 88 company stores and 10 franchised stores, with 48 potential new stores over the longer term. The Company designs and develops much of its product, giving store managers the benefit of exclusive products.

Performance 31-Oct-16	Ganes	All Ord Index
1 Month	-4.34%	-2.18%
3 Month	-0.13%	-3.09%
6 Month	7.22%	3.77%
1 Year	8.97%	6.63%
2 Year (p.a.)	5.99%	3.50%
3 Year (p.a.)	5.10%	4.30%
5 Year (p.a.)	10.00%	9.03%
10 Year (p.a.)	5.96%	4.45%
Since Inception (p.a.)*	7.32%	5.92%
NAV Unit Price (\$)	1.4942	
Fund Assets (\$ million)	27.41	

* Inception date of Fund 18/11/2005

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At the **Nick Scali** AGM, Managing Director Anthony Scali reviewed a bumper FY16 for the Company, with same store sales growth of 11.1%, sales up 30.4% and after tax profit up 53% which was quite an achievement, given FY15 was also a record year for sales and profits. The Company had 42 Nick Scali stores in its network at the end of FY16 after opening 2 new stores in New South Wales and Western Australia and closing one in South Australia. There are plans to open 5-6 new stores in the current financial year, with a long term target of around 75 stores nationally with plans to expand into New Zealand in FY18. Mr Scali said the Company was expecting another year of profit growth this year.

AGM season continues in November and we will provide an update on the AGMs of the Fund's other large holdings in next month's report.

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