February Monthly Report

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

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

Performance 28-Feb-17	Ganes	All Ord Index
1 Month	0.40%	2.09%
3 Month	1.59%	5.53%
6 Month	-1.65%	6.20%
1 Year	14.12%	21.33%
2 Year (p.a.)	4.01%	3.19%
3 Year (p.a.)	5.44%	6.54%
5 Year (p.a.)	9.63%	10.22%
10 Year (p.a.)	5.38%	4.27%
Since Inception (p.a.)*	7.31%	6.48%
NAV Unit Price ($)	1.5181	
Fund Assets ($ million)	27.29	

* Inception date of Fund 18/11/2005

This time last year we were reflecting on a nervous market, one which was down 12% over the prior year. In a complete turnaround, and despite the global instability of the last year, the local market is up a little over 21% to the end of February. No one can pick these short-term market movements, though some think they can. Needless to say, we give little consideration to these short-term gyrations, and endeavor to focus on the medium to long-term prospects of the businesses in the portfolio. A business that produces a product or service that others need or desire today and likely well into the future, is a good starting point for any portfolio candidate. Good profit margins, high return on capital, management with a sound track record of capital allocation and a meaningful ownership in their own company, are the things that capture our attention.

The February reporting season is now behind us, where many of our portfolio companies report to investors on their business and financial progress for either the first half of the 2017 financial year, or the full 2016 financial year ending in December. While we would love to see everything go up in a straight line, this is not the nature of real world businesses, and it is quite normal to have good businesses experience short term downturns which impact on their revenue and/or profits. A good example of that this time around is **Beacon Lighting** who reported a 15% fall in net profit. The company had flagged the result, hence the market was not surprised and the share price has in fact risen post the result. The company had an excellent year in 2016, so this year was always going to be difficult to post good growth. In some respects, the results were reasonably good, particularly with the exit of Masters and its aggressive discounting in the market, and there are signs of growth in other divisions apart from the retail chain of nearly 100 stores. The company has stated that like-for-like sales are now positive and the business has made a solid start to the new year and is looking forward to a successful second half. Overall, we believe this to be a reasonable result and have not changed our outlook on the business.

Amongst the larger Fund holdings, other subdued results were reported by **Adelaide Brighton** and **PWR Holdings**. **Adelaide Brighton** saw its result impacted by power supply disruptions in South Australia, while **PWR** felt the full force of Brexit, with UK revenue hit by the Pound's depreciation when translated into Australian dollars. We took an opportunity to top up the holding in **PWR** when the share price fell following the result announcement.

Solid results were reported by **Cochlear** (double digit unit sales growth, revenue up 9% and 19% net profit lift), **Austbrokers** (12.7% increase in adjusted profit, upgraded guidance), **ARB** (sales up 6% and NPBT up 8%), **Reece** (Revenue up 6% and profit up 7.5% as cost-of-doing-business lagged sales growth), **Trade Me Group** (9% revenue growth and lower operating costs pushed earnings up 11%).

The stand-out results came from **Smartgroup** (revenue up 57% and improved margins) and **Nick Scali** (10.1% same store revenue growth and 16% total revenue growth, earnings up 44% on improved gross margin).

We will report more fully on several of these companies in our longer March Fund update. We initiated new positions in insurance broker **Steadfast** and global serviced office provider **Servcorp** during the month. The Fund continues to be fully invested and we are pleased with the composition of the portfolio and the prospects for the businesses that underlie it.