FEBRUARY 2008

GANES VALUE GROWTH FUND

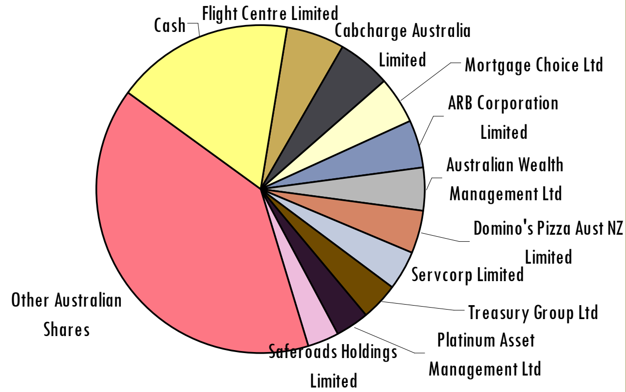
You are likely to be aware of the severe downturn in the Australian share market that has occurred since the end of December. The rot set in early in January and saw the broader market close down 11% for that month. Our exposure to both small companies and financial services companies, which have been particularly hard hit, has seen the Fund down –10.49% in January and a further –0.25% in February.

Debt is very much at the centre of the current market gloom. With credit markets nervous and much less inclined to lend than previously, any company with a large exposure to debt, particularly debt that matures soon, has been punished severely. Talk of a recession in the United States, along with rising inflation and increasing interest rates at home have taken a further toll on the market. Consequently, any company with an exposure to the fortunes of the share market has been hit hard.

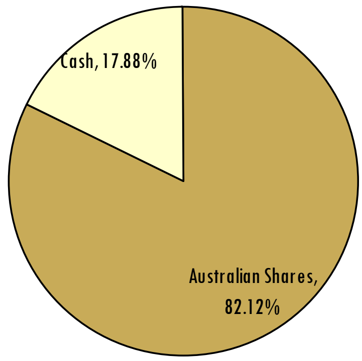
The Fund has holdings in several funds management businesses (eg. *Treasury Group, Platinum Asset Management, Australian Wealth Management* are amongst our ten largest holdings). We like these businesses, they require very little capital to run, and they generate healthy cashflows. In the recently completed reporting season, *Treasury Group* reported revenue and profit up around 25% and funds under management up 34% over the previous half year period. The company has no debt, and cash and investments totalling $38m. Global equities fund manager, *Platinum Asset Management* has found the going tougher with year end funds under management just above $20 billion, down from $22 billion at listing in June last year. Profit is down 8% to $98m, but again the company is debt free and at year end had $147m cash. *Australian Wealth Management* had an excellent half year with revenue up 14% and profit up 31% courtesy of the determination of MD Chris Kelaher to reign in unnecessary costs. At year end, the company had $67 billion under management, administration and supervision up 27% from a year earlier. Again, the company has no debt, $72m in cash and $66m in investments.

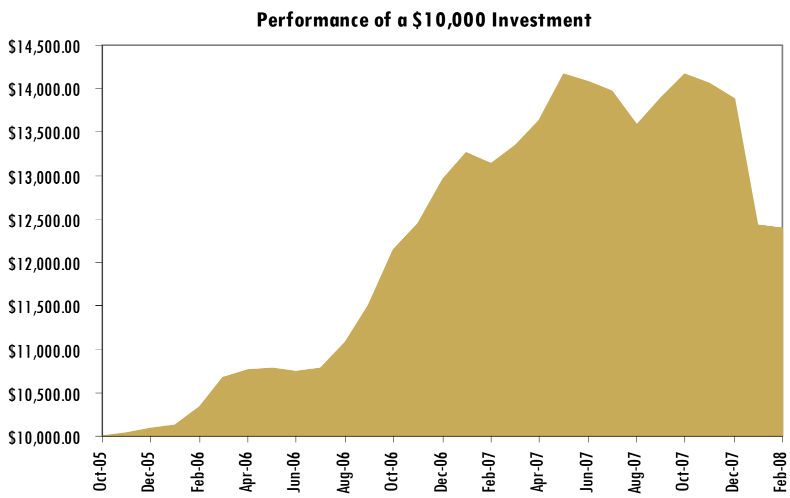
The revenue of companies like *Treasury Group* and *Platinum* may fall this year (and perhaps beyond) as their revenue is closely linked to how much money they manage, and this is shrinking courtesy of a falling share market. In the short term things will be tougher for these businesses than they have been, but beyond the visible cloudy horizon we think these

GANES VALUE GROWTH FUND PORTFOLIO



GANES VALUE GROWTH FUND PORTFOLIO DIVERSIFICATION





Performance Summary	Ganes Value Growth Fund	UBS Bank Bill Index
Since Inception p.a. (18/11/05)	9.94%	n/a
1 Year	-5.52%	6.83%
2 Years p.a.	9.57%	6.50%
1 Month	-0.25%	0.54%
Profitable Months	68.97%	100.00%
Distribution for quarter	$0.0055	n/a
Fund Assets (million)	$35.22	n/a
Application Unit Price	1.21390	n/a
Withdrawal Unit Price	1.20720	n/a
Net Asset Value Unit Price	1.21053	n/a

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GANES VALUE GROWTH FUND cont...

businesses will be managing larger amounts of money and generating reasonable returns for shareholders in the years to come. A lot of the current and future bad news has now been factored into the share prices of these companies. For example, as we write this update, *Treasury Group* has recently traded at $9, offering a trailing price to earnings ratio of 11 times and a current year dividend yield fully franked of 8%. In just December last year it was trading at around $16.

Liquidity, particularly on the buy side, has dried up considerably in the small cap part of the market. Buyers have withdrawn to the sidelines reasoning that why should they buy today, even if something's cheap, when they can likely buy it even cheaper next week or next month. On the sell side, there is downward price pressure from margin calls, short-sellers and exiting investors who can't bear the pain of seeing the market value of their investments continue to fall.

On the subject of bearing pain, we should mention *Mortgage Choice*. We thought this made good buying when we bought last December at $2.21, on a 2008 forecast dividend yield of 6.8% fully franked. We thought it was even better buying when it fell below $2, but this week the stock has traded at $1.28. Consensus 2008 analyst forecasts are for 15.4 cents per share in profits, of which 15 cents are expected to be paid in dividends. That's a Price to Earnings ratio of 8.3 times and a fully franked dividend yield of 11.7%.

Looking at the plummeting share price of *Mortgage Choice* one would think that this business is in all sorts of trouble. And, while they certainly face some headwinds, we think the business model is essentially sound. *Mortgage Choice* brokers loans between house buyers and a panel of 30 lenders. It earns a commission from the lender when the loan is settled, then an on-going trail commission for the life of the loan. Unlike RAMS for example, *Mortgage Choice* does not lend its own money and has no balance sheet risk on the loans that it brokers. Indeed, the company is debt free with net cash. The *Mortgage Choice* network comprises 459 franchises across the country and manages a mortgage book of around $32 billion.

The near-term headwinds for *Mortgage Choice* come in the form of the current credit squeeze and rising interest rates. The rationing of credit and the closure of wholesale funding markets has seen some non-bank lenders step-back from the mortgage broker channel. That, combined with interest rates moving higher may result in the short term in less business written by *Mortgage Choice*. It also means that the big banks are not going to have to compete so vigorously for broker originated loans and the banks may be in position to push down commission rates. The question for us, is what do we think the situation will be in 3 to 5 years? While there are no guarantees, we think the current credit crisis will be a reasonably distant memory, and mortgage brokers will be an important and growing component of the mortgage market. In Australia, broker's share of mortgages written has steadily increased to around 40% of the mortgage market. In the US, that number is around 60%. Managing Director, Paul Lahiff, visited our offices a couple of weeks ago and his view is that in Australia the share of mortgages written by brokers is headed higher yet. When we asked Paul what keeps him awake at night, he said their biggest problem is finding quality people to put into franchises. He said only about 1 in 30 applicants is successful.

Amongst our other large (top ten) portfolio holdings there were some very good half year profit results. *Flight Centre* is now firing on all cylinders, reporting total transaction volume up 17% and profit up more than 70% on the prior first half, driven by a focus on higher margin products. *Cabcharge* further cemented its position as the dominant Australian provider of taxi-cab payment services with double digit increases in revenue and profits. One of the very attractive features of an investment in *Cabcharge* is its natural inflation hedge. As the company earns a fee as a percentage of the cab fare, when State Governments approve an increase in fares this automatically flows through to an increase in *Cabcharge* revenue. *Dominos* (pizza) had a very good result, 'delivering' a 68% improvement in per share earnings with Europe producing exceptionally strong sales growth and recording a profit ahead of schedule. Four wheel drive accessory maker *ARB* reported an exceptional result with revenue up 16% and profit up 19% despite a strong Australian dollar, high labour and steel costs. Serviced office operator, *Servcorp*, reaped the benefit of an aggressive floor rollout program over the last year with a 71% lift in per share earnings. *Servcorp* has no debt, and $74 million in cash and investments. Rounding out our top ten, *Saferoads*, managed an excellent 64% lift in revenues and 33% jump in profit.

It's somewhat of a paradox to have had one of the Fund's best ever half year profit reporting seasons, yet see share prices of some Fund holdings fall significantly. The result is that the portfolio is currently trading at less than 13 times with a 5% dividend yield. Of course, the nature of markets is that it could get cheaper yet and it's possible that earnings will come under pressure with rising inflation, interest rates and a slowing economy. However, we are confident in the long term prospects of the companies we own and continue to top up our holding in a number of them at what we think are attractive prices.

GANES VALUE GROWTH FUND

The Ganes Value Growth Fund provides investors with exposure to a unique portfolio of Australian listed companies that will provide growth and income to investors over the longer-term. It is their meticulous approach to studying companies while taking into account the macro-level drivers of Australian business that make Ganes such a capable investment firm.

Ganes investment methodology comprises both quantitative and qualitative analysis commonly called fundamental analysis. This research process ensures that financial ratios and measures are used to demonstrate that the company produces superior returns, while also making experienced judgements about the underlying strength of the business and the talent of its management team.

The team at Ganes often refer to the following quote as an insight into their investment strategy:

> *"If you are a prudent investor or sensible businessman, will you let Mr. Market's daily communication determine your view of a $1000 interest in the enterprise? Only in case you agree with him or want to trade with him. You may be happy to sell out to him when he quotes you a ridiculously high price, and equally happy to buy from him when his price is low. But the rest of the time you will be wiser to form your own ideas of the value of your holdings, based on full reports from the company about its operations and financial position."* - (extract from *The Intelligent Investor* by legendary investor Ben Graham)

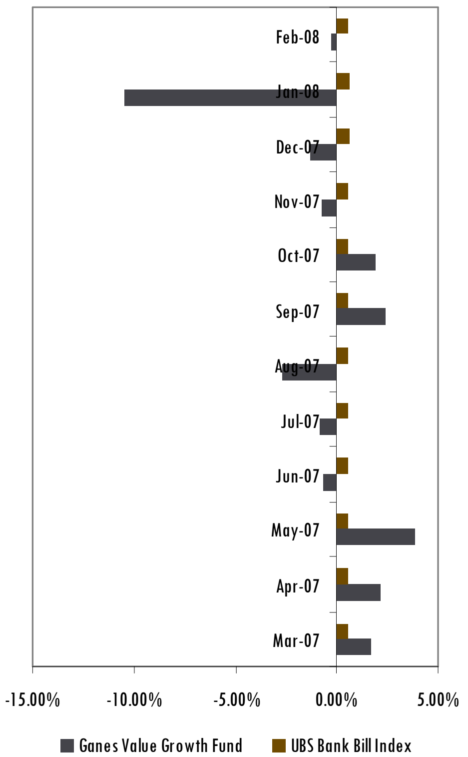
The Ganes Investment Philosophy distills down to paying a reasonable price for a growing quality business, and therefore is a process based on individual stock selection to generate superior returns. A 'typical' investment in the portfolio is a profitable, growing business with an easily understood business model that can be purchased at a price that will deliver, in the opinion of Ganes, a superior return over the medium to long term.

With an attractive investment opportunity identified, Ganes will allocate 1 to 2 percent of the fund's assets to an initial purchase, then over time build a larger stake in the business as comfort levels increase with the business and its management. Holdings will be added to, reduced, or sold entirely as changes in the underlying economics of the business, market pricing, or Ganes' assessed value of the company occurs.

TOP TEN LARGEST PORTFOLIO HOLDINGS

Top Ten Holdings	% of Portfolio	Asset Class
Flight Centre Limited	5.47%	Australian Shares
Cabcharge Australia Limited	5.30%	Australian Shares
Mortgage Choice Ltd	4.81%	Australian Shares
ARB Corporation Limited	4.70%	Australian Shares
Australian Wealth Management Ltd	4.22%	Australian Shares
Domino's Pizza Aust NZ Limited	4.09%	Australian Shares
Servcorp Limited	3.94%	Australian Shares
Treasury Group Ltd	3.47%	Australian Shares
Platinum Asset Management Ltd	3.46%	Australian Shares
Saferoads Holdings Limited	3.10%	Australian Shares
Other Australian Shares	39.57%	Australian Shares
Cash	17.88%	Cash
TOTAL	**100%**	

MONTHLY PERFORMANCE RETURNS



ABOUT THE FUND MANAGER

Ganes Capital Management Ltd was founded in 2002 by Dr. Clive Gaunt and Mr Wayne Jones as a privately-owned boutique fund manager based in Brisbane, specialising in the management of investments in the Australian equities markets. The name 'GANES' is derived from the manager's surnames, GAunt and joNES.

Clive has a Ph.D from the Queensland University of Technology, a Masters of Financial Management from the University of Queensland and a Bachelor of Business from the Brisbane College of Advanced Education. Clive has held various academic positions including Senior Lecturer in Finance at the University of Queensland Business School. His stockmarket research has been published in national and international peer reviewed journals and, for several years, wrote a monthly column for Shares magazine.

Wayne is a CPA (Certified Practicing Accountant) and has a Bachelor of Business from Queensland University of Technology. He has extensive commercial experience in accounting and finance roles in both public and private companies, as well as writing for The Intelligent Investor investment newsletter covering a range of companies and investment issues.

FUND FACTS

Composition Australian shares
Fund Start Date 18 November 2005
Investment Timeframe 5 years
Withdrawals Weekly
Distributions Quarterly
Minimum Investment $10,000
APIR Code WPC0004AU
ARSN 115 121 527
Unit Prices Weekly
Applications Weekly
MER 0.25625% p.a.
Buy-sell spread 0.275%/0.275%
Performance Fee 20.5% of positive returns with any negative returns recouped before the performance fee applies
Level of Risk Medium to High