

Ganes Value Growth Fund

SECTOR FUNDS

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CAPITAL

September 2011

The remarkable market volatility of August continued into September, but unlike August there was no month end rebound and the broader market (S&P/ASX 300 Accumulation Index) finished September down a significant 6.3%. The high cash weighting in the Fund (circa 30%) along with a more defensive positioning over the last six months restricted the loss in the Fund to just 2.0% for September.

- While a handful of stocks in the Portfolio had a positive month (such as Fleetwood, Blackmores, ASX) the vast majority lost value. The largest damage being done by Flight Centre and ARB, though there was no stock specific news driving the falls. Flight Centre slumped 14% allegedly on the back of the sliding Australian dollar, the idea being that Australians will be less inclined to travel. However, the Manager recalls attending a presentation earlier this year where company management pointed out that the company has grown its business at all levels of the Australian dollar, even when it was trading down around 50 cents a decade ago. ARB had a large impact on the Portfolio due to a fall of 6% during the month and as a consequence of being the largest stock in the Portfolio.
- Portfolio activity during the month included top-up purchases of Blackmores and Commonwealth Bank. The entire holding in Mystate was sold following the announcement of the proposed merger with the Rock Building Society, as was the entire holding in Amalgamated Holdings. Partial sales were made in Pacific Brands and McPherson's with the intention of a complete sell-down in due course.
- Cochlear and Adelaide Brighton were added to the Portfolio during the month. The purchase of Cochlear was made following the announcement by the company of a voluntary recall of its Nucleus CI500 range of implants due to a recent increase in the number of implant failures, and a significant fall in the share price. Less than 1% of implants of this device have failed since their launch in 2009. The recall covers devices that have not yet been used, and does not affect properly functioning implanted devices. While the company is investigating the problem, the superseded Nucleus Freedom is available for implant. However, current year and possibly next year earnings will be significantly impacted by the recall. Our view is that, more likely than not, the problem will be remedied, the market leading device will be back on the market and in 3 year's time historical profitability will be restored.
- Adelaide Brighton is a supplier of cement and lime to the construction industry based in South Australia but with operations around Australia. Along with other building materials companies the share price has fallen significantly over the past 12 months and the Manager has taken the opportunity to start buying at what they consider are attractive prices given the long term record of the business and its exposure to resource projects in Western Australia.

Performance Data as at	30/09/2011
1 month	-2.01%
3 months	-3.37%
6 months	-5.66%
1 year	0.86%
2 years (p.a.)	7.69%
3 years (p.a.)	7.48%
5 years (p.a.)	2.32%
Since Inception (p.a.)*	4.53%
Net Asset Value (\$)	1.0999
Fund Size (\$ million)	46.36

* Inception date of Fund 18/11/2005

Top 10 Portfolio Holdings	%
Cash	30.69%
ARB Corporation Ltd	7.48%
Woolworths Limited	3.79%
Austbrokers Holdings Limited	3.76%
Coca-Cola Amatil Limited	3.67%
Flight Centre Limited	3.27%
Spark Infrastructure Group	3.10%
McMillan Shakespeare Limited	2.63%
IOOF Holdings Limited	2.35%
Fleetwood Corporation Limited	2.30%
Other holdings	36.96%
TOTAL	100.00%

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