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May was Budget month that saw the broader market rise slightly as the government targets the budget deficit. However, the rises were largely limited to defensive sectors such as Healthcare, Telecommunications and Utilities. By contrast, consumer and retail stocks were a drag on local markets, as austerity measures announced in the budget will affect households. Consumer confidence fell by 6% to its lowest level since August 2011.

Unfortunately, even in this muted environment the Fund underperformed the broader market, producing a small negative return of -0.21%, under-performing the market by 0.82%. These are relatively small numbers but still disappointing nonetheless. However, on our preferred longer-term view the Fund continues to outperform the market on a 3 year and 5 year basis.

The major contributor to our underperformance in May was the 7.4% fall in the Flight Centre share price, nearly offsetting all the gains in other holdings for the month. Apart from the minor acquisition of a corporate travel agency in Dublin, there was no news driving this fall, however, like all retail companies with exposure to discretionary spending, the fall in consumer confidence following the budget is no doubt weighing on the company. And as of this writing, the company has since confirmed that profits for the year will be at the lower end of their guidance for the year. Profits will still be between 8% - 11% above the prior year and a record result for the company.

The other major negative contributor to Fund performance was the 13% fall in the Adelaide Brighton share price following profit downgrades from analysts as a result of comments on profitability at the company's AGM during the month. The company will lose a major contract next year and proposed efficiencies from restructuring along with mixed demand levels will not be enough to offset these losses.

On a positive note, Fiducian Portfolio Service rose 14% during the month. Fiducian is a smaller holding that has benefitted from stronger equity markets. The company announced in May that it had purchased a financial planning business which adds \$66m to Funds Under Advice and should add \$400,000 to net profit within 2-3 years.

A number of our portfolio holdings provided investor presentations during the month and amongst these Austbrokers and ARB Corporation provided a trading update confirming earnings guidance for the year, which saw their share prices rise 2.4% and 3.5% respectively. In other corporate news, Spark Infrastructure announced it had acquired 14.1% interest in DUET Group but says it does not intend to make a bid for the business and the investment will be 'economically and strategically attractive' and provides 'cash flow accretion'.

The Fund continues to hold a higher than usual cash balance as we continue to seek attractively priced opportunities that we believe offer the opportunity for above market returns, while not exposing unitholders to undue risk.

Performance 31-May-14	Ganes	All Ord Index
1 Month	-0.21%	0.61%
3 Month	0.70%	2.17%
6 Month	2.99%	5.11%
1 Year	8.22%	16.20%
2 Year (p.a.)	16.05%	20.15%
3 Year (p.a.)	11.59%	9.32%
5 Year (p.a.)	15.46%	12.17%
Since Inception (p.a.)*	7.84%	6.53%
NAV Unit Price (\$)	1.4817	
Fund Assets (\$ million)	44.86	

* Inception date of Fund 18/11/2005

Top 10 Portfolio Holdings	%
Cash	36.98%
Flight Centre	9.92%
Woolworths	6.90%
Austbrokers Holdings Limited	5.09%
Treasury Group Limited	4.43%
Spark Infrastructure Group	3.85%
Computershare Limited	3.25%
ARB Corporation Limited	3.09%
Sonic Healthcare Limited	2.79%
Magellan Flagship Fund	2.60%
Other Holdings	21.10%
Total	100.00%

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