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August Monthly Report

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

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

The local market produced another positive month of 2.59% on the back of a relatively benign company profit reporting season as well as the RBA's decision to reduce interest rates by a further 25bps to 2.5%. By contrast, most major overseas markets fell between 2% (Japan) and 3% (USA and UK) during August.

As noted last month, McMillan Shakespeare had fallen significantly following the surprise announcement by the Rudd government to change legislation around the salary packaging of vehicles. The Coalition announced they would not support these changes and as such the company's fortunes hinged upon the election results. During August, McMillan rose nearly 45% as predictions of a Coalition victory became clearer and was the single largest contributor to the Fund's performance for the month.

Performance 31-Aug-13	Ganes	All Ord Index
1 Month	0.32%	2.59%
3 Month	1.57%	5.36%
6 Month	5.05%	2.25%
1 Year	18.71%	23.23%
2 Year (p.a.)	15.69%	13.23%
3 Year (p.a.)	13.48%	9.57%
5 Year (p.a.)	10.39%	4.11%
Since Inception (p.a.)*	7.74%	5.84%
NAV Unit Price ($)	1.4179	
Fund Assets ($ million)	46.56	

* Inception date of Fund 18/11/2005

A great deal of commentary in the media highlighted the risk attached to the company's earnings and business model as if McMillan Shakespeare were the only company exposed to such risks and investors were foolish to own such a company. As we have previously articulated, we were always conscious of these risks and they had always formed part of our valuation and asset allocation decision.

Equally, there are many other companies that operate under similar conditions and profits would also be jeopardised if legislation changed. For example, legislation surrounding private health care cover has major implications for the profits at NIB and Ramsay Healthcare. Risk is a part of being a business owner and needs to be evaluated in that light rather than avoided at all costs.

Other major contributors to Fund's performance came from Woolworths (+7%), Sonic Healthcare (+10%) and Treasury Group (+7.5%).

Top 10 Portfolio Holdings	%
Cash	45.65%
Flight Centre	9.03%
Austbrokers Holdings Limited	6.52%
Woolworths	5.47%
ARB Corporation Limited	3.92%
Spark Infrastructure Group	3.34%
Treasury Group Limited	3.14%
Magellan Flagship Fund	2.38%
Computershare Limited	2.37%
Sonic Healthcare Limited	2.35%
Other Holdings	15.83%
Total	100.00%

Woolworths delivered good results in difficult trading conditions. Revenue increased 4.8% as did earnings per share, and dividends increased by 5%. Losses in the Home Improvement division continued, however the company reiterated their goal of a better result in 2014 and break-even in 2016 for the Masters stores. The company expects profits to increase next year by 4% - 7% despite subdued retail conditions.

Sonic delivered another solid result with profits increasing by 7%, despite some problems in their German operations and tougher conditions in the USA. Sonic is now the third largest medical diagnostic business in the world with 47% of its revenue now coming from offshore. The company has predicted that operating earnings will grow 5% for next year and with the potential of a weaker currency and lower tax rates, this could translate to even higher net earnings.

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On the down side, ARB was our largest negative contributor with the price falling 9% for the month. The company reported a solid result with revenue up 8% and profits up 10% for the year, however, it was apparent that conditions are getting tougher with the resources slow-down. On the back of the result and with the company still selling near record earnings multiples, we continued to reduce our holdings during the month.

Other transactions during the month were partial sales of McMillan Shakespeare and Invocare.

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