GANES

FOCUSED VALUE FUND

APIR GCM0001AU | ARSN 117 119 712

MARCH 2022 QUARTER REPORT

Quarter Commentary

The fund recorded its first negative quarter since March 2020 with the unit price down 8.7% to $4.19 at the end of March, while the market rose 2.1%. For the past year the fund has reported a return of 16.9%, outperforming the broader market by 1.7%.

Over the longer term the fund has provided a return of 10.8% per annum for the last 10 years and 11.9% per annum since inception. A $10,000 investment made at inception is now worth $88,808 against $57,882 for the ASX300 benchmark.

Market sentiment amongst our larger holdings shifted significantly during the first quarter, despite a reasonably good reporting season in February. The damage was done in January when the fund fell 9.8%, our single worst month in the last 10 years, aside from March 2020.

Some of our holdings had posted stellar returns in 2021 so it is to be expected that they should be amongst the first to give up some of those outsize returns when market sentiment changes.

The one exception was PWR Holdings which continued to perform well – both as a business and as an investment. As a result, it has become an even larger part of the portfolio due to price appreciation, as you can see in the table to the right. Our top 10 holdings remain largely unchanged apart from Cochlear replacing Altium because of price movements during the quarter.

Changes to the portfolio during the quarter were mainly additional purchases of PSC Insurance and Domino's Pizza.

The fund remains almost fully invested with a cash weighting of approximately 6%.

Performance as at 31 March 2022:

	Fund (net of fees)	ASX 300 Accum. Index
3 months	-8.7%	2.1%
1 year	16.9%	15.2%
3 years p.a.	15.8%	10.9%
5 years p.a.	13.3%	9.4%
10 years p.a.	10.8%	10.1%
Since Inception (p.a.)*	11.9%	9.4%
Value $10,000 invested since inception	$88,808	$57,882

*Inception date of Fund is 14/10/2002

Unit Prices as at 31 March 2022:

Entry Price	$4.2019
Unit Price	$4.1914
Exit Price	$4.1809

Top 10 Holdings:

Company	Code	Weight (%)
PWR Holdings	PWH	17.5
Domino's Pizza Enterprises	DMP	8.9
Dicker Data	DDR	8.9
ARB Corporation	ARB	7.7
Reece	REH	7.1
PSC Insurance	PSI	6.8
Lovisa	LOV	5.9
MFF Capital Group	MFF	5.5
AUB Group	AUB	4.6
Cochlear	COH	3.5

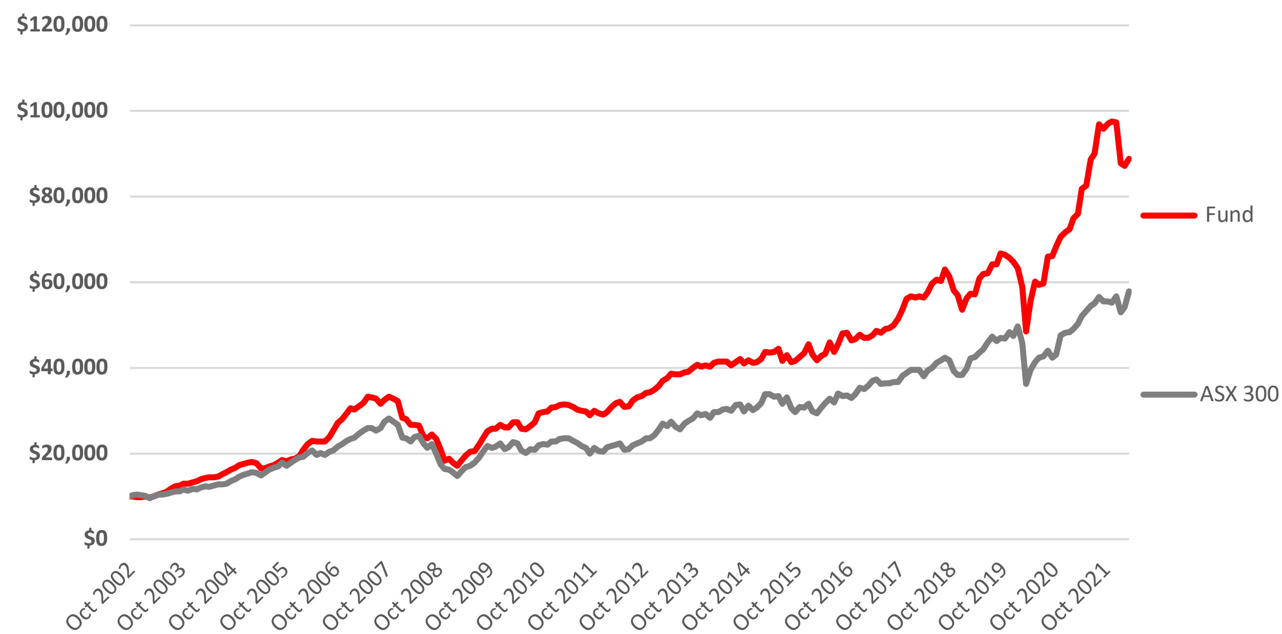
Top 5 Sector Exposure:

Sector	Weight (%)
Consumer Discretionary	40.0
Financials	22.9
Information Technology	15.4
Industrials	7.1
Energy	3.8
Other (including Cash)	10.8

Ganes Capital Management Ltd AFSL 291 363
PO Box 3512 Newmarket QLD 4051

Phone: 1300 766 916
Email: admin@ganescapital.com.au

Fund Performance



While the table on the first page shows the performance of the fund over various time frames the graph above provides a visual representation of the fund against the ASX300 Accumulation Index benchmark since inception. The benefits that accrue to compounding over the long term are apparent.

Portfolio Performance

Many of our largest holdings have declined more than 20% since December leading to the negative result for this quarter. By contrast, almost every business we own reported operating results that varied from good to very good. I like to think that if we act like business owners with a view to the long-term, short-term fluctuations in prices should not worry us, business results should. And as Morgan Housel, a prominent financial writer recently wrote, “volatility is the admission price for superior long-term results”. Some investment managers would have you believe they can move in and out of the market avoiding these declines. I am not one of them, and as Warren Buffett once said; “if you think you can dance in and out of securities…. I would like to be your broker, not your business partner”.

PWR Holdings was again our largest contributor to portfolio performance during the quarter. Its share price rose 10% after reporting another strong result in February and being added to the ASX300 index. The company reported a 22% increase in revenue, and a 14% increase in profits over the prior year. The take up of the Micro Matrix product within Formula 1 accounted for most of this growth. A major defence contract resumes this year which will also add to the company’s top line for 2022.

The company also announced that it is likely to be a supplier to both leading contenders for the Land 400 tank tender which is expected to be announced shortly. This is a $20 billion contract which could have a meaningful impact on the business over the next decade if they are successful. As a shareholder it is rewarding to see PWR making decisions now that will have a significant impact on the business over the next decade or more.

While I report the movement in the share price to you so you can understand the performance of the fund, I am far more focused on the results of these decisions, not on any short-term movement in share price, either up or down.

Reece was our largest detractor to fund performance during the quarter. After rising more than 40% last quarter, it fell nearly 30% this quarter. With volatility like that you might think Reece is exploring for oil or gold in foreign lands, but it is Australia's largest plumbing supplies business with nearly 850 outlets across Australia and the southern states of the USA with annual revenues of $7 billion. Let's put some numbers around that volatility. At the end of September last year, the market was attributing a value of roughly $12.5 billion to the company. By the end of December that had risen to $17.5 billion. And just three months later we are back to a valuation of $12.5 billion. A movement of $5 billion in both directions within six months for a large, stable business established over 100 years ago and with a wonderful track record.

From an operational perspective Reece reported a 17% increase in revenue, a 28% increase in profits, and increased their dividend by 25%. We won't see that type of growth every year, but it was a good result by almost any measure.

Domino's Pizza was our second largest detractor as the share price fell 25% for the quarter. Domino's is now our second worst performing stock in the fund since June last year. What excited investors about the business last year has seen investors running for the exits over the past few months, and it can be summed up in one word – Japan.

Group revenue was up 11% to $2.05 billion but same-store sales growth plateaued after strong growth last year. Operating profits were down $9 million, or 5% to $145 million. Gains made in Europe were more than offset by profit falls in Australia and Asia.

Various factors accounted for the lower profitability including store shutdowns and franchisee support in Australia, but the biggest impact was felt in Japan where the profit margin fell from 14% last year, (one of the best in the group), to 10.3%, the weakest in the group.

This has been blamed on a change of customer behaviour following the lifting of the State of Emergency and the accelerated store roll-out program – the company recently opened its 900th store in the country.

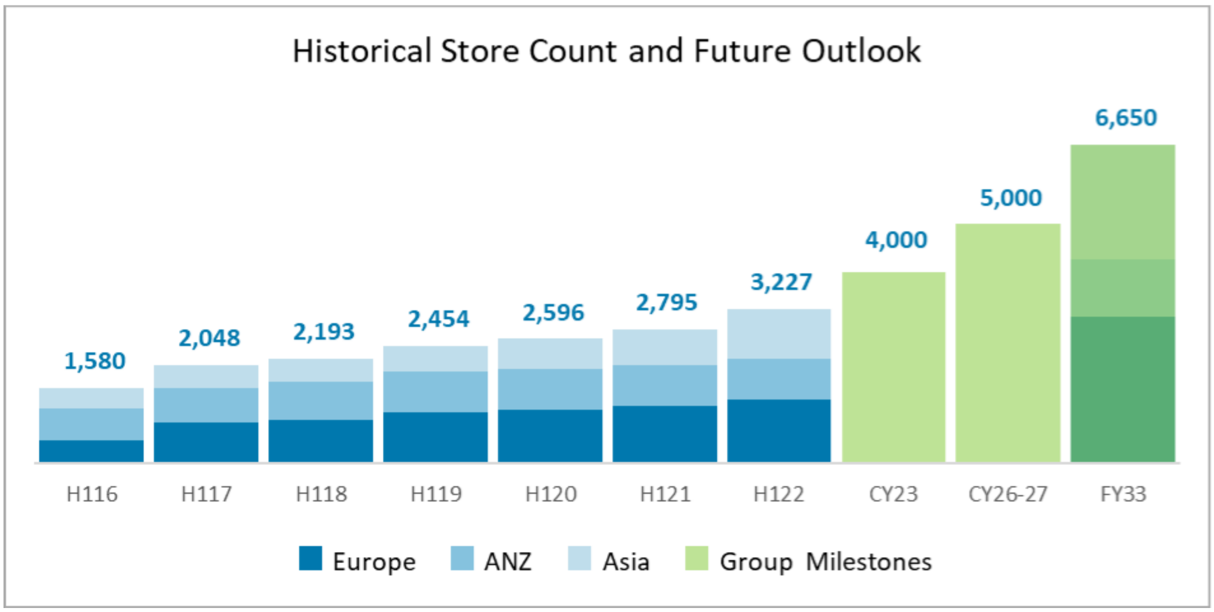
The strategy of opening company-owned stores to build out the network saw the addition of another 53 stores in Japan which likely made losses. These stores should become profitable and sold onto franchisees, but in the short-term they are a drag on profits.

More importantly, the number of stores per franchisee in Japan continued in the right direction with the average number of stores per franchisee rising from 3.0 to 3.5 and 16% of franchisees now own more than 6 stores, up from 10% this time last year. These are the highest levels of ownership in the group and are growing quickly – the number of stores owned by franchisees has grown by over 300 stores in the past two years.

Ganes Capital Management Ltd AFSL 291 363
PO Box 3512 Newmarket QLD 4051
Phone: 1300 766 916
Email: admin@ganescapital.com.au

The company expects the number of its stores to double over the next decade. With the store network growing at 9% - 12% per annum and same-store sales growth of 3% - 4% the company should continue to report double digit revenue growth for at least another decade or longer, and this is before any other growth acquired from a new territory.

A decade ago, Domino's had less than 900 stores, revenue was $132m and profits were $18m for the half-year. Today's business has over 3,200 stores, revenue of $2.0 billion and it made $145 million in operating profit. Is the goal to double the business over the next decade realistic? I believe so.



ARB Corporation rounded out the top three detractors to fund performance by falling 20% as well, despite a wonderful result. Revenues and profits were up 26% and the dividend was increased by 34%. The only blemish was a drop in cashflow as inventories were built up due to supply chain issues. The company starts 2022 with a strong order book, new products to bring to market, as well as the commencement of the Ford partnership program. All positive signs for shareholders.

All three businesses that detracted from fund performance are high quality businesses with all the characteristics we seek as a business owner and remain core holdings of the fund.

Find an edge and stick with it

It is important in investing to understand what your "edge" is. I believe buying good quality businesses with the long-term focus of a business owner, leading to low portfolio turnover, and remaining fully invested despite market uncertainty, has seen the fund outperform the market over the longer-term. I can't remember the individual profit results from 2017 or 2012 and I am as likely to remember the results from this year with the same clarity in time to come. What is important is the quality of the business and the progress it is making in realising its goals.

DISCLAIMER

The Ganes Focused Value Fund (ARSN 117 119 712) (Fund) discussed in this report is offered via a Product Disclosure Statement (PDS) which contains all the details of the offer. The Fund's PDS is issued by Fundhost Limited (AFSL 233045) as Responsible Entity for the Fund. Before making any decision to make or hold any investment in a Fund you should consider the PDS in full. The PDS will be made available at www.ganescapital.com.au and https://fundhost.com.au/fund/ganes-focused-value-fund/ or by contacting Ganes Capital Management at admin@ganescapital.com.au. This report is released under the Ganes Capital Management AFSL. Ganes Capital Management Limited (ABN 68 102 319 675) is the investment manager and is the holder of AFSL 291 363. Investment returns are not guaranteed.

The information provided in this report is of a general nature. The content has been prepared without taking into account your personal objectives, financial situations or needs. None of the information provided is, or should be considered to be, financial advice. The information is not intended to imply any recommendation about a financial product. You should consider seeking your own independent financial advice before making any financial or investment decisions. The information provided in this report is believed to be accurate at the time of writing. None of Ganes Capital or their related entities nor their respective officers and agents accepts responsibility for any inaccuracy in, or any actions taken in reliance upon, that information. Past performance is not an indicator of future performance.

The Fund(s) Target Market Determination can be found at https://fundhost.com.au/Ganes-Focused-Value-Fund-TMD.pdf