GANES
FOCUSED VALUE FUND

APIR GCM0001AU | ARSN 117 119 712

JUNE 2021 QUARTERLY REPORT

Quarter Commentary

The fund recorded another strong quarter with the unit price up 16.7% to $4.35 (pre-distribution) at the end of June. For the past year the fund reported a return of 49.5%, outperforming the market by 21.0%. Over the longer term the fund has provided a return of 11.4% per annum for the last 10 years and 12.4% per annum since inception.

A number of companies, including our larger holdings, have experienced strong price rises over the past year leading to our best 1-year performance for a financial year since the fund was started. And also our best outperformance against the market.

While I am extremely pleased by this performance, recent performance should not be extrapolated in your expectations of future results.

In hindsight last March was a rare moment for investors. Fortunately, we made the most of it, remaining fully invested, and adding some new investments at attractive prices.

However, rising prices have meant the torrent of ideas I had last year has dwindled to a trickle now. But just one or two good ideas per year (about normal for the fund), can still produce good results.

There were only modest changes to the portfolio during the quarter with some additional purchases to existing investments. There were no sales.

A distribution of 16.24c should be paid shortly to unitholders that have elected to receive their distribution in cash.

Performance as at 30 June 2021:

	Fund (net of fees)	ASX 300 Accum. Index
3 months	16.7%	8.5%
1 year	49.5%	28.5%
3 years p.a.	13.6%	9.8%
5 years p.a.	15.2%	11.3%
10 years p.a.	11.4%	9.2%
Since Inception (p.a.)*	12.4%	9.5%
Value $10,000 invested since inception	$88,697	$54,502

*Inception date of Fund is 14/10/2002

Unit Prices as at 30 June 2021 (pre-distribution):

Entry Price	$4.3679
Unit Price	$4.3570
Exit Price	$4.3461

Top 10 Holdings:

Company	Code	Weight (%)
PWR Holdings	PWH	13.3
Domino's Pizza Enterprises	DMP	10.2
Reece Australia	REH	9.1
ARB Corporation	ARB	8.3
Dicker Data	DDR	6.6
MFF Capital	MFF	5.8
Lovisa	LOV	5.0
Magellan Financial Group	MFG	4.5
AUB Group	AUB	4.1
Cochlear	COH	4.0

Top 5 Sector Exposure:

Sector	Weight (%)
Consumer Discretionary	36.8
Financials	22.0
Information Technology	15.5
Industrials	9.1
Healthcare	6.3
Other (including Cash)	11.3

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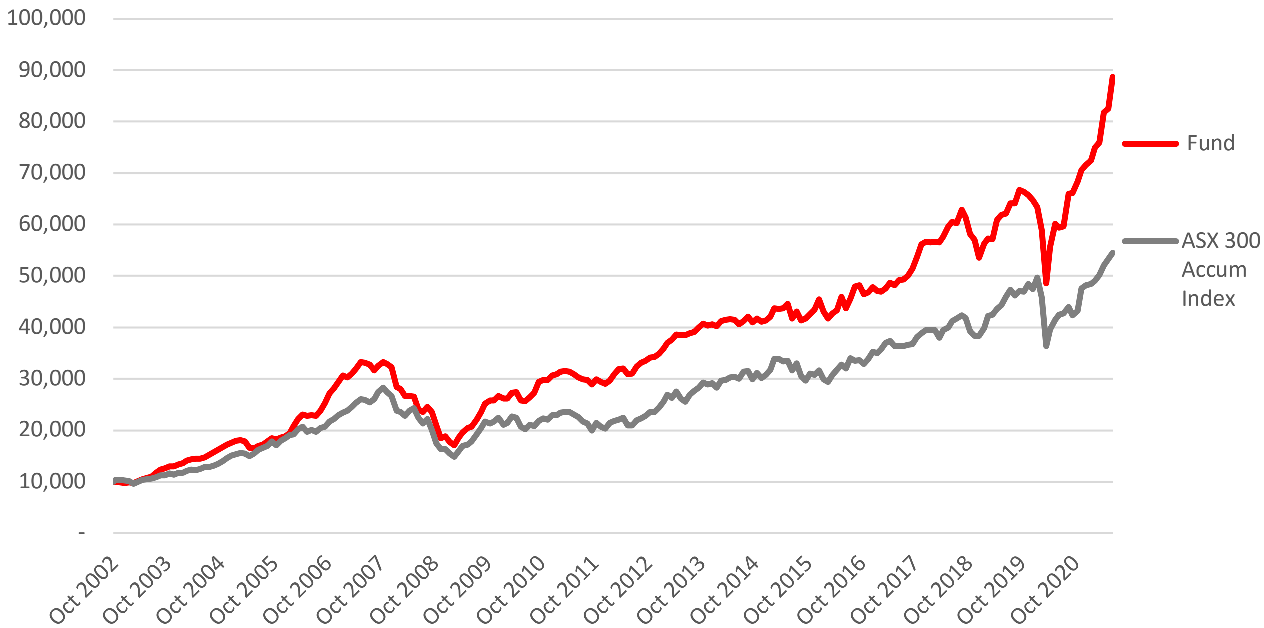
Fund Performance



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 benchmark since inception.

Market Performance

The table to the right displays the annual performance for the past decade. 2021 has been our best year since inception, but it was also the best year for the market since 1987 (and we know how that unfolded a few months later).

The big winners in the portfolio came from our largest holdings. Reece and Lovisa rose more than 150% during the year and ARB Corporation was up 140%. Domino's Pizza also rose 75% continuing its strong contribution to performance. Our largest holding, PWR Holdings, dragged the chain by only rising 58%. Just as pleasing there were no major disasters that hampered performance, although MFF Capital and Carsales.com both produced muted returns in the single digits.

Financial Year	Fund Return	ASX300 Return	Difference
2011	17.8%	11.9%	5.9%
2012	2.9%	-7.0%	9.9%
2013	23.7%	21.9%	1.8%
2014	5.6%	17.3%	-11.7%
2015	2.6%	5.6%	-3.0%
2016	4.8%	0.9%	3.9%
2017	12.5%	13.8%	-1.3%
2018	23.2%	13.2%	+10.0%
2019	2.5%	11.4%	-8.9%
2020	-4.4%	-7.6%	+3.2%
2021	49.5%	28.5%	21.0%

"The best investors are the founders that never sold"

Attributed to Nick Sleep, Nomad Investment Partnership

A quick scan of any Rich List highlights they are dominated by business founders. Founders who still have a large percentage of their net worth in their business. It's for that reason the above quote, attributed to Nick Sleep, resonates. Nick Sleep ran the Nomad Investment Partnership in the UK until he closed it in 2014. The partnership produced outstanding results and their letters have achieved cult-like status in recent years for their prescient understanding of the Amazon and Costco businesses. They can be found on his iggyfoundation website and I highly recommend them.

I have always preferred investing alongside founders that I admire and trust. And with our success in ARB Corporation and Reece, and more recently, PWR Holdings and Dicker Data, this has become almost a rite of passage to a top 10 position in the portfolio.

It has also meant my investment strategy has evolved from finding $1 shares selling for 50c, to that of finding founders that can turn $1 into $10, $20, or even more. Our history with ARB is illustrative of this type of investment.

The fund has owned ARB Corporation continuously for more than 18 years and I recently celebrated 20 years as a shareholder. It has been a 20-bagger for the fund to date.

The ARB Story

In 1975 Tony Brown fitted his own home-made roof racks to his Land Rover and drove from Melbourne to Cape York and back. On the drive he noted many vehicles with poor quality gear. So, on returning to Melbourne, he decided to start manufacturing roof racks and bull bars and selling them directly to customers. It was a modest operation as you can see from this early image below.

Over the following years things grew and his brothers, Roger and Andrew, joined the business. The product range expanded to include shock absorbers and driving lights and ARB Corporation was born. After several moves to increasingly larger premises, the company was keen to enter the US market. But this would require capital, so, in 1987 the company floated on the Australian stock exchange, valuing the business at $5.5m at the time.

I was aware of the business in 1998 but because it always looked "expensive" it took me another few years before I made my first investment at the equivalent of $1.80 per share, (the fund started buying at $2.07 per share in early 2003). By then the company had grown significantly and shareholders had already been rewarded with a near 20-fold increase in the share price in less than 15 years. It was truly impressive.

Today the company continues to report record results and the share price is more than $42 per share. Even though the fund missed the first 20-fold increase in price, its investment has still provided a return of approximately 20% per annum for the past 18 years. And as I write below, the future for the business is still bright.

Roger Brown is still the Chairman of the company, and his shareholding is worth $250 million, but here is a better part of the story for me. According to the 1998 Annual Report, Mrs P Carpenter owned 110,000 shares which I estimate cost her $55,000. Today those shares are held by her estate and are worth more than $25 million. On top of this her estate is receiving an annual dividend of more than the original investment, $260,000 last year alone.

ARB's Latest Deal

In March the company announced the purchase of Truckman, a UK-based business that will provide further scale and products for its European business. But I believe the more important news was the deal with The Ford Motor Company announced in May.

This deal is to provide a suite of aftermarket products for the Ford Ranger and Everest vehicles from the second half of this year, as well as the Ford Bronco in the USA market. Initially this will roll-out in Australia but will be extended to include overseas markets. The USA market, and its love affair with 4WD vehicles, is a big growth opportunity.

The upside in the deal will be the products are covered under a Ford 5-year warranty and offered via Ford dealerships. **This is important**. Until now the Ford dealer has been a competitor for the business, not an ally, with ARB needing to sell its product *after* the buyer has driven the vehicle off the lot and hoping the salesman didn't convince them to buy Ford-badged product at the time. Now, the Ford dealer becomes an advocate for ARB product selling the accessories at the time of purchase. It's a win-win for both parties and Australia is just the start. If ARB can crack the large USA market this could be a game-changer for the business in the coming years. It also puts pressure on Toyota to make a similar move to maintain their market share.

Enforcer & The Dude: PWR Factory Tour

Last month Enforcer & The Dude released an episode which included a comprehensive tour of the PWR facilities which I highly recommend. It includes 3D printing of aluminium powder, the micro-matrix technology for drones, and the only wind tunnel of its kind in the world. I think you will find it impressive. You can skip the first 15 minutes, unless you like blokey banter about racing news, the tour starts at the 15-minute mark. It also allows you to see how Kees and Matthew think about the business and its future.

https://www.youtube.com/watch?v=Dw7mn3M2Mcw

Carindale Property Trust update

In the June 2020 update I highlighted Carindale Property Trust as a new investment because of the Covid market falls, so I thought I would revisit how this has played out. At our purchase price of $2.70 I thought we could double our money over the next 5 years almost regardless of general market conditions, and even if the Trust needed to write down the value of the asset (they did).

To date the shares have risen 65% and we have received 23c in distributions for a total return of nearly 75% since March 2020 in what I believed was a low-risk purchase. Given the likelihood of modest returns in the future because of the price appreciation I expect this capital will be redeployed into other ideas that offer more attractive prospects. Unlike our compounding quality businesses this was purchased as an asset play, and it has achieved its goal. The current enthusiasm in the market has meant these types of investment ideas have virtually disappeared.

Current Prices

Markets have risen strongly over the past 12 months, and it’s clear some, but not all, of the current prices for companies in the portfolio are at heightened levels. As a result, subdued returns may be likely, market falls are also a possibility. This is not a prediction; I say this so that you can understand how I will react if this eventuates.

The pool of quality businesses in Australia is not a deep one. Finding them is the relatively easy part, holding them is the hard part and where I believe our competitive advantage is derived (for unitholders that is our outperformance).

The common reaction by most investors, amateur and professional alike, is to sell as prices rise, seeking other opportunities with the belief that every dollar gained will be held on to. That is easier said than done. There is also the theory of loss aversion at play here which I won’t go into.

My view on this has evolved and I am much more inclined to hold onto investments regardless of whether they look expensive in the short-term. This means we also experience negative returns when markets fall. However, for businesses with high returns on capital, like ARB, remaining a shareholder has worked out well over the long-term and puts us in the same boat as the founders that never sold.

And as we have seen with ARB in recent months, good businesses with good management teams have a way of surprising us with good news. I have also found the corollary, that poor businesses never run out of excuses as to why this year wasn’t great but next year will be better.

I am happy to back the founders we have in the portfolio regardless of short-term fluctuations rather than attempt to dance in and out of the market trying to make a profit from every wiggle in the share price.

As always, feel free to call or email me if you require any further information about the fund.

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