

	NTA
Unit Price - 31/08/2018	1.0128

Investment Returns (net of fees)*

	Harvest Lane Absolute Return Fund	RBA Cash Rate	Outperformance
Cumulative return (since inception 01/07/2013)	57.96%	10.63%	47.33%
Trailing 3 year return p.a.	6.94%	1.68%	5.26%
Trailing 12 month return	15.47%	1.50%	13.96%
Trailing 3 month return	2.32%	0.38%	1.95%
Trailing 1 month return	-1.16%	0.13%	-1.29%

* Past performance is no indication of future performance. Investments may rise and fall in value and returns cannot be guaranteed. Returns are based on the mid-point of unit prices and are net of all fees and charges. Unless otherwise stated, all figures are in Australian dollars and include GST. Return calculations covering a period greater than 12 months assume the reinvestment of distributions.

Manager Commentary

Despite August's headline return of -1.16% for the month, the portfolio bustled with activity across both new and old positions, with the overwhelming majority of the modest negative performance attributed to a mere handful of positions. In contrast, the ASX200 posted its second positive monthly performance for FY19, finishing up 0.63%.

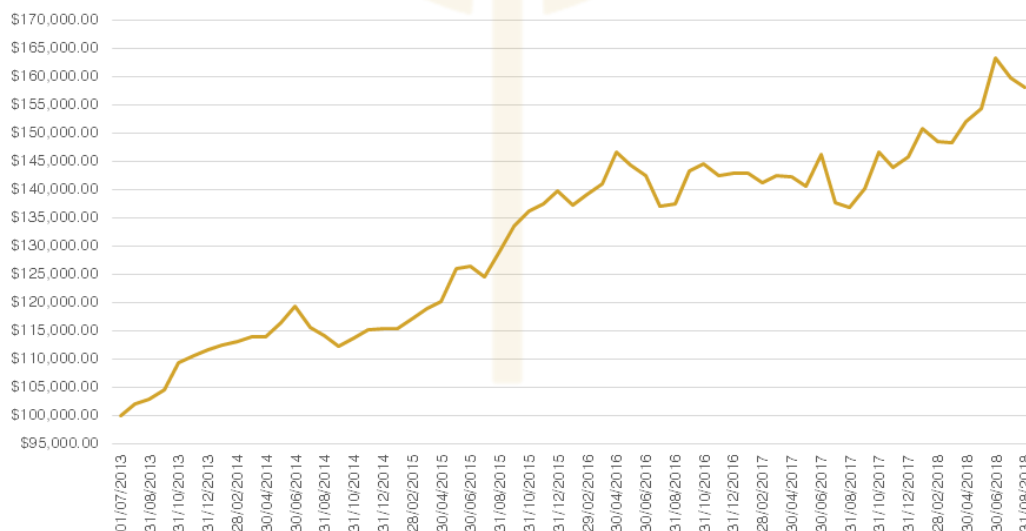
Seven new positions were added to the portfolio during the month as the recent strength in the M&A space gathered momentum throughout reporting season. With anticipated corporate activity failing to materialise in PropertyLink Group (PLG.ASX), the position was closed out (at an overall gain, a pleasing result) to rotate into the plethora of new opportunities and position the portfolio for strong gains over the coming months should these deals proceed to completion, as expected. A promising component of the fund's strong performance throughout CY18 has been the return of the counter proposal, and already amongst the new positions we are starting to see the tell-tale signs of contested tussles emerging.

BWX Limited (BWV.ASX) was overwhelmingly the biggest detractor to portfolio performance this month. The stock is subject to a proposed management buyout with the CEO and CFO teaming up with Bain Capital to take the company private and pursue further acquisitions to complement the existing roll-up structure. It is often remarked that the most prevalent deal-killer is the passing of time, and for every week that passes without an agreed deal, the market becomes more sceptical that one will ultimately be forthcoming. Both BWV and Bain have flagged mid-September as a line in the sand on whether the indicative non-binding approach is firmed up. While a deal remains possible our concerns have grown that one might not be forthcoming. We hence decided to sell down part of our holding late in the month.

Gateway Lifestyle (GTI.ASX) also surprised to the downside this month, paring some of the July premium associated with an expected bump in final consideration from either Brookfield or Hometown.

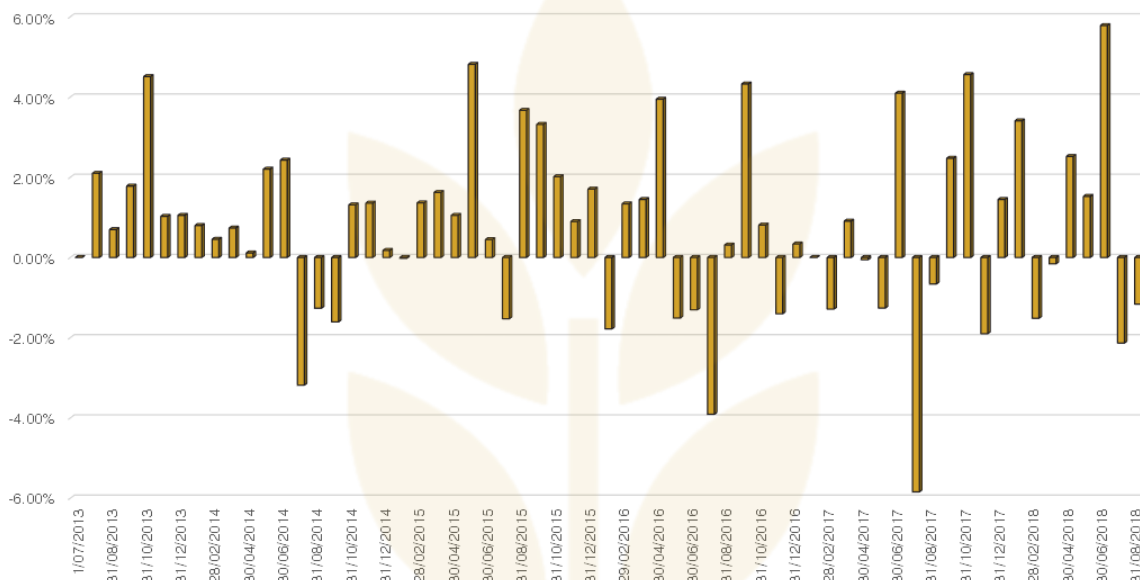
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Growth of \$100,000 Since Inception



Monthly Returns History*

The Absolute Return Fund
Monthly Returns (since inception)



Fund Facts

Name	Absolute Return Fund
Structure	Retail daily priced unit trust
Inception	Monday 1 July 2013
Investment Objective	10% p.a (over 3 year period)
Manager Base Fee ¹	Capped at 1.25%
Manager Performance Fee ²	25% (incl GST) of returns above RBA Cash
High Water Mark	Yes
Applications/Redemptions	Daily
Distributions	Annual
Administrator	Fundhost
Auditor	Ernst & Young
Custodian	NAB

Portfolio Analytics

Average Full Financial Year Return ³	10.46%
Average Monthly Return (since inception)	0.76%
% Positive Months	67.21%
Best Positive Month	5.78%
Worst Negative Month	-5.84%
Maximum Drawdown	-6.92%
Annualised Standard Deviation	6.45%
Sortino Ratio	1.75
Sharpe Ratio	0.996
Correlation with All Ordinaries	0.014
Beta	0.01
Last distribution paid (July 2018)	0.06728

¹ Harvest Lane Asset Management does not receive any part of the management fee. Instead this is paid to the Fund's service providers and to recover all expenses.

² Performance fee is charged when the Fund's performance exceeds its benchmark (RBA Cash Rate).

³ Return is calculated as the average of all full financial years since inception (01/07/2013 - 30/06/2018) and does not include returns for the current year.

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Manager Commentary Continued

The Gateway board of directors disappointed shareholders by accepting an offer of \$2.25 per share, having earlier spurned an offer of \$2.30. In our experience, a company board typically only rejects a bid in expectation of later accepting a higher offer. Having rejected a bid, it is rare to witness a company subsequently accepting a lower offer! Whilst this is by no means a done deal just yet, the likelihood of further offers has clearly diminished.

A newly established position in Kangaroo Resources Limited (KRL.ASX) was also a key detractor from August performance, as the shares retreated on low volume late in the month (it should be noted such a phenomenon is not unusual after a new position is established, as we see smaller shareholders take the opportunity to exit). The offer price of \$0.15 provides considerable upside from August's close of \$0.11, and without an onerous list of conditions to be fulfilled, and despite the bid being in its early stages, we are confident of the transaction reaching maturity.

Amongst existing positions, APN Outdoor (APO.ASX) rallied strongly after the ACCC stood aside and cleared the way for the \$1.1b JC Decaux acquisition to move closer to completion. Despite APO closing the month at around the \$6.70 offer price, the portfolio stands to benefit further in the coming months as the additional value of the interim and special dividends and associated franking credits are realised.

APA Group (APA.ASX) had a surprisingly volatile August on the back of the political gyrations emanating from Canberra. The prospects of a Peter Dutton led Coalition saw APA sell off over concerns a more populist style of governing would move to block the CKI proposal, before the surprise election of Scott Morrison eased concerns and drove the shares to close out August near its monthly high.

As we foreshadowed in previous newsletters, Investa Wholesale Funds Management Limited (IWFML), responsible entity of Investa Office Funds (IOF.ASX), flexed its muscles and struck an agreement with Oxford Properties Group to sell a 9.99% stake in Investa at \$5.25 per share, roughly \$0.10 above Blackstone's proposal. The agreement meant Blackstone's offer had failed to persuade key shareholder IWFML to accept on the deal's existing terms. The move quickly prompted Blackstone to sweeten its proposal by \$0.20 and reduce the implied discount to NTA its offer represented. It proved enough of a bump for IWFML to reconsider its stance, announcing their intention to vote in favour of Blackstone's proposal. The deal now looks set to complete by mid-September.

Household favourite Capilano Honey (CZZ.ASX) is one of the latest ASX listed stocks to receive an offer from private equity interests. ROC Capital Pty Ltd and Wattle Hill RHC Fund combined forces with Capilano to announce a scheme of arrangement at \$20.06 per share. A handful of sell side analysts quickly pointed out that the transaction multiple of 12.5x FY18 EBITDA, its two thirds market share, and its status as an iconic Australian brand made it an attractive prospect for a contested

bid. It would take until the final twenty minutes of normal trade in August for activity to heat up, as Bega Cheese (BGA.ASX) waded into the market and snapped up all of the shares it could get its hands on up to and including \$21 per share. No proposal has yet emerged, but we suspect it is not far off given the aggressive buying on display. Our newly established position stands to benefit if and when this occurs.

A position in Folkstone Limited (FLK.ASX) was added to the portfolio after they simultaneously announced a strong FY18 result alongside a proposal from Charter Hall Group (CHC.ASX) to acquire the company at \$1.39 per share. The proposal allows for a normal and special dividend, both fully franked, which is very pleasing.

A profit downgrade from EclipX Group (ECX.ASX) in early August saw the shares plunge over 40% to their lowest level since listing. The plunge caught the eye of SG Fleet (SGF.ASX), who approached the company with an opportunistic offer at an implied value of \$2.52. The bid was outright rejected by the EclipX board, but the potential synergies on offer in a sector ripe for consolidation means EclipX very much remains a target. We took the opportunity to add a small position.

A small position was also taken in Nkwe Platinum Limited (NKP.ASX) after it reached an agreement to a scheme of arrangement with its largest shareholder, Zijin, at a consideration of \$0.10 per share.

Finally, to close out August, Zenitas Healthcare Limited (ZNT.ASX) announced a \$1.46 per share offer from a private equity consortium comprising Adamantem Capital Management Pty Ltd and Liverpool Partners Pty Ltd. This too was added to the portfolio in anticipation that Zenitas may also attract the interest of other suitors.

In all, August was a busy month. The strong portfolio gains seen throughout 2018 has been met with numerous new opportunities to immediately recycle the capital, and the changing composition of the portfolio throughout August reflects that. With several transactions set to complete during the month of September (SEH, GTY, IOF, SRX), there is meaningful potential to capture the full benefits of August's new opportunities with a view to driving the next period of sustained positive performance for the portfolio.

Kind Regards,

Luke Cummings

Chief Investment Officer and Managing Director

(on behalf of the team at Harvest Lane Asset Management)

Harvest Lane Asset Management Overview

Harvest Lane Asset Management Absolute Return Fund (Fund) is a high conviction absolute return fund which aims to produce high absolute returns using a conservative yet nimble investment approach. The Fund has a strong focus on preservation of capital and its trades have almost no dependence on traditional asset class returns.

The Fund invests very selectively in stocks subject to special circumstances, which the manager believes have limited risk of capital loss and a skew towards positive returns. In practice, the Fund takes advantage of merger arbitrage opportunities and capital raisings in a highly selective manner – and only when its assessment is that these represent a strong risk/return trade-off.

Given its low correlation with other investments and a focus on absolute returns, the Fund may be used in conjunction with other investments as part of a defensive portfolio allocation. Alternatively, it can be used as a standalone lower risk alternative to growth investments.

Considering the Funds strategy identifies a large number of opportunities that include fully franked dividends, the Fund may also suit self managed superfunds and other low tax paying entities depending on their investment objectives.

The manager only charges a performance fee on returns above cash and in the event that the Fund underperforms its benchmark, Harvest Lane Asset Management receives no other payment from investors in the Fund. Management fees go to pay costs and service providers such as Fundhost. The principals of the Fund, and their friends and family are also heavily invested in the Fund which further aligns the interests of its staff with that of its investors.

Disclaimer

This information refers to investments in the Harvest Lane Asset Management Absolute Return Fund (ARSN 614 662 627) (Fund).

Any person seeking to make an investment should review the Product Disclosure Statement (PDS) for the Fund dated 30 September 2017 issued by the responsible entity of the Fund, Fundhost Ltd (ABN 69 092 517 087, AFSL No. 233045) (Fundhost). Before making any decision to make or hold any investment in the Fund you should consider the PDS in full. A copy of the PDS is available here www.harvestlaneam.com.au.

This information has been prepared without taking into account your individual objectives, financial situation or needs. You will need to consider whether an investment in the Fund is appropriate for you, having regard to those matters. You should seek legal, financial and taxation advice before investing. The investment manager of the Fund is Harvest Lane Asset Management Pty Ltd (ACN 158 314 697, Corporate Authorised Representative No.433046 of Harvest Lane Capital Pty Ltd AFSL No.425334). Investment returns are not guaranteed.