Absolute Return Fund
May 2020 Update

	NTA
Unit Price - 31/05/2020	0.8776

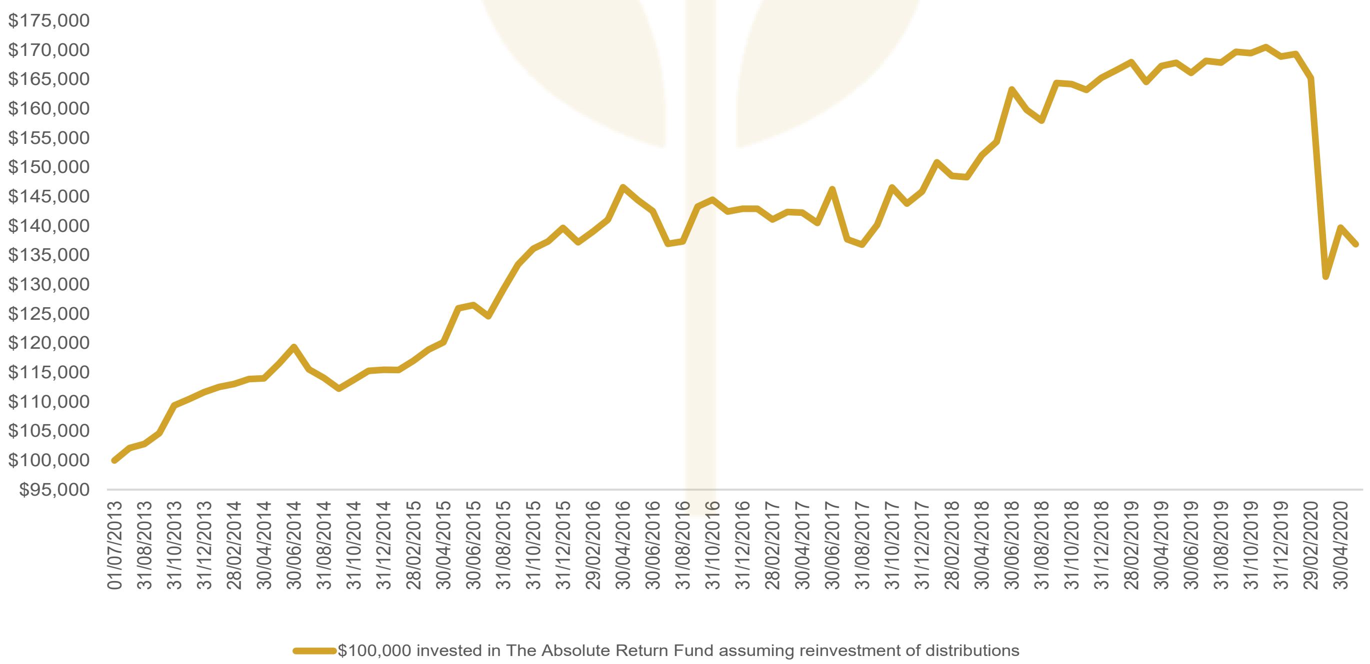
Investment Returns (net of fees)*

	Harvest Lane Absolute Return Fund	RBA Cash Rate	Outperformance
Cumulative return (since inception 01/07/2013)	36.88%	12.49%	24.39%
Trailing 5 year return p.a.	1.68%	1.49%	0.19%
Trailing 3 year return p.a.	-0.87%	1.25%	-2.11%
Trailing 12 month return	-18.45%	0.73%	-19.18%
Trailing 3 month return	-17.17%	0.06%	-17.23%
Trailing 1 month return	-2.02%	0.02%	-2.04%

* 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.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
FY14	2.10%	0.70%	1.78%	4.51%	1.02%	1.05%	0.80%	0.45%	0.73%	0.11%	2.20%	2.43%	19.34%
FY15	-3.18%	-1.26%	-1.61%	1.31%	1.35%	0.18%	-0.02%	1.36%	1.62%	1.05%	4.82%	0.45%	6.01%
FY16	-1.53%	3.67%	3.32%	2.01%	0.90%	1.71%	-1.78%	1.34%	1.45%	3.94%	-1.51%	-1.30%	12.65%
FY17	-3.91%	0.31%	4.33%	0.81%	-1.40%	0.34%	0.00%	-1.29%	0.91%	-0.06%	-1.26%	4.10%	2.63%
FY18	-5.84%	-0.66%	2.47%	4.56%	-1.90%	1.45%	3.41%	-1.52%	-0.16%	2.52%	1.52%	5.78%	11.65%
FY19	-2.13%	-1.16%	4.08%	-0.11%	-0.62%	1.27%	0.80%	0.81%	-2.01%	1.65%	0.34%	-1.03%	1.73%
FY20	1.23%	-0.17%	1.10%	-0.15%	0.61%	-0.94%	0.27%	-2.42%	-20.52%	6.37%	-2.02%		-17.60%

Growth of $100,000 Since Inception



Manager Commentary

The portfolio retreated -2.02% in May, although the result is largely attributable to an unfavourable outcome specific to one holding. Almost everywhere else in the portfolio we saw broad based gains and were it not for a couple of frustrating turn of events, we might have been reporting much more positive numbers this month.

We detailed the state of play of the CML Group (CGR.ASX) transaction quite thoroughly in last month's newsletter, and at the time of writing CML was suspended from trade pending an update regarding the scheme as private equity backed bidder, Scottish Pacific (ScotPac), agitated to walk despite no legal grounds to do so. We contended that CML, of all target companies with a binding transaction on foot in recent months, were best placed to defend their position and compel the bidder to complete.

Instead, we saw the Board fold and allow ScotPac walk free, with all claims and issues between the two parties "amicably resolved". From the offer price of $0.60 per share that ScotPac were legally bound to pay, CML shares closed out May at a rather shocking price of $0.295, a price the shares have not traded at prior to early 2017, while the company counts the cost of six months of now failed corporate activity. According to the Board, this is apparently a better outcome for shareholders than compelling a buyer to honour a legally binding contract! To say we are unimpressed is a severe understatement.

CML need only look across the Tasman to Metlifecare Limited leading the fight against a questionable bidder, taking private equity firm EQT through the Federal Courts to honour their scheme of arrangement. MET's shareholders are understandably livid. Substantial shareholders have all publicly backed the fight to go after a bidder looking to exit without cause, and an opportunity for all shareholders to vote will soon ratify the board's decision to fight for the transaction to proceed. We made our support known to CML in no uncertain terms to force ScotPac to honour their offer, and it is disappointing to say the least to see this outcome after such little fight. A break fee of $1m was even paid to CML despite no such fee being specified in the scheme implementation agreement. That should concisely highlight just how defendable CML's position was and how fortunate ScotPac has been at CML shareholders' expense.

In general, we feel the COVID-19 disruption has exposed fragilities in Scheme Implementation Agreements (SIAs) that give effect to mergers and acquisitions via a Scheme of Arrangement. Transactions undertaken in this manner are generally thought of as "friendly" and for financial buyers (typically private equity firms) the SIA is by far the most common method used to execute a transaction. There are a handful of reasons for this: the debt funding underpinning the offer is likely conditional on the bidder having control at the close of the transaction and a SIA's "all or nothing" approach guarantees this. Unfortunately, in recent months we have observed bidder behaviour that is anything but "friendly" and target company boards that rightly or wrongly, have not felt that there is a sufficiently clear pathway to enforcing their rights and/or those of their shareholders. Time, cost and uncertainty are all stated as factors relevant to the decision making process and it seems that with few exceptions, these companies are choosing to let buyers off the hook rather than pursue them to carry out an otherwise binding and mutually agreed transaction. All optionality about whether or not to proceed seemingly sits with the bidder and comes at the cost of target company shareholders.

Under an off-market takeover on the other hand (the other structure most commonly used to effect a 'takeover' in the Australian market) once an intention to make an offer is announced there are various laws and regulations a bidder must comply with and several protections are afforded to target company shareholders as a result. A bidder cannot simply change its mind half-way through the transaction. The Takeovers Panel has oversight which can be readily and cheaply utilised - with a binding decision generally resulting within days - should an unruly bidder shirk its obligations. This is in direct contrast to the position shareholders find themselves under an SIA/Scheme of Arrangement whereby dispute resolution can be time consuming and costly with no guarantee of a successful outcome.

To remedy the current weakness in SIA's and Schemes of Arrangement, target companies would be better to demand a non-refundable deposit before agreeing to a scheme. This would certainly level the playing field and in fact, would likely make life rather difficult for private equity buyers whose business model doesn't exactly allow for them committing funds in advance for a transaction that may not proceed (ironically, the exact same position that target company shareholders currently find themselves in).

Manager Commentary Continued

Better yet, regulators could amend the legislation such that an SIA/Scheme affords the same shareholders protections as an off-market takeover. It seems quite unlikely that it was ever intended that there would be such a big difference between the two in the first place.

At the very least, the wording of scheme documents generally could be improved to offer additional protection to target company shareholders and we have noted that Herbert Smith Freehills did exactly that in a rather prescient SIA that they drafted for a Scheme of Arrangement between AWB Limited and Agrium Inc in August 2010 which specifically included a provision to protect shareholders:

> *if AWB terminates this deed due to a material breach by Agrium pursuant to clause 13.1(a)(1), any AWB Shareholder who:*
> *(1) enters into a transaction relating to AWB Shares in reliance on the announcement of Agrium's proposal on 16 August 2010 or the announcement of the Transaction; and*
> *(2) suffers loss or damage as a result of the Transaction not proceeding, may recover the amount of that loss or damage from Agrium.*

Such a clause affords considerable protection to shareholders and we see no reason why a bidder acting in good faith should object to its inclusion in the SIA from the outset. We certainly don't intend to keep this opinion to ourselves.

Moving on to more specific position commentary, the anticipated showdown in Zenith Energy Limited (ZEN.ASX) between Pacific Equity Partners (PEP) and ICG/OPTrust reached a disappointing conclusion. After Zenith and PEP agreed to a $1.01 per share transaction in early March, dark horse ICG/OPTrust stormed in and picked up a 17.61% stake. Having bid over the top for a similar company Pacific Energy Limited (PEA.ASX) last year, the stage was set for a counterbid. Fuelling that idea was also an upgrade to FY20 guidance that made the original takeout multiple of 9.3x CY19 EBITDA look decidedly underdone.

Instead, ICG/OPTrust used their stake to barge their way into PEP's bid and take equity in the bidding vehicle instead of lodging their own offer. The result is that the terms of the offer put to shareholders remain unchanged, which is a less favourable outcome than we were hoping for.

Nonetheless, both PEP and ICG/OPTrust have left themselves vulnerable with this particular structure; the original bid included roughly 23% of the company as rollover equity that was ineligible to vote alongside all other shareholders. Now adding OPTrust's 17.6% stake into the mix as well, the votable base at the scheme meeting is now only 60% of the register. A blocking stake requires a much smaller percentage of the register than it would otherwise, and given the increase in guidance and select few shareholders invited to participate in the equity upside privately, along with equity markets regaining much of their lost ground in March, we're not entirely convinced the shareholder vote can be captured without a sweetener.

Alto Metals Limited (AME.ASX) was a standout performer as we did in fact see not one, but two counterbids. Goldsea Australia had tabled an offer for Alto back in February this year at 6.5c, and had reconfirmed their offer throughout April in spite of the COVID induced equity market decline in the months since its bid. May saw the conditionality of the bid further reduce with the board supported offer held up awaiting FIRB approval. To our delight, a second bidder in Habrok emerged with an entirely unconditional offer at 6.6c per share, a modest increase over Goldsea, while the shares were halted from trade. Prior to resumption, Goldsea had lifted its offer price to $0.075, and the shares quickly responded to the competitive process by closing out the month at $0.076.

FIRB approval does remain a key risk as at the time of writing. Following the equity market decline, the focus on the FIRB process strengthened in order to avoid Australian assets being sold off to foreign interests at opportunistic prices. In Goldsea's favour, its offer price has been substantially increased and there is a much greater capacity to fund the project through its development stage than there might otherwise be under the existing ownership structure. The outcome of FIRB will dictate how the transaction plays out from here. The unconditional offer from Habrok at $0.066 backstops the downside if FIRB blocks Goldsea, but the aggressive nature of an unconditional bid means it could be game on should Goldsea get the green light.

Our holding in Ora Banda Mining Limited (OBM.ASX) paid off during the month, having risen almost 200% off its March lows. A decidedly cheap option on a rising gold price and a significant corporate appeal to active 45% shareholder Hawkes Point, the market seemed to agree in May, and the portfolio benefitted as a result. We took the opportunity to take some profits on the holding in the absence of further corporate activity. The asset backed play in Karoon Energy Limited (KAR.ASX) also bore fruit as management flagged a strategic review of the Bauna acquisition. The company currently has roughly $0.90 per share in cash set aside for the purchase. The shares trade at a significant discount to this cash backing. This unwound somewhat during the month as further doubt surrounding completion of the acquisition emerged, and the company acknowledged there may indeed be better ways to deliver value to shareholders given the current market conditions.

We have also seen several new deals announced to market in the first three days of June alone. IRESS Limited has offered $0.40 cash per share for Onevue Holdings (OVH.ASX), consolidation in the gold sector has continued as Perseus Mining (PRU.ASX) agreed to an all scrip deal to acquire Exore Resources Limited (ERX.ASX), and long rumoured target Infigen Energy caught a bid at $0.80 cash per share from UAC Energy Holdings.

It is positive to see corporate activity continue despite the market uncertainty in recent months. The CML holding was flagged as one of the few remaining "at risk" transactions in the portfolio, and with the unfortunate and unfavourable outcome now out of the way, the pre-COVID lien anchoring the portfolio is for the most part severed. As at the time of writing, Windlab Limited (WND.ASX) has just received second court approval for its scheme of arrangement with Andrew Forrest backed Squadron Wind Energy and Federation Asset Management. Now legally binding, it is a confidence boost to see transactions (even structured as a scheme of arrangement) completing.

Our focus is entirely on recovering lost funds and making up the underperformance. There is every incentive to make our investors whole as a performance fee only fund manager, and it is worth pointing out to existing and new investors that there is a large amount of performance to be recouped before any performance fees are applicable. We look forward to this challenge in the months ahead.

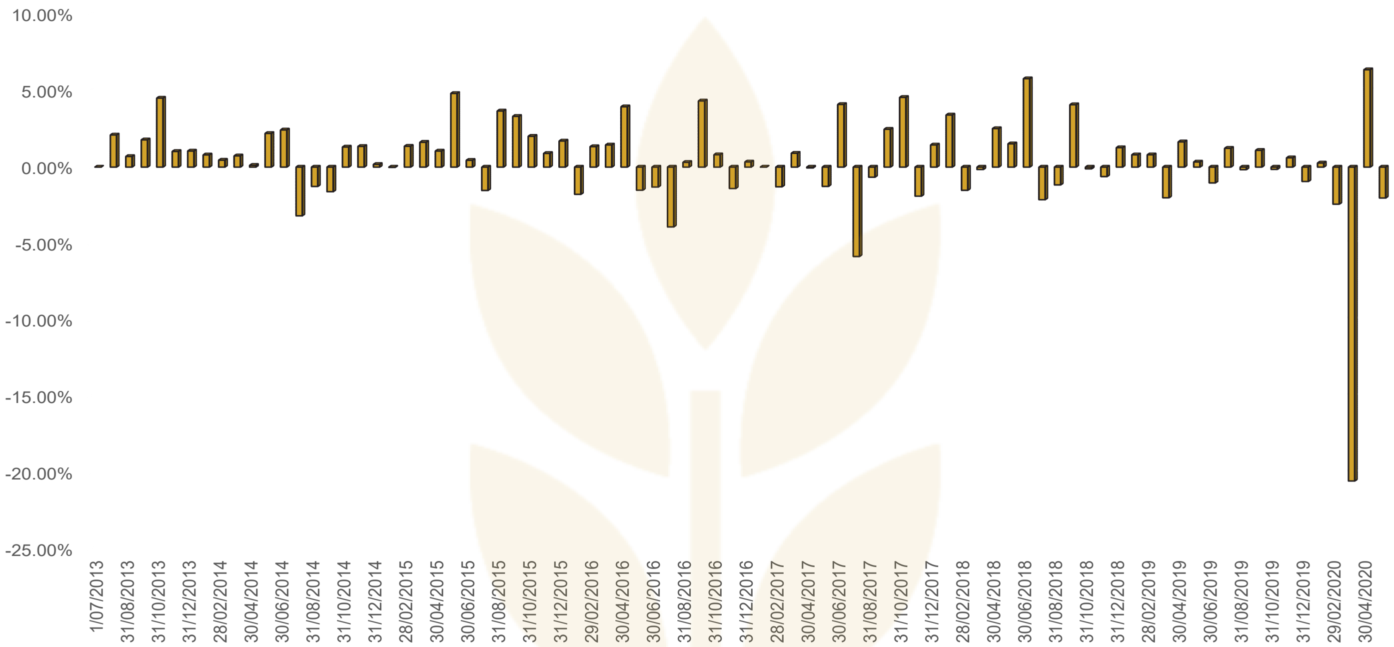
Regards,

Luke Cummings

Chief Investment Officer and Managing Director

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

Monthly Returns History*



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]	9.00%
Average Monthly Return (since inception)	0.43%
% Positive Months	62.65%
Best Positive Month	6.37%
Worst Negative Month	-20.52%
Maximum Drawdown	-6.72%
Annualised Standard Deviation	10.99%
Sortino Ratio	0.504
Sharpe Ratio	0.404
Correlation with ASX200 Accumulation Index	0.499
Beta	0.390
FY19 Distribution	0.0000

[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 - 30/06/2019) and does not include returns for the current year.
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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 return/risk 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 the RBA Cash Rate 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