Absolute Return Fund
February 2020 Update

| | NTA |
|---|---|
| Unit Price - 29/02/2020 | 1.0595 |

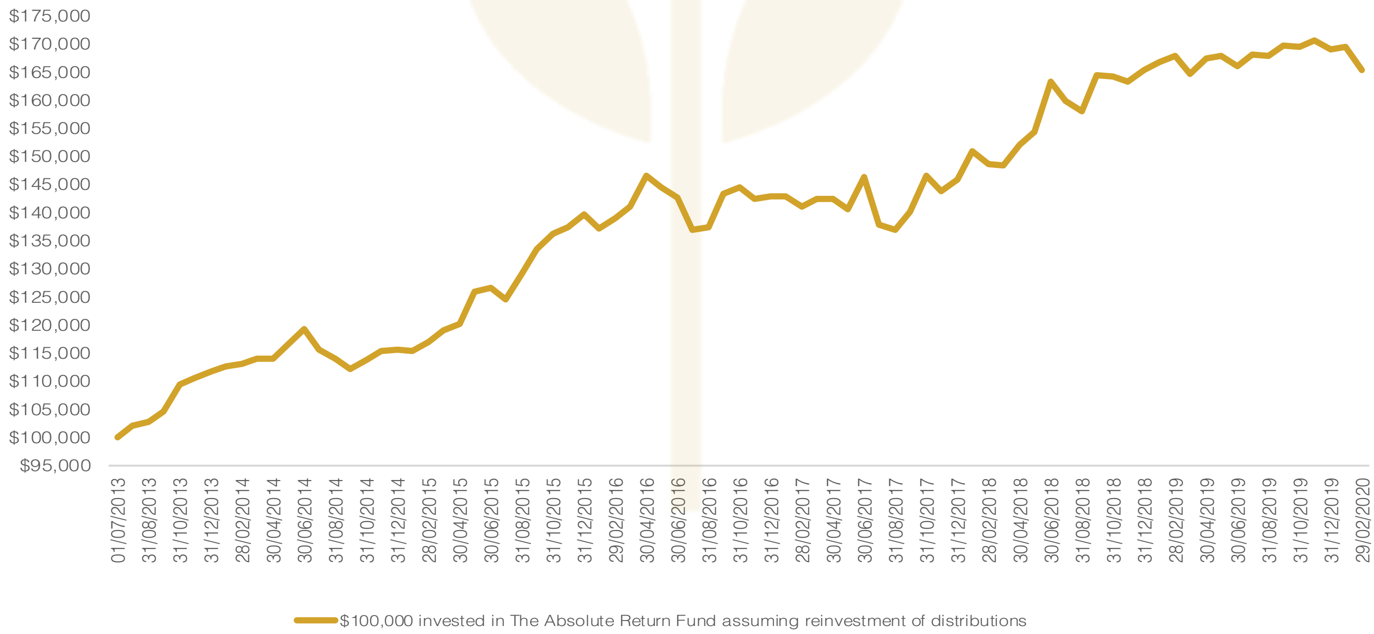
## Investment Returns (net of fees)*

| | Harvest Lane Absolute Return Fund | RBA Cash Rate | Outperformance |
|---|---|---|---|
| Cumulative return (since inception 01/07/2013) | 65.25% | 12.42% | 52.82% |
| Trailing 5 year return p.a. | 7.15% | 1.60% | 5.54% |
| Trailing 3 year return p.a. | 5.41% | 1.35% | 4.06% |
| Trailing 12 month return | -1.61% | 1.04% | -2.65% |
| Trailing 3 month return | -3.08% | 0.19% | -3.27% |
| Trailing 1 month return | -2.42% | 0.06% | -2.48% |

* 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% | | | | | -0.53% |

## Growth of $100,000 Since Inception



## Manager Commentary

February saw an equity market crash begin and a retreat into a bear market as vulnerable equity markets began to price in the inherent uncertainty and economic damage from the novel coronavirus COVID-19. The ASX200 Accumulation Index finished a full 7.69% lower for the month. This still doesn't quite capture the aggression with which we saw equity markets fall; the February close marked a 9.8% drop from its intra-month high in one of the quickest market corrections in history. The portfolio was not able to escape such a dramatic risk off environment entirely (at least for the time being) and posted -2.42% for the month as massive volatility ensued. While disappointing to post a loss with a strategy that has typically delivered its best results when markets sell-off, it is worth understanding the context to the result. With the aggressive sell off continuing through the first few weeks of March, we feel it is more beneficial for this month's commentary to discuss the portfolio's positioning from a macroscopic viewpoint than dissecting its individual constituents.

We have observed a general tightening in deal spreads in the last 12 months. This is not entirely unexpected given spreads are typically based off a premium over the risk-free rate; as interest rates globally decrease, so too does the hurdle rate for investors looking to arbitrage the spread for companies under takeover. What we observed in February was a reversal of this tightening as investor focus shifted from risk adjusted returns to outright capital preservation. Intuitively, the price action is not always a reliable indicator of the likelihood of a deal completing, rather it is a reflection of investors changing tolerance to risk; in fact the divergence in price from the underlying probability of completion is what allows us to deliver attractive risk adjusted returns on capital.

To illustrate the effect this has had on the portfolio, we internally track the embedded value of the portfolio at any point in time. The embedded value represents what return on capital the portfolio might expect to deliver should all current holdings meet our expectations of deals completing and full value being realised. In light of the widening of spreads, the current embedded value within the portfolio is almost twice its historical average i.e. February's drawdown has made our expected return from here much higher.

At any point in time the portfolio may have exposure to a number of deals that are as yet non-binding. The non-binding nature presents an inherent risk to the transaction completing and are typically the first transactions to see widening spreads given the lack of a legal framework compelling the bidder to complete the offer. We position size these transactions accordingly to account for this risk and generally keep portfolio exposure to these deals to a minimum as these holdings are not as protected from market forces in extreme conditions as a binding bid typically is and therefore, need to be chosen very selectively. When it became apparent that 'the world had changed' for the foreseeable future, we very quickly took steps to minimize exposure to these deals and instead focus on the binding deals that typically make up the bulk of the portfolio.

Unlike a non-binding transaction, when considering a binding transaction there are a very small, specific set of circumstances under which the deal does not proceed. Our standard process involves considerable due diligence in order to better understand these circumstances and will typically include speaking with those close to the transaction, be it the management of target or bidder, advisors, and/or legal. We are in contact through the duration of the offer where required so as to fully understand the risks we are exposed to and whether they are worth taking. In light of the likely impact of COVID-19 on the Australian economy and the current market turmoil, we have once again engaged management of binding deals to confirm everything remains on track and to identify what (if anything) could see these deals fall over. We are comfortable that the positions we have retained have a high likelihood of seeing their proposed transactions successfully complete.

As at the time of writing this commentary, just shy of 60 % of the portfolio's assets were invested in companies subject to binding transactions. A further 21% is in cash and cash equivalents. Another 9% is allocated to stub equity in companies under (unconditional) liquidation (both listed and delisted) where receipt of liquidation proceeds is expected to come in above its current carrying value in aggregate, time value of money notwithstanding.

The remainder of the portfolio reflects not only investments in non-binding deals but select special situations in which a defined catalyst is in place to see value crystallised for shareholders in excess of current market prices. These include exposure to LICs trading at a significant discount to NTA but subject to a process of addressing that discount, and

## Manager Commentary Continued

and asset sales in companies that the market currently prices at a discount to net cash backing post transaction (let alone any residual value attributed to the remaining stub equity), just to name a few. For the avoidance of doubt, the portfolio does not take positions ex ante. That is, we do not speculate on potential catalysts in order to manage risk, but rather remain reactive to announced corporate actions.

With a view specifically to the M&A market conditions, we are yet to see the market volatility slow down the appetite for deals. Existing holdings in Windlab Limited (WND.ASX) and CML Group Limited (CGR.ASX) saw deals that moved from non-binding to binding in the first week of March. Even more recently, we saw Pacific Equity Partners acquire Zenith Energy Limited (ZEN.ASX) in a binding transaction at a 45% premium, and microcap Oliver's Real Food Limited (OLI.ASX) clocked what is most probably the fastest shift from announcing a non-binding deal to a signed binding agreement (just over 5 hours!) with EG Group. Both Pacific Equity Partners and EG Group currently have non-binding offers tabled elsewhere (albeit at much larger deal sizes in VRL.ASX and CTX.ASX respectively), highlighting that the intent to make acquisitions has not entirely evaporated.

We remain vigilant and continue to act with capital preservation at the forefront of our decision making process, particularly in the current market conditions. We view the current portfolio drawdown as temporary and expect that the embedded value of the current portfolio should be realised in short order. We also highlight that over the impactful GFC period in our prior roles, we enjoyed attractive results from M&A and special situations more broadly. While equity markets have fallen 30% or more at the time of writing and market conditions more generally are dreadful, we don't expect to be similarly affected and view a meaningful permanent loss of capital as unlikely.

Regards,

Luke Cummings

Chief Investment Officer and Managing Director

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

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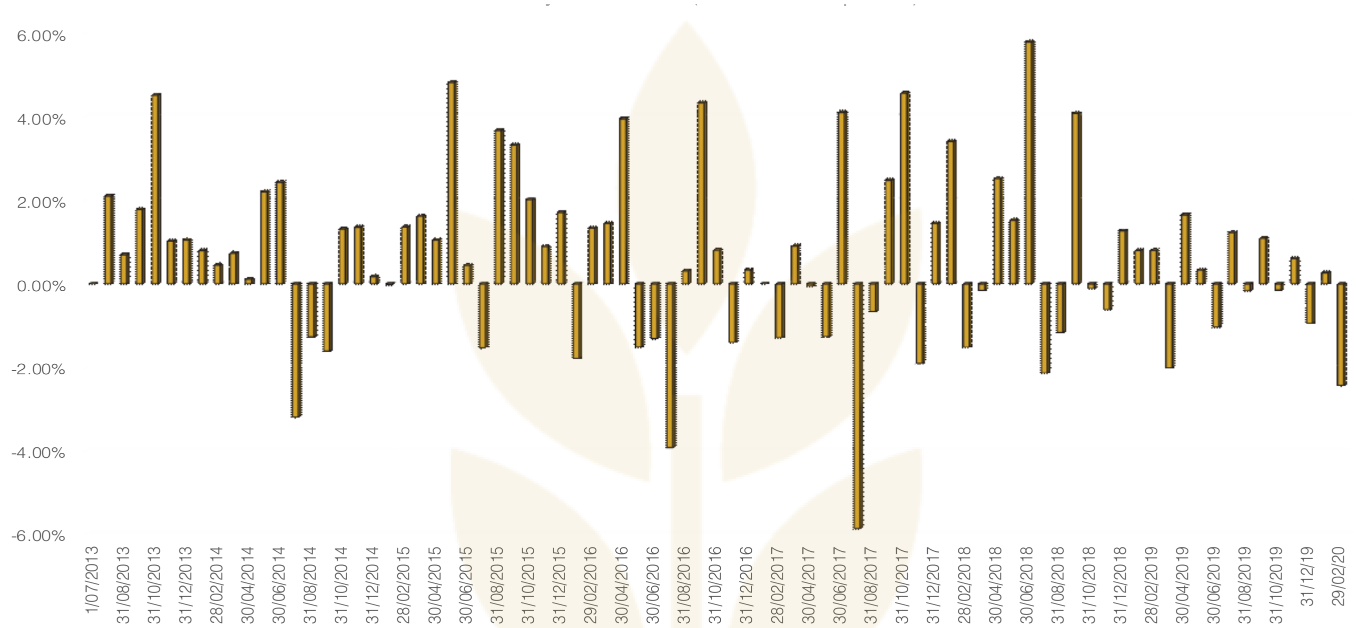
## Monthly Returns History*



## 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) | 0.65% |
| % Positive Months | 63.75% |
| Best Positive Month | 5.78% |
| Worst Negative Month | -5.84% |
| Maximum Drawdown | -6.72% |
| Annualised Standard Deviation | 7.20% |
| Sortino Ratio | 1.750 |
| Sharpe Ratio | 0.981 |
| Correlation with ASX200 Accumulation Index | 0.076 |
| Beta | 0.049 |
| 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

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 16 December 2019 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.