HARVEST LANE
ASSET MANAGEMENT

Absolute Return Fund
July 2018 Update

	NTA
Unit Price - 31/07/2018	1.0247

Investment Returns (net of fees)*

	Harvest Lane Absolute Return Fund	RBA Cash Rate	Outperformance
Cumulative return (since inception 01/07/2013)	59.82%	10.51%	49.31%
Trailing 3 year return p.a.	8.66%	1.70%	6.96%
Trailing 12 month return	16.05%	1.51%	14.55%
Trailing 3 month return	5.10%	0.38%	4.73%
Trailing 1 month return	-2.13%	0.13%	-2.26%

* 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

July proved to be relatively subdued compared to the strong run into the end of last financial year, with the portfolio giving back some of its strong gains of the prior month and dropping 2.13% in July. Some of the premiums were given back in positions where the market had anticipated further bids (which may yet happen regardless), and others drifted higher as their deals ground their way closer to completion. In contrast, the ASX200 was up 1.38%, once again demonstrating the portfolio's lack of correlation to the broader market.

Two new positions were added to the portfolio during the month. We also took the opportunity to adjust exposure levels in some of our existing holdings on the back of perceived mispricing. M&A deal flow on the ASX has continued its strong run, and we believe the new positions added to the portfolio - along with our existing holdings - show meaningful potential for further activity. One of these is the highly publicised Nine/Fairfax merger, upon which we expand below.

The headline grabbing merger proposal between Fairfax and Nine was announced late in the month. The merger is the first large scale transaction to occur in the media sector after restrictive laws were abolished last September to allow domestic companies to compete with offshore media juggernauts building presence in Australia. The portfolio has taken a fully hedged position at this stage to lock in positive returns should the deal complete in its current form. We are watching the deal closely though, as Fairfax was previously subject to private equity interest early in 2017, and it is this point that illustrates the asymmetric risk/reward payoff that our strategy frequently presents i.e. upside on the position is unrestricted (in the event a counter proposal emerges), while the hedging of the current (Nine) deal reduces downside exposure.

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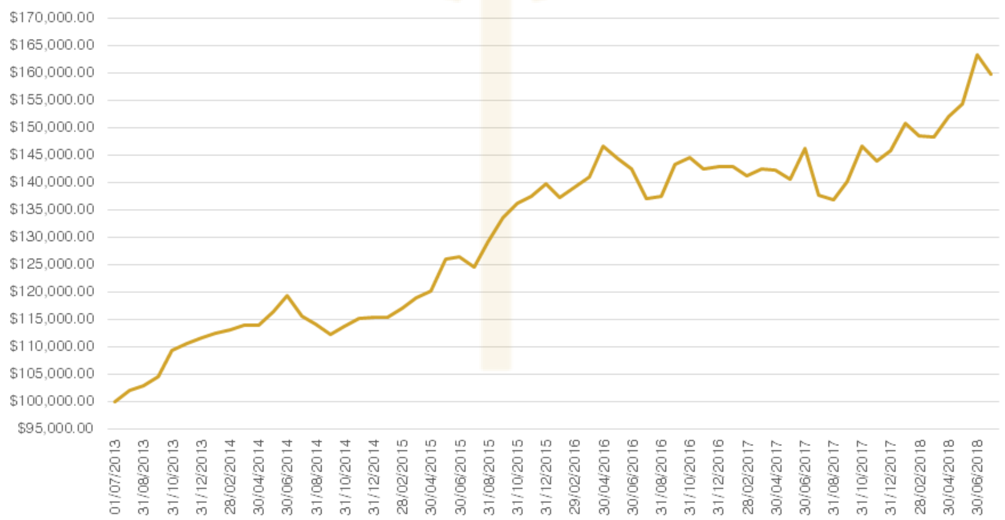
Growth of $100,000 Since Inception



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Absolute Return Fund
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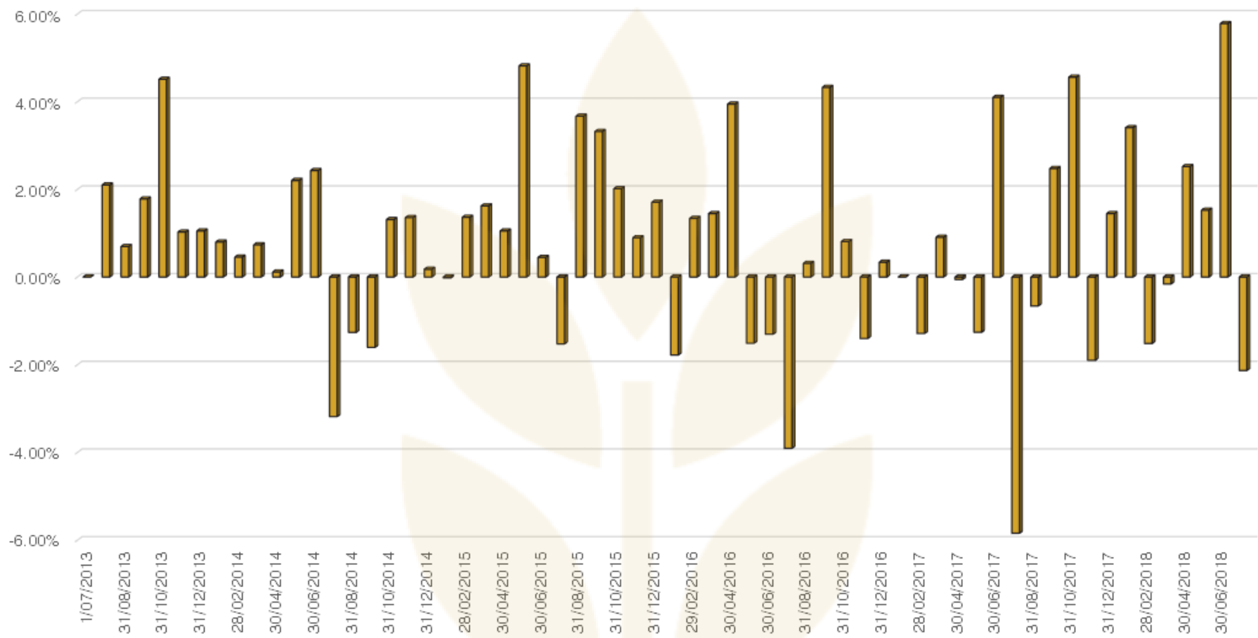
Monthly Returns History*



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]	10.46%
Average Monthly Return (since inception)	0.80%
% Positive Months	67.49%
Best Positive Month	5.78%
Worst Negative Month	-5.84%
Maximum Drawdown	-6.92%
Annualised Standard Deviation	6.45%
Sortino Ratio	2.01
Sharpe Ratio	1.127
Correlation with All Ordinaries	0.021
Beta	0.015
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 previous proposals put forth in 2017 were only priced at a small discount to Nine's current offer and the change in media laws, combined with access to the "jewel in the crown" Domain asset, would mean Fairfax is surely under the gaze of other potential bidders. We note media reports that previous bidder TPG Capital is already making calls, and while we would be happy to take the win from the Nine/Fairfax transaction completing, we'll always strongly encourage competitive tension should it arrive.

Spookfish Limited (SFI.ASX) was the other new addition to the portfolio during the month after receiving a bid from key US customer Eagle View Technologies. The bid was priced at a 60% premium to the 30 day Volume Weighted Average Price, however we view the bid as opportunistic in light of a recently depressed share price. Eagle View is a closely integrated customer of Spookfish, having retired their own technology and committed to spending significant amounts on Spookfish equipment in the years ahead. The bid has come after years of collaboration and development, and, conveniently for Eagle View, before Spookfish is set to realise significant benefits of their historical work. We have taken a position that will see an adequate return should the deal complete in its current form. Nonetheless, we consider it highly likely that Eagle View will have to sweeten its offer to get the green light from shareholders.

Murray Goulburn (MGC.ASX) was a strong contributor in July, closing out the month almost 50% higher from where it started. The company completed an asset sale to Saputo earlier this year. At an initial implied $1.20 cash per share consideration from Saputo, the company has paid out 80 cents of that and retained the remainder to deal with a shareholder class action alleging impropriety over continuous disclosures in 2015 and 2016. The remaining value per unit is priced in the market as the probability of the full value being realised reduced by the market's estimate of the likely value of any class action settlement that the company is required to fund between now and the trust being wound up (at which point the final residual distribution to shareholders will be made). With the ultimate outcome unknown, there is inherent volatility in the unit price. Throughout July, the price rise was due to two factors: (1) management announced a 10c increase in potential remaining value per unit, and (2) the market simultaneously became less pessimistic about the amount of the future settlement that Murray Goulburn may be liable for. With the 80c distribution paid out, our capital base is an adjusted 17c per share equivalent, with the market currently pricing the units at 33c, or an assumption that 66% of the remaining value per share can be realised. We are confident that there are further gains to come.

Sino Gas (SEH.ASX) finished the month slightly up as the Scheme of Arrangement with Lone Star looks increasingly likely to proceed. The shares saw an unusually large and very temporary sell off mid-month as a reduction in declared reserves reduced the potential for a counterbid, and some heavy selling at one stage saw the company's shares trade at a more than 20% to the Lonestar bid. Ironically, it seems that this reduction in declared reserves and subsequent share price fall has actually made the transaction more likely to complete as shareholders now seem content to favour a “bird in the hand”. FIRB approval has also since been received and we remain confident the deal remains on track to complete (as expected) over the coming months.

Gateway Lifestyle Group (GTY.ASX) was a key detractor from performance this month by virtue of it being one of the larger holdings currently in the portfolio. It remains the interest of multiple bidders and there is still a possibility of another competing proposal appearing (with a higher price!). The decline in July came following an update from current best bidder, Hometown America Holdings. A price increase from $2.25 per share to $2.3035 was previously tabled on the condition that the improved terms were sufficient to attract board endorsement from Gateway. The Gateway board, however, were having none of it and once again rebuffed Hometown and relinquished the additional 5.35c otherwise on offer. Both Hometown and Brookfield still have offers on the table and with the Gateway board unwavering in its calls for shareholders to "take no action", we expect the situation has further to play out.

Similarly, Investa Office Funds (IOF.ASX) pared some of its recent gains. The revaluation of the properties in the portfolio in June failed to move Blackstone to offer an improved price, and the independent expert report came to the conclusion “that while the deal was not considered to be fair, it was reasonable”. With the scheme meeting set for late August, we will continue to monitor and gauge investor appetite to accept Blackstone's offer.

We expect August to be a more active month, as several transactions inch their way closer to completion and ramp up some pressure on potential offerors to "pay up" to get deals across the line. There is meaningful potential to see revised bids, counter bids, and new bids over the coming months, and we expect that the months ahead will continue to prove positive for our investors, as has the last year.

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