

### Investment Returns (net of fees)

	Harvest Lane Absolute Fund	RBA Cash Rate	Outperformance
Cumulative return (since inception 01/07/2013)	44.47%	7.65%	36.82%
Trailing 3 year return p.a	9.73%	2.24%	7.49%
Trailing 12 month return	6.14%	1.92%	4.22%
Trailing 3 month return	5.50%	0.44%	5.06%
Trailing 1 month return	0.81%	0.15%	0.66%

\* 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

Broadly speaking, October was a good month for the Absolute Return Fund with the Fund posting a gain of 0.81%. This was particularly pleasing given the weak market backdrop which saw the ASX200 Accumulation Index (XJOAI) fall 2.15%. It is months like these which have resulted in our compounded return over time being larger than that available from the broader market, as we have avoided many of the significant losses that have been incurred by markets from time to time, post inception of the Fund.

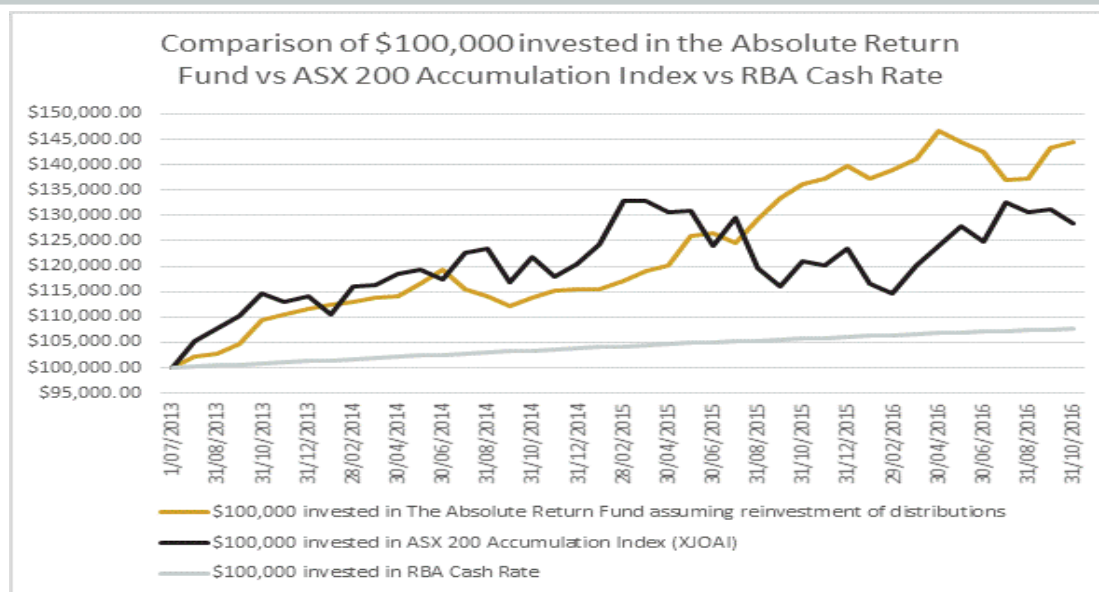
We continue to believe that investors are far too complacent about markets in general. We are convinced that investors who allocate more to disciplined outcome orientated and non-market dependent strategies that are better aligned with the outcomes they are looking for should continue to be rewarded for doing so. It is quite amazing that in an environment like this many investors continue to (unwisely in our opinion) allocate a large portion of their capital to market dependent strategies –

we'd feel very uncomfortable doing this if our goals were to achieve positive returns and avoid substantial downside and drawdowns (which indeed they are).

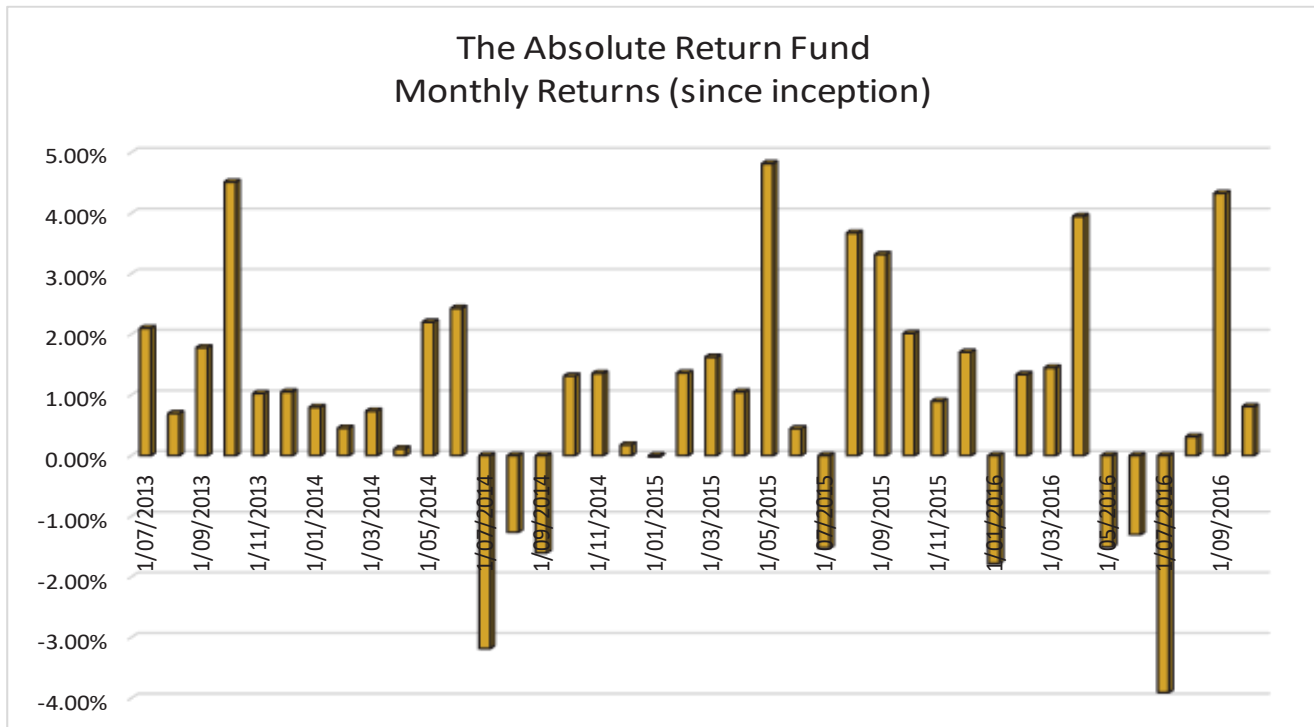
The month was characterised by continued strength in the resources space, with coal stocks in particular a standout. Increased volatility in the bond market (which some commentators have dubbed 'Bondcano') saw substantial weakness in 'bond proxy' stocks which many investors had clamoured to own in recent years given their supposedly 'safe' and dependable earnings streams. Property and infrastructure stocks were hit particularly hard and if bond yields do continue to head higher, then these stocks could well have further to fall yet. Small companies were also hit hard during the month, and we expect that many of the previously top performing momentum managers will have been hurt by this. In any case, it highlights

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### Growth of \$100,000 Since Inception



Monthly Returns History



Fund Facts

Name	Absolute Return Fund
Structure	Retail daily priced unit trust
Inception	1 July 2013
Investment Objective	10% p.a (over 3 year period)
Manager Base Fee <sup>1</sup>	Capped at 1.25%
Manager Performance Fee <sup>2</sup>	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 <sup>3</sup>	12.67%
Average Monthly Return (since inception)	0.94%
% Positive Months	77.50%
Best Positive Month	4.82%
Worst Negative Month	-3.91%
Maximum Drawdown	6.92%
Annualised Standard Deviation	6.67%
Sortino Ratio	2.73
Sharpe Ratio	1.44
Correlation with All Ordinaries	-0.08
Beta	-0.04

<sup>1</sup> 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 ordinary expenses.

<sup>2</sup> Performance fee is charged when the funds performance exceeds its benchmark (RBA Cash Rate).

<sup>3</sup> Return is calculated as the average of all full financial years since inception (01/07/2013 - 30/06/2016) and does not include returns for the current year.

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## Manager Commentary Continued

that there is no safety in crowding into overly popular consensus trades and strategies, and 'expensive defensives' and 'small caps' have certainly fallen in to this camp in recent times.

Interestingly, despite a backdrop which we can only describe as highly favourable compared with many of the above market dependent strategies, good alternative managers are relatively thin on the ground. We experience relatively little disciplined competition in the opportunities we are focussed on.

Turning our attention to our portfolio's performance in more detail, the portfolio benefited from an improvement in sentiment towards mining services stocks, some of which we own due to them being subject to corporate activity of some sort. The portfolio also benefited from our one and only coal holding (also subject to corporate activity). Despite it contributing in a positive manner, it significantly lagged the performance of other ASX listed coal stocks for the month. This was frustrating but not atypical given our approach; for various reasons we remain confident that relative underperformance of this stock will be made up for in coming months.

The Fund also secured a modest allocation in the Veem Ltd (ASX Code: VEE) IPO, which listed at a significant premium to its issue price in the latter part of the month and therefore contributed a little to our gain for the month. IPO opportunities comprise a small part of our strategy, and we consider these and participate selectively and thoughtfully when we believe there is a compelling risk/return trade-off.

November looks like being a big (risky) month for markets, with the US election result imminent and numerous risk factors to contend with including the prospect of the US Fed raising interest rates next month. Our portfolio remains well positioned for positive returns regardless of what happens. I look forward to updating you further next month.

Kind Regards,

Luke Cummings  
Chief Investment Officer & 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 20 September 2016 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](http://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 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.