HARVEST LANE
ASSET MANAGEMENT

Absolute Return Fund
January 2019 Update

	NTA
Unit Price - 31/01/2019	1.0682

Investment Returns (net of fees)*

	Harvest Lane Absolute Return Fund	RBA Cash Rate	Outperformance
Cumulative return (since inception 01/07/2013)	66.60%	11.26%	55.35%
Trailing 3 year return p.a.	6.69%	1.61%	5.07%
Trailing 12 month return	10.45%	1.50%	8.95%
Trailing 3 month return	1.45%	0.38%	1.08%
Trailing 1 month return	0.80%	0.13%	0.68%

* 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

The portfolio pleasingly continued its positive run to bring in the New Year, notching up a 0.80% return for January. The month was fairly active as we continued to see steady deal flow, and positive catalysts in some of the existing positions proved to be a key driver of the month's performance.

The current portfolio composition consists of a larger number of deals in their early stages than we have typically observed in recent months. We tend to allocate more capital to transactions as they firm up, and exercise restraint so as not to over commit until doing so is warranted. We remain appropriately weighted in these new opportunities and hold enough cash to meaningfully scale up should the transactions progress as anticipated. Later stage transactions such a PropertyLink Group (PLG.ASX) and Greencross Limited (GXL.ASX) ground their way closer to completion while exhibiting relatively low volatility, and early stage transactions like Graincorp Limited (GNC.ASX) showed limited progress, presumably in part due to the impact of the festive season over the new year. As such, activity for the most part was focused in a few existing positions and three new ones.

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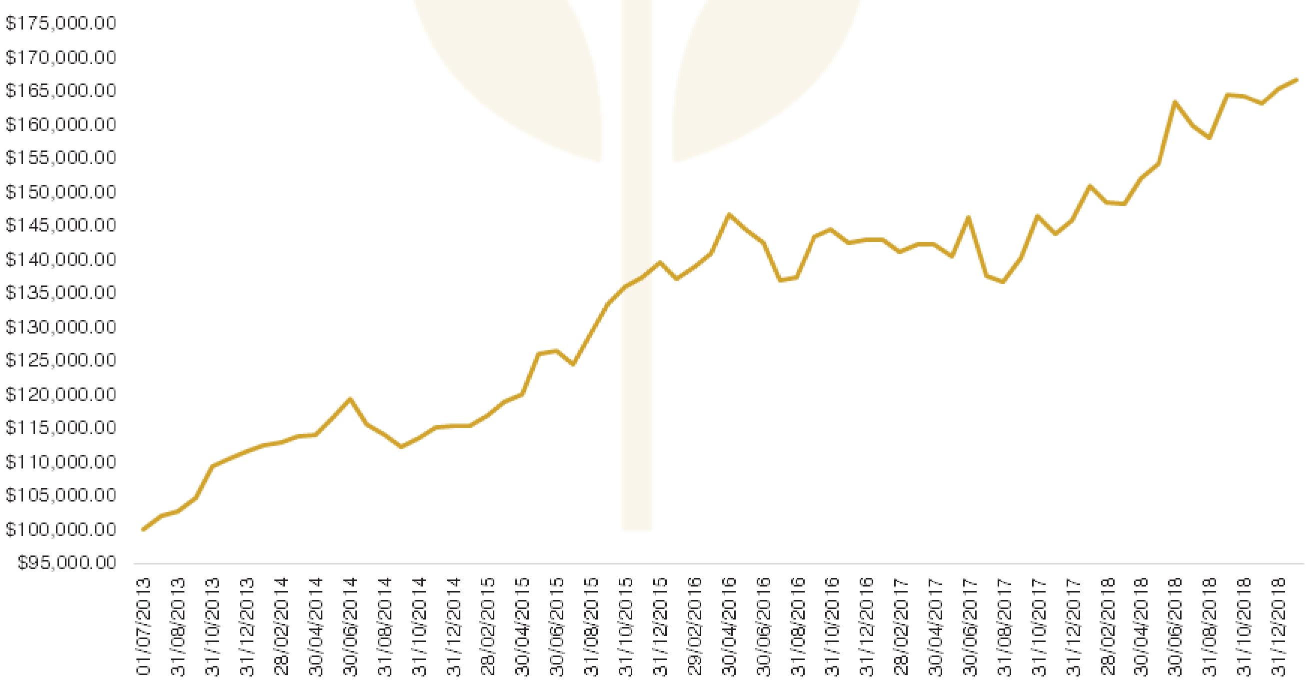
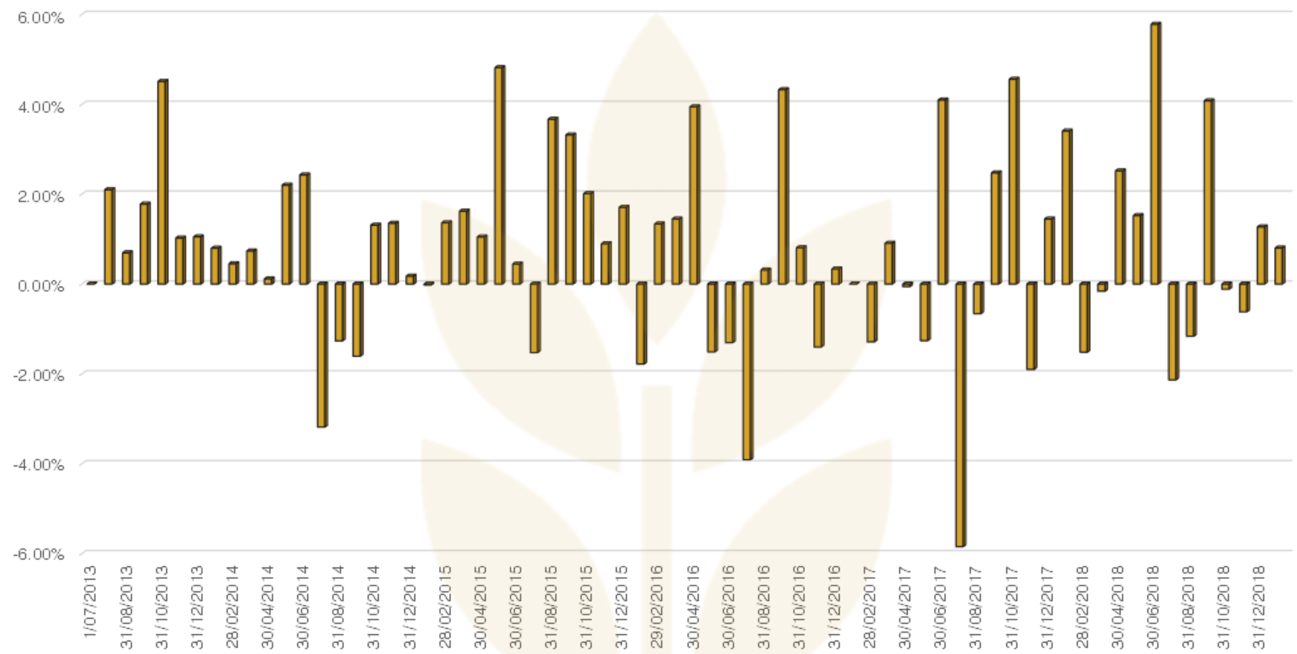
Growth of $100,000 Since Inception



Monthly Returns History*



Fund Facts

Name	Absolute Return Fund
Structure	Retail daily priced unit trust
Inception	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)	0.79%
% Positive Months	65.67%
Best Positive Month	5.78%
Worst Negative Month	-5.84%
Maximum Drawdown	-6.72%
Annualised Standard Deviation	6.45%
Sortino Ratio	1.88
Sharpe Ratio	1.051
Correlation with ASX200 Accumulation Index	0.0201
Beta	0.0139
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

Navitas Limited (NVT.ASX) revealed a revised offer that the board had finally agreed to, squeezing BGH for a 6% bump to their original offer. An initial deterrent of BGH's first bid was the aggressive tie up with substantial shareholder AustralianSuper; similar to the bid for Healthscope (HSO.ASX), AustralianSuper would not support an alternative bid even if that competing proposal was clearly superior for all shareholders. Not only did the Navitas board coax out a price increase, they also included a mechanism to dissolve a tie up should a superior offer emerge. An excellent outcome for shareholders. The bid is yet to progress to binding, however looks a great deal more probable since BGH's first approach back in October.

Stanmore Coal Limited (SMR.ASX) ended in a stalemate with Golden Investment's offer lapsing without securing enough shares to take control of the company, although it can't be said that Golden Investments didn't try hard enough to get the offer over the line. In response to the SMR commissioned Independent Expert Report (BDO Corporate) ascribing a valuation range of $1.48-$1.90 per share, Golden Investment commissioned its own Independent Expert (Grant Thornton) to assess the BDO's Independent Expert Report. Grant Thornton were able to demonstrate that with certain adjustments to the financial modelling, a lower valuation range could be achieved to bring the current $0.95 per share offer into the 'fair and reasonable' range, and Golden Investments used that as a basis to declare their offer unconditional to help the process along. However, it took ASIC less than a day to find issue with this approach and Golden Investments were forced to publicly retract any previous reference to a Grant Thornton adjusted valuation in an embarrassing backdown.

Standard practice is to reduce risk and market exposure in situations where a bid has not been successful and will soon expire, and the portfolio's position in Stanmore was treated no differently. We initially took the position in Stanmore with a view that the offer price would be increased to get the deal across the line. When that scenario failed to materialise, we took advantage of the unconditional nature of the bid to close the position down and book a small overall loss. This was unfortunately not the outcome we wanted (nor expected) but, in some ways the extent to which the bid undervalued the company was perhaps the biggest hurdle to success and one that the bidder was ultimately unable to overcome.

Spicers Limited (SRS.ASX) is a new deal announced during the month in which the portfolio has established an initial position. Spicers entered into a Scheme of Arrangement with Kokusai Pulp & Paper Co. for a grossed up consideration of $0.07 per share. The transaction is somewhat different in that part of the consideration will be received via a capital return, as Spicers is set to divest some assets deemed non-core to Kokusai ahead of the transaction. The result is that Spicers carries the risk associated with the asset sales and therefore any proceeds going towards the final amount shareholders are set to receive under the transaction.

Pleasingly, the prices for the assets sales are already received or conditionally locked in, and the last remaining component of the capital return focuses around the company's ability to manage its inventory and supply chain. The scheme documentation enforces a fairly low hurdle on the minimum net working capital to be handed over on deal completion and also allows for any excess capital above this to be paid out to Spicers shareholders. As such, we have comfort that at worst we are set to receive $0.07 per share (assuming the deal completes), but our internal numbers suggest there is a very strong possibility of receiving more than what the market has been told.

Finally, we turn to an interesting play in The Reject Shop (TRS.ASX). The stock is subject to an on-market takeover bid from Allensford Pty Ltd, an entity associated with packaging magnate Raphael Germinder. An on-market bid is quite favourable for us in that we have an effective downside protection for any shares that we hold (as we can sell on market at any time within the offer at the guaranteed offer price) but it also retains an embedded call option should the price be lifted or an alternative bid emerges.

The Reject Shop is interesting not necessarily for its underlying business, but because of the significant franking credit balance on its books. There has been a groundswell of public attention directed to the current taxation laws of franking credits as Opposition Leader Bill Shorten and Shadow Treasurer Chris Bowen remain very vocal in their determination to cease franking credit cash "refunds".

We have recently seen several ASX Listed Investment Companies (most notably Australian Foundation Investment

Manager Commentary Continued

Company and Mirrabooka) rush to crystallise certain positions and pay out fully franked special distributions. The intent is to get ahead of a potential Labor government and distribute any excess franking credits while they still hold considerable value for shareholders. It's inevitable in the current political environment that companies will look to factor in any franking credits into their capital management initiatives.

With this in mind, TRS has roughly $1.70 per share in franking credits accrued and more than enough retained earnings from which to distribute them. The current on market offer of $2.70 per share would, at a glance, fail to capture much of the value those franking credits would have to the right bidder and for that reason, we feel an improved offer for TRS is not out of the question.

We are anticipating a busy February and look forward to updating you further in due course.

Kind Regards,

Luke Cummings

Chief Investment Officer and Managing Director

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

Harvest Lane in the Media

- Australian Financial Review - Harvest Lane's Luke Cummings on the art of the merger deal
- Livewire - Klarman, Buffett, and Beating the Market

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