HARVEST LANE
ASSET MANAGEMENT

Absolute Return Fund
March 2019 Update

	NTA
Unit Price - 31/03/2019	1.0552

Investment Returns (net of fees)*

	Harvest Lane Absolute Return Fund	RBA Cash Rate	Outperformance
Cumulative return (since inception 01/07/2013)	64.58%	11.51%	53.07%
Trailing 3 year return p.a.	5.28%	1.59%	3.69%
Trailing 12 month return	10.96%	1.50%	9.46%
Trailing 3 month return	-0.42%	0.38%	-0.80%
Trailing 1 month return	-2.01%	0.13%	-2.13%

* 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

After a strong start to the calendar year, the portfolio lost some ground in March with a negative 2.01% return. The loss came from a rare deal break in Eclipx Group (ECX.ASX). The remainder of the portfolio largely traded in line with expectations as the positions matured across their respective transactions.

March saw yet another month of strong deal flow which underpins our expectations that the portfolio can keep achieving new highs before long. Five new positions were added during the month. Some positions were entered on the back of entirely new transactions being announced whereas others reflected prior monitored opportunities that simply offered better entry points on a risk adjusted return basis.

One position expected to perform this month, Universal Coal (UNV.ASX), was in a trading halt at the end of March pending the announcement of a revised offer. If the offer price is revised upwards (as is our expectation), this will deliver a meaningful contribution to performance in April.

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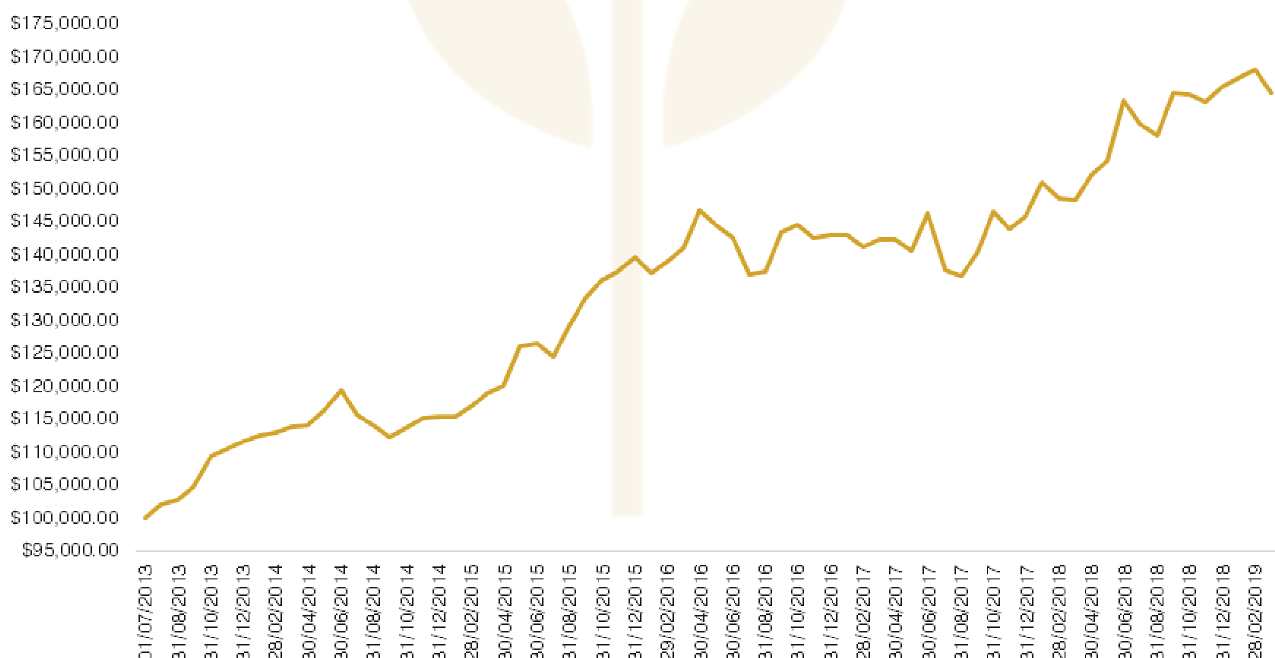
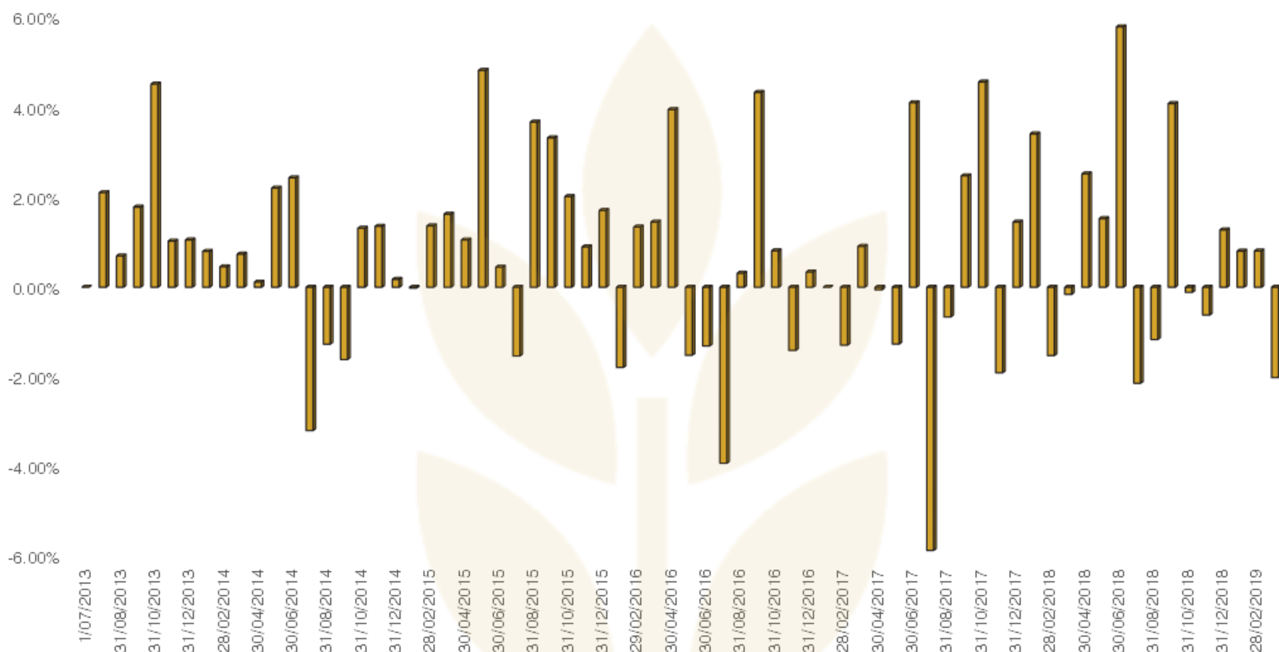
Growth of $100,000 Since Inception



Absolute Return Fund
March 2019 Update

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)	0.75%
% Positive Months	65.22%
Best Positive Month	5.78%
Worst Negative Month	-5.84%
Maximum Drawdown	-6.72%
Annualised Standard Deviation	6.45%
Sortino Ratio	1.75
Sharpe Ratio	0.99
Correlation with ASX200 Accumulation Index	0.020
Beta	0.014
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

Our previously discussed holding in The Reject Shop (TRS.ASX) petered out to an uneventful stalemate as Allensford's on-market offer lapsed and they acquired only 19% of the register.

Navitas Limited (NVT.ASX) saw BGH's offer firm up, entering a binding scheme of arrangement at $5.825 per share and we took the opportunity to close out our position as the month drew to a close. We very much expect that this transaction will complete as expected, however since the announcement of the scheme the shares have traded very close to the offer price. Given the length of time to completion, the very small discount to terms sees it trade on an annualised return of less than three percent, making continuation of the trade undesirable to us. There are far better opportunities to put capital to work elsewhere in the portfolio.

The Intellectual Property sector is heating up as the three largest players in the market (all publicly listed) look to industry consolidation to drive future growth. Xenith IP Group (XIP.ASX) and Qantm Intellectual Property Limited (QIP.ASX) had agreed to a merger of equals last November in an effort to add scale and take on the industry's number one player in IPH Limited (IPH.ASX). Amazingly, Qantm revealed that it had simultaneously turned down a takeover offer from IPH. In February, IPH played agitator and picked up a blocking stake in Xenith to block the XIP/QIP merger from going ahead, and followed it up in March with a proposal to acquire all remaining shares in Xenith. The implied bid value was comparable with the consideration contemplated under the QIP/XIP merger but had a much larger cash component.

Key to a successful transaction between any of the parties was the approval from the ACCC; a merger of any two of the three companies resulted in a minimum market share of greater than 30% in specific industry segments and was likely to face competition concerns. Xenith highlighted the threat of ACCC rejection of the IPH bid (as a tie up of the industry's number one and two players), thus deeming it not to be a superior proposal, and pushed on in its attempts to bring the XIP/QIP merger into effect. This stance appeared validated when the ACCC cleared the latter merger of any competition concerns. However, less than a week later the ACCC primed the sector for consolidation amongst its listed players by also clearing the way for IPH to acquire Xenith. At the end of March, the shareholder meeting to approve the XIP/QIP merger had been postponed and Xenith was under pressure to engage IPH, with the key competition concern no longer an issue. We consider it highly likely that XIP will now be absorbed by either Qantm or IPH; all that remains to be seen is who will come out on top.

Lynas Corporation Limited (LYC.ASX) was a widely reported deal this month having received an indicative, non-binding offer from none other than Wesfarmers (WES.ASX). The bid initially caught most market observers off guard, however there are several considerations that make this offer an interesting play. Lynas operates in the rare earths market as both a miner of materials and processor of downstream products. The downstream processing currently occurs in Malaysia and the treatment of by-products from the plant is the subject of a dispute with the Malaysian government who is keen to have the (only slightly) radioactive waste material exported out of the country. Lynas is adamant that it is industry practice for the waste to remain in the country that gains the economic benefit from the associated production. The tussle has threatened Lynas's operating licence which is up for renewal on or before September 2, and the share price has decreased considerably in the last twelve months to reflect the risk of a failure to renew the operating licence.

Wesfarmer's offer price of $2.25 per share, then, appears to be at a material premium to the undisturbed share price. But included in the conditions of Wesfarmer's offer was the requirement that the company's operating licences are in place at the time any potential transaction is completed and for a satisfactory period thereafter - conveniently, this can only be delivered by a successful resolution to the company's current dispute with the Malaysian government, the very issue that has caused the LYC share price to halve in twelve months. A successful resolution would see the share price soar and the Wesfarmer's offer would appear to be significantly less attractive. Understandably, Lynas quickly rejected the proposal as opportunistic! The transaction is in its early stages and Wesfarmers appear very keen (at least publicly) to get a deal done. The portfolio has established a small initial position given the expectation that Wesfarmers will come back to the negotiating table.

Given its meaningful loss, let us dive a little deeper into our holding in Eclipx to analyse both the events of the trade and our rationale for holding the position. Eclipx Group announced a merger agreement with McMillan Shakespeare (MMS.ASX) back in November at an implied value of $2.85 per share, having earlier rebuffed an offer from rival suitor

SG Fleet (SGF.ASX) of $2.52 just a few months prior. Eclipx provided a trading update in January that was softer than expected and was largely a result of two smaller underperforming business units in Grays Online and Right2Drive. Regardless, the company maintained guidance of profit in line with the previous financial year. We spoke with McMillan Shakespeare regarding their intentions as part of our due diligence process (with the Material Adverse Change clause being of some concern to us as a result of that update) and were told by the McMillan Shakespeare CEO that they remained committed to the transaction and were comfortable with the softer than expected trading update. Both Grays Online and Right2Drive were viewed by McMillan as non-core and likely to be sold upon completion of the transaction. They further emphasized their belief that industry consolidation was inevitable and that they wished to be pro-active in that regard.

As a result of the above, we held the view that absent further significant deterioration in the Eclipx business that the transaction would likely complete on its existing terms. There was also a chance that SG fleet would return with an improved offer of their own.

However, just six weeks later Eclipx advised the market that first five months of trade of FY19 were down 42.4% on the prior corresponding period, and that appeared to be only the tip of the iceberg in terms of the issues the business was currently experiencing. This was more than enough to trigger a break clause in the merger agreement, and while McMillan have not yet formally terminated the transaction (at the time of writing) they have all but confirmed it will not complete as expected. On the date of the announcement, shares traded down a 56% from the previous close. Given consideration of the nature of their business and their recent update just six weeks earlier, it would be fair to say that guiding to a number 42% lower than that previously announced suggests to us either incompetence, dishonesty or fraud (and perhaps all of the above) on the part of management and/or the ECX board.

Unfortunately, this highlights a circumstance that can be difficult to detect in advance and avoid despite our due diligence efforts. Both the outcome and circumstances that led to it are highly unusual and a shareholder class action seems likely to follow in the months ahead. Unfortunately, this is not particularly helpful to us or our unit holders at this juncture, although it may well be beneficial in future.

Unusual circumstances aside, it is typical for us to have 2 deal breaks on average each year, sometimes in very unusual circumstances and contributed to by dishonesty or misdirection on the part of companies in which we are invested. While we would prefer to avoid these deal breaks, having some from time to time is an expected cost of our process in order to get the balance right (we don't want to avoid all risk, just ensure that all risk we take is adequately sized and has adequate expected compensation over time). Hence the odd Eclipx event is still an occasional expected outcome from our process and a cost which is absorbed within our historical return stream (albeit still not one that we are happy about).

We are working hard to ensure that this month's draw down will be quickly erased. Our confidence in our pipeline and return prospects remains strong. If you would like to discuss this month's performance in more detail or anything else further, please feel free to contact us.

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

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 26 November 2018 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.