Absolute Return Fund
October 2018 Update

	NTA
Unit Price - 31/10/2018	1.0529

Investment Returns (net of fees)*

	Harvest Lane Absolute Return Fund	RBA Cash Rate	Outperformance
Cumulative return (since inception 01/07/2013)	64.22%	10.88%	53.34%
Trailing 3 year return p.a.	6.45%	1.66%	4.80%
Trailing 12 month return	12.03%	1.50%	10.53%
Trailing 3 month return	2.75%	0.38%	2.38%
Trailing 1 month return	-0.11%	0.13%	-0.24%

Manager Commentary

It would have been a difficult task to open a newspaper or turn on the TV in October and remain oblivious to the very poor returns from equities. The ASX 200 Accumulation Index (XJOAI), which includes dividends, fell by over 6%, while the small cap sector lost more than 9% in the month! Many managers did much worse than this.

A plethora of factors were identified as the potential cause of the declines; US interest rate concerns, fears of US/China a trade war, the start of a deflation in equity asset "bubbles", emerging market currency crises, Brexit, instability in the EU. Regardless of the reason, the key takeaway is that very few investment strategies survived October's stress test.

Investors' heavy biases to risky long only equity strategies is a major risk factor that is all too easily forgotten in a decade long bull market, and one we have previously warned about. It is early days yet, and this lesson is one that we expect investors will continue to be reminded of. After all, volatility has only just moved back to more normal levels and equity markets are quite capable of much worst performance than we have seen from them in the low volatility environment of recent years.

October was a very painful month for most but a terrific stress-test for alternatives. The Absolute Return Fund was effectively flat (down just 0.11%), again highlighting its downside protection and truly market neutral approach.

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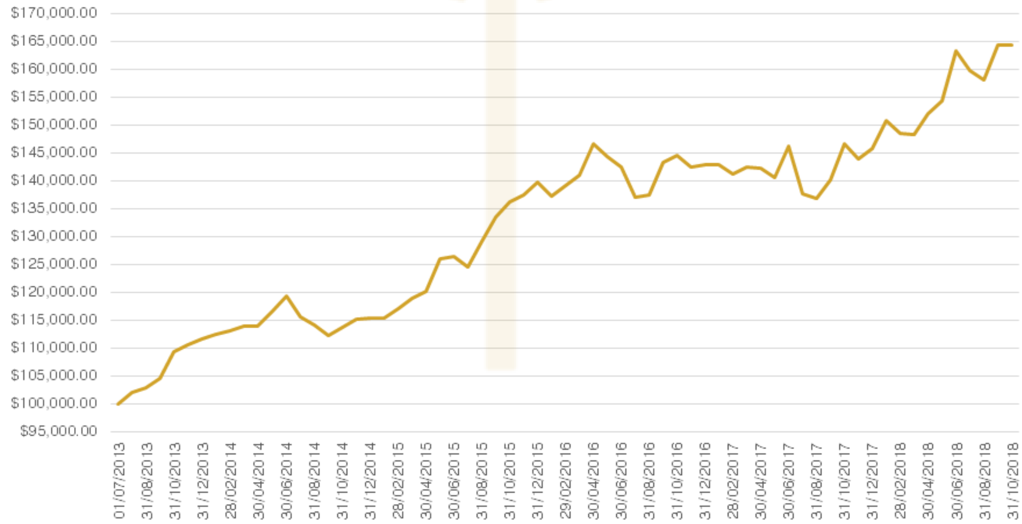
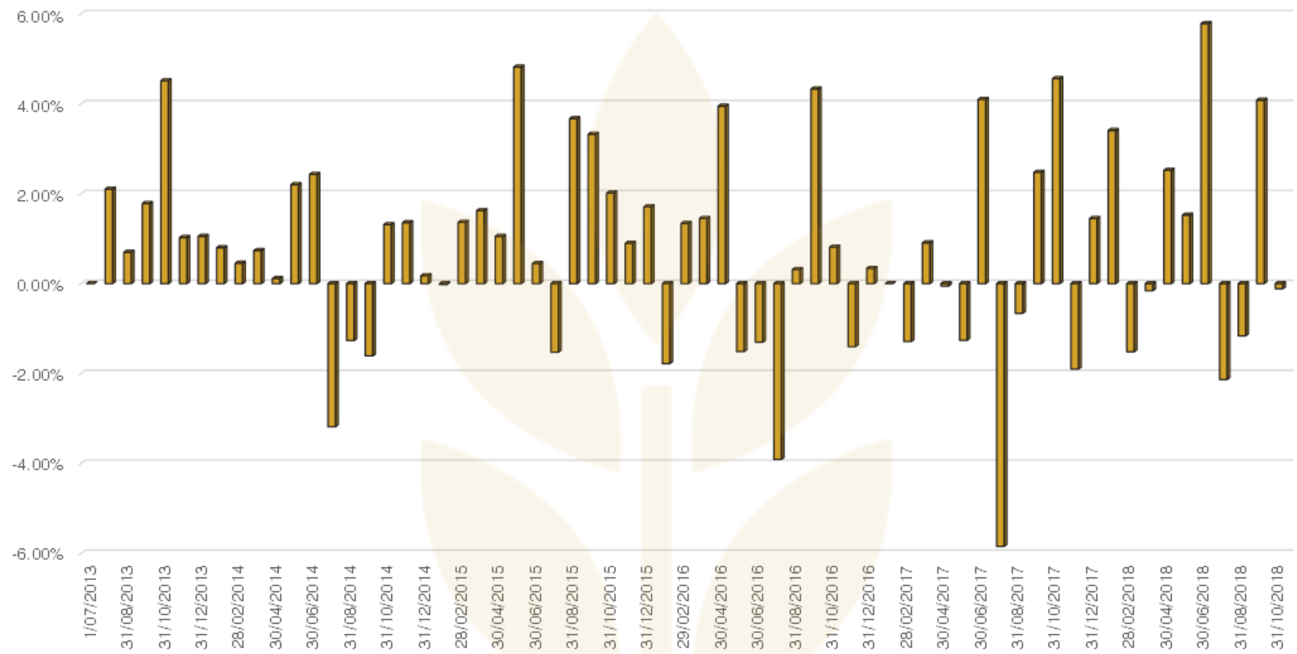
Growth of $100,000 Since Inception



Monthly Returns History*



Fund Facts

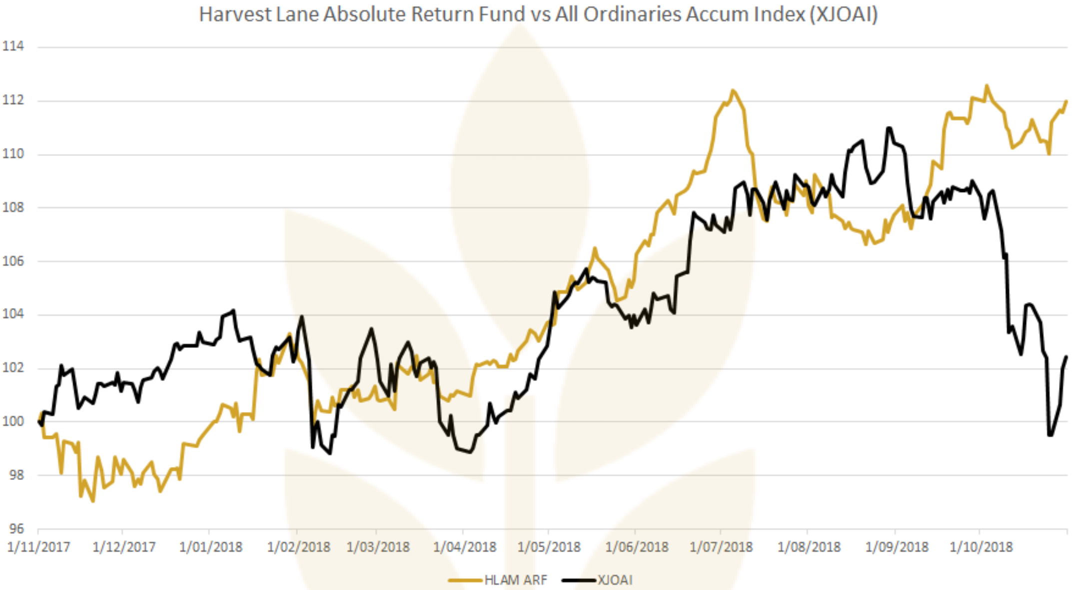
Name	Absolute Return Fund
Structure	Retail daily priced unit trust
Inception	Monday 1 July 2013
Investment Objective	10% p.a (over 3 year period)
Manager Base Fee[1]	Capped at 1.25%
Manager Performance Fee[2]	25% (incl GST) of returns above RBA Cash
High Water Mark	Yes
Applications/Redemptions	Daily
Distributions	Annual
Administrator	Fundhost
Auditor	Ernst & Young
Custodian	NAB

Portfolio Analytics

Average Full Financial Year Return[3]	10.46%
Average Monthly Return (since inception)	0.80%
% Positive Months	65.63%
Best Positive Month	5.78%
Worst Negative Month	-5.84%
Maximum Drawdown	-6.92%
Annualised Standard Deviation	6.45%
Sortino Ratio	1.88
Sharpe Ratio	1.053
Correlation with ASX200 Accumulation Index	0.0121
Beta	0.0084
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.
* 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 Continued



A key tenet of the Absolute Return Fund strategy is the focus on downside protection through careful selection of positions that are not only uncorrelated to broader equity markets, but also uncorrelated with each other. As a result, periods of strong outperformance against the market are usually observed when the market is going through periods of excessive weakness. The rolling twelve-month comparative chart above provides an excellent illustration of how the fund has been able to achieve strong returns without equity market sensitivity. We are confident the fund will continue to show its value as a genuine market neutral alternative investment, irrespective of market movements.

Turning more specifically to the portfolio, deal flow once again continued with a further seven positions added to the portfolio to replace the trades completed during the month. APN Outdoor (APO.ASX) was the standout of the closed positions, delivering a grossed up annualised return of 16.37% while Folkestone Limited (FLK.ASX) also completed as expected with an annualised return of 17.56%. Both trades were able to capture the additional benefits of the distributed franking credits attached to each deal (which aren't included and are in addition to our reported performance).

We took the opportunity to close out the portfolio's position in Centuria Industrial REIT (CIP.ASX) after the bidder, PropertyLink Group (PLG.ASX), received a revised offer of its own. The revised offer is conditional on PLG withdrawing its offer for CIP and the drastically lowered probability of the transaction completing as originally flagged made it a relatively easy decision to close out and focus on better opportunities elsewhere.

Fairfax Media (FXJ.ASX) has seen a significant decrease in its share price since the merger with Nine Entertainment (NEC.ASX) was announced. The jewel in the crown of the deal that is Fairfax's 60% in Domain Group (DHG.ASX) proved a major catalyst of the month's decline, as a mid-month trading update reported negative revenue growth and rising costs, understandably falling well short of market expectations. As the deal is a predominantly scrip offer, the decrease in the Nine share price translates directly into a lower consideration should the deal complete as it currently stands, however the fund protects against this by actively hedging. We established the position at an attractive yield (fully hedged) whilst noting previous private equity interest in the company. Lower share price notwithstanding, the implied NEC premium to current trading levels has reduced considerably such that a competing or improved proposal cannot yet be definitively ruled out.

As referenced above, PLG was the beneficiary of a revised proposal from significant shareholder and long-time suitor ESR Real Estate, lifting its initial non-binding bid from $1.15 to $1.20 to bring the PLG board around and grant due diligence. PLG has flagged its intention to recommend the transaction upon the bid becoming binding and has conditionally withdrawn its proposal to acquire CIP. Given the length of time ESR has been circling the company (ESR acquired 20% of the company in response to Centuria raiding the register over twelve months ago), we are confident of the bid progressing to binding.

Manager Commentary Continued

Investa Office (IOF.ASX) saw Oxford Properties $5.60 per share proposal firm up after the board officially declared the bid a superior proposal to that of Blackstone's at $5.52. This triggered the matching rights process whereby Blackstone would be able to amend the terms of their deal to that of Oxfords and emerge victor from the takeover tussle. Blackstone elected not to take up their rights citing Oxford's now 20% ownership in the company as a significant impediment to their proposal. Oxford now looks set to take over ownership of Investa at a price significantly higher than the original grossed up $5.25 offer first tabled by Blackstone back in May.

Navitas Limited (NVT.ASX) found itself the target of a consortium that seems to be forming strategic alliances across multiple companies. BGH Capital once again teamed up with AustralianSuper in a proposal to take NVT private, with AustralianSuper irrevocably pledging its shares to BGH's cause and refusing to accept another offer, even if it emerges superior. The consortium has also attracted the support of recently retired Navitas chief executive, who sold half of his stake to BGH and intends to roll the remaining parcel into the post-transaction private vehicle. The tie up has the effect of giving BGH a substantial foot on the register despite the infancy of the proposal and places pressure on the target board to open up their books and cooperate. The board has so far declared that the headline price of $5.50 does not reflect the value implied by the management's strategy and plan,but has offered to engage BGH and company in an effort to determine if there may be a suitable proposal. As always, we will continue to monitor this situation, and adjust our exposure accordingly.

The BGH and AustralianSuper tie up was originally debuted earlier this year after it approached private hospital operator Healthscope (HSO.ASX) with an offer to buy out the company at $2.36 per share. A competing proposal from Brookfield was received at $2.50, but the Healthscope board sensationally refused to give due diligence to either party and chose to buckle down and progress their corporate initiatives. The company is in a tough period in its earnings cycle as weak hospital volumes put pressure on the bottom line, the search for a co-investor in a mooted property divestment remains ongoing, and a sliding share price places the company under pressure. It may be for these reasons that BGH confidently returned to the negotiating table with an offer described by the Healthscope board as 'substantially the same', most notably in the headline price of $2.36 and with increased conditions around the financial performance of the company. We are of the opinion that the above factors will at least allow BGH to progress to the due diligence stage of the transaction, as the pressure from shareholders on the board ramps up.

Lastly, in a follow on to last month's commentary on Universal Coal (UNV.ASX), Ata Resources returned with a firmed-up offer at its original headline price of $0.35 per share after locking in funding support for its tilt and successfully wooing UNV's largest shareholder, Ichor Coal. The shares still trade at a significant discount to the offer price primarily because the independent board assessing the proposal are yet to agree to the deal. Our assessment is that the bid greatly undervalues the company, a view we assume is shared by the independent board judging by their refusal to endorse Ata. We regard it as highly likely that Ata will have to offer more to get the transaction across the line, a situation which would be favourable for our investors.

Key to the independent board agreeing to and recommending the bid is the independent expert report determining that the bid is indeed fair and reasonable. The current bid is priced at a forward EV/EBITDA multiple of just 2.6x on the back of FY19 guidance released early October. As an aside, guidance for FY18 was revised upward twice and came in 60% above the initial forecast. This is not to say that history will repeat itself, but the management team have a strong track record of execution and at an offer of $0.35 per share, Ata are paying very little for the company's significantly advanced growth pipeline.

In a further development, fellow industry junior Wescoal Resources revealed that it was in advanced discussions with Ata to join the bidding consortium. With debt levels of less than 1xEBITDA and a stated desire for acquisition led growth, Wescoal could provide the financial impetus to improve the offer terms. We're highly confident the Independent Expert will come back with a valuation range well above Ata's offer, and that the price will need to be lifted if the consortium is serious about taking the company private.

The remainder of the positions within the portfolio fluctuated as per normal and for the most part remained insulated from the market sell off, as is normally the case. Deal flow continues to be strong enough to allow for the almost immediate recycling of capital back into other opportunities. We look forward to providing an update on the month ahead as several

Manager Commentary Continued

ahead as several positions in the portfolio have received revised bids only two days into November.

It is important that prospective investors realise that there is at least one proven manager available to them that offers attractive return potential without relying upon equity markets going up! It offers much better downside protection than long biased equity strategies in the event of any large equity market falls.

Harvest Lane's strategy is built on a sound economic rationale, is sustainable, understandable and transparent, and doesn't suffer from the high level of competition found with many more generic alternative strategies. Deals and merger arbitrage are as normal a part of business, as business itself. We remain optimistic about the opportunities available to us and our investors in the months and years ahead.

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.

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