

	NTA
Unit Price - 31/01/2020	1.0858

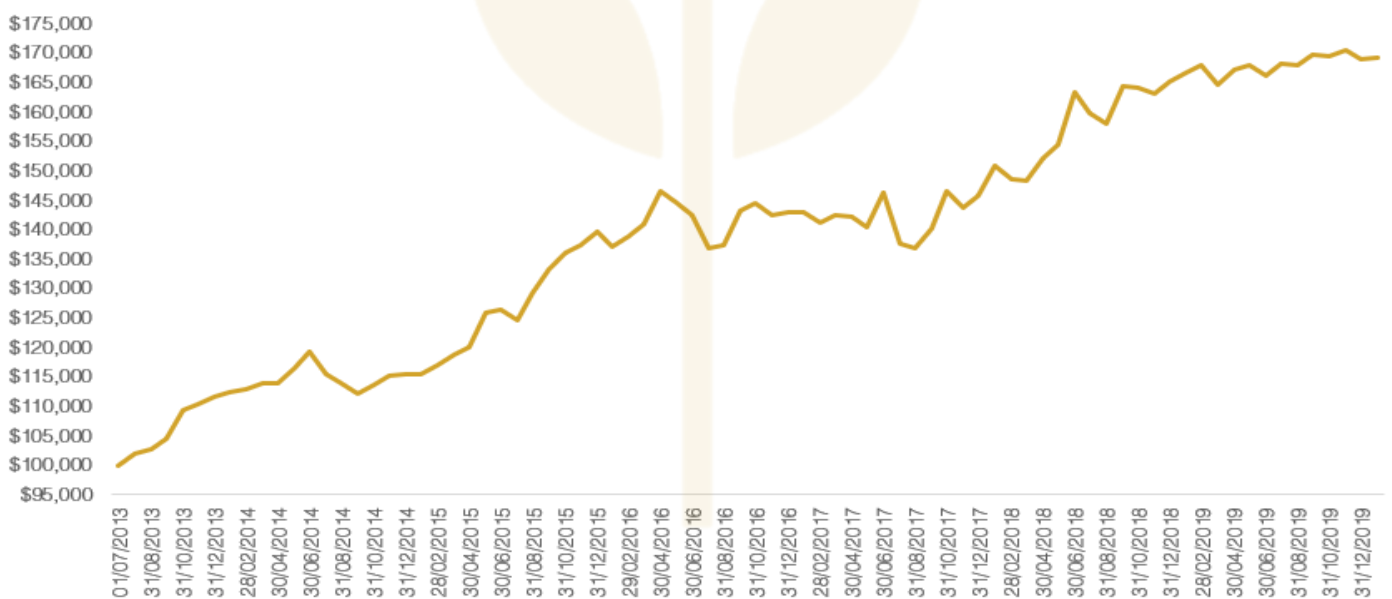
Investment Returns (net of fees)\*

	Harvest Lane Absolute Return Fund	RBA Cash Rate	Outperformance
Cumulative return (since inception 01/07/2013)	69.35%	12.36%	56.99%
Trailing 5 year return p.a.	7.97%	1.63%	6.34%
Trailing 3 year return p.a.	5.82%	1.37%	4.45%
Trailing 12 month return	1.65%	1.10%	0.54%
Trailing 3 month return	-0.07%	0.19%	-0.26%
Trailing 1 month return	0.27%	0.06%	0.21%

\* 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.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
FY14	2.10%	0.70%	1.78%	4.51%	1.02%	1.05%	0.80%	0.45%	0.73%	0.11%	2.20%	2.43%	19.34%
FY15	-3.18%	-1.26%	-1.61%	1.31%	1.35%	0.18%	-0.02%	1.36%	1.62%	1.05%	4.82%	0.45%	6.01%
FY16	-1.53%	3.67%	3.32%	2.01%	0.90%	1.71%	-1.78%	1.34%	1.45%	3.94%	-1.51%	-1.30%	12.65%
FY17	-3.91%	0.31%	4.33%	0.81%	-1.40%	0.34%	0.00%	-1.29%	0.91%	-0.06%	-1.26%	4.10%	2.63%
FY18	-5.84%	-0.66%	2.47%	4.56%	-1.90%	1.45%	3.41%	-1.52%	-0.16%	2.52%	1.52%	5.78%	11.65%
FY19	-2.13%	-1.16%	4.08%	-0.11%	-0.62%	1.27%	0.80%	0.81%	-2.01%	1.65%	0.34%	-1.03%	1.73%
FY20	1.23%	-0.17%	1.10%	-0.15%	0.61%	-0.94%	0.27%						1.94%

Growth of \$100,000 Since Inception



— \$100,000 invested in The Absolute Return Fund assuming reinvestment of distributions

## Manager Commentary

It was a positive start to a new decade with the Fund delivering 0.27% in January. The month saw a simple reversal of the widening in numerous deal spreads from December. The Fund is almost fully invested at the end of the month, although several deals are expected to complete in February and will provide some much wanted liquidity.

Corporate activity ramped up in the second half of January. One new position in Windlab Limited (WND.ASX) was established following a non-binding (although credible) offer from Federation Asset Management, but the majority of activity was focused on existing positions in the portfolio or existing deals that saw us re-enter as the risk/reward dynamics became more favourable.

Australian Unity Office Fund (AOF.ASX) was a feature of the Fund for much of 2019 (and 2018 for that matter) under a proposed scheme of arrangement with a Charter Hall/Abacus Property (CHAB) consortium. The deal was ultimately voted down at the special meeting last November as a low turnout rate failed to rally enough support to cross the 75% approval threshold. We retained a small position due to its appeal as a takeover target. The CHAB proposal was the second offer in two years at ever increasing prices. It seems a case of when, not if, the company will be taken over. The question is at what price key unitholders are willing to let it go for?

Enter Starwood Capital Group. The initial bidder for AOF back in 2018 reappeared in the final week of January with a conditional \$2.98 per share offer. The original 2018 offer failed to get board endorsement as Starwood refused to bump above \$2.95. Two years later, their second bite at the cherry contemplates a much smaller premium to NTA and is priced lower than CHAB's attempt in 2019 of \$3.04 (although AOF unitholders have admittedly received \$0.08 per unit in distributions since the CHAB deal fell over). In its current form, the bid is highly unlikely to succeed, although it sets up an interesting dynamic between Starwood and CHAB to secure control for the AOF assets. We are big fans of some good old fashioned competitive tension, and all signs point to an upcoming tussle in the months ahead if the parties are genuinely serious about taking AOF private.

In a sign of potential things to come for AOF, Village Roadshow Limited (VRL.ASX) received an overbid from Aussie based Private Equity firm, BGH, it's \$4 offer price trumping Pacific Equity Partner's \$3.90 bid back in December. The two parties are conducting due diligence, but the non-binding nature of both proposals has limited our exposure at this stage. A binding deal from either will likely trigger a contest for which we will position accordingly.

The largest detractor for the month was our residual holding in Panoramic Resources Limited (PAN.ASX). Fresh from completing a \$32m equity raise in mid January, it took only two weeks for the company to realise it still wasn't adequately funded and was likely in breach of existing debt covenants. An admission was made to the market that it was likely to come back with cap in hand to shareholders or potential debt financiers, and the share price took an appropriate dive. Despite acknowledgement that other parties remain in the dataroom following the withdrawn IGO Ltd (IGO.ASX) offer, the complexities of the company's required funding and management's inability to understand it (let alone a potential bidder) saw us exit our position for safety.

Finally, CML Group Limited (CGR.ASX) saw an interesting development late in the month. A large line of stock representing 17% of the company changed hands at \$0.58 per share, only \$0.02 below Scottish Pacific's grossed up indicative offer of \$0.60, but well above Consolidated Operations Group Limited's (COG.ASX) \$0.51 firm offer. The trade occurred just days before shareholders were set to vote on the COG proposal at a special meeting (and shareholders expecting an update on the Scottish Pacific bid at the same time), setting the scene for a show down. Our initial thoughts were that Scottish Pacific had swooped in to get a foothold on the register before bidding, but in a twist it emerged the buyer was in fact COG. The special meeting was subsequently deferred to allow CGR management and shareholders to contemplate the implications.

It is not yet clear whether COG intends or expects to offer \$0.58 to all other CGR shareholders. The equality principle for Takeovers law under the Corporations Act ensures that all shareholders are treated equally under a takeover offer, and that the minimum offer price should reflect the highest price paid by the bidder in the preceding four months. ASIC regulates Schemes of Arrangement in a similar fashion (which is how the COG proposal is structured, that in turn requires ASIC approval), so there is technically a very strong legal basis which would compel COG to extend the offer to all

Manager Commentary Continued

other shareholders, not least because the 17% stake makes it substantially more difficult for Scottish Pacific's rival offer to complete, that at face value would deliver greater value to shareholders. The CGR share price closed out the month at \$0.53, reflecting a large discount to terms for both the Scottish Pacific offer and what should be a revised COG offer.

We feel the CGR discount reflects genuine misunderstanding in the market as to how such a move can and should be handled under Takeovers law. As necessary, we will stand up for our investors and ensure that due process is followed by all parties, not just for this transaction but every transaction we are involved in. CML Group has guided to further updates in February, so we look forward to seeing a positive outcome for all CGR shareholders (and our investors in turn).

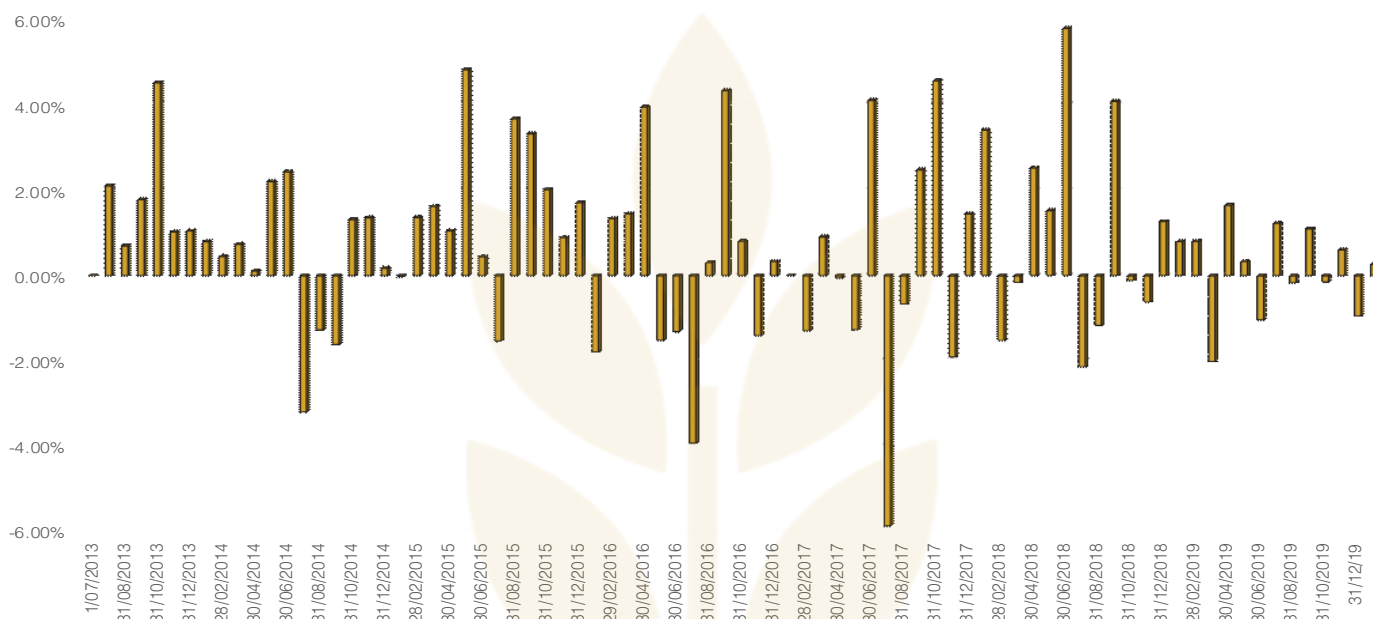
Regards,

Luke Cummings

Chief Investment Officer and Managing Director

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

### 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 <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>	9.00%
Average Monthly Return (since inception)	0.69%
% Positive Months	64.56%
Best Positive Month	5.78%
Worst Negative Month	-5.84%
Maximum Drawdown	-6.72%
Annualised Standard Deviation	7.14%
Sortino Ratio	1.913
Sharpe Ratio	1.054
Correlation with ASX200 Accumulation Index	0.028
Beta	0.018
FY19 Distribution	0.0000

<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 expenses.

<sup>2</sup> Performance fee is charged when the Fund's 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 - 30/06/2019) and does not include returns for the current year.

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## 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 return/risk 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 the RBA Cash Rate 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 16 December 2019 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 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.