

	NTA
Unit Price - 31/01/2022	1.2722

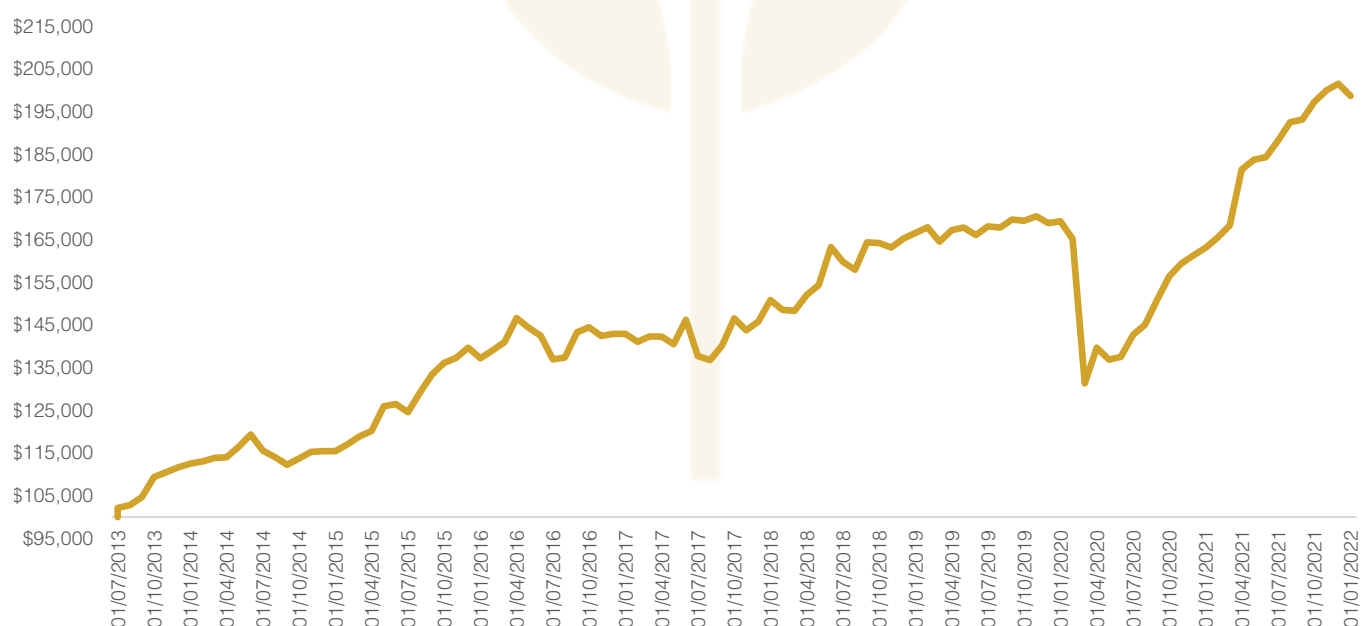
### Investment Returns (net of fees)\*

	Harvest Lane Absolute Return Fund	RBA Cash Rate	Outperformance
Cumulative return (since inception 01/07/2013)	98.75%	12.72%	86.04%
Trailing 5 year return p.a.	6.82%	0.89%	5.92%
Trailing 3 year return p.a.	6.06%	0.49%	5.57%
Trailing 12 month return	21.85%	0.10%	21.75%
Trailing 3 month return	0.73%	0.03%	0.70%
Trailing 1 month return	-1.40%	0.01%	-1.41%

\* 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%	-2.42%	-20.52%	6.37%	-2.02%	0.50%	-17.19%
FY21	3.75%	1.66%	4.06%	3.61%	1.94%	1.18%	1.10%	1.46%	1.73%	7.83%	1.23%	0.34%	34.04%
FY22	2.11%	2.27%	0.33%	2.13%	1.39%	0.76%	-1.40%						7.79%

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



## Manager Commentary

January saw the first negative return in some time as the Fund was unable to completely escape sudden risk-off sentiment observed globally. Markets suffered a brutally quick drawdown in the last week of the month attributable in large part to macroeconomic factors. Spreads widened to accommodate the perceived macro risk amongst most transactions with selling evidently indiscriminate.

We see it as an opportunity.

Our arbitrage strategy has typically operated independently of macroeconomic risk (with the onset of COVID in March 2020 the sole exception to date). Whether the U.S. Federal Reserve hikes four or five times in 2022 matters very little to an Ausnet Services (AST.ASX) type transaction, which is due to become legally effective in the first week of February. The 1% to 2% gross yield offered in normal circumstances blew out to as much as 6.6% only three weeks before payment. At the time of writing, the deal has become legally binding. It is but one example of the current pricing environment for merger arbitrage as at month end.

Blow outs in spreads were more pronounced in scrip based transactions (more below). As such, we largely view the majority of these widening deal spreads as temporary, subject to the transactions completing as anticipated.

The disappointing outcome in Australian Pharmaceutical Industries Limited (API.ASX) was not the way we would have liked to have started the new calendar year. A binding deal is on the table with Wesfarmers at \$1.55 per share, however Woolworths stormed the castle in early December with a conditional at \$1.75 with "potential to improve the offer price with the benefit of due diligence". Sadly, the offer was withdrawn this month on the basis Woolworths was unable to validate the financial returns required.

Perhaps the public statement didn't tell the whole story; from the outset, the Pharmacy Guild of Australia was vocal about its blunt opposition to a Woolworths entry in the pharmacy sector despite initial reassurances the status quo would be preserved. The share price naturally fell back once the offer was withdrawn; however, the downside was relatively protected with the existing Wesfarmers transaction in place.

Virtus Health (VRT.ASX) took an interesting twist. A second private equity firm, CapVest, emerged with an acquisition proposal at \$7.60. The offer puts them well ahead of BGH's interest at \$7.10 and was enough to secure an exclusive look at the books. BGH's pre-bid acquisition of a 19.9% holding is a potential stumbling block to any rival bidder, but the CapVest transaction contains an interesting structure to overcome the issue. An off market takeover with a 50.1% minimum acceptance will be offered alongside a scheme of arrangement, albeit at a lower \$7.50 per share. It would only come into effect in the event the scheme is voted down. CapVest can still gain effective control of the company if either structure is successful.

The situation has echoes of Healthscope (HSO.ASX) back in 2019, where Brookfield tabled a similar arrangement to fend off a rival bidder; none other than BGH. BGH themselves have used a dual structure offer to acquire control of Village Roadshow (VRL.ASX) in 2020. We are yet to see a binding deal agreed from either bidder, but the stage is set for further developments. BGH has since taken to the Takeovers Panel looking to overrule certain exclusivity provisions awarded to CapVest. They are certainly not the actions of a bidder throwing in the towel just yet.

There are a large number of scrip transactions within the current opportunity set. Our strategy includes hedging any position subject to a scrip offer, however not all investors have a similar capability available to them. In a falling market, such investors often elect to take cash off the table rather than receive scrip at an as yet unquantified value. For us it has provided opportunity.

Quantum Health Group (QTM.ASX) offered decent sized gross returns even well after shareholders had overwhelmingly approved the transaction. Aventus Group (AVN.ASX) was near identical; vote risk concerns around the lack of obvious merger benefits available specific to AVN shareholders meant we held no position for the first several months of the transaction, but once the deal was voted through we were able to set spreads far wider than it realistically should have been. Swick Mining Services (SWK.ASX) is yet another that offered unreasonably wide returns. Even in early February,

## Manager Commentary Continued

Andromeda Metal's (ADN.ASX) bid for Minotaur Exploration (MEP.ASX) went unconditional. We had hours to ourselves locking in gross returns up to 9% before the market began to take note.

Almost all the above transactions still had a meaningful discount to terms at month end. With the exception of Aventus, all have been closed at the time of writing, which should set the foundation for restoring the lost performance in January.

Finally, there are signs of life in the Western Areas (WSA.ASX) transaction. The company has an agreed deal with IGO limited (IGO.ASX) at a cash price of \$3.36 per share. However, the shares have traded through terms since the deal was announced on the expectation of a higher offer emerging from either BHP or Wyloo (an entity associated with Andrew Forrest). Late in January, Wyloo picked up a further 3% of the company at prices above IGO's offer.

At this stage it's unclear as to whether Wyloo's motivations are to put pressure on IGO to lift their offer, or with a view to making their own bid down the track. IGO's managing director was quick to the press to talk down the prospects of an increase (and to which they may now be bound under Truth in Takeovers policy), but evidently the pressure from Wyloo remains. A repeat of the competitive tension for nickel assets seen for Noront Resources, where Wyloo and BHP went toe to toe, is not yet off the table.

On general M&A conditions, January was a relatively quiet month for new deal announcements, as to be expected over the holiday period, but bids announced for FAR Limited (FAR.ASX) and Irongate Group (IAP.ASX) on the last day of the month indicate we're about to pick back up where we left off prior to Christmas. It should be a busy February ahead.

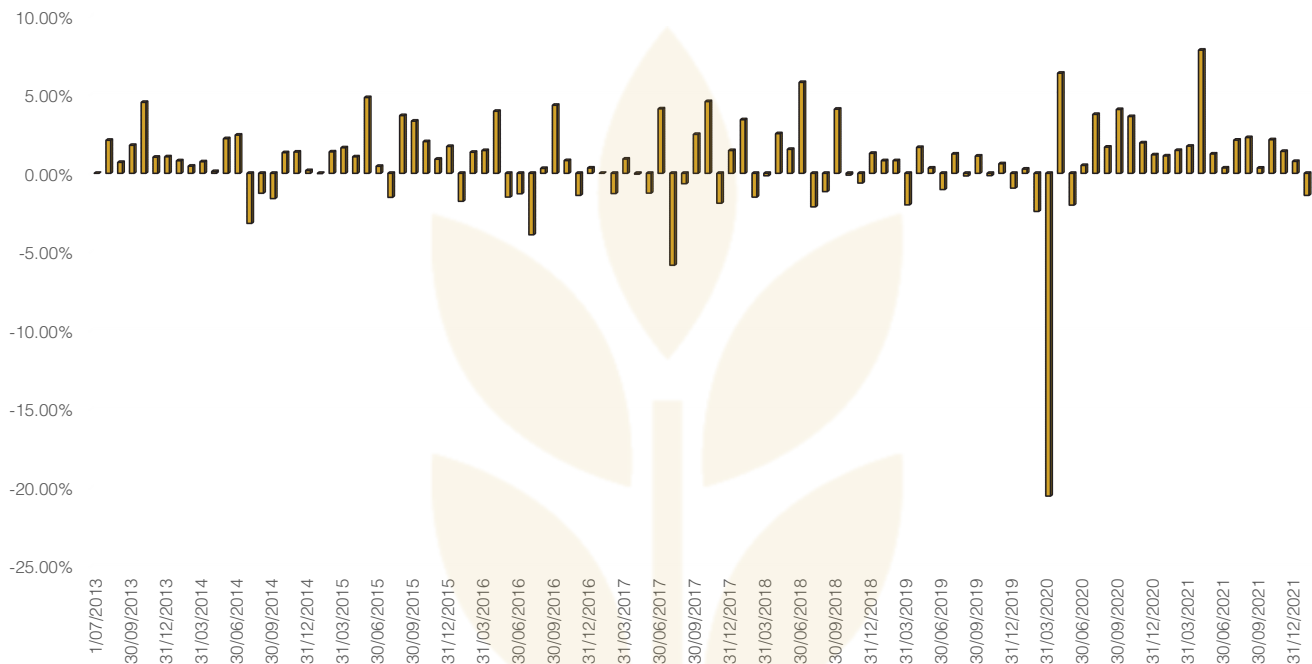
Kind Regards,

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
Responsible Entity	Equity Trustees Limited
Administrator	Mainstream Fund Services
Auditor	Ernst & Young
Custodian	J.P. Morgan Securities PLC

### Portfolio Analytics

Average Full Financial Year Return <sup>3</sup>	8.86%
Average Monthly Return (since inception)	0.72%
% Positive Months	68.93%
Best Positive Month	7.83%
Worst Negative Month	-20.52%
Maximum Drawdown	-22.44%
Annualised Standard Deviation	10.45%
Sortino Ratio	0.990
Sharpe Ratio	0.752
Correlation with ASX200 Accumulation Index	0.474
Beta	0.366
FY21 Distribution	0.00037

<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 - 30/06/2021) 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. 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.

## Target Market Determination

The Fund's Target Market Determination is available [here](#). A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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