

	NTA
Unit Price - 31/03/2022	1.2791

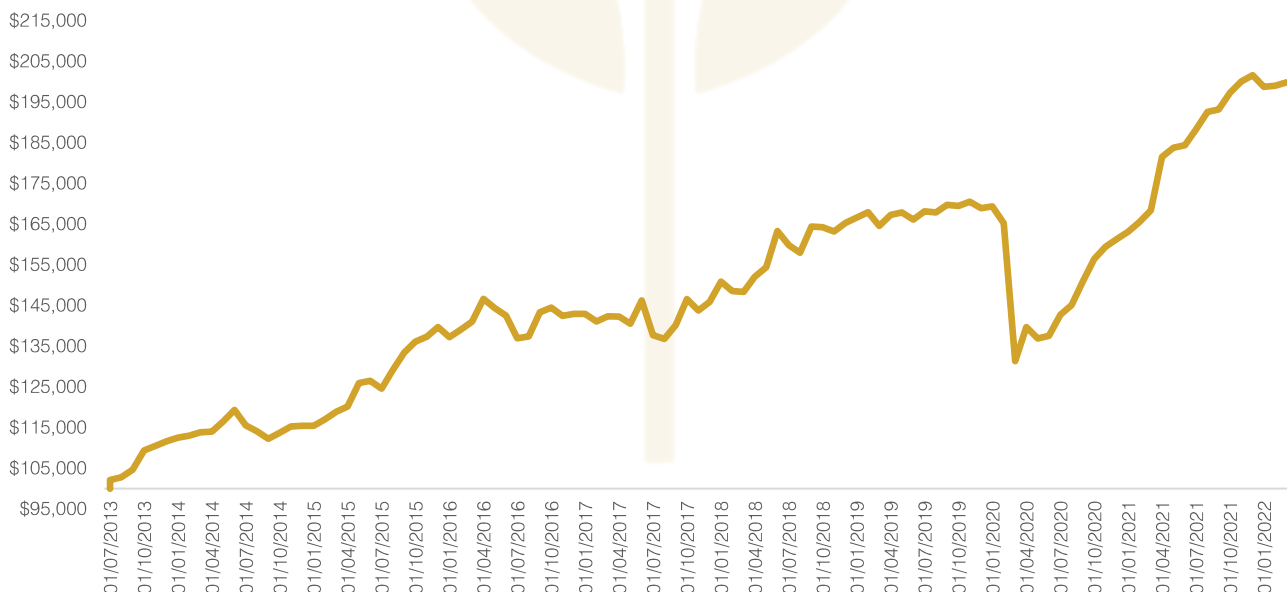
Investment Returns (net of fees)\*

	Harvest Lane Absolute Return Fund	RBA Cash Rate	Outperformance
Cumulative return (since inception 01/07/2013)	99.83%	12.73%	87.10%
Trailing 5 year return p.a.	7.02%	0.85%	6.17%
Trailing 3 year return p.a.	6.68%	0.41%	6.28%
Trailing 12 month return	18.70%	0.10%	18.60%
Trailing 3 month return	-0.87%	0.03%	-0.89%
Trailing 1 month return	0.42%	0.01%	0.42%

\* 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%	0.12%	0.42%				8.38%

Growth of \$100,000 Since Inception



## Manager Commentary

A steady flow of news in both existing transactions and new ones popping up on our radar steered the portfolio to a positive return for March. Deal flow does not seem to have slowed just yet, and with reporting season out of the way we expect clean sets of financials to maintain the momentum as we look ahead.

Irongate Group saw the Charter Hall/PGGM indicative offer at \$1.90 plus distributions move to a binding deal late in the month. It served as a notable example of asymmetric opportunities thrown up when broad macro trends override the deal specifics. Initially, there was quite a tight spread on the offer despite it being non-binding, no doubt reflecting the strong credibility of the bidders and the terms on which the deal was proposed to be effected. Charter Hall is aggressively scaling Funds Under Management and PGGM has a structural cost of capital advantage. These same favourable bidder characteristics went ignored in the first half of March as the shares traded down to a double-digit gross yield to terms. Times of market stress can often throw up rewarding opportunities.

We last discussed the WSA transaction in our January newsletter, with Andrew Forrest's Wyloo Investments adding a further 3% of the register to its holding, and notably at prices above IGO's \$3.36 offer. Wyloo's purchase certainly stoked expectations of a bidding war, however not long after IGO announced it had Wyloo's support for their offer. Concurrently (but coincidentally?), IGO and Wyloo announced an agreement to explore a downstream processing facility in a joint venture partnership, of which Wyloo might earn up to 30%.

In March, we saw investors come out publicly questioning Wyloo's favourable treatment in the context of a fair transaction – under the Takeovers Code, there can be no collateral benefits given to specific shareholders to induce a vote in favour (unless the same benefit is offered to all shareholders). IGO's response was to say that the JV has no value, and even if it did the transaction is structured as a Scheme of Arrangement and not a Takeover Offer. Takeovers Code did not apply, and it was a misunderstanding of Australian Corporations law.

Semantics aside, it may all prove a moot point. Western Areas closed the month 8% higher than IGO's offer in part on the back of an improved nickel pricing environment, and on the expectation that IGO will have to lift their offer regardless. Neither of which would suggest the deal would complete on its existing terms. Indeed, in the first week of April, the Independent Expert Report has come back unable to justify IGO's price and, at the time of writing, Western Areas is halted pending negotiations with IGO as to whether they can agree on a higher price. It is not assured IGO will lift and may instead choose to walk away, but the strategic opportunities the acquisition would open in terms of future value will, in our view, keep them in the hunt.

Back at the end of February, the US Masters Residential Property Fund (URF.ASX) flagged a potential sale of its portfolio of assets. It is no overstatement to suggest URF has had a rough time as a listed entity on the ASX, and a liquidity event such as this offered a chance to make good (if not whole) to investors.

It is a company we have been following for several years due to the steep discount to NTA seen in the ordinary units. A takeover or sale of the assets and subsequent cash distribution of proceeds have always been the most likely outcomes to eventuate. The capital structure of URF offered two entry points for the same transaction – preferred units repaid at face value with liquidation priority, or ordinary units trading at a deep discount to NTA with direct exposure to any upside to book value. The inability to quantify final proceeds attributable to the ordinary units meant the preferred shares were where we focused initially.

A month later, URF announced a binding sale transaction at an 11% discount to book value. The highly levered capital structure accentuated the discount, and after paying off debt and preference shares, URF unitholders were to be paid only \$0.22. A long way from book value at \$0.68 (pre tax) and well below the prior close of \$0.345.

On the face of it, the preference shares looked like the better option. It is, after all, how the capital structure is envisaged to work. However, a quirk in the ASX listing rules contains the vote on the sale to ordinary unitholders only. With substantially all of the benefits flowing away from the shareholder group required to approve the transaction, we view the sale as anything but a done deal at this point. Still, a portfolio sale is, in our view, a more desirable outcome than

Manager Commentary Continued

the status quo. We are optimistic the sale goes ahead, however the split of proceeds between the different classes of shareholders may change. We have an interest in both the preferred and ordinary units.

Finally, it is pleasing to see that bidding wars are yet to slow down. Hot on the heels of the Virtus Health Limited (VRT.ASX) auction, Uniti Group attracted the interest of several suitors. HRL Morrison and Co tabled a \$4.50 cash offer with heavy hitter Brookfield later joining the bidding consortium. Vocus Limited (taken private by Macquarie and Aware Super last year) has long been considered a natural rival bidder, but it was Macquarie's Real Assets division (MIRA) that popped up with a rival offer at \$5. Neither Vocus nor Aware Super were anywhere to be seen but Macquarie did have PSP Investments adding financial firepower to the bid.

HRL Morrison hit back with their own \$5 offer a few days later to put themselves back in front. Media reports have suggested that for now it is "pens down" for MIRA as it failed to get a look at the books.

If there is one thing we have learnt over the last eighteen months when it comes to counter bids: it's never over until it's over.

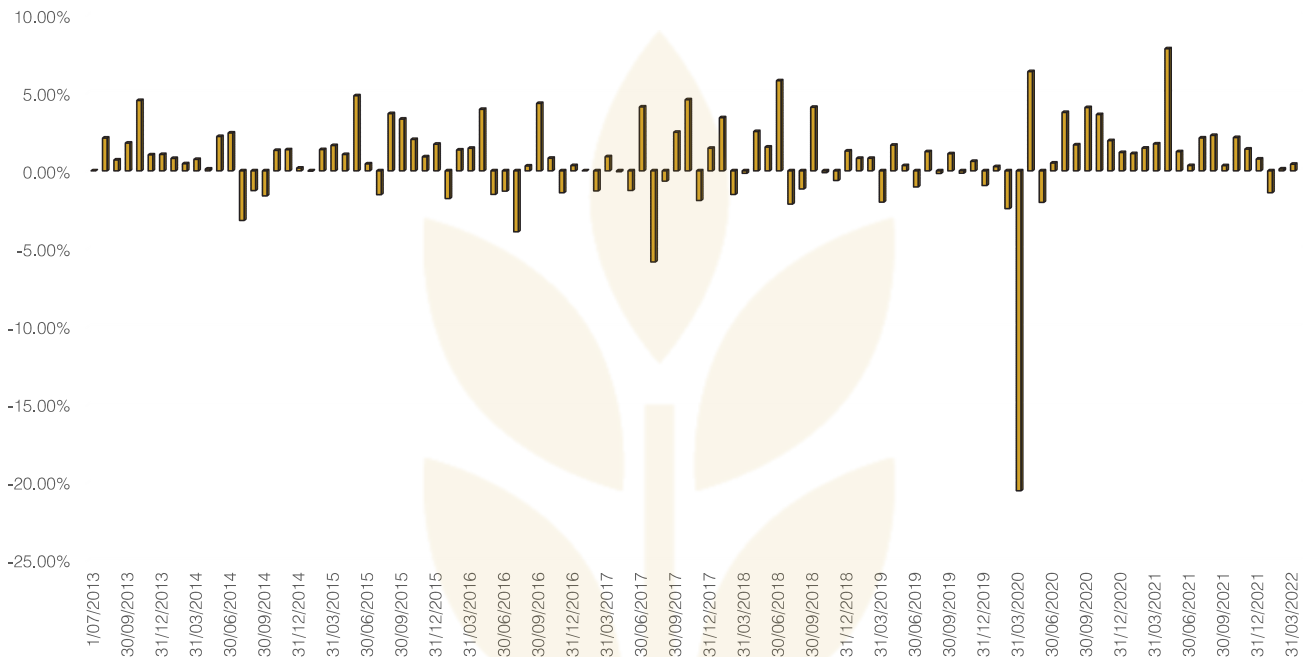
Kind Regards,

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)	0.71%
% Positive Months	69.52%
Best Positive Month	7.83%
Worst Negative Month	-20.52%
Maximum Drawdown	-22.44%
Annualised Standard Deviation	10.35%
Sortino Ratio	0.990
Sharpe Ratio	0.749
Correlation with ASX200 Accumulation Index	0.466
Beta	0.356
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.

## Disclaimer

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