



Level 8, 139 Macquarie Street
Sydney NSW 2000 Australia
Ph 02 8231 7027 | 0414 585 070
nigel@harnessam.com.au
www.harnessam.com.au

AFSL No 469551

INVESTMENT REPORT

March Quarter 2015

In this Issue

The Portfolio

Adjusting to a more bullish environment

The Macro Environment

How important is it?

Harness Asset Management
Small Companies Value Fund
Investment Performance
(net of fees) as at 31 March 2015.

Based on performance of founders units.

Period	Total Net Returns %
1 month	1.28
3 months	4.77
Since inception (Nov 2014)	11.9 pa

Historical performance is no guarantee of future performance

Dear Investor,

Welcome to the first Harness Asset Management Small Companies Value Fund Report. In future I expect to write twice a year to update you on the progress of the fund which, was established in mid November 2014. This will be on top of the monthly NAV statements that White Outsourcing will send to all unit holders. Please don't hesitate to contact me directly for any further information you may want regarding the fund.

As a value investor with a long-term perspective, I am conscious of the temptation to become fixated on short-term performance, which is human nature after all. However, our strategy is not designed to specifically produce short-term results. It is our objective to generate long-term absolute returns while minimising risk, preserving capital and paying attention to the substantial impact that tax can have on investment returns.

Harness was established on the core value of *integrity*, leading to a business structure that aligns the interests of fund manager and client. Our remuneration is based on performance and I am the cornerstone investor in the Fund (representing a large portion of my personal capital).

As you may know, we are focussed on three primary strategies:

1. Buying **solid growth companies** with great management at a sensible price. We expect such companies will provide sound, long-term returns, primarily from the earnings power of their business.
2. Exploiting **short term irrational market behaviour**. The market has regular bouts of irrational behaviour. It is our objective to take advantage of this phenomenon when we can identify attractive risk/return scenarios.
3. **Arbitrage**. This strategy is not as ubiquitous as it once was but occasionally takeovers or capital management strategies provide an opportunity to buy into very low risk scenarios with highly predictable outcomes.

The portfolio is currently holding about 32% of its assets in cash and the balance in the shares of 32 listed companies. We hold no derivatives at this time.

“We need to stop pretending that we can divine the future, and instead concentrate on understanding the present, and preparing for the unknown. There is a simple, although not easy alternative [to forecasting]... Buy when an asset is cheap, and sell when an asset gets expensive.... Valuation is the primary determinant of long-term returns, and the closest thing we have to a law of gravity in finance.” James Montier.

“In the 54 years (Charlie Munger and I) have worked together, we have never forgone an attractive purchase because of the macro or political environment, or the views of other people. In fact, these subjects never come up when we make decisions.” Warren Buffett.

The Portfolio

We own 32 stocks and this may change at any time. All of these are listed on the ASX except one, which is listed on the NSX and pays us a very attractive yield. They are all small cap industrials in a range of industries. For the sake of portfolio flexibility I'm reluctant to talk about our specific positions in print but if investors want to contact me directly we can discuss in more detail.

In conclusion, I am satisfied that the stocks we own at the prices we have paid represent attractive risk/reward scenarios. In recent times, we have found the market more challenging when trying to buy the quantity we want with more buyers than sellers often creating a “sellers market”. Such an environment rewards the more aggressive (in the short term) and can punish the more frugal amongst us. I hate paying retail for anything and I hate paying the offer when investing but it's becoming increasingly difficult to buy at the bid so we are adjusting to this more bullish environment when attractive opportunities present themselves.

The Macro Environment

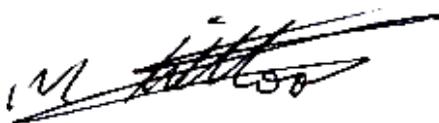
While the macro environment provides never ending fodder for the media and professional market commentators, we don't spend much time on it. The temptation to use up valuable time and mental energy pontificating the future of markets, interest rates, commodities and currencies, is real but we resist. When considering the outlook for the companies we invest in, we pay consideration to the current environment and where we sit in the broader cycle and any obvious trends such as demographics and technology but we resist getting to focussed on these macro issues.

Finding compelling investment opportunities from the bottom up generates our returns. As these opportunities become harder to find, we will move to cash and as these opportunities become plentiful we will be fully invested. This is designed to exploit the natural cycle of the market. Put simply: we aim to buy low and sell high or as Warren puts it, “be greedy when others are fearful and fearful when others are greedy”.

The market has moved up significantly since the dark days of 2008-09 when fear was rampant and bargains were plentiful. Unfortunately, that type of negativity is rare today and we are now in a yield hungry bull market. Having said that, we continue to find interesting and neglected companies in the small cap end of the Australian market trading on low earning's multiples with sound balance sheets and in many cases providing us with attractive dividend yields.

Thank you for your support. Don't hesitate to contact me for more information.

Good investing.
Nigel Littlewood



This report has been prepared by Harness Asset Management Pty Ltd (ABN 61158314982 AFSL 469551) and any views or commentary expressed herein are those of that party. This report contains general information only and has been prepared without taking into account your particular objectives, financial circumstances or needs. Before making any decision based on this report you should assess your own circumstances or consult a financial advisor. You should consider the Information memorandum before deciding to acquire units in this fund. The IM is available at www.harnessam.com.au or contact us at admin@harnessam.com.au.

To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this report. Neither Theta Asset Management nor Harness Asset Management guarantees the performance of the fund or the return of any investor's capital. Past performance is not an indication of future performance.