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"Success is a consequence and must not be an end." - Gustave Flaubert

Dear Investors,
Happy New Year.

The recent break gave me some welcome time to catch up on some financial (and non-financial) reading. I found Cadel Evans biography most interesting for anyone interested in elite sport and particularly, professional cycling.

In a late December edition of the ever-reliable (yet dwindling) AFR I came across an article about a research report called **"Sensation seeking, sports cars and hedge funds"**. This report was compiled by 4 academics from (surprisingly) 4 different universities. It looked at 58069 funds from 1990 to 2012 and collected a list of fund manager's motor vehicles (well done). It then looked at investment performance and behaviour and compared to car type. The findings were summarised by the authors as follows:
"We find that hedge fund managers who own powerful sports cars take on more investment risk. Conversely, managers who own practical but unexciting cars take on less investment risk. The incremental risk taking by performance car buyers does not translate to higher returns. Consequently they deliver lower Sharpe ratios than do car buyers who eschew performance. In addition, performance car owners are more likely to terminate their funds, engage in fraudulent behaviour, load up on non-index stocks, exhibit lower R-squareds with respect to systematic factors, and succumb to over confidence…."
I didn't read the whole 46 page report I must admit but its findings were no surprise to me. Part of our research approach involves walking around the car park of companies we visit and we ask CEOs and CFOs what they drive…we concede its only a piece of the jigsaw but believe it's an insight into personality type.
In case you are wondering, I drive a very solid, diesel powered and reliable 3yr old Ford Ranger, which is the epitomy of reliability, strength and utility. It can do everything I need….well except perhaps impress highflying Hedge Fund Managers.
If you are interested in reading all 46 pages here is a link:
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2882983

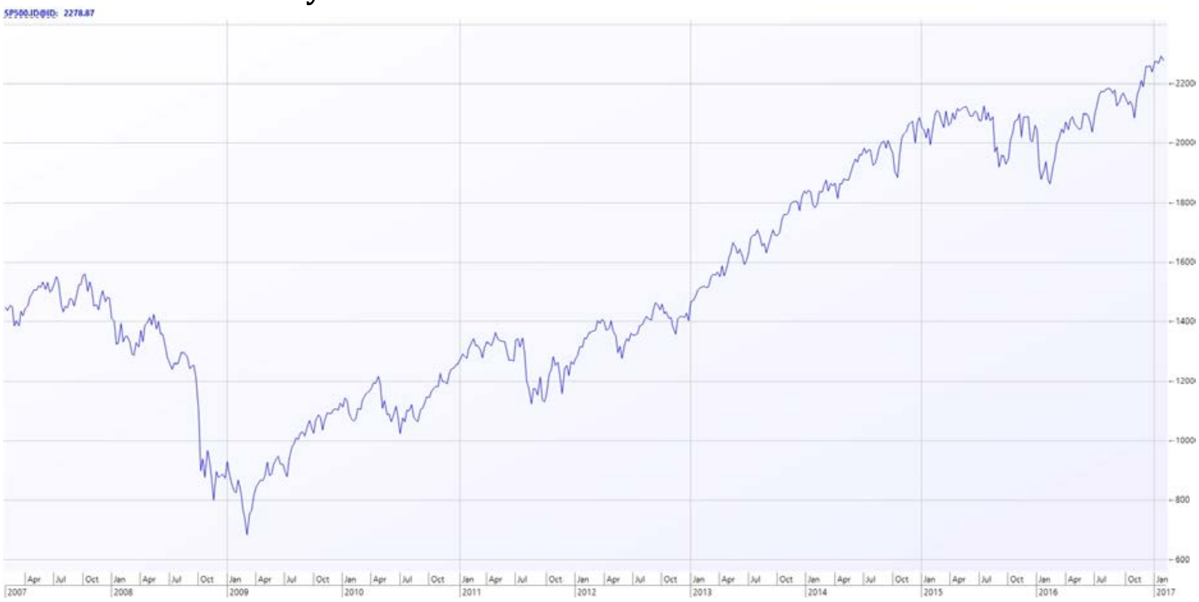
Performance of founder's units to 31 Dec 2016:

Period	***Fund**	**ASX 300 Accumulation**	**Outperformance**
1 Month %	**1.6%**	4.3%	-2.7%
3 Months %	**3.2%**	4.9%	-1.7%
6 Months %	**14.8%**	10.4%	4.4%
1 Year %	**15.7%**	11.8%	3.9%
Since inception (Nov 2014) p/a	**7.9%**	6.2%	1.7%

Fund Size $13m
*Assumes reinvestment of distributions.

The Era of Political Volatility.
Last year it was Brexit and the election of Donald Trump as US President that helped create market volatility. In 2017, who knows, but I expect more of the same (The Don is likely to provide plenty of surprises). While politics can and does create market shocks it's important to maintain a broader context. The fact remains that we are living in a bull market environment where a positive view is taken on many things that may have been interpreted quite differently in a period of market gloom. Political shocks tend to be temporary in the broader cycle.
We will be hoping for more volatility and ideally, some doom and gloom in order to bag some bargains this year. After all we aim to buy things cheap!

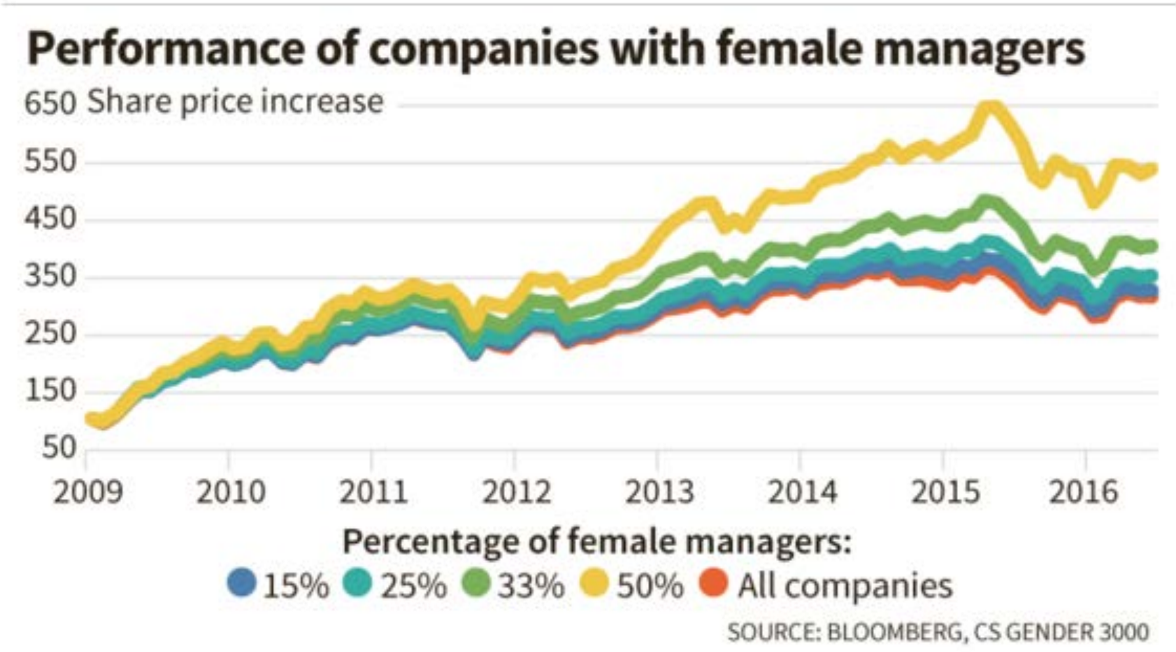
S&P 500 over last 10yrs.



The Hunt for Quality
Below is a chart sent to me by my brilliant wife (of course) outlining the relative out performance of companies run by women (provided by Bloomberg). I was only sent the chart and don't have the details of the supporting data but it reminds me of a research report once written about in the AFR. The report outlined the performance of managers that sat outside the average US based CEO…which was basically a 6foot 2, Ivy League Uni grad, male in his forties.
The report suggested that CEOs that failed to come from a similar background out-performed this average CEO. This makes total sense to me. If a CEO has managed to achieve this position having come from a completely different background and over-come institutionalised prejudice, they must be exceptional.
And so the search continues for exceptional managers to invest with.

For those who want more info the following links have some additional info.

1) https://www.bloomberg.com/news/articles/2015-09-11/women-focused-funds-are-making-money-and-creating-controversy
2) https://www.bloomberg.com/news/articles/2016-09-22/investors-weigh-whether-a-female-ceo-matters-to-market-returns



"***The Best thing about forecasts is that they will tell you what is not going to happen***" Unknown

It's the start of another year and we are bombarded again by pointless forecasts of every market variable. Most will be wrong and only the lucky will be right. We at HAM make judgements based on our assessed probability of potential outcomes. The idea of making exact and precise forecasts in markets seems like a way to ensure that you will be wrong most of the time…which we don't find at all useful.

Howard Marks summed it up very well in this short video:
www.oaktreecapital.com/insights/videos/howard-marks-recent-memo

Amazon-An appropriate name

Post Christmas, the media reported that Amazon, the massive online retailer, captured more than 30% of Xmas retail sales in the USA. Traditional bricks and mortar retailers have resisted for longer than many expected but now it's really starting to hurt them. We may indeed live to see the demise of traditional retailing in many sectors in our lifetime.

I typed Amazon into my Google search engine and the first ten pages (where I stopped) is almost without exception devoted to information about the retailer…seems the river isn't that big anymore.

As Jeff Bezos says, "Your margin is my opportunity" Amazon shareholders have been happy for Amazon to make little to no money in its relentless pursuit of market share. Amazon has announced its entry into Australia later this year. It's no secret whose margins are Amazon's opportunities.

I would be very cautious about investing in traditional retailers, the likes of Westfield will need to find fresh tenants to maintain that "centre of town" relevance that its Mega Malls provide. We live in interesting times.

At this point in time, we don't own a retail stock or retail property trust.

Renewables Cheaper Than Coal

Perhaps one of the stories of 2016 was the re-emergence of coal as a price rally caught many by surprise but in December, the World Economic Forum reported that Solar and Wind energy is now the same price or cheaper than new fossil fuel capacity in more

than 30 countries. Grid parity is being achieved in more and more countries and it is a trend, we would be wary of bucking.
The HAM fund has material exposure to this trend via our investment in Arowana (ASX:AWN) which owns a 60% interest in Nasdaq listed solar project developer, VivoPower (Nasdaq: VVPR). See image below of Vivo's North Carolina Solar project.
The following points provided by Dr. Peter Diamandis, innovation commentator.
Google is expected to power its entire global operation on renewables in 2017.
Solar is now cheaper than Coal in India
The UK is generating more energy from Solar than Coal.
Las Vegas is now 100% powered by renewables
The world is now 25% powered by renewables (as reported by REN21).
The entire country of Costa Rica ran on renewables for 76 days.

As with any trend, it wont be a straight line, but those resisting renewable energy will end up as extinct as Coal will be in the years to come. The problems with those who resist or deny change is that they guarantee their own demise. Change is a constant.

Vivo's North Carolina solar project.

We hope to have more to report in the coming 2 months as reporting season heats up.

Good investing,

Nigel Littlewood
1st Feb 2017

Note: Harness Asset Management Small Companies Value Fund (the Fund) own shares in the stocks mentioned above as at 30 Nov 2016. The above is in no way intended as financial advice, nor any recommendation by the manager of the fund.