Suite 1102 Level 11
37 Bligh St
Sydney.
NSW, 2000.
Australia
Ph 04145858070

AFSL: 469551

Dear Investors,

Performance

The portfolio thankfully navigated reporting season without too many land mines. **The fund was up 3% in February** (after fees) as stocks such as Dicker Data and FSA continue to grow from undemanding share price multiples. The small cap space is navigating a difficult period as capital rotates into large caps by investors presumably, pursuing short term-returns. The fund is holding about 10% of assets in cash or cash equivalents.

Performance of founder's units to 28 Feb 2017:

Period	*Fund	ASX 300 Accumulation	Outperformance
1 Month %	**3.24%**	2.18%	1.06%
3 Months %	**3.94%**	5.79%	-1.84%
6 Months %	**4.54%**	6.94%	-2.39%
1 Year %	**24.34%**	21.98%	2.36%
Since inception (Nov 2014) p/a	**8.48%**	6.44%	2.03%

Fund Size $13m

*Assumes reinvestment of distributions.

The HAMSCVF has some very attractive value holdings. These may not necessarily be glamorous, flavour-of-the-month stocks, but the prices we have paid, make them exciting prospects for 2017 and beyond. See more detail below on a few of our positions:

Fishing and investing - not that different…patience and tenacity required…great if one can learn at a young age.

Warren on the folly's of market timing.

"You want to spread the risk as far as the specific companies your'e in by owning a diversified group, and you diversify over time by buying this month, next month, the year after, the year after. But you are making a terrible mistake if you stay out of a game that

you think is going to be very good over time because you think you can pick a better time to enter" Warren Buffet

US Trip

I have just returned from a whirlwind US tour visiting the US operations of three of our investments and the Tesla car factory (no I'm not buying one), Facebook and others. This has provided further insight into tech and global trends which, in this day and age we must be cognisant of when allocating capital. Despite the jet lag, it is worthwhile.

Shriro

Most professional investors seem to consider an old industrial stock like Shriro (SHM), as a bit of a yawn. However, the p/e of 9x with a fully franked yield of over 8%, combined with a debt free balance sheet, good management and attractive brands has made this a classic HAM value play.
SHM has three distinct businesses: Firstly it is the Australian distributor of Casio products such as the popular G-Shock range of watches like the one below that I wear.

Casio is also well known for providing Australian schools with calculators and many consumers with pianos, cameras and the list goes on. The relationship with Casio goes back 30 years and while not contracted is very solid.

Shriro also has a kitchen range including its own brands like Neil Perry, Omega, Robin Hood and Everdure and distributes the Italian brand, Blanco in Australia through the likes of Bunnings
Finally SHM has a global growth having launched a new state of the art, fast lighting, charcoal burning, sexy looking barbecue with celebrity chef, Heston Blumenthol. (https://www.everdurebyheston.com) So far, sales in Australia have been strong but it's early days. Overseas sales are unlikely to impact this year's result but we expect to see some upside next year. The potential for this product is very large but we are paying nothing for it in the current price.
The company continues to invest in innovation in an attempt to remain at the cutting edge with its niche range.
The risk/reward remains attractive.

Arowana

We have written about AWN before but despite our confidence the shares remain unpopular. In time, the market will recognise value and we expect to see the shares move higher. AWN has now listed its solar power developer, VivoPower on the Nasdaq. We assess Net Asset Value to be well above the current price of 60c a share. It's cheap, well run and VivoPower is in one of the most attractive growth sectors in the world (renewable energy). Having said all of that, it has not published a clean set of accounts for a while and its last spin off (Intueri) was not successful for those who bought the business from Arowana. There is some reputational repair that needs to happen and the company needs to improve its investor relations, which it is working on.

We expect AWN to be a positive contributor to fund performance this year.

Gale Pacific
Gale is another pretty boring business that had under performed for years before a new management team came in and fixed things up.
The repair job is done and now we must wait and see if management can actually become good growth managers. GAP is a global business with sales in Australia, the Middle East and the USA. It manufacturers a range of shade cloth products from its China based factory and sells through major retailers such as Bunnings in Australia, along with Lowes and Home Depot in the USA while also selling direct into the commercial market. It's a tough industry but with undemanding multiples, good management and global growth potential it remains in our portfolio.
At the last result in February, it announced a buyback and dividend reflecting the board's view that the future is bright and the stock is cheap.
I visited the US manager in Orlando and got more insight into the growth opportunities for that market.
We remain of the view that risk/reward is on our side here.
One day every playground will be shaded by products such as Gale's below.

PMP
Many of you will have read previous articles we have written about old-school catalogue printer PMP. We originally bought in at 15c when we took the view it was priced for failure, which was unlikely.
Back in October PMP announced a merger with Hannon Print, one of the two other major catalogue printers. The market moved much higher only to be shocked in January by the ACCC announcing it had concerns. (*As if the likes of Woolworths and Coles need protection!*)
Last month, the ACCC announced it was not going to stand in the way of the merger and the stock has bounced albeit not back to its Oct highs.
We remain holders due to PMP's valuation. It's CHEAP we will keep a position in this for the time being.

Ellex- Our growth stock and outlier
As so often happens with higher multiple stocks, ELX released a slightly negative announcement to market in early Feb, which resulted in a sell off. The stock dropped about 30% in minutes. We were a little slow but managed to buy stock before the price partly recovered.
This remains a small portfolio position due to its high growth style multiple but it is a well-run company in an exciting space (Opthomology) providing world-leading products. While the earnings multiple make this one look a little pricey, the IP that sits inside this company adds significant value, which, isn't easily calculated.

We believe this business is worth substantially more to an acquirer and our visit to its San Francisco operation reinforced our confidence.

Below is one of Ellex's opthamology lasers

Credit Corp- Gone but not forgotten

We reluctantly sold the last of our Credit Corp Shares in Feb. While we like the business and have a lot of respect for management, the valuation got to a point where we find it hard to justify holding. There are some key risks particularly around market share in Australia that suggest there wasn't adequate margin for error when we sold.
Let's hope the stock has a nasty shock at some point and provides us with another opportunity to buy it. We ended up booking a profit of about 45% delivering us an attractive IRR (annualised return) of nearly 80%.

On broader trends:

There is no science to picking market turns but there are certain types of signals that we see in particular markets.
The article below about Mike Tyson was provided by Zero Hedge Newsletter and is a very boom-like signal. We remain cautious about what we consider a mature bull market but remain of the view that if we can identify attractive risk/reward opportunities we will take them. Cash is a valid alternative.

Not The Onion...

On the week when The Dow crossed above 21,000 amid multi-year highs in retail equity inflows, none other than Mike Tyson reminded us with a tweet of how these runs always end.

This is one of several Tyson trading adds..

Launched last year, Mike Tyson's retail brokerage firm Trade12.com allows up to 400x leverage on FX, commodities and futures on *stocks... and don't worry there are plenty of education tools.*

What could go wrong?
Well judging from the 'small print' on the website – plenty...

Trade12 is owned and operated** by UK Company Global Fin Services Limited (Reg. No: 09836699) operation address Tomimae 5, Tallinn 10145, **Estonia.

*Global Fin Services Limited is a subsidiary of Exo Capital Markets Limited (Reg. No: 68798) **located at Ajeltake Road, Trust Company Complex, MH 96960, Ajeltake Island – Majuro, Marshall Islands.***

*With Rep. office in Riga, Maskavas iela 224 – 69. Regulated by Eyar Financial Corp Limited (Company No: 014641), **Republic of Vanuatu.***

*Trade12 **do not solicit and accept clients from USA** and France.*
*So to summarize, **Tyson's brokerage is domicled in Estonia, regulated by Vanuatu, andnot available to Americans.***
Sounds legit?
*Did Mike Tyson just **ring the bell?***

Good investing,

Nigel Littlewood
13th Mar 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.