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Dear Investor,

I didn't write last month as I was travelling and had little to add to recent comments.

In the last two months, I have had two trips of significance, the first was an investment road trip from Sydney to Adelaide (thanks for driving Graeme), a rather blistering schedule over 4 days, conducted with a small number of other investors.

We visited a small but growing fish farm company in Griffith (which appears to be booming) called Murray Cod (ASX:MCA). It has an enthusiastic board and management team who are committed to growing this business and building a market for the iconic (and now farmed) fresh water Murray River Cod.

We tried it and I would be surprised if this fish couldn't make its way into the fish market. With the over fishing that is going on in the world's oceans, fish farming appears an inevitable solution to what will be an ongoing decrease in world (non-farmed) fish supplies. Having said that, the stock is too risky for us at this stage with the binary risk of disease ever present in this type of operation.

We then visited Murray River Organics, which, grows organic sultanas and supplies the major retailers and smaller grocery stores in Australia. This company has dropped significantly since listing last year and for various reasons, we can't make the risk/reward scenario compelling at this point.

The next visit was to Maggie Beer (50% owned by ASX listed POP). This is a brand (and person) most of you will be familiar with and the health compliance regime we witnessed (and participated in) was a reminder of how tough food production is in Australia. This is a very small company with a good brand in a competitive space and trying to maintain its content integrity in an environment where most consumers are looking at price rather than ingredients. One to watch perhaps.

In Adelaide we visited the prospective Cooper Energy (ASX:COE), which is outside of our usual investment universe but it, was very interesting and well worth the visit.

On the final (and early) morning we met with an interesting investment group called Duxton Asset management. They run numerous unlisted funds, which, invest, in agricultural products and (interestingly) a listed investment company, which owns water rights. I intend to learn more about this space.

Overall it was interesting and educational despite no short-term opportunities coming out of the trip. Clearly the ag space is generally strong and far from cyclical lows.

In July I travelled to Europe for my wife's birthday, which, was a bit of a once in a decade trip for our family. Greece was welcoming as it usually is with very friendly and (mostly) happy people. It was a shame to see so many empty buildings on the edge of Athens, the remnants of the pre GFC period still evident with empty building after empty building.

On the islands however, it seems like a different story with plenty of tourists and surprisingly, many, many Australians. Obviously the strong links between Greece and Australia now go back to the immigration waves of the mid 20th century. However, I couldn't help but wonder if Australia's sky-high property prices are making Australians feel wealthier and are continuing to feed our national love of travelling overseas. We had a lovely time sailing in the Ionian despite many others from around the world doing the same thing.

Onward to Austria we marched (but not in the Military sense thankfully) to walk in the mountains. The usual Germanic efficiency was present, the stunning Alps were wonderful and the only thing that I didn't expect was the enormous numbers of Muslims. Of course, I have seen the news about waves of immigration into Western Europe but it still surprised me to find so many in religious garments in a place I didn't expect it. Just like we have seen the gradual change in Australian demographics with decades of Asian immigration, the face of Europe has also changed. Austria maintains its charm and beauty and the richness of more multiculturalism will (I hope) only add to the positive future of the area.

As an investor, I'm not sure what to make of this but it must be a piece of the global jigsaw we endeavour to understand. With dropping birth rates in the developed world, it makes sense that population growth (in developed countries) will continue to be supported by immigration.

During my trip I read "The Airbnb Story" by Leigh Gallagher. It's a good read and I learnt a lot about Airbnb but also much about what drives success in a start up and how venture funds think about investing. Worth the read.
https://www.leighgallagher.com/the-airbnb-story/

Documentary watchers might also enjoy a film (found on Netflix) called **Betting On Zero** about Bill Ackman's billion dollar short trade on Herbalife. Quite the story. Internet commentary suggests the funding for the film has come from short sellers, which would not surprise so despite the (possible) bias in the message, it's no less interesting for market observers.

Global Markets

Trump may not be delivering what the optimists hoped for in the USA but equally he hasn't blown the world up either so the pessimists can relax perhaps a little. I remain a realist and will keep looking for compelling opportunities but it seems the biggest global market phenomenon remains the ETF boom.

The last great bull market ended at the end of 2007. 10 years on and now we are witnessing another great bull market. Capital flows into ETFs and other index style investing is still growing and driving large momentum style stocks higher. In the short term this hurts as we don't own any of these stocks that are being pursued with abandon but the value in our portfolio gives us confidence that our capital is relatively safe and our upside potential is solid.

There is no predicting when a market boom will end but end it will and the over-priced stocks will fall and the huge flows into ETFs will reverse and investor blood will be spilt. It will probably be one the of great market disasters.

KIP McGrath (KME)

The second smallest company we own part of, delivered another sound result with eps up 18% and another good dividend. Despite this and more growth expected this year, its small market cap seems to hold it back from a re-rate**. It is now trading on an historical P/E of about 11x and current year forecast P/E of under 8x and div yield of 6%.** That's pretty cheap for a good quality business with industry tailwinds, good management and a clean balance sheet.

Its market cap is only $16m and free float is pretty tight with top 4 shareholders owning over 60% of shares so its understandable that few investors own this one but we have a good position that pays us dividends every 6 months, delivers EPS growth and has upside potential from a market re-rate.

Like a few of our positions, patience is required!

ARDENT LEISURE

We added a new stock to the portfolio for the first time in a while.

AAD was front-page news last October when tragically, 4 people died on a ride at its Dreamworld theme park on the Gold Coast.

Before the event the shares had already been falling as the market was losing faith in management. Shares had dropped from highs in 2015 around $3.75 to $2.70. After the event the shares collapsed to around $1.50 and have since stabilised around $2.

The company requires a turnaround and new blood. We have avoided the situation until recently, as we couldn't see how this would happen. There is now a pathway for this rehabilitation process in an activist consortium spearheaded by Ariadne (run by the very experienced Gary Weiss). It has acquired a $100m shareholding to drive change. Gary has been doing turnarounds for decades and is a most capable person. We have taken the view that the odds favour him initiating positive change in both management and board.

This should lead to an improvement in the operations of the US business while Dreamworld will see a gradual improvement in attendance and receive some investment. Upside from here over the next few years could be as high as 100% and risk from here should be reasonably low due to the strength of underlying assets. Having said that if things continue to deteriorate, the shares will fall.

Time will tell but the risk/reward appears attractive for patient investors in this turnaround but it's a small, initial position (for us) at this time.

BISALLOY

Speaking of turnarounds, our small position in BIS has been doing well rallying 30% recently on upbeat earnings guidance. We visited the specialist steel mill in Wollongong and remain confident on the outlook. In the event the Australian submarine project actually gets going the added potential upside for BIS is significant. More to come in the year ahead we hope.

The Bissalloy plant.

SHRIRO

While our investment in SHM has been a profitable one, the extreme volatility we have experienced has reminded us to work harder and exploit that short-term volatility. The stock has bounced back 15% in the last few weeks due (it appears) to the confirmation that the current CEO is retiring. He has been a polarising figure in the market with investor opinions divided. He has sold stock unexpectedly twice, which rocked investor confidence both times.

The stock remains on abut 8% fully franked and seems too cheap to us.

We remain holders and believe the risk/reward supports further upside in the year ahead and of course, nice dividends.

FSA Group

FSA remains our largest position as outlined in our May update. There is no fresh fundamental news but we have received several bids for stock in the last month as other fund managers, have (it appears) tried to include FSA in their portfolios. I have seen no significant volume trade so they appear to have been unsuccessful so far.

We expect a full year result later this month which should confirm our view that growth remains strong and the year ahead will continue to deliver. Having had the share price go sideways for 6 months, we hope to see a higher trading range established this financial year.

Kangaroo Island Plantation

You may know that we took a sizeable position in this stock in a placement almost a year ago at the equivalent price of $2.50 a share. At the current price of $2.20 we are clearly under water and yet the company has made positive progress.

The market awaits the approval of the company's Smith Bay Wharf proposal, which will provide KPT the required infrastructure to start exporting wood chip product to Asia. We can't say when this might happen and accept that there is some risk that approval will not be granted but given the political and economic sense it makes (to us) we remain confident.

This may well be another of our positions that has not contributed to positive performance in the last financial year but is in a strong position to contribute this year.

We remain confident for the year ahead and wish all our investors the best of luck for FY2018.

Performance of founder's units to 31 July 2017:

Period	***Fund**	**ASX 300 Accumulation**	**Outperformance**
1 Month %	**-0.60%**	0.10%	-0.57%
3 Months %	**-5.20%**	-2.50%	-2.68%
6 Months %	**-2.47%**	3.89%	-6.36%
1 Year %	**6.80%**	7.00%	-0.20%
Since inception (Nov 2014) p/a	**4.94%**	6.17%	-1.34%

Fund Size $12m
*Assumes reinvestment of distributions.

Good investing,
Nigel Littlewood
10th July 2017

Note: Harness Asset Management Small Companies Value Fund (the Fund) own shares in the stocks mentioned above as at 31 may 2017. The above is in no way intended as financial advice, nor any recommendation by the manager of the fund.