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Dear Investor,

### **Getting Onto The Next Big Trend**

**We have pivoted the HAM portfolio to gain exposure to the strong trend in infrastructure spending.** The quote below came from a SME business survey conducted by the highly experienced and respected, Ross Cameron.

I have been of the view that 'infrastructure construction' (if I can call it that) is going wildfire. This is from a construction guy earlier today that I interviewed ...

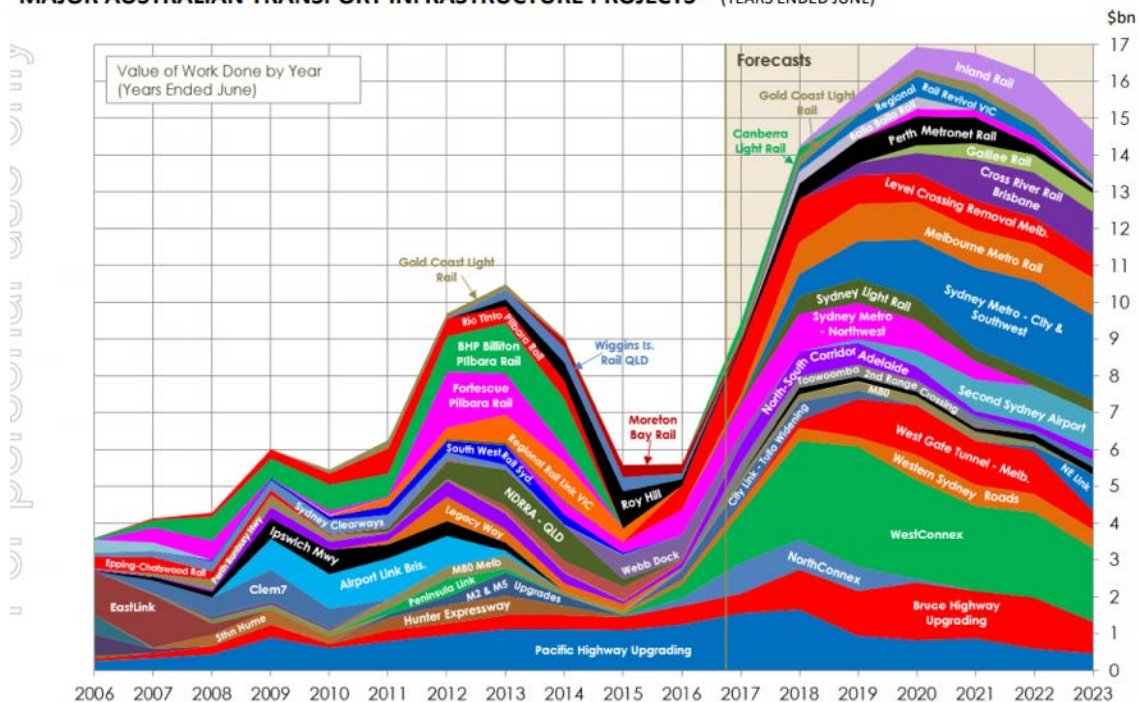
"Industry in Victoria is busy. NSW is out of control. We haven't even started the tunnel in Melbourne, we haven't even started the third runway at Tullamarine. Once they start you won't get a truck or excavator or even materials. Some of the quarries will close down for 6 months because they'll have a huge contract with Tullamarine and I won't even be able to buy materials from them. So I'll have to buy materials off another quarry who will

**Feedback from management during reporting season was consistently positive about the amount of work and how long it is expected to go on for.**

**We have established ownership positions in companies across areas covering: high strength steel, large tank construction and maintenance, wharf and bridge building, cladding, energy consulting and solar construction.** All our companies have sound balance sheets and are well run. We suspect that it is early in this cycle and we will do well over the next few years as "tendering work", "work in progress", "pipeline" all convert into strong profit growth and margin expansion.

The chart below by Cimic has been doing the rounds. It provides clarity on why the Spanish came to Australia several years ago and were very aggressive buying companies that would be beneficiaries of an explosion in infrastructure spend. Even if it is close to right, the companies we own part of, should do very well.

## MAJOR AUSTRALIAN TRANSPORT INFRASTRUCTURE PROJECTS – (YEARS ENDED JUNE)



Source: Macromonitor – March 2017

### Sleeping Beauty Comes To Life

Our investment in Kip McGrath (ASX:KME) has not been a positive contributor to performance since building it over the last couple of years. The stock owes us 40c a share and has traded below that price for the last 2 years despite making solid progress in its business. During September the stock moved up from its mid 30c trading range and pushed through to the high 40c range. We can't confirm (at this stage) what is going on but it is encouraging to be rewarded for our patience. As so often happens in small caps, often one receives a year's worth of performance in a matter of days. That is why we remain patient with seemingly dull stocks, if the underlying value is growing it's just a matter of time. KME contributed about 1% to the September performance based on its C25% rise.

*We invest in our time, the market responds in its time.*

*"That men do not learn very much from the lessons of history is the most important of all lessons that history has to teach"*

*Aldous Huxley*

### Kangaroo Island Plantation

As long-term readers will know, we own a part of KPT, which is a listed forestry company. It owns the vast majority of the plantation timber on Kangaroo Island off the coast of South Australia. Our objective (as an organisation) is to log this timber (in a sustainable fashion), turn it into chips and sell it to customers based in Asia. The trees

are mature and ready for harvesting (yet still growing), and the customers have made clear, their desire to buy our product. The contracting forestry company has agreed to harvest and process the timber for us and the only missing link is the SA Government approval to build a wharf which, large ships can pull in to. In recent weeks, KPT announced the finalisation of the purchase of the enormous floating barge that will sit at the end of the road that will be built out from the island.

While this commercialisation process is taking time, the pieces of the jigsaw continue to fall into place and the de-risking process continues step by step. We remain comfortable with our investment in KPT despite the (obvious) ongoing approval uncertainty.

### **The Ultimate Contrarian**

As a recipient of the name “Nigel”, I’m well aware of the impact such abuse can have on a young person. I was amused to see that last year not a single Nigel was born in England. This is surely the most contrarian of trades...back a fundie called Nigel!

<https://www.theguardian.com/commentisfree/2017/sep/21/nigel-baby-names-farage>

### **Commentary From Gurus**

A fellow investor sent the below links to me which includes a number of interviews with expert investors including Tom Russo who has a similar philosophy to Harness. Great for those who are market nuts like us: <https://soundcloud.com/latticework-podcast/>

<https://www.theinvestorspodcast.com/eric-cinnamond/>

### **Performance.**

An investor in the fund asked recently what our long term performance would be had we not been carrying such a large admin cost in the unit trust. Unfortunately, as a consequence of being a small fund (C\$13m of FUM) and having a blue chip structure, our costs are quite high and if we were more at the targeted size of C\$20m then our performance since inception would be over 10% p/a rather than 6.71% p/a. The sooner we can grow the fund to the targeted size and reduce the admin burden on all the investors, the better for us all.

**Please don’t hesitate to contact us to discuss any potential investment in the fund.**

### **Performance of founder’s units to 31 Sept 2017:**

<b>Period</b>	<b>*Fund</b>	<b>ASX 300 Accumulation</b>	<b>Outperformance</b>
<b>1 Month %</b>	<b>3.11%</b>	0.04%	3.08%
<b>3 Months %</b>	<b>5.87%</b>	0.80%	5.07%
<b>6 Months %</b>	<b>0.85%</b>	-0.78%	1.63%
<b>1 Year %</b>	<b>6.18%</b>	9.02%	-2.80%
<b>Since inception (Nov 2014) p/a *</b>	<b>6.71%</b>	6.13%	0.58%

Fund Size \$12m \*Assumes reinvestment of distributions.

## Little Care Packs- Help Please

As many of you probably already know, my daughter Poppy, inspired our family to establish a movement designed to help homeless people and to engage as many kids as possible in helping others.

More about Little care packs here. <https://www.facebook.com/littlecarepacks/>

Below is the link to Little Care Packs GO FUND ME page – the kids are raising money to pay for drawstring back packs that we will fill up with essentials for those in need. If anyone can help, we would appreciate it. Any contribution will help.

<https://www.gofundme.com/little-care-packs-kids-helping>

Good investing,  
Nigel Littlewood  
6<sup>th</sup> Oct 2017

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

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