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Dear Investor,

Quote of the year

Nick Leeson: "Nikkei 225 at highest level today since 1996 - probably not far off my break-even point. If only they'd waited!!"

USA Trip

In October, Nigel travelled to the USA for several company meetings.

In California we visited iTrac, which, is a division of ophthalmic laser developer, **Ellex (ASX: ELX)**. **Our confidence was reinforced. Momentum appears to be continuing**, the manufacturing capacity has doubled since our last visit in April and the sales team has been significantly expanded and the company is taking more office space. The biggest question appears to be: "how fast do we want to grow and how much short-term profitability are we prepared to sacrifice for revenue growth?" Well the company went some way to answering the question by raising more capital last week in order to support growth. We expect future results will show continuing strong growth for iTrac.

Ellex's 2RT Macular degeneration treatment laser has been undergoing trials over the last 3 years. **The first of those trials will be completed this month** with the final stages completing next April. We remain optimistic that 2RT has the potential to be another growth division for Ellex but we will probably have to wait till next financial year to see sales and the final results of the clinical trial.

In Salt Lake City we visited the US division of Sydney based **Credit Corp (ASX:CCP).** Salt Lake is a beautiful and very liveable city despite being in middle of the desert.

Recent history of the PDL (purchased debt ledger) sector in the US is interesting. Many participants have been pushed out of the industry over the last few years due to a lack of supply and high prices. This business is quite simple; it involves buying portfolios of non-performing loans (from lenders such as banks) at a certain *cents-in-the-dollar* price and then extracting enough funds from those debtors to make the investment worthwhile. If you pay too much, your returns are not adequate to provide satisfactory returns and if you buy nothing at all, your fixed costs kill your business. It is a simple business that is not simple to run well.

CCP has a very good management team and they have invested for several years building a US based business that (to date) has been unprofitable. This business is now growing strongly as prices have dropped and supply has increased. The office was packed and local management is looking for new premises. **We came away confidant that the US division has the potential to take CCP to a whole new scale.** Its Australian PDL business maintains a market leading position and so has limited growth. However its consumer-lending product continues to grow strongly providing another growth arm. The US division has the potential to be as big as the Australian business in years to come. Risk continues to come from execution and cycle risk.

The risk/reward scenario remains attractive for us to hold the stock.

Our very general economic impression (in the areas we visited) was that they remain healthy and robust and consumers remain pretty confident. We catch public transport around and talk to as many people as we can when travelling. Wages growth would be a welcome factor and getting staff was mentioned as a challenge by CCP.

The waitresses in Salt Lake City earn $2.13 per hour so next time you are in the USA, don't forget to tip (properly); the poorly paid staff live on their tips. It's not like Australia.

It never ceases to amaze me how tough the working poor do it in the USA. Despite working hard many Americans struggle to keep a roof over their heads. **The elite do very well from the capitalist system but they should also remember to take the masses with them because if the poor get too pissed off they may just use those guns (they all own) to cause havoc!** The American dream may not always suffice as a substitute for poor wages.

Performance.

October was a strong month for Australian equities with both small and large cap stocks moving higher. While our fund was up again we lagged the market with major momentum stocks really powering on…some of these are likely to cause pain (at some point) for investors, as valuations are getting ridiculous! Some profit taking has increased our cash position to around 7%.

Despite lagging a little in October, our conservative value approach continues to deliver sound returns while prioritising capital preservation.

An investor in the fund asked recently what our long-term performance would be if 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. If we were more at the targeted size of C$20m then our performance since inception would be over 10% p/a rather than 7.26% 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 Oct 2017:

Period	*Fund	ASX 300 Accumulation	Outperformance
1 Month %	**2.04%**	4.02%	-1.98%
3 Months %	**8.63%**	4.83%	3.79%
6 Months %	**2.98%**	2.2%	0.79%
1 Year %	**5.93%**	15.92%	-9.98%
Since inception (Nov 2014) p/a *	**7.26%**	7.54%	-0.28%

Fund Size $13m *Assumes reinvestment of distributions.

Happy 3rd Birthday HAM

3 years ago I launched the Harness Asset Management Value Fund with the help and support of friends such as: Chris Cuffe, Matthew Kidman, Geoff Wilson, Paul Hinds, Kristian Dibble and Peter Guy. I would like to extend my thanks again to everyone that has provided invaluable support and advice during this journey and of course to those who invested in the fund. Despite many years in the industry this is my first time being a Portfolio Manager….*Welcome to the A League*.

After 3 years, I feel I have completed a valuable apprenticeship. While returns have been acceptable, **I am determined to do better.** The mistakes made in the first few years have been valuable lessons and will not be repeated. Having said that, the occasional loss is inevitable.

I am determined to improve our returns and drive Funds Under management (FUM) to a level that reduces the administration burden upon investors without compromising investment performance.

We are the custodian of friends and family's savings and don't take that responsibility lightly. **We remain determined to grow that capital by investing in attractively priced opportunities that provide solid upside potential with limited risk.** We will hold cash at times when we cannot find opportunities and will underperform markets at times while focussing on delivering long-term out performance.

Little Care Packs- Thankyou

Our family movement exceeded its targeted goal thanks to many special people. Thank you to all those who helped out, every cent go toward our efforts to help the homeless. Video to come.

Good investing,
Nigel Littlewood
5th Nov 2017

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

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