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Dear Investor.

Site Visits

We visited a small company in Newcastle (just north of Sydney) recently that builds bridges and One of the extraordinary impacts of the ultra low interest rate environment has been the inflation in hard and irreplaceable assets such as art. Last month it was reported that Leonardo's DaVinci's portrait of Christ sold for a staggering US\$450m.

manufacturers the huge concrete beams that are used for building bridges and tunnels.

They are flat out (100% capacity utilization) and customers don't care too much about price but are focused on "on time delivery".

The labour market has tightened up with locals being drawn to work in Sydney on projects like the WestConnex tunnel. Management said that despite 12% hikes in steel prices and gas and electricity prices moving higher, margins are sound as demand is outstripping industry supply at this time.

The local manager is confident that demand is going to remain robust for 8-10 years as an extensive bridge replacement cycle is just starting across regional NSW. There remains plenty of work from tunnels and rail in Sydney and roads and rail more broadly in NSW.

As we have said before, we have built an exposure to the infrastructure and mining maintenance cycle via several stocks. We look forward to next March when the first really solid results should be seen in the half year results.

Who is the patsy?

There is a market saying generally attributed to Warren buffet, "if you sit down at a poker game and you don't know who the patsy is, then you are the patsy". I remind myself and others of this saying often and suggest that it is most applicable to investing in the stock market.

Bitcoin has risen a reported 850% in the last year or so and to me has become the tulip bulb boom of our time. While I have read plenty of commentary about Bitcoin and its supposed legitimacy as a virtual online currency, whatever legitimacy may exist at the core of Bitcoin has been completely overwhelmed by the speculative nature of the price setting process. Bitcoin has become a true bubble with the classic ingredients. It has supported derivatives that are being traded in ever increasing volumes creating very high counter party risk and the CME has even announced the launching of a futures contract over Bitcoin. There are adds in traditional media promoting crypto currency funds and even articles about grandmas getting rich.



Bloomberg chart

The irony in all this is that Bitcoin began life as an alternative currency and its popularity and subsequent price volatility has completely undermined any legitimate claims it may have had to being a viable alternative currency. The two most important traits a currency requires to operate effectively is: value stability and broad acceptance or trust as a medium of exchange. Bitcoin at this point is a failure on both counts.

Bitcoin is now a trading token for speculators and nothing more. Will it acquire legitimacy and be a broadly accepted currency one day? I don't know, but let's not kid ourselves, the only reason to buy Bitcoin today is on the basis that someone will pay more for it tomorrow....in other words to play the greater fool theory. There is no way to calculate a rational valuation for Bitcoin and so no rational decision can be made to acquire Bitcoin for any reason but to exploit the current speculative-fuelled momentum. When the tide runs out it will be all too obvious who has been swimming naked.

Sometimes it hurts sitting on the sidelines of a boom like this but the ultimate and inevitable outcome justifies financial conservatism and discipline **if capital preservation is a priority.** Buying something with no measurable underlying value is fraught with danger. **This bubble will burst.**

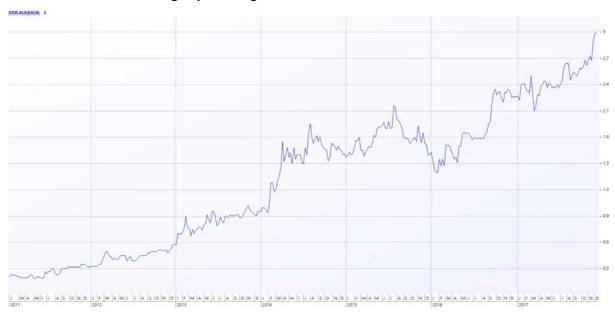
Backing great operators

In small cap investing, the key talent is more important than the business...with apologies to Warren Buffett, I find myself in disagreement with the great one. Bad management can wreck a good business and good management can make something of a poor situation....in small caps. We wouldn't share the same view with

large companies...indeed evidenced by certain companies in Australia despite decades of poor management and terrible capital allocation, some large businesses seem unbreakable.

A small number of our investments were a matter of backing great operators. Dicker Data for example is not a great business but it is very well run with a visionary founder as Chairman.





A recent article about David Dicker caught my eye and for those interested, the link below gives an insight into this driven visionary.

http://www.autocar.co.nz/car-reviews-app/david-dicker-an-extraordinary-man-an-extraordinary-vision

Portfolio

We have been taking some profits in positions that have run up and our cash position is now around 8%. Post month end, one of our core positions, Kangaroo Island Plantations (KPT) has raised more money to provide a significant balance sheet buffer against unexpected delays or cost blow outs along the journey towards becoming a full commercial and sustainable woodchip producing business. We increased our position marginally.

We have built a small position in online retailer, Redbubble (RBL) after passing on it a year ago at IPO. It is far more attractive now as revenue has increased substantially and the shares are well down on the listing price. Unfortunately, we have not been the only ones trying to buy the stock and it has run away from us.

Redbubble provides an online platform where independent artists submit designs that can be purchased on a range of products like T-shirts, mobile phone covers,

pillows and doona covers. We have been using the service for Xmas gifts in our office and found it very good.

The company gets paid before having to make and deliver the products so its working capital situation is attractive and can easily fund rapid growth. www.redbubble.com

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

Performance of founder's units to 30 Nov 2017:

Period	*Fund	ASX 300 Accumulation	Outperformance
1 Month	1.1%	1.7%	-0.6%
3 Months %	6.3%	5.8%	0.5%
6 Months %	6.1%	6.8%	-0.7%
1 Year %	7.8%	14.7%	-6.8%
Since inception (Nov 2014) p/a *	7.5%	8.0%	-0.5%

Fund Size \$13m *Assumes reinvestment of distributions.

Good investing, Nigel Littlewood 6th Nov 2017

Note: Harness Asset Management Small Companies Value Fund (the Fund) own shares in the stocks mentioned above as at 30 Nov 2017. The above is in no way intended as financial advice, nor any recommendation by the manager of the fund.

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