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Dear Investor,

Uranium

Most of you will be aware of the fairly detailed research we conducted into the Uranium investment opportunity. Simply put, we see a turning point in the market where supply is contracting after a prolonged period of constrained consumption, which is also going to reverse and start increasing.

When we did our research we felt that it was almost certain that after a C85% fall in Uranium spot prices, it will go up but timing was somewhat unpredictable. Since our initial modest investment in the space, things are heating up with spot prices moving up and equity prices doing the same. The industry Blue Chip, Cameco is up 24% in the last two months.

Our Uranium exposure includes 4 Australian listed companies and at current prices represents a portfolio weighting of over 3%. We have seen a modest profit so far but this is an investment that will require patience and discipline, we are not here to make a modest profit, we see huge potential upside.

Cameco 1yr chart



UNITED OVERSEAS (ASX:UOS)

Last month, we attended the Annual General Meeting of UOS, one of our larger investments in order to inspect some of their projects and reconnect with management.

The image below is of one of the many UOS developments being built in KL. Sales are progressing well with UOS focussing on the mid price range level in most projects.



Many of you will have read previous articles about UOS and its excellent long-term track record.

UOS has been listed in Australia for about 30 years and has compounded its equity at about 20% p/a over that time, not only that but it trades quite cheaply relative to its book value. UOS while listed in Australia, is essentially a Kuala Lumpur based property developer.

Like all companies UOS has had strong years and flat ones but the long-term wealth generation is undeniable. The outlook remains robust. There is plenty of unrealised value sitting on the balance sheet, which will increase balance sheet wealth when assets are eventually sold.

The recent Malaysian election has seen a change in Federal Government control for the first time in about 30 years. People we spoke to were excited and optimistic about the outlook and with its young, well educated, population we remain comfortable investors in Malaysia's future.

“...and crypto currencies will come to a bad end” Warren Buffett (2018)

MARKETS

The commentary below by John Hussman, sums up our general concern of the stretched valuations for many growing and perceived, high quality stocks. The trend towards momentum investing is disturbing with more and more capital flowing in this direction as the only logical way to invest.

We remain focussed on buying assets at prices that we believe provide upside due to the value of the underlying asset not based on the market pushing prices based on sentiment alone. The over valuation in many markets is going to result in some real market blood shed at some point so while we remain invested, having underlying value in our portfolio remains paramount. We concede that recent performance has not been great but over time value will reward us for our patience as our assets move toward fair value.

“The chart below shows our own estimate of the prospective 12-year total return of the S&P 500, over and above the returns available on Treasury bonds over the same horizon. The red line shows the actual, realized risk premium of the S&P 500 over the subsequent 12-year period. From present starting valuations, the S&P 500 is likely to materially underperform even low-yielding Treasury bonds in the years ahead”. John P Hussman, PH.D.



Care of the Financial Review. Is this the future of Compliance?

Performance

We had a horrible month in terms of performance. The following stocks were the primary drivers:

- 1) FSA Group (FSA): For no apparent (fundamental) reason FSA has fallen quite heavily over the last few months...The Banking Royal Commission? We have seen P/E contraction from C12x to under 10x and under 9x for 2019. This seems unreasonably cheap for this quality, well run, small financial that is delivering sound growth with a respectable dividend yield. It cost the fund over 2.2% during the month. It did make a small \$38,000 settlement with ASIC in regards to online advertising but this has been settled rather than contested and we don't consider this material in the scheme of things. FSA remains an attractive investment that we expect to rebound as annual results are delivered and another growth year is priced in for 2019. The p/e contraction is difficult to justify but it has really hurt our fund as it has cost us over 4% this calendar year.
- 2) Kangaroo Plantation (KPT). KPT continues to drift costing us 0.5% in the month as it awaits approval for its significant wharf project on Kangaroo Island. In a market that has been tough on many value style small caps, this one has been friendless but the key risk/reward scenario remains unchanged. The trees keep growing every day adding more balance sheet value.
- 3) Shriro (SHM) cost us 1% for the month as it fell heavily on an earnings downgrade for the current half. This has not changed our investment thesis despite providing a short-term setback. The stock has subsequently staged a modest recovery.
- 4) Saunders (SND) cost us 0.5% also due to a downgrade in the current half. This was unexpected and we are revaluating our position.
- 5) Gale Pacific (GAP), our shade cloth manufacturer, has continued to drift and cost us 0.5% in the month. It's global growth strategy remains valid and we expect to see higher prices in the year ahead.
- 6) Other portfolio positions such as AWN, BIS, SMP and CSV all drifted with no fundamental changes to their situations.

All in all, a tough few months but as we move into reporting season we would expect the market to normalise and the value in our portfolio start to be recognised.

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

Performance of founder's units to 30 Apr 2018 (net of fees):

Period	*Fund	ASX 300 Accumulation	Outperformance
1 Month %	-3.15%	1.19%	-4.34%
3 Months %	-5.45%	1.1%	-6.55%
6 Months %	-5.40%	2.93%	-8.33%
1 Year %	0.37%	9.99%	-9.62%
Since inception (Nov 2014) p/a *	4.76%	7.91%	-3.15%

Fund Size \$13m *Assumes reinvestment of distributions. (No tax considered in providing figures)

GOOGLE MAKING STRIDES WITH AI

The link below provides a demonstration of the next wave of technology coming from Google that you may find interesting. The world continues to change...

<https://www.youtube.com/watch?v=D5VN56jQMWM>

Words from the Elephant

Last month, I failed to attach the Jeff Bezos letter. I have rectified that this month.

Good investing,
Nigel Littlewood
7th June 2018

Note: Harness Asset Management Small Companies Value Fund (the Fund) own shares in the stocks mentioned above as at 28 Feb 2017. The above is in no way intended as financial advice, nor any recommendation by the manager of the fund.

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