DATT CAPITAL

August 2018

To our valued investors and potential investors,

Thank you for entrusting your capital and co-investing with us.

We have had a successful month of August, achieving an estimated return of 3.26% (estimated net return inc. management fees & performance accrual of 2.6%)for the month. The majority of the return was from our equity holding in Afterpay. We expect returns to be more evenly spread across asset classes as we deploy our capital.

We have had a number of discussions with investors and feel that our approach is not yet well understood. We felt it prudent to provide some commentary around investment strategy generally.

In our view, investors can take upon 4 main risks to earn returns.

These are:

1. Credit Risk - taken when lending to other parties ie. debt, fixed interest investments etc.
2. Equity Risk - taken when investing in listed or unlisted equities or shares
3. Liquidity Risk - taken upon when investing in illiquid assets like Real estate, Private Equity etc.
4. Leverage - taken when borrowing money from a lender to invest in an asset.

An investment, may encompass multiple risks for example when purchasing real estate you would typically take upon liquidity risk and leverage if you use a loan for the acquisition.

The point is that if you are taking upon risk or multiple risks, <u>you should be getting paid an excess return for it.</u> This is one of the most fundamental principles that is often forgotten when investing.

Our investment mandate allows us to take upon the first 3 risks highlighted, and being able to invest in opportunities across the capital structure is a large advantage for us as we select investments that provide us with the most excess return given the risk.

Investment review

<u>Commercial real estate debt</u>

This month we have evaluated 5 separate real estate debt opportunities, and selected one to invest in.

The investment is into a 2 year, first mortgage facility over a property situated in Inner Melbourne. We will achieve a fixed return of 11% per annum over the first 9 months, with a step up to 16% per annum should the facility extend past 9 months. The facility is also secured by security over the borrower's equity in another development currently under construction, as well as being full-recourse to the borrower's substantial personal assets. The initial Loan-to-Security ratio (LSR) is circa 12.1%, with a maximum LSR allowable of 20%. Interest for the facility will be received monthly in advance.

We continue to evaluate opportunities within the space.

Fixed interest
We have found no attractive opportunities but note that Seven Group have made an opportunistic redemption offer for their listed hybrid which attracts a high margin over BBSW. We expect that older style instruments will continue to be redeemed or refinanced as interest rates are still very low historically.

Derivatives
We are working on outsourcing the software development to accurately screen,backtest and implement our option strategies. Conceptually, we have a sound idea of how we will be implementing these strategies as part of our asset allocation and defined what attributes they will contribute to our overall portfolio. Broadly, the strategies will benefit from any equity market volatility whilst being able to be implemented at minimal cost; so providing a good hedge for our listed equity investments.

Equities
Our investment in Afterpay has performed well this month. An announcement was made regarding the expansion of the product's availability to the UK which is the 3rd largest retail market in the world. We expect Afterpay's growth to continue over the medium term, and we think they can capture the US market in a similar way to how they've become ubiquitous in the Australian market.

We have made a suggestion for a potential expansion to their core product that has been well received by Afterpay's management. We are not privy to whether the idea will be pursued, but it has the potential to massively increase their addressable market by a factor of 4-8 times from our analysis, while being able to be deployed utilizing the existing merchant agreements and infrastructure; so benefiting from massive scalability at low incremental cost.

We consider our Afterpay investment to be a permanent holding in the Fund's portfolio.

In September we intend on taking a position in Argonaut Resources, a junior mineral explorer. The company's key assets are the Lumwana West cobalt-copper deposit situated in Zambia and the 30% of the Torrens copper prospect situated in South Australia, along with 100% of the surrounding tenements.

The near term catalyst for us is the imminent drilling of the Torrens Prospect, which within the same geological domain, structural corridor and possesses many of the same attributes of the Giant Olympic Dam deposit which is situated approximately 80 kms to the west of the prospect.

Olympic Dam is the world's 3rd largest copper deposit, 3rd largest gold deposit and the largest uranium deposit; with a 500 year anticipated mine life; estimated contained metal value is over $1 trillion and is owned by BHP.

If Argonaut obtain positive results from their drill program, we anticipate that it would be a takeover target for a larger miner, most likely OZ Minerals or Rio Tinto. Globally there is a shortage of tier 1 mineral resources. In our experience, we have seen a number of junior miners who discover tier 1 resources, typically taken over within a 1-2 years of the initial discovery. With a current market cap of around $40 million, we consider Argonaut to have considerable upside in the case of a discovery.

We welcome feedback from our Investors with any questions, suggestions, comments or investment ideas.