April 2019 – Datt Capital Absolute Return Fund

To our valued investors,

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

For April the Fund provided a net return of -3.64% for the month.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
FY19		2.6%	-1.2%	-4.8%	3.53%	-2.07%	6.97%	1.66%	0.76%	-3.64%			3.30%

Approximate Asset Allocation for the Fund at April month end was:
CRE debt - 61%
Equities - 15%
Cash - 20%
Derivatives – 4%* (liquidation value)

Investment review
Commercial real estate debt
This month we evaluated 3 new opportunities and invested in 1 new opportunity.

We have made an investment in a special situation; a syndicated secured senior debt facility secured against development rights secured on a large mixed use project located in Sydney's CBD (Project F) with a landowner. The facility is for a duration of 12 months and will provide a return of 12% per annum. The facility enjoys an LVR ratio of 45% against the hard security provided, which includes a 1st mortgage over a commercial property owned by the borrower; as well as a contractual obligation from the landowner to repay the developer (secured by it's own 1st mortgage).

The project sponsors are a foreign developer who are providing personal and corporate guarantees, with total assets being a minimum of 8 times the facility amount including interest. The purpose of the facility is to assist with project development costs and partial repatriation of the borrower's equity.

The project benefits from equity having been contributed by the borrower to date of more than 2 times the facility amount (post equity repatriation); as well as being significantly advanced in the planning application process. Under the joint venture agreement with the landowner, development approval must be achieved by January 2022; if this is not achieved, then the landowner is contractually obligated to pay the borrower an amount equal to 1.25 times the facility amount. This obligation is secured by a 1st mortgage against the landowner's property in favour of the borrower. In addition, should the planning application be approved we expect a material uplift in the value of the borrower's development rights which would be worth a minimum of 6 times the facility amount.

Interest is paid quarterly in advance on the facility. This deal will settle in mid May.

Our current real estate debt exposures are:

Name	Location	Type	Maturity	Max LVR/LSR	Interest receivable on investment (per annum)
Project A -Mixed use/Residential infill	Melbourne, Inner East	1st Mortgage Land Facility	August 2020	20%	11% with step up to 16% after 9 months
Project B - Industrial	Melbourne, Inner West	1st Mortgage Land Facility	June 2019	60%	11%
Project C - Residential infill	Melbourne, Inner South	1st Mortgage Land Facility	July 2019	65%	11%
Project E - Residential infill	Melbourne, Inner West	Special situation	February 2020	77%	17.50%
Project F - mixed use*	Sydney, CBD	Special situation	April 2020	45%	12%

*not yet settled

Fixed interest

We continue to monitor a number of fixed income instruments in the distressed and special situation space.

Derivatives

We maintained long volatility positions over the index, with a short bias during the month. This affected the Fund's returns substantially, as a number of catalysts we anticipated did not eventuate during the month. In particular, the extension of time provided to the UK for Brexit was not anticipated; however, in retrospect we believe that the EU have more to lose than the UK from Brexit.

At the time of writing, it appears that trade talks between the US and China may have broken down and the markets have acted softened accordingly; which we are well positioned to benefit from.

Equities

We reduced our equity positions towards the beginning of the month, in retrospect this was slightly detrimental overall as we missed capturing the upside in some of our equity holdings. Overall it was a mixed month from the equity portion of the portfolio with strong gains in our Afterpay holding offset against falls in the prices of Argonaut and Echo Resources.

During the month we liquidated our position in Bellamy's for a strong realised return of approximately 32% over 4 months. We still like the turnaround aspect of the stock however, in light of our macro view and the lack of immediate news flow we felt it prudent to realise this investment.

We are finding quite a number of good opportunities in the market and are looking to add positions in the months ahead.

Afterpay

Afterpay performed well during the month, rising approximately 20%. The company's traction in the US is increasing rapidly and we expect it to really hit the mainstream within the next 6 months. We noticed that the credit card processing giant Mastercard acquired an installment loan provider, Vyze. Whilst the acquired product is very generic and commoditised relative to Afterpay; we recognise this action as validation of the company's business model by one of the world's largest and most important players in the payment industry.

We noted that Afterpay has overtaken Paypal and become the 2nd most used payment method at Steve Madden, a popular US shoe retailer. This is excellent news, and really demonstrates the competitive advantage the company holds over the multitude of competing but undifferentiated products. The company also pleasingly announced the completion of a $300 million US dollar denominated receivables warehouse finance facility. We considered this milestone a pre-requisite for a NASDAQ listing, which we estimate will take place later this year or early next year.

In addition, we expect Afterpay to finally enter the UK market in the next month or two.During the month, the stock price broke through the key $25 price barrier. 10 months ago, we had suggested that Afterpay would be valued at between $25-50 a share if listed on a US exchange; and our views were discredited by the Australian Financial Review and other investment managers. The share price has doubled over this time, and it's great to see the broader market recognising the value inherent in the company and it's business model.

Argonaut Resources

Argonaut was sold down again this month as they have experienced some drilling difficulties in their exploration campaign, over holes TD8 & TD9 which both intercepted underground aquifers. The results of TD7 are still pending however, the company did disclose that the core intercepted 60 metres of hematite which indicates there may be a working IOCG system in the area. Hole TD10 is currently underway targeting the same deep anomaly as TD9. We expect results from TD7 to be available at some stage in May.

Argonaut have also announced that initial geophysical modelling over their 100% owned Murdie tenements has commenced and defined a number of substantial gravity-only targets, similar to the modelling that led to the recent discovery at BHP's Oak Dam West. Interestingly, Argonaut have engaged the geologist who defined the targets that led to the Oak Dam West discovery. We expect permitting to be complete in time for a potential exploration program over these tenements towards the end of the year.

We also noted the successful acquisition of new Zambian exploration licences, part of the Central African copper belt. This region was the largest copper producing area globally in the mid 20th century, and still produces a substantial amount of copper. Argonaut holds some of the most prospective exploration ground for large IOCG deposits in Australia. As such we consider any further downside unlikely, whilst holding considerable upside (10 times or more) in case of any discoveries; making the return profile truly asymmetric.

Echo Resources

Echo engaged in a capital raising of $18 million to largely to fund further exploration on it's projects. We believe this is highly positive as it allows the company to test it's very prospective tenements. In particular, the exploration of the Hadrian Trend is a very exciting development having only just achieved native title permits. Northern Star Gold, has defined a material resource at Ramone and has achieved wide intercepts at the satellite deposits currently being explored around Ramone. Echo has defined a number of prospects less than 1000 metres away from these deposits, which will be explored as a priority.

We had the opportunity to meet the management team during the month. We are very happy with the new strategic direction and discipline being implemented by the new CEO Victor Rajasooriar who joined Echo late last year. Broadly, this involves strict business principles (in terms of capital allocation) being applied to mining and exploration activities, diversifying risk by sourcing ore from multiple mines and using innovative methods and technology to optimise operations. The company have recruited 3 experienced geologists with over 80 years of collective experience to increase the chances of successful exploration and resource definition. We believe that Echo could potentially more than double their current gold resources under the exploration program planned.

Echo also released their updated Bankability Feasibility Study (BFS) for the reopen of the Bronzewing processing hub. At a gold price of AUD$1800 the returns over the current 4 year project would result in an IRR of 198% with a payback period of 5 months at an All In Sustaining Cost (AISC) of $1095 an ounce. We understand why the team are not yet proceeding with final investment decision to reopen the plant. Victor stated in our meeting that a decision could be made once a JORC resource is defined that would allow the plant to operate with a minimum 6 year lifespan. We expect the upcoming JORC resource currently being defined at Mt Joel to fulfill this criteria, within the next few months. In addition, we expect there to be significant improvements that can be extracted from the plant operations itself once the ore characteristics of the various deposits has been accurately defined. For example, in the BFS the average mill utilisation for the 4 year project to be only 85% which is inefficient for a large fixed asset. This implies an AISC of around $950 an ounce could be achieved with 100% utilisation; not including improvements achieved by blending the various ores to achieve maximum throughput. This would also improve project economics significantly as any cost improvements would drop straight through to the company's bottom line.

<u>Commentary</u>

We remain vigilant regarding a number of geopolitical issues including Brexit, trade talks between China and the USA, tensions on Indian subcontinent and Australian federal elections. **Our portfolio is accordingly positioned defensively.**

To schedule a time to discuss your interest in the Fund with the Investment Manager, please follow this link: http://bit.ly/2Uy6yXQ1

<u>The Fund remains open for investment.</u> Please click the link below to view the Fund disclosure documents and apply for an investment online.

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

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