

The Datt Capital Absolute Return Fund is a long-only, multi-asset fund targeting double digit returns over the medium term, managed by a performance orientated and differentiated boutique fund manager. Our objectives are to minimize the risk of permanent capital loss, achieve an absolute return throughout the economic cycle and temper the market risks typical of equity funds. We believe that utilizing a multi-asset approach reduces downside risk and volatility in returns.



## Datt Capital Absolute Return Fund - December 2019

To our valued investors,

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

For December the Fund provided a net return of 0.84% for the month.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
<b>FY19</b>		2.6%	-1.22%	-4.8%	3.53%	-2.07%	6.97%	1.66%	0.76%	-3.64%	-2.45%	0.79%	1.57%
<b>FY20</b>	4.85%	3.01%	1.72%	0%	1.31%	0.84%							12.23%

Asset Allocation for the Fund at December month end was:

CRE debt - 49%

Equities - 48%

Cash - 3%

Derivatives – 0% (liquidation value)

We wish all our investors and readers all the best for the year ahead. The year has started off with a bang given the current tensions between the USA and Iran. We believe that great opportunity lies in uncertainty, and are well positioned to take advantage of any short-term disruption to markets.

Fund Features		Portfolio Analytics <sup>1</sup>	
Investment Objective	To achieve absolute double digit returns over 2-year periods, irrespective of market conditions	Sortino Ratio <sup>2</sup>	1.33
Min. Investment	\$100,000	Sharpe Ratio	0.84
Applications/redemptions	Monthly/Quarterly	Standard Deviation (annualised)	10.17%
Distributions	Quarterly	Up/Down Capture <sup>2</sup>	48% / 15%
Management Fee (p.a.)	1.025%	Largest Drawdown	-6.00%
Performance Fee (p.a.)	20.5% > benchmark	Winning Month Ratio	65%
Benchmark	RBA rate + 5%	Cumulative Return	14%
Fund Administrator	Fundhost	1 year rolling return	16.49%
Auditor	Ernst & Young	3 year rolling return	-
Custodian/PB	NAB Asset Services	5 year rolling return	-
Responsible Entity	Fundhost	Annual Return since inception	9.79%

<sup>1</sup> Actual performance will differ for clients due to timing of their investment. Returns are calculated net of all fees, since inception.

<sup>2</sup> Sortino and Sharpe ratios assume the Australian cash rate as the applicable risk-free rate. Up/Down capture relative to ASX200 TR index

## Investment review

### Commercial real estate debt

We evaluated 2 debt deals and invested in 1 new opportunity.

We made an investment in a 1st mortgage; a syndicated secured senior debt facility secured against a large greenfield residential project located in Melbourne's West (**Project H**). The facility is for a duration of 36 months and will provide a return of 11% per annum.

The facility enjoys an initial LVR ratio of 48% with a maximum LVR covenant of 57.5%. Mandatory periodic amortization events are built into the facility from the 18 month duration mark, along with periodic adjustments downwards in the maximum LVR covenant from the 12 month duration mark to a minimum of 40% LVR at the end of the facility.

The project sponsor is a local developer who is providing personal and corporate guarantees. The purpose of the facility is to assist with acquisition of the project, which is being acquired from a distressed vendor. The project benefits from works conducted by the previous developer and the clear and systematic hurdles embedded into the facility documentation to add value to the security property over the term of the loan facility. A major Asian financial house is providing a significant loan that is subordinated to the 1st mortgage. This is in addition to the significant cash equity contribution being advanced by the loan sponsor, providing a solid buffer and strong alignment of interests for all parties.

The sponsor plans on amending the existing approved plans, to increase the overall yield of the security property; success will increase the value of the security property reducing the LVR of the 1st mortgage. Interest over the first 18 months of the facility will be capitalised and in the latter 18 months interest will be paid monthly.

We have been informed that **Project F** is likely to be repaid in mid-January; which will result in a large increase in the Fund's liquidity.

Our real estate debt exposures as at the end of December are:

Name	Location	Type	Maturity	Max LVR/LSR	Interest receivable (per annum)
Project A -Mixed use/Residential infill	Melbourne, Inner East	1st Mortgage Land Facility	June 2021	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%
Project G - Industrial	Melbourne, Inner West	Preferred Equity	July 2021	70%	14.50%
Project H – Residential greenfield	Melbourne, West	1st Mortgage Land Facility	November 2022	57%	11%

### Fixed interest

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

### Derivatives

We have no current derivative exposure.

### Equities

This month, our equity exposure decreased.

We exited our position in **Lynas** as well as our undisclosed holding. We believe the investment thesis is sound for both companies however, we felt that both companies had hit our 'time-stops' and could not foresee any clear-cut catalysts for further price appreciation, irrespective of their favourable positions in fantastic industry structures. We will continue to monitor their respective situations.

### *Adriatic Metals*

**Adriatic Metals** had an eventful month as expected, with the disclosure of further good results.

Hole BR-43-19 achieved a result of: 16m @ 1.96g/t Au, 350g/t Ag, 5.3% Zn, 3.4% Pb, 0.5% Cu and 47% BaSO<sub>4</sub> from 330m. This was from an aggressive step out hole 60 metres to the east of the modeled Mineral Resource, demonstrating there is still clear growth potential at Rupice. Interestingly, the new strike was deeper but much thicker than the strike to the east where the mineralisation appeared to 'pinch out'. We find it interesting that the company refer to the latest results as being from 'Rupice South'. Could this indicate that a new deposit or repetition has been found?

We believe that Rupice will reveal her true riches in time, with the company having barely scratched the surface at only ~350m in depth as well as potential to explore laterally towards the north, south and east of the current modelled deposit. We also believe there is the ability to add tonnage quickly to the project by defining brownfield prospects and deposits at Orti, Seliste and Veovaca West as well as further strong exploration potential at Rupice, Jurasevac-Brestic and Borovica.

**Adriatic Metals** finally commenced trading on the LSE and confirmed that the UK City Code on Takeovers and Mergers was applicable to the company itself, which we consider a strong positive. Strangely, **Sandfire Resources** were exposed by **Adriatic** as holding almost 16% of the share register, without having filed the requisite documents with the company or ASX. We do not consider **Sandfire** a credible buyer and believe the opportunity at hand, in time, may be of far greater value than their current market capitalisation.

Our firm also became substantial holders in **Adriatic Metals**, with our collective stake a touch over 5%.

We still believe, in spite of the recent price appreciation, that **Adriatic Metals** represents an undervalued but still growing opportunity; with many major value catalysts on the near horizon.

Our current equity exposures are: **Afterpay, Adriatic Metals, Argonaut Resources, Valmec, Whitehaven Coal and Yandal Resources.**

We have a full pipeline of potential investment opportunities which we consider materially undervalued, and will carefully consider for inclusion into our portfolio at the appropriate time.

**For now, the Fund remains open for investment.**

**To join our Waitlist and Register your interest in the Fund please register via this link:**

**<http://bit.ly/datt-register>**

Please click the link below to view the Fund disclosure documents and apply for an investment online.



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