



May 2019 – Datt Capital Absolute Return Fund

To our valued investors,

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

For May the Fund provided a net return of -2.45% 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%	-2.45		0.77%

Approximate Asset Allocation for the Fund at May month end was:

CRE debt - 81%

Equities - 13%

Cash - 2%

Derivatives – 4%* (liquidation value)

Investment review

Commercial real estate debt

This month we evaluated 2 new opportunities and invested in no new opportunities.

In late May, we received notice of a proposed refinance of Project A's facility. As part of this refinance the borrower reduced the principal advanced under the facility by 34%; whilst the syndicate agreed to remove a security interest over one of the borrower's other projects.

This had the effect of increasing the facility's LVR to 65%; whilst maintaining the same 11% coupon payable monthly in advance. In addition, the facility's duration was extended to a 24 month term as of this month.

Our current real estate debt exposures 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%	16%
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%

Fixed interest

We continue to monitor a number of fixed income instruments in the distressed and special situation space. A few opportunities are beginning to become attractive.

Derivatives

We maintained long volatility positions over the index, with a short bias during the month of May. This position was looking quite sound however, the surprise Liberal party election victory in mid-May led to an unexpected rally in the indices which was detrimental to the value of our derivatives portfolio.

We will be re-evaluating our derivatives strategy this coming month, in preparation for the new financial year. Since inception, the derivatives strategy has had mixed success whilst being detrimental overall to the Fund's performance this financial year. We see the merit of continuing the strategy, but are also conscious of the cost involved and the underperformance to date from this segment.

Equities

This month, Afterpay and Echo Resources fell marginally. The largest detractor from performance this month was the large fall experienced by Argonaut Resources.

Argonaut Resources

On the 29th of May, Argonaut's joint venture partner and operator Aeris Resources curtailed the stage 1 drilling program at Torrens. Under the management of Aeris, the operations appear to have been poorly managed resulting in the exploration program being 6 times over budget; notwithstanding the fact there have been technical challenges experienced by the drilling crew. Whilst this news was extremely disappointing for us and the market, there are remedies available to Argonaut under the joint venture agreement.

We spoke to management on the day of the announcement, and we urged the company to aggressively assert their rights under the joint venture. It is our view that some of the most attractive prospects were scheduled to be drilled towards the end of the stage 1 program, which has now to our knowledge been suspended. We hope that by some mechanism in the joint venture the operator Aeris Resources can be replaced with a more credible, better funded partner.

The prospectivity of the Torrens project and Argonaut's surrounding tenements remains entirely intact; and there will be significant advances on Argonaut's 100% surrounding tenements in the coming months. We remain supportive shareholders.

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

Commentary

We remain vigilant regarding a number of geopolitical issues including Brexit, trade talks between China and the USA. **Our portfolio is accordingly positioned defensively.**

Events

We are pleased to extend an invitation to readers to participate in an Exclusive Webinar event, where the investment team discuss the Fund's investments of the financial year 2019. This will include a discussion of the market and geopolitical conditions they see affecting the market in the short-term; as well as a comprehensive Q&A session where participants may ask questions freely and anonymously in a private environment.

Event details are as follows

Mode: Webinar/Online

Date: Tuesday 23rd of July 2019

Time: 12pm

Running Time: Approximately 60 minutes

To preserve the quality and interactivity of the experience, we will be restricting the number of participants to 20. We currently have 7 spots remaining, and these will be filled on a first come, first served basis.

To register for this event please follow this link: <http://bit.ly/2E9JQyZ> and access details will be sent in due course.

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

The Fund remains open for investment.

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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