



August 2019 – Datt Capital Absolute Return Fund

To our valued investors,

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

For August the Fund provided a net return of 3.01% 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	0.79	1.57%
FY 20	4.85%	3.01%											8.01%

Asset Allocation for the Fund at August month end was:

CRE debt - 39%

Equities - 46%

Cash - 15%

Derivatives – 0% (liquidation value)

Investment review

Commercial real estate debt

This month we evaluated 2 new opportunities and did not make any new investments.

We have had discussions with syndicators this month. A consistent theme we found was that the entrance of new players into the field has reduced returns to existing participants due to the weight of capital looking to be deployed into defensive assets. These newer inexperienced players are effectively extending lower priced credit at higher LVRs with less covenants than our existing investments.

We note that a number of property development companies of late have been put into administration or liquidation due to soft conditions in the apartment market. A number of lenders have been affected by these events, which we have no exposure to. Invariably, we expect newer lenders in the field to make mistakes due to inexperience and being overly bullish; at which point it's likely capital will leave the space.

We consider this as part of the natural capital cycle and will maintain our own stringent investment criteria when evaluating new deals.

Our real estate debt exposures as at the end of August 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%

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, we increased our equity exposure. Additions included Whitehaven Coal and Yandal Resources.

Our current equity exposures are: Afterpay, Echo Resources, Argonaut Resources, Lynas, Valmec, Whitehaven Coal, Yandal Resources and 2 undisclosed equity holdings.

Whitehaven Coal

Whitehaven Coal are an Australian coal producer, with operations primarily in the Gunnedah Basin in NSW. They are the largest independent producer of high calorific value coal in Australia producing almost 20 million tonnes per annum.

Whitehaven sell primarily to premium coal markets such as Japan and Korea, largely avoiding the competitive Chinese seaborne market. The quality of their product, the scale of their operations and the life of their major mines are all attractive aspects of this company. We also like their strong growth profile, the company are projecting total production to grow to 35 million tonnes per annum over the next 8 years.

These Tier 1 collection of coal assets trade for an operating cash flow multiple of ~3.5x and have recently paid a dividend equating to ~10% of our entry price. With coal demand projected to rise strongly we consider Whitehaven to provide superior and differentiated exposure to an essential commodity at a reasonable price, with strong expectations of growth over time.

Yandal Resources

Yandal Resources ('YRL') are a gold exploration company who hold tenements in the Yandal gold belt and in the northern Kalgoorlie area. The company was founded and is managed by the team who formerly ran Metaliko Resources, a company who merged with Echo Resources ('EAR'). YRL's tenements are strategically located, with their Yandal belt holdings adjacent to EAR's tenements and their Kalgoorlie holdings near to Northern Star's ('NST') Kanowna Belle project.

NST hold 15% of the company, with balance spread between other reputable gold investors and the management team. The register is very strategic and tightly held which was a big attraction for us. Historically the Yandal tenements have been under explored, we believe that there is significant 'low hanging fruit' that can be plucked.

We discovered at the company's flagship Ironstone Well project that historical JORC resource estimates do exist for a number of deposits the company has flagged as priority exploration areas. What is interesting is that YRL are extending these existing resources at shallow depths of >200 metres, that are still open in most directions. These shallow, open pitable deposits will be highly economic at current gold prices; and the oxide ores will be highly sought after by mills in the area. Ironstone Well is within comfortable trucking distance of 3 separate processing plants: Jundee, Wiluna & Bronzewing.

We believe there is considerable exploration potential exists for all of YRL's tenements, in particular the Yandal projects. Regionally, EAR have defined approximately 125,000 ounces at Corboys, with further drilling currently underway targeting 250,000 ounces. This particular deposit, along with YRL's existing and prospective deposits sit along the Barwidgee shear zone, of which YRL control 55kms of prospective strike.

We view YRL's projects as providing valuable feedstock for the surrounding gold mills. Along with the exploration potential, the future catalysts will be an update to JORC estimates for the Ironstone Well projects along with an economic scoping study; both which are projected to be released in the next 3-4 months.

We believe that YRL remains an undervalued opportunity that holds the potential to re-rate once the broader market understands the strategic significance of its various holdings.

Echo Resources

NST have made an opportunistic and undervalued bid for EAR of 33c per share. Please read our blog post via the link below for more fulsome commentary regarding this situation. We intend on providing further information via our blog as this situation unfolds and urge shareholders to vote against this low ball offer.

Media

Our commentary regarding NST's opportunistic bid for EAR link: <http://bit.ly/datt-EAR>

We were mentioned in an article in The Australian newspaper. The article can be found following this link: <http://bit.ly/datt-EAR-australian>

In our inaugural podcast, we interviewed Matthew Donat from Koda Capital. Our interview can be accessed following this link: <http://bit.ly/datt-donat>

The Fund remains open for investment.

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

To register your interest in the Fund and receive preliminary information 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.



Disclaimer

The Datt Capital Absolute Return Fund (Fund) and this report is for wholesale clients only. Datt Capital Pty Ltd (ABN 37 124 330865) authorised representative #001264886 of Fundhost Limited AFSL 233045) (Datt Capital) is the Investment Manager of the Fund. Fundhost Limited is the issuer and trustee of the Fund. The information contained in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation, or which would subject Datt Capital or Fundhost Limited to any registration or other requirement within such jurisdiction or country. To the extent permitted by law, Datt Capital and Fundhost, their officers, employees, consultants, advisers and authorized representatives, are not liable for any loss or damage arising as a result of any reliance placed on this document. Information has been obtained from sources believed to be reliable, but we do not represent it is accurate or complete, and it should not be relied upon as such. Datt Capital may provide general information to help you understand our investment approach. Any financial advice we provide has not considered your personal circumstances and an investment in the Fund may not be suitable for you. Past performance is not an indicator of future performance. Returns are not guaranteed.