

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 - March 2020

To our valued investors,

Thank you for entrusting your capital and co-investing with us. For March the Fund provided a net return of -13.66% for the month vs a fall of -20.68% for the ASX 200 Total Return index.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
FY19		2.6%	-1.22%	-4.8%	3.53%	-2.07%	6.97%	1.66%	0.76%	-3.64%	-2.45%	0.79%	1.57%
FY20	4.85%	3.01%	1.72%	0%	1.31%	0.84%	2.02%	-5.85%	-13.66%				-6.93%

Asset Allocation for the Fund at March month end was:

CRE debt - 45%

Equities - 34%

Cash - 21%

The equity markets experienced the swiftest decline ever experienced due to the spread of COVID-19 and the subsequent shock of the government response which included lockdowns of civil society and restrictions on the free movement of goods and individuals across state and national borders. Domestically, the lockdown of state borders is unprecedented – having not even occurred during times of war. Nonetheless, we are dissatisfied with our overall performance this month despite significantly outperforming the broader market and most other competing funds.

It is worth reiterating that we are the Fund's largest investor and almost all our anticipated future returns will be from the successful performance of our own unit holding in the Fund.

We are relaxed and optimistic despite the general fear being stoked in wider society. The volatility in markets has thrown up many attractive opportunities that we are very well placed to exploit.

Fund Features		Portfolio Analytics ¹	
Investment Objective	To achieve absolute double digit returns over 2-year periods, irrespective of market conditions	Sortino Ratio ²	-0.35
Min. Investment	\$100,000	Sharpe Ratio	-0.22
Management Fee (p.a.)	1.025%	Standard Deviation (annualised)	15.14%
Performance Fee (p.a.)	20.5% > benchmark	Winning Month Ratio	60%
Benchmark	RBA rate + 5%	Cumulative Return	-5.47%
Fund Administrator	Fundhost	1 year rolling return	-11.83%
Auditor	Ernst & Young	3 year rolling return	-
Custodian/PB	NAB Asset Services	5 year rolling return	-
Responsible Entity	Fundhost	Annual Return since inception	-3.35%

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

² Sortino and Sharpe ratios assume the Australian cash rate as the applicable risk-free rate.

COVID-19 commentary

This was the month where the threat of the spread of COVID-19 took all of our and society's attention. The general Australian response has been appropriate to date however, we do believe that it is time to begin loosening societal restrictions. The government has dealt very well with the situation with market and societal support offered via a multitude of initiatives.

A great deal of focus to date has been on the worst-case hypothetical scenario should COVID-19 spread broadly throughout the community. However, few think of the situation many vulnerable individuals within our community are facing as a result of this lockdown. There is no doubt that many are experiencing economic uncertainty, depression, and abuse at this time. The true cost of an extended lockdown is likely to never be known but the psychological effects will likely be felt for years. We think the situation is perfectly articulated by Dr. Michael Burry (of 'The Big Short' fame) in this article which we consider essential reading: <https://bloom.bg/2JQTOYt>

The reality is that civil society is on life support, the longer the lockup lasts the less chance of it recovering. A crisis is always good for accumulating political capital and goodwill - harsher actions will win votes. No party wants to have 'blood on their hands' however, the government's social contract with the people (to provide safety and rule of law to most in return for taxes) weakens in a scenario of a long term lockdown via an increase in crime, violence, and rates of death as well as a decrease in socioeconomic factors and equality.

An extended lockdown also exacerbates the question of whose job is more important. For example, the construction and food service industries are still functional whereas health workers are being functionally laid off from private hospitals because of the blanket ban on elective procedures. We haven't yet seen military assistance at international and domestic transport hubs, which we view as a positive indication.

The reality is that we now have a greater understanding of COVID-19 as well as the fact that exposure to pathogens is an unavoidable part of our human experience. Weighing up all the various factors and facts, we can broadly forecast and anticipate the government's response without necessarily being able to accurately predict the timing.

Along with many others we are hoping for a post-Easter 'resurrection' of society, with de-escalation measures actively being considered by those in government. We continue to focus on hard facts rather than succumbing to negative media rhetoric and social hysteria.

Investment review

Fixed income

Construction has been deemed an essential service by the Federal Government and remains operational following social distancing guidance as that is being practiced by wider society. Supply chains and labour supply are relatively unaffected, given China has now reopened for business.

In terms of credit supply, there has been a sharp dislocation with credit approval from major banks slowing and retail CRE funds pulling back their activities significantly. As we identified very successfully back in 2015, these conditions create an opportunity for private capital to exploit inefficiencies in the CRE debt markets. In the short term, we are expecting an uplift of between 300-600 basis points in new deals with lower LVRs than have been experienced in recent years.

Our CRE debt portfolio continues to perform as expected. Our focus on short duration, low LVR and double-digit yielding deals restricted to the core Australian cities (Sydney and Melbourne) continue to bear fruit and we believe there will be an uplift in this unlisted fixed income space that will satisfy our strict criteria in the short term.

Dislocations in listed fixed income markets have led to a number of interesting opportunities that we have been evaluating. So far, we are not quite seeing the level of distress in 'junk-like' bond and hybrid instruments, which we would consider attractive.

Equities

Our equity performance was negative this month in line with the general market. We reduced our exposure in some portfolio names whilst adding new positions towards the end of the month and in the first week of April. We are seeing large inefficiently priced opportunities in the market, which we have started to exploit.

As such our disclosure will be more opaque than usual in the coming months however, Fund investors will be given full and transparent disclosure upon request.

Media

“A barbell approach to investing” –Alan Kohler interviewed Emanuel for the Eureka report

[Subscriber only] Link: <https://bit.ly/Datt-Kohler>

[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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