

Datt Capital - July 2018 Newsletter

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July 2018

To our valued investors,

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

The past month has been quite busy for us, preparing the fund for the year ahead in terms of speaking to investors and potential investors, setting up various accounts along with evaluating various opportunities.

The successful investors we admire have different styles of investing and portfolios management methods however, all have earned outsized returns over time. Our ongoing success will be linked to maintaining the ability to see what other market participants cannot see or are unwilling to see; and taking advantage of these opportunities.

Going forward in terms of format, we expect to release monthly performance figures within these newsletters; along with the Fund's asset allocation and a brief review of performance and various investment opportunities we've looked at over the past month.

Commercial real estate debt

We continue to build on our existing relationships among debt syndicators and have reviewed numerous opportunities within the space.

We note some new entrants within the syndication space, including subsidiaries of listed companies. We have developed relationships with these new entrants however, have found the quality of their deals in terms of returns and due diligence to be generally poor and uninvestable. While not unexpected, we view the entry of these participants as further evidence of structural capital scarcity within the real estate markets, driven by the major banks reducing their exposure to the sector.

We recently saw a presentation that showed that major bank funding in the property development industry covered approximately 60% of funding requirements in the 5 years before the GFC. In the past 3 years, this ratio has risen as high as 85% as banks expanded their operations in the space, with more recent figures showing a ratio of 75%. We expect this ratio to keep declining back to it's pre-GFC state, which should open up more opportunities for private lenders in this niche. We also note more institutional interest in the space which provides validation for our allocation within this sector.

We have a strong 1st mortgage deal that we expect to close in August. We will provide some further detail on this investment in our following newsletter. We will never disclose the borrower or syndicator for each deal in the interests of commercial confidentiality, without exception.

As always, we will stay disciplined in our investment selection, and have a strong pipeline of opportunities that we will be evaluating in the coming months.

Fixed interest

In the fixed interest space, we have found no attractive opportunities and have noticed the compression in yields across the majority of instruments without regard for underlying credit quality. We anticipate this to continue whilst the RBA cash rate stays stagnant however, things can and do change quickly.

Derivatives

We have been exploring various systematic derivative strategies via our own primary research. We expect in the coming months to be investing time into automating the processes needed to allocate capital towards strategies that may add resilience to our portfolio returns.

Equities

We have found one exceptional equity opportunity, Afterpay, which we believe may contribute to our returns materially going forward. We consider it to possess a rare combination of:

1. Growth in top line gross sales
2. Growth in operating margins
3. Beneficial balance sheet optimization and capital allocation policies
4. Potential for its valuation multiple to expand
5. Enjoys considerable network effects and oligopoly potential

We have made an investment in this company, and consider it a to be a permanent holding in the Fund's portfolio.

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

To apply for or make a further investment into the Fund, please click on the Application button below. A copy of the Fund's Information Memorandum can be obtained by emailing: bdm@datt.com.au

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