



## January 2019 – Datt Capital Absolute Return Fund

To our valued investors,

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

For January the Fund provided a net return of 6.97% for the month. The majority of the return was driven by a rise in our equity holdings and returns from derivative portfolio.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
<b>FY19</b>		2.6%	-1.2%	-4.8%	3.53%	-2.07%	6.97%						4.67%

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

CRE debt - 48%

Equities - 29%

Cash - 14%

Derivatives – 9%\* (liquidation value)

### Investment review

#### Commercial real estate debt

This month we have not evaluated any new opportunities, which is usual for the time of the year.

The funds invested in Project D were repaid in January.

#### **Our current real estate debt exposures are:**

Name	Location	Type	Maturity	Max LVR/LSR	Interest receivable on investment (per annum)
Project A -Mixed use/Residential infill	Melbourne, Inner East	1st Mortgage Land Facility	August 2020	20%	11% with step up to 16% after 9 months
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%

#### Fixed interest

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

#### Derivatives

We entered into a number of long volatility derivatives positions during the month of January. Our strategies were successful contributing a good portion of this month's return.

## Equities

We made a number of equity transactions in January.

### **Argonaut & Aeris Resources**

We began exiting our holding in **Aeris Resources** in January, and finalised our exit in the first week of February. We felt that it was prudent to mitigate our risk and exposure to the Torrens project. An acceptable rate of return was achieved on this position.

Our existing holding **Argonaut Resources** commenced its exploration program at the Torrens prospect, in joint venture with **Aeris Resources**. The JV have committed to an initial 8-10 hole program as part of a broader 25-30 hole program, expected to take 18-24 months. They are targeting large geophysical anomalies which demonstrate similar properties as other large mineral deposits in the proximity of the exploration area; such as Oak Dam West (BHP), Olympic Dam (BHP) and Carrapateena (Oz Minerals).

We also noted with interest, that **Argonaut** managed to secure two new exploration licences adjacent to Torrens both previously held by BHP but involuntarily relinquished. **Argonaut** have also commenced geophysical works on the 100% owned, Murdie prospect which is immediately to the south-east of the Torrens prospect; which we anticipate will shape up to be another exciting exploration play.

### **Bellamy's Australia**

We have taken a new position in **Bellamy's Australia**. Our investment thesis for this position is predicated on a variety of informational points, so in effect we have taken a mosaic approach. Effectively, **Bellamy's** is in the final year of a 3 year turnaround; initiated in early 2017. In our opinion, the prior board and management team were ill equipped to deal with the relatively sudden demand from the mainland Chinese consumers and accordingly the opportunity was not grasped adequately.

Today **Bellamy's** are in a far stronger position in virtually all aspects. In particular, by focusing on the highest value sales and marketing segment of the supply-chain as well as the high regulatory segment of blending and canning the product. All other parts of the supply chain are outsourced, enabling Bellamy's to focus on its core strengths. The sales channels to Chinese consumers have been simplified and consolidated, leading to a more controlled mode of distribution relative to the previous scattergun approach.

The Chinese downstream distribution team have been significantly strengthened, with a number of ex-A2 Milk staff responsible for A2 Milk's successful product positioning in Mainland China now being part of **Bellamy's** team. We are also bullish on other verticals that are projected to be exploited in the near-term including: a move towards a premium branded infant milk formulations, infant food products becoming more available to the Chinese consumer and 3rd party revenue from their Camperdown product to increase materially.

The share price has traded as high as \$22 in the past 12 months, and we made our entry at a price around one third of this price. We noticed that the broader market was ascribing a much lower relative value to **Bellamy's** vs its peer A2 Milk; albeit at what we anticipate would be a cyclical low for Bellamy's. We believe that exposure to **Bellamy's** holds material upside over the medium term, from the current price.

## **Afterpay**

Key portfolio holding **Afterpay** released a business update in January, that was very positively received by the market. The company confirmed that user and revenue growth has maintained its trajectory in line with our expectations. Net transaction losses are projected to be circa 0.6-0.7% of sales which we anticipated given the substantial portion of revenue now derived from the US operations and given the US market is still immature in terms of **Afterpay's** credit assessment coverage. We expect net transaction losses to fall significantly over time, in line with the experience in Australia.

Interestingly, **Afterpay** also disclosed that they have progressed to the documentation stage of a US debt facility sized at US\$300 million, enough to support underlying sales in the US of US\$4 billion. As discussed in last month's newsletter, we believe this is a precursor to a secondary listing on a US exchange, which could potentially increase the market of the company substantially.

We also anticipate that **Afterpay's** UK market entry will occur later this month or next month; which will likely be the catalyst for further market value appreciation.

## **Other positions**

We have begun accumulating a stake in a commodities focused company, which we choose at this point not to disclose. We will provide an update in this respect in next month's newsletter.

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

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