



March 2019 – Datt Capital Absolute Return Fund

To our valued investors,

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

For March the Fund provided a net return of 0.76% 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%				7.21%

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

CRE debt - 45%

Equities - 27%

Cash - 22%

Derivatives – 6%* (liquidation value)

Investment review

Commercial real estate debt

This month we evaluated 5 new opportunities and invested in 1 new opportunity.

We have made an investment in a special situation; a syndicated construction facility secured against an apartment development located in Melbourne's inner west (Project E). The facility has a duration of 15 months and will provide a return of 17.50% per annum. Maximum LVR allowable is 77% including senior debt. The facility is preferred equity in name, whilst being structured as a 2nd mortgage to mitigate inter-creditor issues.

The project sponsors are a local consortium who are providing personal guarantees, jointly and severally, with total personal assets being 9 times the facility amount including interest. The purpose of the facility is to assist with project development costs, which commenced construction late last year. The sponsors must achieve sufficient qualifying pre-sales to cover the facility in full within 9 months, otherwise, penalty interest applies.

The project benefits from equity having been contributed by the sponsor to commence construction; as well as having achieved pre-sales of 66% by value for the entire project. The product is priced at a relatively affordable price while also enjoying close proximity to tertiary educational facilities. Should the sponsors fail to sell the remaining stock, the LVR would be only 35% over the residual, unsold stock; with personal guarantees providing further protection.

Interest is capitalised monthly over the term of the loan, being paid at the end of the project. This deal will settle in early April.

We received an update regarding Project A and we consider it is likely that the facility will be utilised up until its maturity date. The step up interest rate of 16% will apply from the end of May 2019, which is a material uplift from the original interest rate; providing a good tailwind for the Fund at the same level of risk.

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%
Project E - Residential infill*	Melbourne, Inner West	Special situation	February 2020	77%	17.50%

*not yet settled

Fixed interest

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

Derivatives

We maintained long volatility positions over the index, with a non-directional bias. We achieved negative returns in the low single % on our option positions, with the anticipated rise in volatility from the uncertainty around Brexit not eventuating.

Equities

We trimmed our equity positions towards the end of the month, in anticipation of volatile conditions around the date of Brexit along with other geopolitical issues we've highlighted in previous newsletters. We still remain cautious about the market environment in general and are positioned accordingly.

We have performed due diligence on a number of companies that we may add to the portfolio in coming months. We are still finding plenty of opportunities in the market however, at this point we are erring on the side of caution.

Media

We wrote an article titled “Avoiding Scams, Scoundrels and Schemes: 10 tips to mitigate investment risk” which can be found following this link: <http://bit.ly/2TZWgDs>

Commentary

We remain vigilant regarding a number of geopolitical issues including Brexit, trade talks between China and the USA, tensions on Indian subcontinent and Australian upcoming elections. **Our portfolio is positioned accordingly.**

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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