

Datt Absolute Return Fund

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DATT
CAPITAL

This information has been prepared for wholesale/sophisticated investors only.

INVESTMENT UPDATE - JULY 2023

The Datt Capital Absolute Return Fund is a long-only 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 utilizing a multi-asset approach reduces downside risk and volatility in returns.

| Unit Mid-Price | Net Return Per Annum Since Inception | Net Return Since Inception | Fund Status |
|----------------|---|-------------------------------|-------------|
| \$1.003 | 15.63% | 106.17% | Open |

INVESTMENT PERFORMANCE

| | Since Inception (p.a) | 3 year p.a. | 1 year | 3 month | 1 month |
|--------------------------------------|-----------------------|---------------|--------------|--------------|--------------|
| Datt Absolute Return Fund | 15.63% | 14.12% | 4.31% | 7.93% | 2.11% |
| Benchmark | 6.30% | 6.37% | 8.52% | 2.29% | 0.77% |
| Value Add (net) | 9.33% | 7.75% | -4.21% | 5.64% | 1.34% |

Actual performance will differ for clients due to timing of their investment. Returns are calculated net of all fees, since inception. Benchmark is the RBA rate plus 5%. Inception date of the Fund is August 2018. Past performance is not an indicator of future performance

| Key Fund Information | | Top 3 Portfolio Holdings (alphabetical) as at July end. | |
|-----------------------------|--|---|--------|
| Investment Objective | To achieve absolute double digit returns over 2-year periods | Global Lithum Resources (GL1) | |
| Min. Investment | \$100,000 (unless otherwise agreed) | Selfwealth (SWF) | |
| Management Fee (p.a.) | 1.025% | WA1 Resources (WA1) | |
| Performance Fee (p.a.) | 20.5% > benchmark | Weighted average portfolio market cap: \$265 million | |
| Benchmark | RBA rate + 5% | Portfolio Analytics¹ | |
| Fund Administrator | Fundhost | Sortino Ratio | 1.27 |
| Auditor | Ernst & Young | Sharpe Ratio | 0.79 |
| Custodian/PB | NAB Asset Services | Standard Deviation | 19.41% |
| Trustee | Fundhost | | |

¹Sortino and Sharpe ratios assume the Australian cash rate as the applicable risk-free rate, since inception.

COMMENTARY

For the month of July, the Fund delivered a net return of 2.11% for our investors. The close of July marked our 5-year anniversary for the Absolute Return Fund. Since inception, we have achieved a net compound annual return of 15.63% or a 106.17% cumulative return – topping our peer group (Fund Monitors) in the timeframe since our inception.

We are delighted to have surpassed our Fund’s objective of 10% net returns per annum since inception, and thank all our investors for their continuing trust in our ability to deliver strong returns.

5-year reflection

The 5 years past have been an extremely intense and tumultuous period for markets across the board, much driven by global geopolitical factors. This affects us locally as a result of the intertwined modern world that we inhabit. We began the Fund as an ‘unknown’ quantity and over time have forged an excellent reputation based on our investment skill, original thinking and differentiated outcomes.

In many ways, a prerequisite to being a great investor is the need for a healthy ego and strong confidence. One must have the will to consistently improve and give the best of yourself, despite challenges that may arise. This is counter-balanced by the need for self-awareness to recognise weaknesses and shortcomings. Our aim as a team, is to get better incrementally each day through a strong sense of ownership and via the application of our skills. By applying a primary research approach, in many ways we are doing the work that no-one else is bothering to do; which overtime enhances our ability to do something different to the crowd, in a manner than cannot be replicated. As a wise investor once said “the most contrarian thing of all is not to oppose the crowd but to think for yourself.”

We know that if we can consistently apply ourselves over time, we can only get better. A theme we have observed during our time in markets is that the best investors only get better over time. We believe a lot of this comes down to improving pattern recognition, the maturation of intellectual property and perhaps most importantly, persistent passion and intellectual curiosity for investment opportunities.

Investing boils down to making the best capital allocation decision with imperfect information. The ability to make consistently optimal decisions founded on our deep knowledge and superior interpretation is what drives investment outcomes and this is our ultimate focus.

Our strength has been our ability to identify strategically important assets where there is significant, latent value that is unappreciated by the broader markets. We have consistently and demonstrably proven this over the past 5 years, across sectors and market capitalisations.

We summarise some of our favourite, most material portfolio investments made over this period.

Afterpay

Afterpay was an incredible investment which culminated in the largest M&A transaction in Australian history at \$39 billion. We first invested when it was valued at a sub-\$1 billion market cap, at around a \$6 stock price. This was one of our Fund's inception positions and we successfully helped foster investor interest in the company - especially in its earlier days.

Afterpay's product had a number of structural and psychological elements embedded within its design that were conducive to extremely fast consumer adoption. This coupled with its adroit marketing, excellent technical decisions and almost flawless strategic execution ultimately led to an extremely positive and rare investor outcome.

Adriatic Metals

Adriatic Metals has been a very successful investment in the resources space; a British company, listed on the ASX, developing a high-grade Bosnian polymetallic mineral deposit. Whilst complexity may still partially obscure the value proposition; we were able to accurately and decisively evaluate the true potential value of the company at an early stage.

Bosnia is a fairly unknown jurisdiction for western miners however, mining has been conducted for aeons within the region historically. Adriatic's team had the benefit of historical data collated by Socialist Yugoslav geologists who were not necessarily known for their commercial nous. Adriatic have been able to move at lightening pace with the first production from their mine expected less than 6 years after the initial drilling program - an enormous achievement by the team.

We first invested in Adriatic when its market capitalisation was less than \$200 million relative to the almost \$1 billion valuation it currently enjoys.

Dusk Group

Dusk Group was a stock that we selected after the company released an earnings upgrade shortly after its IPO, almost tripled its earnings guidance. The release was made in the 'dead' period between Christmas and New Years Day; and we were able to buy stock at a very attractive valuation with virtually no competition given the traditional holiday period.

Dusk's business model has a number of attractive elements, including a strong customer loyalty program and digital presence. Our thesis was that the business model could be rapidly expanded overseas given the non-cultural nature of the products and the significant precedent for Australian consumer brands to expand into far larger off-shore markets.

Ultimately, the company's team were far too conservative to pursue this very obvious, expansion strategy which would have likely resulted in large value accretion for shareholders. Once this became evident this was a thesis break and we exited the position profitably although somewhat disappointed by the potential of what could have been.

Echo Resources

Echo Resources was a gold developer whose assets were located in the strategically important Yandal Belt, a region where a number of significant gold mines had produced for many years. We recognised the significant latent value in Echo, given the company held significant gold processing infrastructure, with a replacement value many times the market capitalisation; as well as a solid gold resource endowment of almost 2 million ounces. The company had conducted detailed feasibility studies demonstrating very strong, attractive economic potential due to the minor capex required in restarting the plant. Ultimately, this unfortunately did not play out as the company was taken over by Northern Star Resources, a large Australian gold producer, for around \$250 million.

We entered the majority of our stock at a very modest valuation of circa \$80 million and despite the profitable exit, wonder how the company would have fared if it had stayed independent given the gold price has risen 50% since the takeover.

Metals X

Metal X owns 50% of the Renison Tin mine located in Tasmania, a high-quality producing asset. We purchased the company at a modest market capitalisation of around \$200 million. This subsequently rerated as the company divested non-core assets and the price of tin boomed driven by an uplift in demand against stable supply. We exited this position at a market cap of around \$600 million as the tin price softened and operational delays occurred, thereby leading to a thesis break.

Myer

Myer is an iconic Australian retailer that had languished for a number of years due to a large overhang of excess floorspace let. We observed that the management team was disciplined in reducing floorspace over time and had also built a successful online business model. We entered the stock at a market cap of ~\$200 million recognising the significant value of the Myer brand and the near-term catalyst of an emerging turnaround in business performance. Consequently, we sold our stock at almost double our entry price as the company demonstrated its credentials and the market rerated the business accordingly.

Selfwealth

We initially invested in Selfwealth during the market lows of March 2020. We recognised a market leading brand with excellent consumer trust coupled with very strong industry tailwinds. These tailwinds were driven by a huge increase in retail stock trade volumes over the period of social restrictions in Australia. The stock was re-rated before falling to its previous price levels. There remains a very attractive, significant and persistent value differential between Selfwealth and competitor brands in the space. This differential is despite Selfwealth holding the number 3 market position in terms of market share and accordingly, is many times larger than these competitors. We took a board seat in early 2023, to assist in enhancing value accretion for all shareholders. Selfwealth currently trades at an enterprise value of around \$20 million, extremely modest relative to recent comparable industry transactions.

WA1 Resources

WA1 Resources is a mineral explorer that has discovered a range of critical minerals, most notably niobium at world class tenor. Niobium is an extremely rare, highly valued mineral, primarily used in high quality steels, whose supply is highly concentrated with almost 90% coming from the Araxa mine in Brazil, and only 2 other mines producing globally. Niobium assets are highly valued and sought after, with extremely strong prices realised in the rare instances where these assets change hands. The value implications of what could be the world's second-best niobium deposit located in the world's best mining jurisdiction (Western Australia) are quite astounding. We first entered the stock at a market capitalisation of \$100 million and presently it trades at \$300 million.

Whitehaven Coal

Whitehaven is a producer of high-quality thermal coals for primarily East Asian export markets, with its assets primarily in NSW. In late 2021, we identified that the broader energy markets had been chronically under-invested in for a decade despite gradually growing demand over the same time frame, and we took a position in Whitehaven at a market cap of \$2 billion. In early 2022, the Russian invasion of Ukraine occurred, providing a strong positive externality for the energy markets with a significant supply shock significantly escalating prices of energy products. Whitehaven consequently received shareholder approval to conduct the single largest proportionate buyback in Australian corporate history, with the ability to buyback 25% of the register. We exited this investment at a market cap of around \$6 billion, to pursue other investment opportunities during the historical soft summer months in the northern hemisphere.

New Fund offering

We remain enthused by the prospects in the smaller end of the market, given the attractive valuations at hand and are launching a specialist small company strategy, **the Datt Small Companies Fund**, to capture potential returns arising from this valuation mismatch. This Fund will invest solely in equities and accordingly we expect higher returns may be achievable, albeit at higher volatility.

We are targeting the launch in September 2023 and encourage investors interested in this offering to please contact Daniel Liptak via email at daniel@datt.com.au or via phone on 0419 004 524.

An online expression of interest form is also available via this [LINK](#)

Returns by Month

| | 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% | 12.00% | 9.22% | 8.24% | 23.23% |
| FY21 | 10.84% | 11.82% | -2.05% | -0.37% | -1% | 0.30% | -0.1% | 3.63% | -0.98% | 4.46% | 6.26% | -7.17% | 26.86% |
| FY22 | 3.21% | -6.32% | 7.63% | -6.90% | -2.64% | 9.42% | -6.49% | 5.27% | 9.28% | 4.31% | -0.43% | -3.71% | 11.03% |
| FY23 | 12.13% | 15.40% | -3.76 | -0.25% | -2.45% | -2.63% | -1.46% | -3.65% | -5.19% | 2.02% | 5.22% | 0.47% | 14.54% |
| FY24 | 2.11% | | | | | | | | | | | | 2.11% |

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Please click the link below to view the Fund disclosure documents and apply for an investment online.



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