



Media Release

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Position portfolios for the inevitable: Datt Capital

Inflation: It's not coming ... it's here

Founder of boutique Australian equity investment firm [Datt Capital](#), Emanuel Datt, is advising investors to modify their portfolio to take account of inflation, which he says "is already evident on the ground despite what government figures are telling us."

"In practical terms, we've seen broad price rises in almost every aspect of everyday life across the board over the past 12 months. We ourselves have noticed large price increases in an array of services such as Uber fares, home food delivery prices and the cost of skilled blue-collar services like plumbing. We have also observed that hardware wholesalers have recently at times experienced shortages of basic items such as timber.

"A common enquiry from investors we speak with is: 'which assets are attractive in this environment and which ones should we avoid?'

"Our suggestion, which we have acted upon in terms of portfolio construction, in a high inflation environment, the best places to be are in real assets.

"Real assets are those that are tangible assets such as:

- hard commodities like precious and base metals
- soft commodities like agricultural products and produce
- real estate
- listed equities

"We also consider companies experiencing sustainable organic growth are attractive in this environment, as typically growth multiples contract in line with inflation allowing investors with a longer time horizon to benefit from purchasing these assets at lower, out-of-cycle valuations.

"The Datt Capital Absolute Return Fund has been well positioned to this thematic.

"We anticipated that inflation would come about in early 2021 due to the COVID related shutdowns and subsequent enormous government stimulus programs enacted worldwide.

"We increased our exposure at this time to maximise our exposure to real assets largely via commodities which we felt were materially undervalued at the time and would be subject to the most upside over a medium-term range.

"Offshore precious and base metals play Adriatic Metals (ASX:ADT) is an example in our portfolio of both an investment focused on commodities and a value proposition given its assets and outlook, although it is not necessarily widely appreciated by the local market given its Balkans focus.

“The ongoing rise of Oz minerals - not in our portfolio - is one of many examples of this commodities thematic as is, of course, BHP, Rio and Fortescue.

“A high inflation environment also affects various assets negatively. We would avoid fast moving consumer goods (FMCG) and direct-to-consumer (DTC) technology companies and fixed income investments.

“FMCG companies are generally disproportionately affected by rises in commodity prices due to higher input costs. Generally, packet sizes are reduced to attempt to maintain margins with eventual shifts towards increased end prices which tend to reduce overall margins. DTC technology companies tend to be exposed to a deflationary price environment over time with little pricing power. This factor means that price rises to customers are difficult despite higher input costs.

“Fixed income assets have negative exposure to inflation because coupons are generally fixed. Even if they are floating coupons, they are generally priced off rates that are linked to a government set 'cash rate' which does not reflect the true cost of finance at a given point.

“Accordingly, we believe investors should take care in the current environment to select investments that can deliver rates of return well above official inflation figures as well as thinking carefully about which particular sectors and assets they invest into,” Mr Datt said.

For April 2021 the Datt Capital Absolute Return Fund provided a net return of +4.46% for the month.

The fund has achieved a 12-month rolling return of +52.04% vs a return of +30.76% for the ASX 200 Total Return Index over the same period, outperforming by +21.28%.

About Datt Capital

Founded in 2007, Datt Capital is a Melbourne-based Australian focused Long-only Fund Manager. Datt Capital is focused on generating alpha by structuring its portfolio in a unique and uncorrelated manner, across asset classes. Its investments consist primarily of listed equity, debt and derivatives solely in Australian markets.

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