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.

Datt Capital Absolute Return Fund – 3-year review

We did it! In August 2021 we achieved our 3-year mark for the Datt Capital Absolute Return Fund, which we consider to be a key stepping stone for the Fund.

We began the Fund with a number of factors against us: we were fund management industry outsiders from non-conventional backgrounds who invested in assets typically outside the mandate of conventional equity fund managers. Despite these challenges, we have always had an initial 5-year plan in mind to develop a sustainable, high performing boutique funds management business. At the 3-year mark, we are well-positioned to deliver on this original objective. I thank all our investors, staff and service providers for their faith and understanding despite the occasional hiccups all businesses sometimes experience.

Fund Review

The Fund's compound return since inception is 14.98% per annum versus around 10% for the XJOA (ASX200 Accumulation Index - a commonly used benchmark). This means that the fund outperformed the XJOA by around 5% per annum whilst only capturing around 54% of the market downside and achieving significantly lower portfolio risk metrics than the index over this 3-year period.

Pleasingly, each financial year return has been increasing in trajectory over time, and we hope to continue this trend.

Fund Investor net (post-fee) returns by financial year:

Financial Year	Return %
FY 2018/19	1.57%
FY 2019/20	23.23%
FY 2020/21	26.86%
Compound Return Since Inception	14.98% p.a

The world has changed immensely since we began the Fund. At the beginning, we used to plan which international destination we would like to visit; at present, we can only dream that we can visit interstate to visit family and friends at some undefined point in the future. The past 3 years have been tumultuous in retrospect. We have experienced the disintegration of globalisation and restrictive social conditions in the Australian context; disruptive US elections and an agitated social environment as well as the rise of Asian nations as the future. We believe the world is only going to be more tumultuous given the precarious situation that government's find themselves in. Easy monetary policies will likely continue as it's probable that individual freedoms will continue to be curtailed under the pretext of 'the greater good'. Social governing elements always swing between extremes over time, and we expect that the coming years will be no different.

Portfolio review

Looking back in retrospect, the single largest negative impact to the Fund over the 3 years was the impact of over-hedging during the 18/19 financial year. There is significant performance pressure for new fund managers especially within the first year, and we were not immune to this effect. Accordingly, we fell into the trap of trying to over-hedge our downside due to the negative media sentiment being expressed at the time. Our key learning from this is that even though we sometimes think we can time the market, there is a large element of luck within successful market timing. This lesson cost us around 10% of FY18/19's performance - a clearly unsustainable cost. Post this, we determined to control our risk going forward via cash re-weightings which come at no cost other than opportunity cost.

The second-largest negative impact was from a position within a mineral development company. Ultimately, this came down to inferior and undisciplined management team trumping a great asset. Whilst this may still yet turn around and prove us wrong, we cannot deny the overall detrimental impact on the portfolio with a cost of ~7% over the last 3 years.

The third-largest negative impact has been holding a large proportion of cash with the portfolio. The average cash holding over the Fund's lifetime has been circa 10%; whereas the return on our equity holdings has been significantly higher. This represents a large opportunity cost versus if we had instead deployed this cash into our equity holdings. We have been adjusting our approach to holding cash, recognising the very strong return on equity positions achieved and the potential opportunity cost this represents.

Our winners are the ones we love to talk about. Some of our best investments have been in: Adriatic Metals, Afterpay, Dusk and Selfwealth. We have waxed lyrical elsewhere on the respective virtues of these stocks mentioned so we won't repeat ourselves. Our present portfolio comprises of a mixture of growth companies in a number of sectors with the commodities, retail, biotech and consumer financials featuring prominently; with a small allocation towards fixed income. All of these equity positions we feel have the potential to provide asymmetric returns should they execute their strategy successfully. We feel that we are well-positioned to continue to outperform our current portfolio exposures.

Our Edge

Over time we have provided differential value to our investors. We believe that a large part of this is driven by the fantastic relationship and trust that we foster with the management teams of our long-term investee companies. We are always full of ideas about our investee company operations as well as potential pitfalls. We freely pass along these comments along in a discrete, actionable and collegial manner that empowers teams to make decisions for the company in a fully informed way. We act ethically and transparently; by simply doing what you say puts us above 99% of other professional investors. This supports the right environment to build a trusted and honest relationship with management teams.

Our ability to dig up unique opportunities and themes that the broader market understands and adopts has also been an enormous advantage over this time. Simply paying attention to what is happening around you gives you an advantage. I recall being truly convinced that Afterpay was going to be huge after passing a couple of young women in a shopping centre; one who was being educated on why Afterpay was better than Zip, as well as noticing the blooming of Afterpay stickers on retail shop fronts everywhere I went. This of course, can extend into areas with very transparent online information available but no one really pays attention. Our investigational ability also extends to weeding out companies that for example, may portray strong organic growth which may not be the reality.

Once again we thank our investors for their trust over the past 3 years, and we look forward to delivering many more years of alpha to you going forward.

For now, the Fund remains open for investment.

To join our Waitlist and Register your interest in the Fund please register via this link:
https://bit.ly/Datt-Interest

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

DATT CAPITAL LEVEL 11, 1 QUEENS ROAD, Melbourne Victoria 3004
E: investor.relations@datt.com.au