DATT CAPITAL

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A 'barbell' investment approach can mitigate investment risks to achieve solid returns, says Datt Capital

If the secret of investment success is not to follow the herd, Melbourne- based boutique manager Datt Capital should garner a big following in the investment world, because there are not too many fund managers like this.

Springing out of the way that the Datt Group (the Datt family office) investments are managed, the Datt Capital Absolute Return Fund invests partially in commercial real estate (CRE) debt and partially in a long-only high-conviction Australian equities portfolio, under an approach that managing director and chief investment officer Emannuel Datt calls a "barbell" investment strategy, which involves blending low and high-risk assets inside a portfolio to achieve a greater overall risk-adjusted return.

"The heart of our process and philosophy is rooted in risk mitigation, and the multi-asset approach suits that perfectly," says Emmanuel Datt, founder and chief investment officer at Datt Capital. "At one end of the barbell we have fixed-income and real assets, which is primarily CRE debt, which is core expertise for us, and at the other end is very high-conviction Australian equities. The two diversify each other – the property debt mitigates the equity risk," he adds.

Datt Capital groups investments into three risk categories: Real assets and income securities (lower risk), shares, value reversion, cyclical opportunities and special situations (medium risk), and within shares, growth and emerging companies (higher risk).

"Our portfolio exposure is always spread among these three risk categories depending on the current opportunity set the market presents us with, and that approach has led to good outcomes over time," says Datt. As at 31 May 2020, the fund's asset allocation was: CRE debt (41%); shares (52%); and cash at 7%. The equities part of the fund is very high-conviction: it currently contains just six stocks.

As at 31 May 2020, the Absolute Return Fund had achieved a 12-month rolling return of 14.7%, compared with a fall of 7% for the S&P/ASX 200 Total Return index over the same period, for outperformance of 21.7%.

A good example of the high-conviction approach on the equities side is Datt Capital's early investment in buy-now, pay-later payments platform Afterpay, which was a core holding (the largest holding) of the Absolute Return Fund at inception in December 2018.

"We were in Afterpay quite early, because we felt that it ticked all the boxes for us, from the management team to the technology to the structure of the markets themselves. We believe that the growth path ahead for Afterpay is immense, particularly in the US, but that the local market isn't valuing the opportunity the same way that it would be valued in the US.

“We were happy to let Afterpay run to 25% of the overall portfolio, because we believe that compelling opportunities are rare, and when they come along they should be weighted appropriately,” says Datt.

With an entry price close to $7, Datt was happy to start selling in the $20 range. “It was more that Afterpay was becoming a $5 billion-plus company, and that’s quite a bit higher than our preferred capitalisation level,” Datt says.

The fund retains a small holding in Afterpay, at about 2% of what the stake was its peak. Datt is philosophical about seeing the stock at $56: “We all wish we could say we saw Afterpay reaching $50,” he says. “We still like the company and the opportunity, but we like to scale into things, to reduce our risk, and to scale out of things – to take money off the table when we think an appropriate value has been reached.”

The fund’s current largest two positions are in Adriatic Metals, which is developing a huge poly-metallic deposit in Bosnia; and SelfWealth, which bills itself as Australia’s cheapest online stockbroker. Both stand at about 15% of the portfolio.

Formally, the Datt Capital Absolute Return Fund aims to generate annual double-digit absolute returns over a rolling two-year period. It is benchmarked as seeking 5% above the Reserve Bank of Australia (RBA) cash rate, but Datt says the target is effectively 10%–12%. The informal return comparison is the S&P/ASX 200 Total Return index.

The fund is restricted to “wholesale investors” as defined in the Corporations Act, and has a minimum investment $100,000. It is managed for an annual fee of 1.025%, with a performance fees of 20.5% above the “hurdle” rate, which is the RBA cash rate plus 5%.

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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