

The purpose of The Fund

The purpose of the Capricorn Diversified Investment Fund (CDIF) has not changed since its formation in January 2008. Its key objectives have been to generate regular income distributions similar to those of the broad Australian share market with lower relative year-to-year volatility in asset value. The Fund's continuing tilt is toward recurring income rather than capital gains. The benefit to the investor is a more consistent performance compared with sometimes volatile market segments such as shares.

CDIF provides indirect access to investments outside the reach of most individual investors, often due to the minimum investment required. The benefit to the investor is a more diversified portfolio than they could practically hold themselves.

Major Asset Sales & Purchases

The CDIF portfolio has continued to grow in size and diversity. The Fund's value (net of debt) at February 2018 is \$12,856,000 compared with \$11,198,100 a year earlier. Applications for new units far outweighed requests for redemptions.

The largest new investment was a \$2,000,000 loan secured by a commercial aircraft. This loan was made in July 2017 and subsequent repayments have been exactly in line with expectations.

A shorter-term loan to assist a farming enterprise was advanced in November 2017 and repaid with interest in January 2018. We continue to look for further opportunities for this style of investment.

A convertible note reached maturity in December 2017 and was successfully repaid, with all interest due.

Debt secured by the Suncorp House asset reduced by \$144,400 during the year to end February 2018. Loan repayments are made quarterly.

CDIF is holding more than \$870,000 in cash at the end of February 2018. This is higher than normal following the repayment of the short-term loan and convertible note, and receipt of new application monies in January 2018.

A number of new investment opportunities are being actively pursued and we look forward to putting available cash to good use.

Greetings

Welcome to Edition 7 of the Capricorn Diversified Investment Fund's (CDIF) newsletter – Fundamentally Speaking. In line with a key objective, CDIF has continued to make regular and steady quarterly distributions. We added new investments to the portfolio in recent months and the variety of assets increases. We look forward to maintaining this positive momentum. Please contact us if you have any comments or queries.



Suncorp House

Suncorp House in downtown Rockhampton continues to be a significant CDIF asset. The Suncorp Group and The Investment Collective (formerly Capricorn Investment Partners) continue as the tenants for the space utilized as offices.

As flagged in the last newsletter, The Investment Collective moved into the vacant first floor space. This is working well for the tenant and CDIF. More rapid than expected expansion of The Investment Collective's business and staff numbers sees all the newly occupied first floor space now taken up. In anticipation of continuing business growth, The Investment Collective offered to take back their former ground floor office space. This was agreed on properly commercial terms, meaning all the Suncorp House presently used as office space is occupied.

The ground floor, street-based space has been set up for use in the hospitality industry. This can be a challenging industry and the locally owned Chango Chango "Cuban Rum Lounge" closed in the latter part of 2017. Rental guarantees were in place to the end of 2017. This space remains unoccupied. There have been some expressions of interest from new parties although discussions have not yet progressed to formal agreement stage.

The solar panels affixed to the roof of Suncorp House are fully operational and extra panels have been installed. This is good for CDIF as it generates additional revenue and beneficial for the building tenants as power is available at a lower price than via the main grid.



Federation Villages

We introduced Federation Villages (more formally known as Eighth Gate Residences Fund No.6) to the CDIF portfolio in 2015. This investment makes quarterly distributions.

The forecast yield for the 2017 financial year was 8.21%. The actual yield was 7.2% with quarterly yields varying from a low of 4.15% (Q2) to a high of 10.6% (Q4). This shows that quarterly yields will vary.

The forecast yield for the 2018 financial year is 8.51%. The first quarter yield was exactly at this level, with the second quarter coming in at 7.06% on an annualised basis. About one-third of the yield is derived from "deferred management fees" crystallised when units are sold following the departure of a resident. This category of fee will vary from quarter to quarter. We hope to be able to report a restoration of the higher yields for quarters 3 and 4 of the current financial year.

Rural Loans

Many of The Investment Collective's financial planning clients are engaged in grazing and farming activities where access to financing from the major banks can be limited. Since December 2016, CDIF has provided two loans of \$300,000 each to a dry land crop family farming business in NSW. The loans provided the recipients with enough liquidity to finance all harvest operations and the principal and interest were paid back as soon as the crops had been sold. The terms of both loans were:

- \$300,000 principal
- Fixed rate 8.5% interest
- Strictly for business purposes only

To ensure the proceeds were used for business purposes only, a cash management account was established and managed by bookkeeping employees of The Investment Collective.

Without this source of financing, the borrowers would not have been able to finance their harvesting operations, more than likely resulting in them defaulting on existing loans and risking their business no longer being a going concern. We are pleased that our assistance ensured this was not the case.





JetGO

In August 2017, the CDIF Investment Committee approved to provide JetGO with a \$2 million loan to finance the balloon payment of an Embraer EMB-135KL aircraft. The agreement took the form of a finance lease whereby CDIF purchased the aircraft and leased it to JetGO at a fixed interest rate of 8.5% for 60 months. This means that CDIF will receive monthly lease payments of \$41,033 until mid-2022. The loan is secured by the aircraft and is guaranteed by both JetGO Australia Holdings Pty Ltd and its directors.

JetGO is a privately owned Australian company offering a portfolio of aviation services as Australia's only operator of 36-50 seat regional jet aircraft. JetGO's services include on demand charter, scheduled fly-in fly-out services for mining and energy companies, medivac and aircraft leasing services. The current flight routes link metropolitan hubs Melbourne, Brisbane and the Gold Coast to regional centres such as Rockhampton, Townsville, Dubbo and Wagga Wagga.

The diversification and consistency of cash flows that this investment opportunity presents, as well as the guarantees in place, made this investment an attractive addition to CDIF's growing portfolio. Likewise, JetGO's philosophy of servicing regional centres, a few of which CDIF has existing vested interests, aligns our interests and creates incentive to provide financing if any further fleet expansion is required.

CDIF Solar

A new 15kw solar panel system was installed at Suncorp House in December 2017 to service Suncorp Group in Suite 1A (please note the photo below was taken in October 2017). The Chango Chango system has also been moved to service the community electricity demand of Suncorp House while the community system has been redirected to supply electricity to The Investment Collective's new office space in Suite 4.

Supplying solar panels on shipping containers to remote Aboriginal communities is an innovative CDIF initiative that has gained support from the Northern Territory government. Funding is available to assist with its implementation through the *Indigenous Advancement Strategy*. There is potential to replicate this model elsewhere, creating a new market and improving lives of people in remote communities. David French travelled to the NT in early February to meet with leaders in the community of Thamarrurr and the NT government to discuss the viability of such a project.



The Price of Power

When you use electricity, there are five components that go into determining the price, namely:

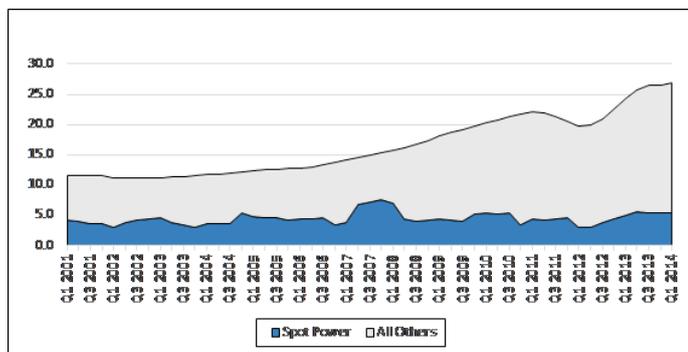
- The price of the power at the power station;
- The price of transmission from the remote power station to an urban fringe (huge wires and poles one sees from time to time);
- The price of distribution around an urban area (local wires and poles);
- The payment to the retailer, who matches customer with suppliers; and,
- Any Government charges such as the cost of running the market operator, the cost of Renewable Energy Certificates (REC) and the carbon tax when it existed.

Power and retail are generally unregulated. Retail can be regulated at the State level. Transmission and Distribution are regulated by the Commonwealth Government charges are typically 0.9c per kilowatt hour which is mainly RECS and the carbon tax was around 2.2c per kilowatt hour.

From the years 2001-2014 the retail cost of electricity rose by 6.8% pa, with most of the increase coming after 2006. As can be seen, virtually all the increase came from transmission & distribution prices. The actual price of power was static for more than a decade.

Over the past two years, we have seen a 13.5% decline from peak levels in transmission & distribution charges as the regulator began to appreciate the extent to which the system was being gamed and responded appropriately.

NSW Retail Electricity Price 2001-2014 (c/kwh)

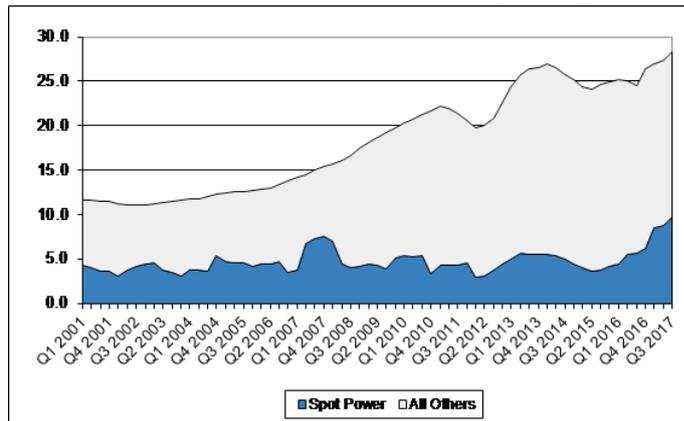


Power prices, however, have more than doubled following the opening of the Queensland based LNG plants, each of which utilises at least one grid fired desal plant, and the closure of a large Victorian based coal fired power station.

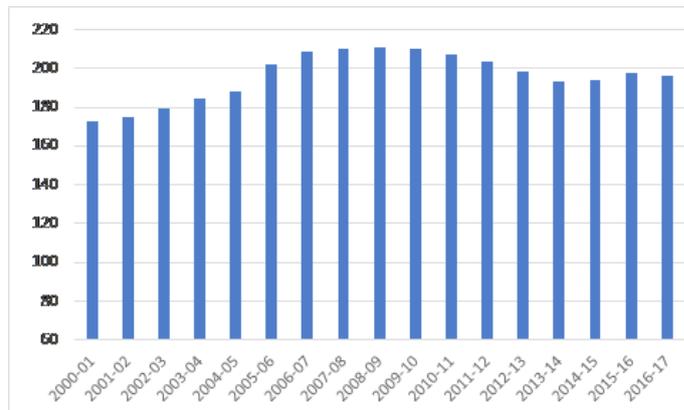
Interestingly, these price rises have been in the face of a decade long decline in demand. The decline in demand reflects a rational response to higher prices: better appliances, more behind the meter output (roof top solar), and more rigor around consumption.

This has resulted in sustainably higher prices, which creates an opportunity for very high returns from small, low marginal cost facilities.

NSW Retails Electricity Price 2001-2017 (c/kwh)



Australian Energy Market Consumption 2001-2017 (twh)



CDIF Distributions & Unit Price

Four cash distributions of \$0-01 each were made to unitholders during calendar year 2017. This is equivalent to an income yield of 4.8% pa based on the average unit price. We anticipate 2018 distributions will continue on the same quarterly frequency and with an increase in the per unit distribution rate by year's end. This relative stability of unit price, at times of turbulence in segments such as share markets, is consistent with CDIF's objectives.



Capricorn
Diversified
Investment
Fund

Rockhampton Office
Suite 4, 103 Bolsover St
PO Box 564
Rockhampton QLD 4700
☎ 1800 679 000
✉ 07 4922 9069

Melbourne Office
Lvl 1, 4 Prospect Hill Rd
PO Box 1134
Camberwell VIC 3124
☎ 1800 804 431
✉ 03 9813 0442

🌐 www.investmentcollective.com.au/services/cdif
✉ cdif@investmentcollective.com.au
ARSN: 139 774 646
AFSL: 471728