



Greetings

Welcome to Edition 8 of the Capricorn Diversified Investment Fund's (CDIF) newsletter – Fundamentally Speaking. We have added new investments to the portfolio in the last 12 months and The Fund is continuing to provide stable returns during a time of volatile capital markets. We look forward to maintaining this positive momentum. Please contact us if you have any comments or queries.

The purpose of The Fund

The purpose of the Capricorn Diversified Investment Fund has not changed since its formation in January 2008. The Fund's 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, and a more diversified portfolio than they could practically hold themselves. CDIF provides indirect access to investments outside the reach of most individual investors, often due to the minimum investment required.



Summary

The CDIF portfolio has continued to grow in size and diversity. The Fund's value (net of debt) on the 28th of February 2019 was \$14,181,511 compared with \$12,856,000 a year earlier.

The largest investment in the last 12 months was an additional \$841,086 contributed to Federation Villages. These funds will be deployed by Federation Villages to develop a retirement village in Ballarat, VIC.

An amortising bond issued by mining

contractor NRW Holdings was redeemed in December 2018. This asset was redeemed early by the issuer, resulting in a cash payment of \$305,000, following a 7.5 percent per annum return since inception.

Debt secured by the Suncorp House asset reduced by \$157,500 during the year to end February 2019. Loan repayments are made monthly.

CDIF is holding more than \$600,000 in cash at the end of February 2019. This is higher than usual following the redemption of the NRW bonds and the delayed payment of the

December quarter distribution (discussed further below).

Around May 2018, JETGO Australia Holding (Australia) Pty Ltd was in breach of the terms of a finance lease that supported the purchase of an Embraer 135KL aircraft. This resulted in CDIF repossessing the aircraft, which in addition to directors guarantees and other measures, comprised the primary security for the loan. The aircraft is currently completing its scheduled heavy maintenance in Cairns, QLD to ready it for sale.



Suncorp House

Suncorp House in downtown Rockhampton is a significant asset of CDIF. The Suncorp Group and The Investment Collective (formerly Capricorn Investment Partners) are the current tenants.

In anticipation of continuing business growth, The Investment Collective took back office space it formerly occupied and is now leasing both Tenancies 1B and 4. This agreement was on properly commercial terms, with the result that all Suncorp House office space is now occupied.

The ground floor, street-based space has been set up for use in the hospitality industry. There have been some expressions of interest from new parties and a lease agreement is currently being drawn.

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 2018 financial year was 8.51 percent. The actual yield was 6.27 percent with quarterly yields varying from a low of 4.00 percent (Q3) to a high of 8.51 percent (Q1).

The main reason for the variation in income from this asset relates to the portion deriving from Deferred Management Fees (DMF). About one-third of the yield is generated from this source, received when units are sold following the departure of a resident. This category of fee varies from quarter to quarter and is somewhat dependent on the housing market. Currently, the very soft housing market is delaying sales of existing residences, and therefore settlements at Federation Villages. As a matter of interest, companies with operations similar to Federation Villages accrue this DMF income, regardless of when it is actually received, based on life expectancy tables and the like. This means that Federation Villages' earnings are often reported at a lower level than they would be if the company was listed, despite that the underlying business is very similar.

In February 2018, the Federation Villages asset was revalued on the basis of an independent valuation. This resulted in Federation Villages' unit price to increase by 10 cents, which equated to a 3 cent increase in CDIF's unit price. We understand that the manager of Federation Villages recently commissioned a review of the valuation methodology,

which suggests there may be further opportunity for a valuation uplift.

In July 2018, Federation Villages purchased a broad acre landholding in Ballarat to expand its operations in Victoria. The \$6 million acquisition was funded through a 1 for 7.847 rights issue that CDIF fully committed to, raising our investment to \$6.4 million. The acquisition will form the basis for a 163 dwelling site community and a forecast \$50 million in new home sales. The Ballarat greenfield initiative will lower yields in the short term due to the associated development costs, but is expected to result in very strong returns once the project is complete, units are sold to new residents and borrowings against the site are repaid. Federation Villages' management anticipates that the yield will increase to 10.1 percent per annum once the development is complete and the borrowings are repaid (expected in the 2023 financial year).

Following discussions with management, we understand that the forecast yield for the 2019 financial year is 6.27 percent, after accounting for the Ballarat development. Actual results of 3.01 percent (Q1) and 4.07 percent (Q2) are below this figure due to the DMF issue addressed above.

CDIF Solar

CDIF Solar holds a Retail 8 exemption from the Australian Energy Regulator. This exemption allows us to provide solar electricity systems to commercial customers under Power Purchase Agreements (PPAs). Currently, there are systems servicing the tenants of Suncorp House in Rockhampton, and another system servicing a fruit processing plant in Yeppoon.

A 20-year PPA with a Capricorn Coast caravan park was signed in late February 2019. This agreement will require the installation of a 39Kw system and will expand the total size of our systems to 144Kw.

Scoping for additional solar systems is being completed for another eight potential customers.

Embraer ERJ 135KL Aircraft

In August 2017, the CDIF Investment Committee approved a \$2 million loan to JETGO Australia to finance the balloon payment of an Embraer ERJ 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 percent for 60 months. This agreement was beneficial to both parties for seven months. However, due to the breakdown in other financing arrangements, JETGO suffered serious financial distress and was forced to enter voluntary administration. We were



able to identify JETGO's issues before administrators were appointed, which allowed us to repossess the aircraft.

The aircraft is currently completing its scheduled heavy maintenance in Cairns, QLD. This is a large and expensive maintenance program that was the original responsibility of JETGO. In order to give unitholders the best possible return, we are committed to completing the maintenance program in order to sell the aircraft at its market price rather than its salvage value. This has meant that the cash position of CDIF has had to be carefully managed.

The fair market value of the aircraft has been estimated by an independent valuer at approximately \$A3 million. This is somewhat higher than the current carrying value in the books of CDIF, and is not significantly different to the current recovery estimates, including the cost of the maintenance

program.

Aircrafts such as this are typically priced in US Dollars. The Australian Dollar denominated value of the aircraft is further supported by the recent fall in the AUD/USD exchange rate.

Although the results of this investment over the last 9 months have been disappointing, we are working toward selling the aircraft with a view of deploying the proceeds into higher yielding investments.

Distributions

The Fund has paid \$2.7 million in distributions since 2012, at the rate of 1 cent per quarter. Management has decided to suspend distributions for the time being, until the maintenance program for the aircraft is complete, and the asset is sold.





Redemptions

CDIF is an open-ended and unlisted managed fund that aims to provide investors with returns that are uncorrelated with equity markets. This mandate leads CDIF to invest in diversified assets that are often illiquid. As a result, redemption requests are met subject to availability of liquidity and quarterly redemption caps, in order to ensure The Fund maintains suitable liquidity levels.

All redemptions are approved by the CIP Licensing Limited Board

of Directors. If approved, under an internal policy document, a maximum of 1.25 percent of The Fund's net assets can be redeemed to unitholders per quarter. Since inception, a total of \$1.9 million has been redeemed from The Fund.

As previously discussed, the aircraft owned by CDIF is currently completing a large scheduled maintenance program in Cairns, QLD.

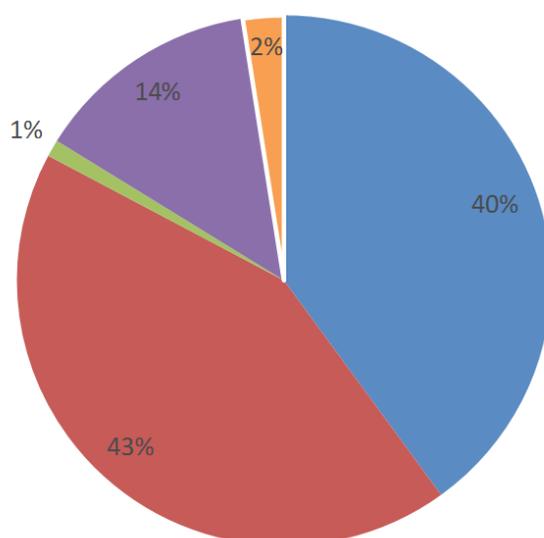
The maintenance program is an expensive and unpredictable task. In order to provide unitholders

with the best possible return, we are committed to completing the maintenance program in order to sell the aircraft at market value.

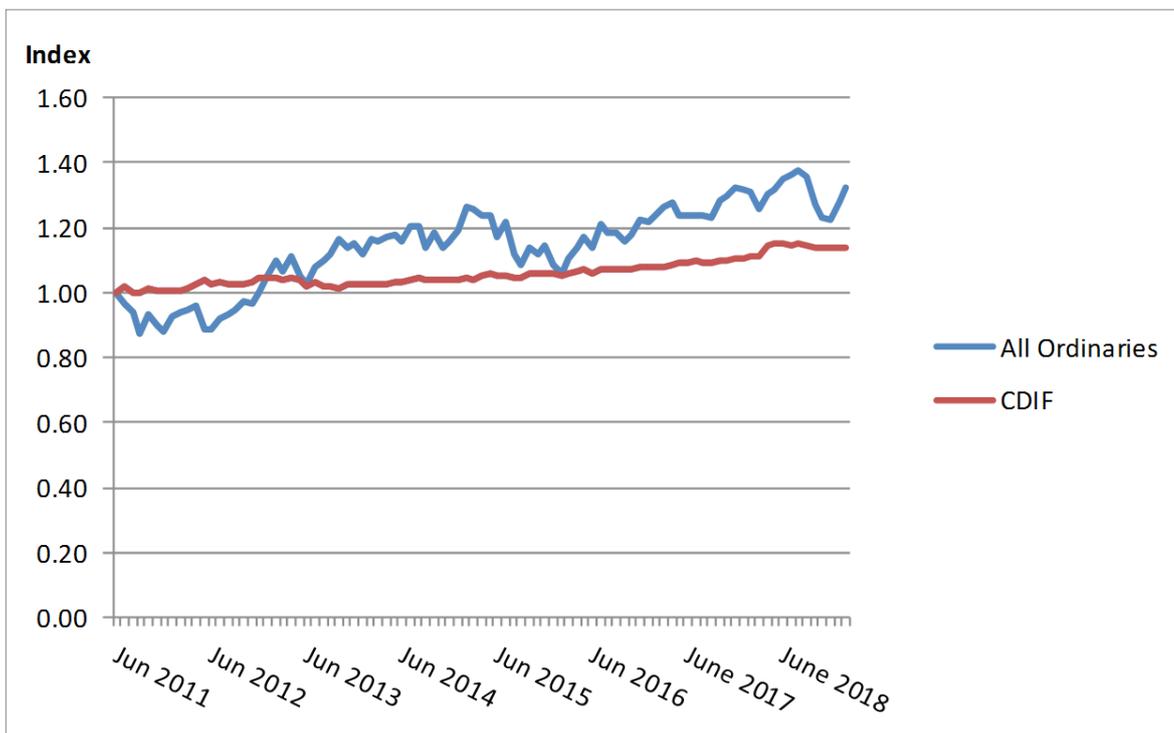
Given the status, we have decided to withhold distributions and redemptions until the sale of the aircraft is complete. If you have any further questions, please contact your adviser.

Asset Allocation & Property Lease Profile (February 2019)

- Suncorp House-Rockhampton
- Eighth Gate Residence Fund & other property assets
- Solar
- Fixed Interest (aircraft)
- Other Net assets
- Cash at call

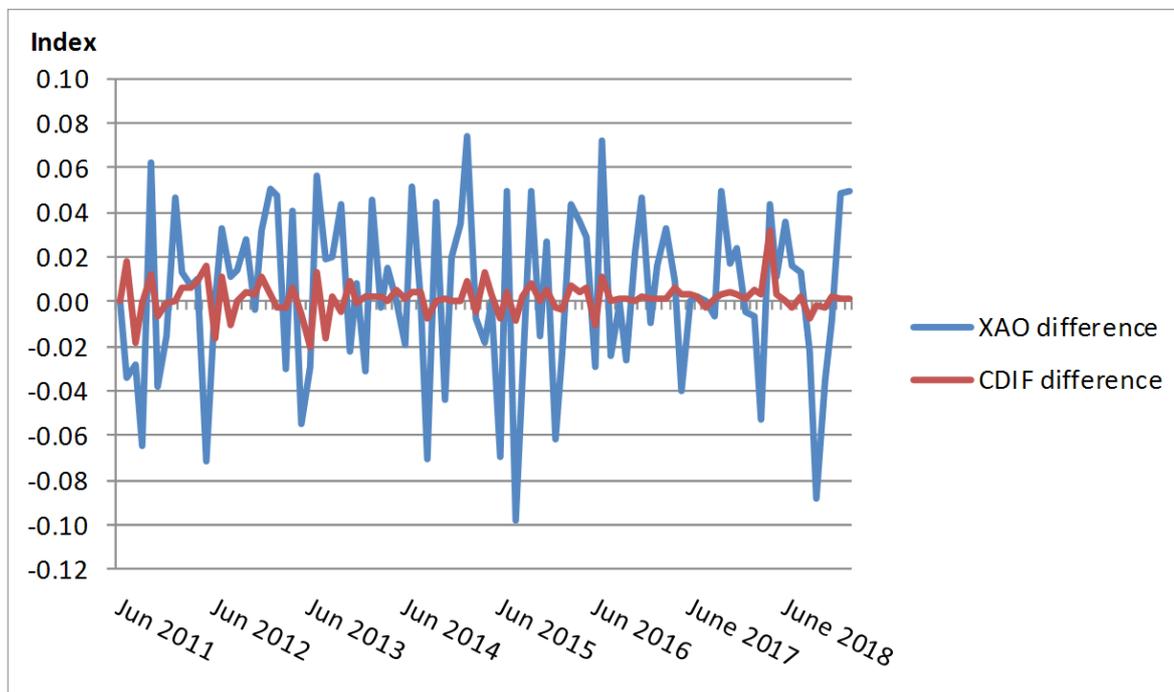


The combination of capital value and distributions is showing an upward trend, which is expected to accelerate as The Fund increases in size and asset returns increase.



While volatility remains much lower than the market.

NB: Does not include the compounding effect of investment of returns.



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/cdif
✉ cdif@investmentcollective.com.au
Responsible Entity - CIP Licensing Limited
AFSL 471 728
ARSN 139 774 646