



## ASX ANNOUNCEMENT

### Sydney, 14th September, 2017: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Shareholders,

September was a month characterised by stability for the Contrarian Fund, but overall cautiousness in the market place. With the exception of QBE there were no big movers in the portfolio in either direction. There was a general softening of stock markets globally however, and particularly in Japan where the Fund has a third of the portfolio weighted. The strengthening in the yen posed a headwind for Japanese equities, but we continue to be impressed by the underlying resilience of that market, particularly in the face of geopolitical tensions with North Korea reaching a crescendo.

Strengthening commodity prices were supportive of our mining positions but this was not enough to offset general softness across the portfolio. Furthermore a trading position in Telstra went against us following a cut in the dividend being greater than expected.

The post-tax net tangible asset backing per Fat Prophets Global Contrarian Fund Limited share as at 31 August 2017 to be \$1.085. This represents a 1.3% decrease on last month's NTA of \$1.0989.

	31-Aug-17	31-Jul-17	Change
Pre Tax NTA	1.079	1.0986	-1.8%
Post Tax NTA	1.0847	1.0989	-1.3%

Stocks that performed well over the month were Japanese engineering firm **SMC Corp** (+7.4%), mining companies **BHP Billiton** (+5.9%), **Coeur Mining** (+5.7%) and **Fresnillo** (+5.2%). Decliners over the month include **QBE Insurance** (-11.9%), Japanese robotics specialist **Fanuc** (-5.4%) and US shopping centre REIT **DDR Corp** (-5.0%).

**SMC Corporation** was founded in 1959 and specialises in pneumatic control engineering to support industrial automation. The company has a global presence selling its products into 83 countries with 30 of those also having manufacturing facilities. The company has been a solid performer with net sales growing 120% to ¥487,625 million since 2009 and net income rising nearly six-fold over the same period to ¥113,095 million (A\$1.357 billion).

Automation is set to become increasingly prevalent in industrial processes as manufacturers seek to upgrade their machinery and exploit technology to lower costs. Japan is a world leader in robotics technology and we expect market leading companies such as SMC Corp and Fanuc to lead the charge.

Another headwind for the fund was **QBE Insurance** which is a stock that has been out of favour with the market for nearly a decade. QBE sold off sharply following the release of the Half Year results, which revealed softness in the Latin American division, which accounts for around 10% of the total revenue. The shares have continued to trend lower although we believe the market has over reacted. This is understandable given the number of

earnings misses and downgrades endured by the market over the past ten years – but therein lays the opportunity.

The Insurer's core business in North America and Australasia remains strong, despite rising claims in emerging markets. QBE is however taking remedial action to address this situation and premiums are seeing upward pressure (which will likely continue in the wake of the worst back-to-back storms incurred in the US in decades) There will also be a new incoming CEO, with the appointment of Pat Regan who has successfully run the Australian and New Zealand operations.

After trimming our initial holdings in QBE several months ago, we added to our position in the wake of the disappointing profit result. We also sold Put options over the stock maintaining a favourable outlook for the company over the medium to longer term. Although any sudden upward revision in investor sentiment in the near-term may prove elusive (due to a flattening of the yield curve) global appetite for insurance stocks has increased in the wake of the twin Hurricanes in the US. QBE stands out from its peer group trading at a significant discount on a price to book value basis.

We have also built up a stake in UK waste technology company **Powerhouse Energy**. The company is listed on the AIM stock exchange in London and is in the final stages of commercialising technology that will not only eliminate non bio-degradable waste, but will turn out clean burning fuel or hydrogen, that will be beneficial to the environment.

The company estimates that there will be significant demand for this technology, particularly given that waste can be converted into hydrogen at cheap price. Hydrogen demand is going to soar with the advent of electric cars. The company has a comparatively low market capitalisation given the technology and we expect a significant rerating in the year ahead. The Fund participated in a recent placement of Powerhouse shares.

With reporting season coming to an end we were pleased to see some stellar numbers being reported in the commodities space. Our holdings include top tier producer **BHP Billiton** and its spin-off **South32**. Both companies reported a strong set of numbers relative to the previous year, benefiting from rising commodity prices. BHP reported underlying EBIT up 257 percent to US\$12.39 billion and near tripling of its dividend to US 83cps.

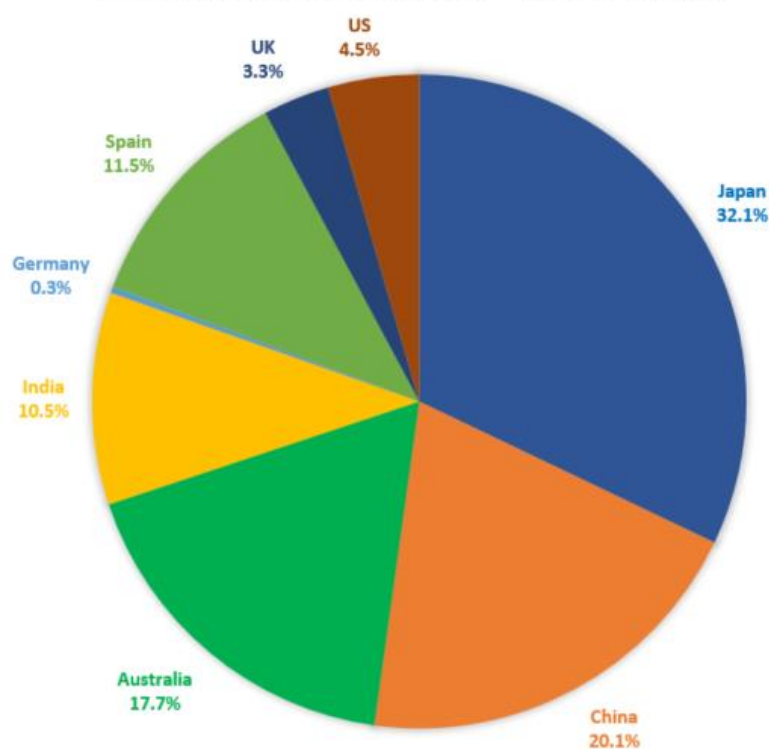
Similarly, South32 saw underlying FY17 EBIT rise 363% to US\$1.6 billion. Higher commodity prices were the key driver with a weaker USD also giving the result a boost. We have a positive outlook towards commodity prices into 2018, which would benefit the top tier low-cost producers held in the Fund and the Australian economy more broadly.

Other changes made during the month include adding to our position in Spanish pizza chain **Telepizza**, and US shopping centre REIT **DDR Corp** which we discussed in our previous month's NTA release. We have also built up a position in Australian Financial platform provider **Praemium**, which is a sector we favour due to inherent operating leverage in the business model. The stock has faced a headwind following a boardroom stoush that saw the CEO Michael Ohanessian fired then later reinstated by way of shareholder vote which we supported. Praemium continues on its growth path, with funds under administration hitting a record \$6 billion and we expect to see a significant improvement in earnings and an ongoing rerating in the stock in the year ahead.

In terms of currency trading, during August we shorted the USD against both the NZD and AUD, closing out both positions for positive gains. As at the end of August the Fund had leverage of 25.2%.

Top 10 Holdings	31 August 2017	Country
BAIDU INC	7.2%	China
BOLSAS Y MERCADOS ESPANOL	5.7%	Spain
FAIRFAX MEDIA LTD	4.8%	Australia
WYNN MACAU LTD	4.6%	China
MANTRA GROUP LTD	4.2%	Australia
RELIANCE INDUSTRIES LTD	4.2%	India
MGM CHINA HOLDINGS LTD	4.1%	Japan
SUMITOMO MITSUI FINANCIAL GROUP	4.0%	China
MITSUBISHI UFJ FINANCIAL GROUP	3.9%	Japan
SONY CORP	3.7%	Japan

### GEOGRAPHIC EXPOSURE AS AT 31 AUGUST 2017



Angus Geddes  
Chief Investment Officer  
Fat Prophets Global Contrarian Fund Ltd.