



## ASX ANNOUNCEMENT

Sydney, 11th April, 2018: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Shareholders,

The month of March proved to be a difficult one for the Fund with the Pre-tax and Post-tax net tangible asset backing per share in the Global Contrarian Fund as at 31 March 2018 **decreasing by 6.61%** and **4.72%** respectively, net of fees, to **\$1.1257** and **\$1.1193**, on the previous month's net tangible asset backing.

	31-Mar-18	28-Feb-18	Change
Pre-Tax NTA	1.1257	1.2054	-6.61%
Post Tax NTA	1.1193	1.1747	-4.72%

The March quarter of 2018 was one of the more volatile in recent years, reversing all of the gains in January after global markets made record highs post one of the strongest starts to a year. The Fund was impacted by moderate leverage and its exposure to Japan – a market we fundamentally believe in but which declined excessively in March. To date in April however, a significant amount of the underperformance has been recovered due to the bounce in the markets.

While the sharp rise in volatility and rising US bond yields triggered February's global selloff, mounting fears over a trade war and geopolitical tensions sparked the second leg down in March. **While these are the obvious catalysts for the markets drop**, the reality is that 'hot air' has continued to come out of the technology sector and the broader market after a strong run to the upside in 2017.

The Trump Administration has instigated much of the volatility with a style of throwing a lot of "balls up in the air" and making threats but only then to return to the negotiating table in what has been a recurring pattern. The latest trade war fears that have spooked the markets seem to be an apparent replay of the dynamic we saw play out last year with North Korea. The Trump Administration may be many things, but it is not anti-business. However "shock and awe" statements emanating from the White House impacted the markets during the quarter.

The volatility towards the end of March was pronounced in the technology sector with the "FAANG" stocks being hit hard and losing a lot of ground. The volatility became the catalyst for **ongoing reweighting by many institutions out of technology stocks, but it is still somewhat premature to call the bull run to the upside for the Nasdaq as being over.**

We have thought for some time that the technology sector - which has led the US indices on the upside for much of the past five years – was overvalued and in over-owned territory. This is the rationale for the Fund holding a relatively low exposure to the IT and Tech sector, with **Baidu being the Fund's only IT related holding in the US.**

With the end of the first quarter behind us, we expect markets should soon return to focusing on fundamentals with the first companies due to report earnings this week. We are expecting the market

to begin stabilising and take some comfort from the fact that the economic and fundamental backdrop to corporate earnings has been the best in years. **With the US economy remaining strong we should see a fairly solid reporting season, and this could be the catalyst that shifts focus back onto fundamentals and valuation.**

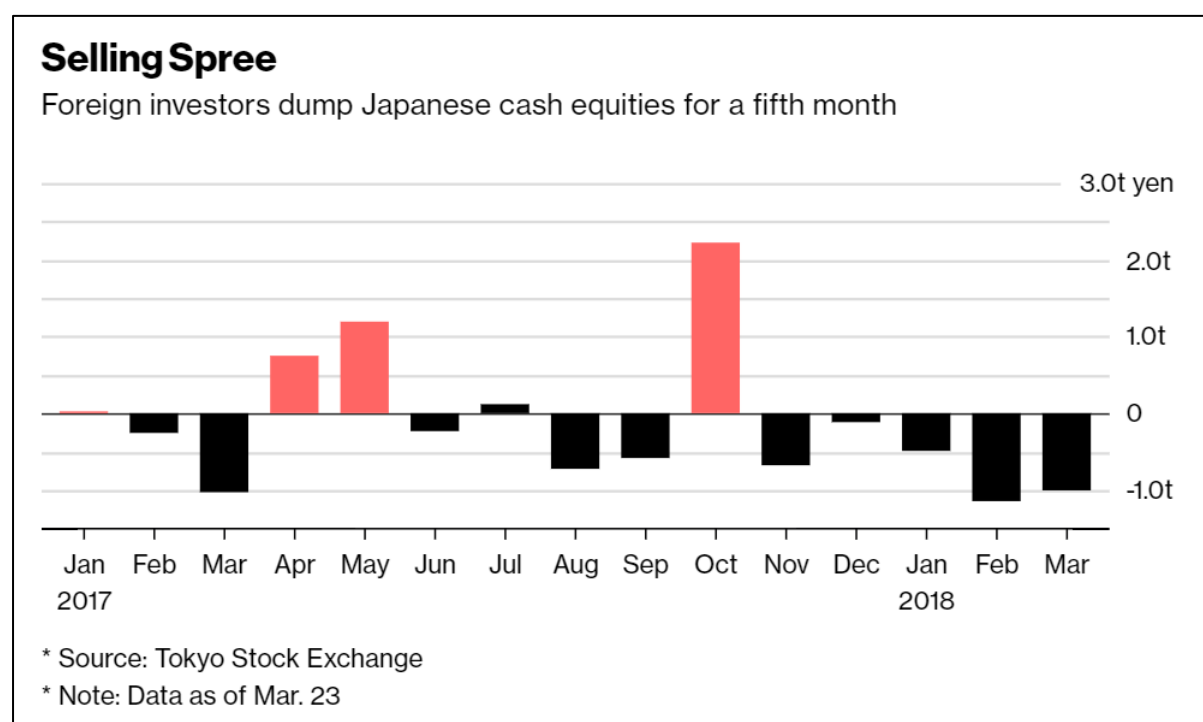
**With the 2019 consensus forward price earnings multiple of the S&P500 price having corrected from the 18/19X range to the low 15X during the nadir of the correction, we think there is significant scope for a rally barring some unforeseen collapse in US profits, which is unlikely given the US economy has performed.**

There can be no denying that a certain amount of technical damage in the past two months has shaken confidence and this will take some time to return. While the correction has been severe since the early February volatility spike, stock markets globally seem near term to be somewhat oversold. Sentiment should begin to improve with corporate earnings likely to validate the best economic conditions for the US, and the world, in many years.

We believe that on balance, with valuations much more compelling, trade war fears being overly discounted by the markets, and the fact that there has been a significant amount of deleveraging with investors since February, the balance of risk lays now to the upside at this juncture.

We must remind ourselves that this is not 2008 and the ensuing GFC that was precipitated by the unravelling of a corporate and financial sector that was bloated on credit. This is **more about the market undergoing a decent correction after a long period of record low volatility.** Whilst the last nine weeks of equity market losses have been painful, the squall that has dominated trading could disappear as quickly as it arrived.

In Japan – where the Fund has significant exposure – the correction was deeper than for most other markets. But this needs to be held in perspective given Japan was one of the best performing markets in 2017. It is human nature for investors to want to lock in profits at the first sign of volatility. And we have seen this with foreign investors systematically deleveraging and consistently selling down Japanese equities since October's record inflow.

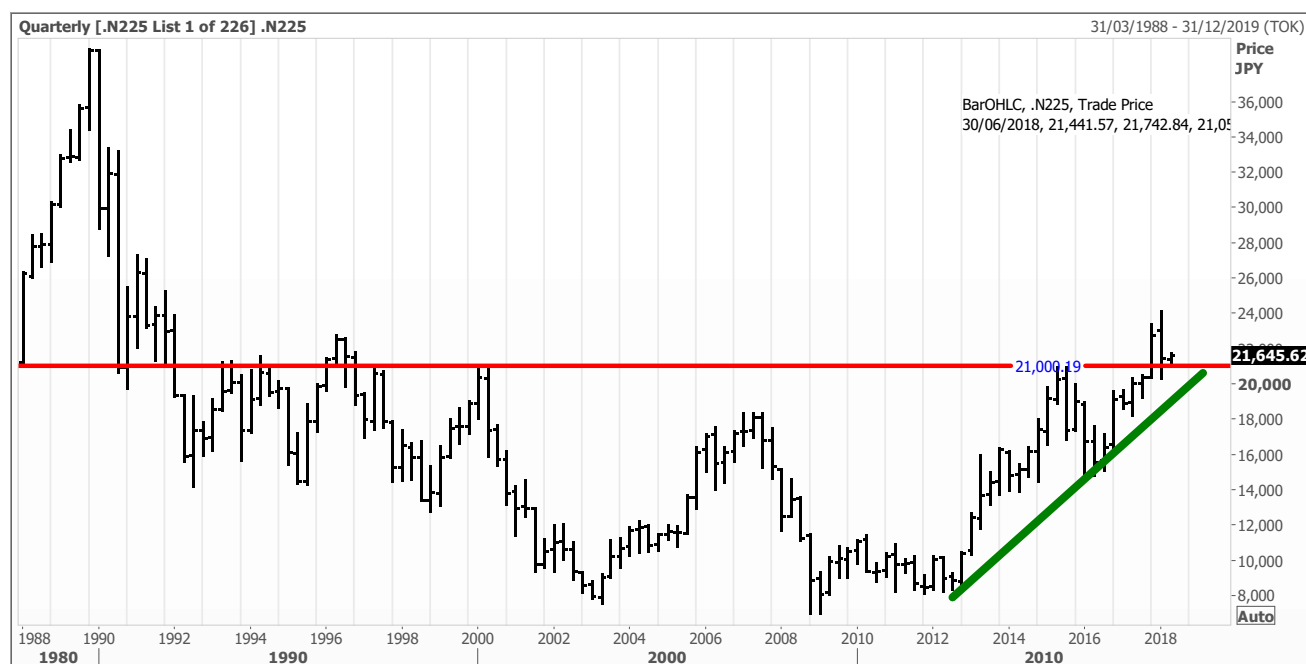


**We expect outflows to taper off sharply in April as overbought conditions correct.** This could see foreign investment managers swing back to being net buyers with nothing fundamentally changing in Japan and the corporate sector having the best economic conditions in decades.

Business confidence remains at the highest level in over a decade, capital expenditure is on the rise as companies ramp up investment and as geopolitical tensions with North Korea recedes. A Tankan index measuring capacity constraints in March showed that companies saw the job market at its tightest since 1991. Labour shortages will most probably soon lead to a virtuous growth cycle of higher wages & consumer spending, rising prices and increased investment. The survey showed that more companies are confident of being able to pass on higher costs to consumers.

**Japan's economy has expanded for eight quarters**, which is the longest continuous expansion since a 12-quarter stretch of growth between April-June 1986 and January-March 1989, around the height of Japan's economic bubble. In summary, we can't see this economic backdrop translating into a bear market that plagued the Japanese stock market for over 25 years, anytime soon.

Technically the price action in Japan during the global corrective selloff has been impressive and revealing. Japan's Nikkei has held above important support at the 20,000/21,000 level after breaking out to 30-year highs last year. The retracement in Japan's stock market has been around 50% of the 2017 advance, but this corrective decline needs to be held in perspective. We remain overweight Japan in the Fund and believe the probability is high of a retest of the 24,000 level later this year.



Turning to the portfolio, and changes made in the month of March included selling insurer **PICC Property & Casualty**, reducing our exposure in **QBE Insurance** and adding **Nufarm** to the Fund. We also added to our short US 10-year Treasury bond position.

Standout performers in a volatile month came from optical lens maker **Sunny Optical (+10.86%)** and gold miner **Evolution Mining (+5.95%)**. Sunny Optical reported a net profit increase of 128% for the year ended in 2017 which was well received by the market. Evolution has agreed with its JV partner to restructure the Tennant Creek gold project in the Northern Territory, to better align assets. The company will take ownership of those tenements associated with the Gecko-Goanna-Orlando copper-gold prospects. We continue to regard Evolution as a high-quality play on rising inflation coupled with increasing gold prices, with management ever optimising the portfolio, and driving costs down.

Stocks that weighed on the portfolio included financial service platform provider **Praemium** and Chinese online search giant **Baidu Inc.** Praemium succumbed to the global selloff in the technology sector, falling around 35% on no material news and despite a number of broker upgrades during the quarter. The company is leveraged to rising funds under administration and is well positioned within the Australian wealth management sector.

The Fund's two largest positions at the end of March were **Wynn Macau** and **MGM China**, which have both had a strong rerating and share price growth over the past few months. Wynn Macau reported a 55.7% increase in revenues and a 153% increase in earnings per share in their annual results for the year ended 31 December 2017. Both companies received broker upgrades following upward revisions on forecast revenues and profits. We are confident that China's long-term inbound tourism will continue to grow with the rise of China's middle class.

**The Macau casinos posted a 22% revenue gain in March.** This is the 20th consecutive month of gains, cementing a very strong recovery in the former Portuguese colony. Figures from Macau's Gaming Inspection and Coordination Bureau showed revenues rose 22.2% to 26 billion patacas (\$3.2 billion) versus analyst expectations of 13% to 18% growth.

Casino operator **Wynn Macau (the largest holding in the fund)** reported their annual results for the year ended 31 December 2017 after market close on Friday. **Casino revenues increased 63.6% from HK\$20.5 billion to HK\$33.6 billion, other revenues increased 55.7%.** Profit attributable to shareholders stood at HK\$3.7 billion, a 157% increase for the same period last year. Earnings per share came in higher by 153% at HK\$0.71 vs HK\$0.28 a year ago.

Disney, one of our top 5 holdings, is to offer a new streaming service from ESPN. Following the takeover of Fox, Disney will likely emerge with a formidable global streaming offering to compete with Netflix from next year. Disney will emerge with a huge brand portfolio and back catalogue post the FOX merger. **Disney sells on a multiple of just 14X and has a market cap of around \$150 billion.** This contrasts with Netflix that has a market cap of \$140 billion, little in the way of earnings and considerably less revenue than Disney.

Our sole tech holding is Chinese search engine **Baidu**. Baidu's video streaming unit, iQiyi, sometimes called the Netflix of China, completed an IPO in the United States. The IPO was valued at around \$2.4 billion and the funds raised will be used to enhance its content offering and technology platform. Baidu will remain iQiyi's controlling shareholder. The video streaming business has more than 50 million paid subscribers.

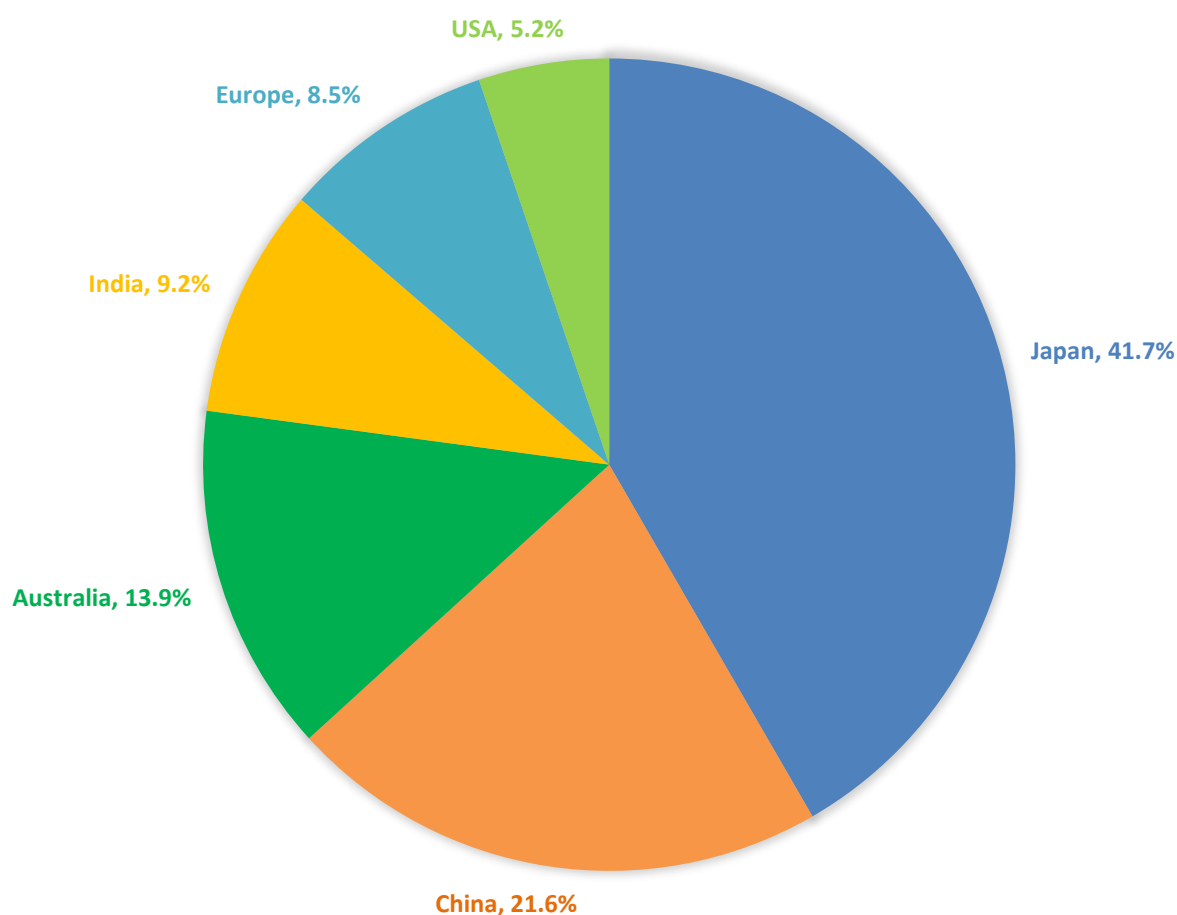
Sony Music Entertainment, the wholly-owned unit of **Sony Corp** (our third largest holding) revealed that it had sold around one fifth of a 5.71% stake owned in Spotify Technology, a provider of music streaming services. Spotify listed on the New York Stock Exchange last week, and the shares ended their first day of trading at \$149, valuing the world largest music streaming service at US\$26 billion. Sony received a much higher price than anticipated. Due to the gain from the sale, Sony could increase earnings for the second quarter of 2018 by 105 billion yen (US\$978 million).

In summary, whilst the portfolio has seen some volatility through the current market correction, we remain focussed on our high conviction positions in the Fund. These core investments are not short term trades but are through the cycle wealth creating opportunities in our view. Leverage in the fund is a strong focus of our management and has been maintained in the moderate range, but has contributed to some increased negative impact during the current market correction.

As at the end of February the Fund had **leverage of 63%.**

<b>Top 10 Holdings</b>	<b>28-Feb-18</b>	<b>Country</b>
WYNN MACAU LTD	9.2%	China
MGM CHINA HOLDINGS LTD	7.5%	China
SONY CORP	7.0%	Japan
THE WALT DISNEY COMPANY	6.5%	USA
SUMITOMO MITSUI FINANCIAL GROUP	6.0%	China
BAIDU INC	5.7%	Japan
RELIANCE INDUSTRIES LTD	5.6%	India
MITSUBISHI UFJ FINANCIAL GROUP	5.1%	Japan
PRAEMIUM LTD	4.4%	Australia
MINEBEA CO LTD	4.4%	Japan

## GEOGRAPHIC EXPOSURE AS AT 31 MARCH 2018



Angus Geddes  
Chief Investment Officer  
**Fat Prophets Global Contrarian Fund**