ASX ANNOUNCEMENT

Sydney, 12th July, 2018: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Shareholders,

The month of June proved to be a frustrating time for the Fund with initial strong gains in the first half of the month being eroded in the last week after steep falls in Asian stock markets, mainly due to global trade war fears with the US. We were not alone in finding market conditions quite challenging. With the benefit of hindsight, we should have been much quicker to lock in the large unrealised profits that accrued earlier this year.

During the month, we pivoted the Fund into a much more defensive position and significantly reduced leverage. Subsequently, by the first week of July nearly all leverage had been eliminated, which we believe is appropriate given the volatility. We are of the view that the second half of 2018 could produce further volatility, but this could also be a time of great "trading opportunities." The Fund needs to be in position to capitalise on this.

Pre-tax and post-tax net tangible asset backing per share in the Global Contrarian Fund as at 30 June 2018 **decreased by 3.35% and 2.72%** respectively to **$1.1228** and **$1.1170** on the previous month's net tangible asset backing.

Weighing on performance was the Fund's meaningful exposure to Japan and Hong Kong - markets which we continue to hold high conviction on, but nevertheless, underperformed as the trade rhetoric heated up. The last six months has been unpredictable with the Chinese market alone losing 25%. Some of our positions proved not immune to the broader selloff. We did however take an active management approach to the Fund holdings during the month in response to the ongoing volatility and we substantially reduced leverage.

	30-Jun-18	31-May-18	Change
Pre-Tax NTA	1.1228	1.1617	(3.35%)
Post Tax NTA	1.1170	1.1482	(2.72%)

Shareholders will be equally frustrated, **but the markets have been challenging offshore, particularly in Asia and Europe, while Australia has been relatively insulated by the lower A$. The US, helped by the ongoing upward momentum in the super IT sector, has also been a relative safe harbour.**

Year to date China's CSI300 has fallen more than 25% which has corrected approximately half of the upward advance between early 2016 and January of this year. While further downside could be sustained, we **think the worst of China's decline is probably over with the Chinese Central bank easing credit and interest rates.**

The US indices were mixed for the month of June, with the Dow down (-0.59%), the S&P500 up (+0.48%) and the Nasdaq up (+0.92%), but Asian and European markets fared much worse (Shanghai is now down 20% since February), in a month that has been dominated by trade tension fears. **Around $34 billion in tariffs are due to go into effect shortly, but the big**

<u>question is “will there be more coming down the line?”</u> At the time of writing, the Trump Administration listed another $200 billion of potential tariffs.

Asian markets led by China have been under significant pressure in recent weeks, and the Chinese Government have moved to increase liquidity in the banking sector and reduce interest rates. **This is clearly in reaction to the ongoing volatility caused by the tariff fallout, which has put the renminbi under pressure,** and this was also the catalyst for heavy selling in China and Hong Kong stock markets.

China’s CSI 300 has lost more than 22% this year, officially categorising it as being in a bear market, despite the fact that economic data remains positive and valuations are back at the cheap levels last seen in 2014.

While we have believed for some time that Trump and his trade policies are more about point scoring wrapped up in a “negotiating style”, we can’t rule out further uncertainty and unpredictability, particularly given the important US Midterm primary elections are around the corner in November. **Markets hate uncertainty, so volatility is going to be with us for some time, despite the fact the US reporting season is about to get underway in June.**

Perhaps what causes us the most concern, is the fact that the US stock market has held up in recent months despite the turmoil in Asia. <u>The critical question is going to be whether this outperformance can continue?</u> Leadership in the US market has narrowed amongst the large caps with the “super tech FAANG stocks” dominating to the point where this section of the market is the most over owned by investors, dominating portfolios.

And it has been this section of the market responsible for much of the outperformance in investment portfolios for the past four years. This is not a dissimilar environment to what we saw in the 1970s (with the “nifty fifty”), and in the late 1990s with the internet bubble. Valuations have now exceeded those levels, to the point where many technology companies now command huge valuations. There is not much bandwidth for any form of disappointment.

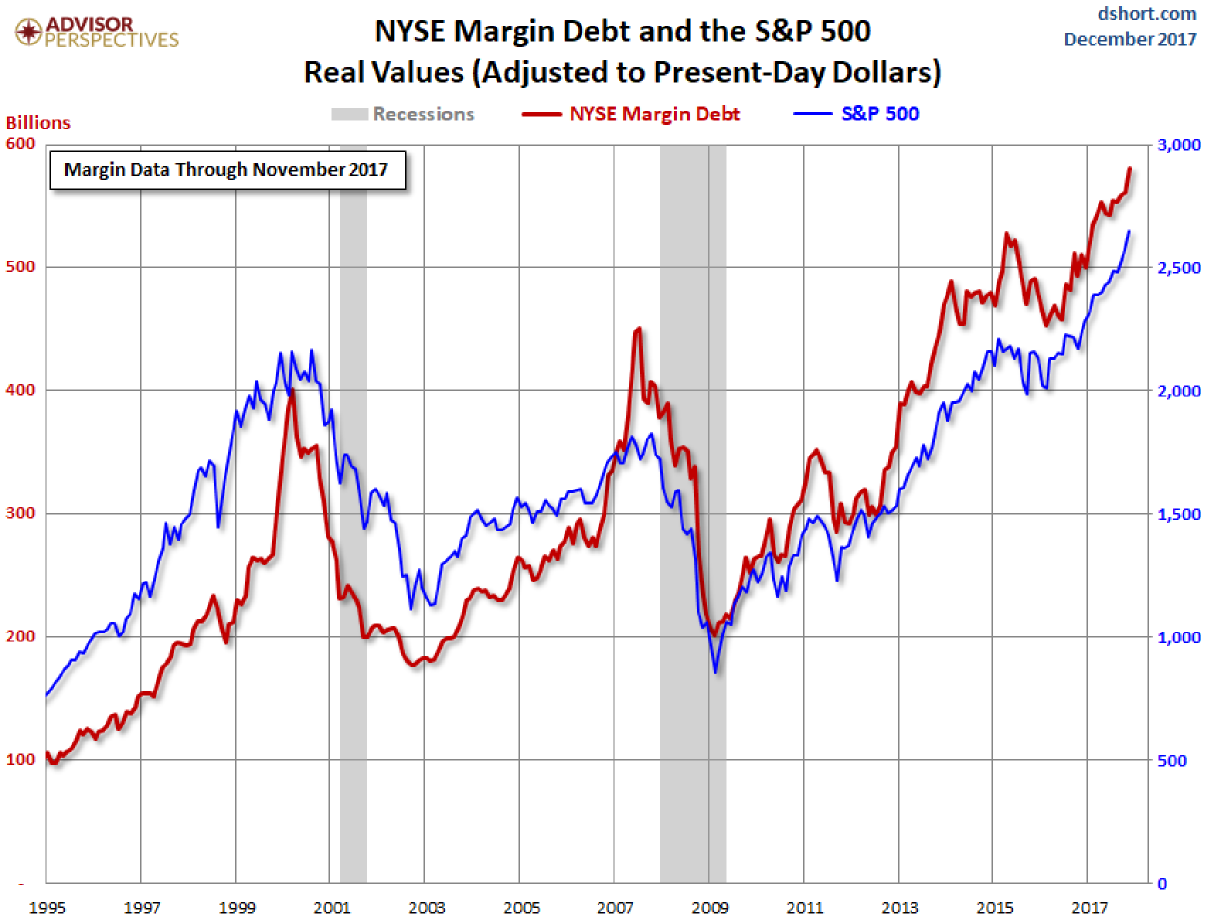
Equally concerning in the US is the amount of leverage that has crept back into the financial sector since the GFC, to what is today the highest level in history and equivalent to the pre-1929 era. When it comes time to selling or reducing positions in the IT sector, we can only presume given the substantial amount of historical precedent, that everyone will try to exit *en masse* at the same time.

History as shown us time again that the “crowded trade” no matter how appealing, always unravels at the most “unexpected of times”. Fund managers and investors alike typically head for the exits at the same time. It’s therefore **not really a question of what the potential catalyst will be**, but rather the event that follows. We have seen this in China already this year with the CSI300 losing 25% on trade war fears despite the underlying ongoing strength in the economy.

Despite Apple having a relatively low PE of 18, the other four FAANGs come in at an average 133 P/E and are valued at more than $2.3 trillion - **or put another way, one in every 14 dollars of wealth in US stocks.** This is another reason we are adopting a much more cautious approach heading into the final stage of the year.

Total margin debt rose $16.6 billion to another all-time record high of $668.4 billion in May. Compared to GDP, margin debt in the US is at a record high. For the first time since 1929, margin debt soared to over 3% last year, ending the year at 3.22%, and now standing at around 3.2% of GDP.

We have commenced placing our portfolios on a defensive footing, and will further take advantage of any strength in the US and Global stock markets over the coming months to make additional adjustments.



We have been vocal **in calling the trade posturing as being all about "electorate appeasement" with the Trump Administration, because voter turnout at the mid-term primaries is going to be key for the Republicans.**

<u>Another cause for concern is the ongoing flattening of the US yield curve.</u> The yield on the 10-year T bond has fallen to 2.85%, **and the concern is that a recession is looming for the US and global economy.** We think that call is premature, **but there can be no question, investors are flocking to bonds as a flight to safety.** <u>Our view is that the US yield curve will steepen and normalise once the trade rhetoric dies down.</u>

10-year US bond

Meanwhile **the US reporting season for second quarter shortly gets underway** and this will draw investor attention in the weeks ahead. <u>Our view has been that a very robust set of earnings results are going to flow from what has been a very strong quarter for the US economy.</u>

Nothing has changed here. But <u>what we are also going to see is US corporations tempering optimism – and voicing caution – and specifically, citing trade war concerns</u>. **There is a risk that this could take the gloss off what should be a stellar reporting round** that will likely **highlight the relatively inexpensive 16X multiple for the S&P500 and consensus estimates of $175 for 2019.**

Our view is that many of the threats made by Trump are not going to come to fruition, <u>but the steady flow of "tweets" is unsettling investors, and unquestionably this is translating into higher volatility for financial markets.</u> **Near term, the S&P500 should be supported at 2700, which is towards the lower end of the current trading range, with 2800 marking the top.** As we head into the reporting season, **we still think the US indices are going to have a push higher in July and August,** driven by a strong reporting quarter, but this will deliver an <u>opportunity to further defensively position the portfolio ahead of what could be a volatile fourth quarter.</u>

S&P500

We made the call at the start of the year that a weaker currency would be one tailwind for the Australian stock market this year, and this has been a key driver for the strong rebound from the early April lows. A weaker currency is providing a boost to the export sector and economy as evident in the recent GDP read, and making Australia cheaper as an investment destination.

<u>**With the RBA stuck between a rock and a hard place, the A$ is potentially heading south towards 70 cents against the greenback.**</u> Our view has been for some time that the RBA is set to stay on hold until much later next year, and with the Fed continuing to tighten, this will put downward pressure on the cross rate.

US consumer prices accelerated in the year to May. The key personal consumption expenditures (PCE) price index rose 0.2% after a similar gain in April. <u>In the 12 months through May, the PCE price index has surged 2.3% which is the largest rise since March 2012</u> and followed a 2% increase in April. **The PCE Index is closely followed by the Fed**, so with this measure of underlying inflation hitting the target of 2% for the first time in six years, <u>**this is going to be a focus point for the next FOMC.**</u>

This probably <u>won't be enough for the Fed to veer away from 4 rate hikes</u> this year. Jerome Powell has already said that hitting the inflation objective wouldn't warrant turning more hawkish. But the risks are rising that **the Fed could fall behind the curve, particularly with inflation heating up. The labour market is extremely tight, and from here on in, it probably won't take much to push up inflationary expectations.**

<u>Turning to the portfolio, the most significant change made was a reduction in leverage.</u> We sold down the portfolio across the board to achieve this objective, and also exited some specific names.

The Fund is currently carrying minimal levels of gearing. We subsequently narrowed the portfolio reducing the overall number of companies. **Changes made** in the month of **June** included selling robotics maker **Fanuc**, **Bank of Kyoto**, **Japan Post Holdings**, **Mitsubishi Electric**, **Nomura Holdings**, **Heidelberg Cement** and German auto maker **Volkswagen**. We also reduced holdings in **Mitsubishi UFJ**, **Nissha Printing, Sunny Optical Technology, Wynn Macau, MGM China and Sands China.** New additions to the fund included **Reliance Industries** and electronics and video game developer **Nintendo.**

Top performers for the Fund during the month came from **Praemium (+26.62%), Sony (+9.77%), Evolution Mining (+7.67%) and Walt Disney (+5.37%).** Stocks that weighed on the portfolio were the casino stocks **Wynn Macau, MGM China** and **Sands China**. The Hong Kong market saw significant deleveraging and fund outflows which the Macau Casino sector was unable to avoid despite gross gaming revenues still holding up.

Financial services platform provider **Praemium** has a relatively high beta (correlation) with the market due to a key driver of earnings and valuation being funds under administration. The company, as with others in the space, also has a high degree of operating leverage. If we are right that the ASX is going to push towards our target in the second half of this year, then Praemium and the other platform providers should do well.

Praemium's inflows have been strong, even when the markets have been weaker, and this was evident in the March quarterly report. Robust inflows and rising funds under administration were once again a feature of the June quarterly report released this week. A commitment to innovation has also seen the company stay one step ahead of peers, with the mandates continuing to flow. Another point of difference has been the company's exposure offshore, with the UK business also making robust progress. Praemium's wings have spread even further with management announcing that they have launched the Smartfund range into the UAE.

Praemium

Nintendo fell in heavy trading as its presentation at the Electronic Entertainment Expo (E3) in the United States underwhelmed, although to be fair, expectations were high. We took advantage of the weakness and added Nintendo to the portfolio after the stock corrected 25%. **Nintendo has a similar business model to Sony, with a robust earnings outlook in the gaming sector**

complemented with a migration of its customer base towards becoming a subscription model, with direct to consumer distribution.

Stocks that weighed on the portfolio during the month included our exposure to the casino sector in Macau. Although May revenues fell short of expectations for the sector, the month nonetheless marked 22 straight months of year-on-year revenue increases. **Year-to-date cumulative revenue growth in Macau for the sector is still impressive at 20.1% to 127.7 billion patacas (US$15.96 billion).**

The medium to long-term outlook is also solid in our view due to a combination of the region's growing range of world-class attractions, proximity to China and rising incomes in Mainland China acting as a tailwind for outward bound tourism. The casino stocks remain in longer term uptrend, despite a recent pause. The Macau gaming stocks typically underperform for a few months at this time of year, with momentum likely to return in the second half.

The Funds three largest positions at the end of June were **Sony Corp, Walt Disney** and **Wynn Macau**. **Sony's** presentation at the Electronic Entertainment Expo (E3) in Los Angeles was a more focused event than usual this year, with a deep dive into four games that highlight the strong edge the PlayStation has over its Xbox rival. These were: The Last of Us Part II, Death Stranding, Spider-Man and Ghost of Tsushima.

Sony's PlayStation division has been a key driver in the conglomerates renaissance the past few years. **The PS4 has dramatically outsold the Xbox and its subscription base has surged.** PS4 unit sales have hit 79 million and the PlayStation Plus subscription service had more than 34 million customers, while the PlayStation network has 80 million monthly active users.

The US Justice Department approved **Walt Disney's** proposed $71.3 billion deal to acquire most of **21st Century Fox's** media assets, with the proviso that Disney sell Fox's regional sports networks. That is a win for Disney, giving it a leg up in the battle versus Comcast for the assets.

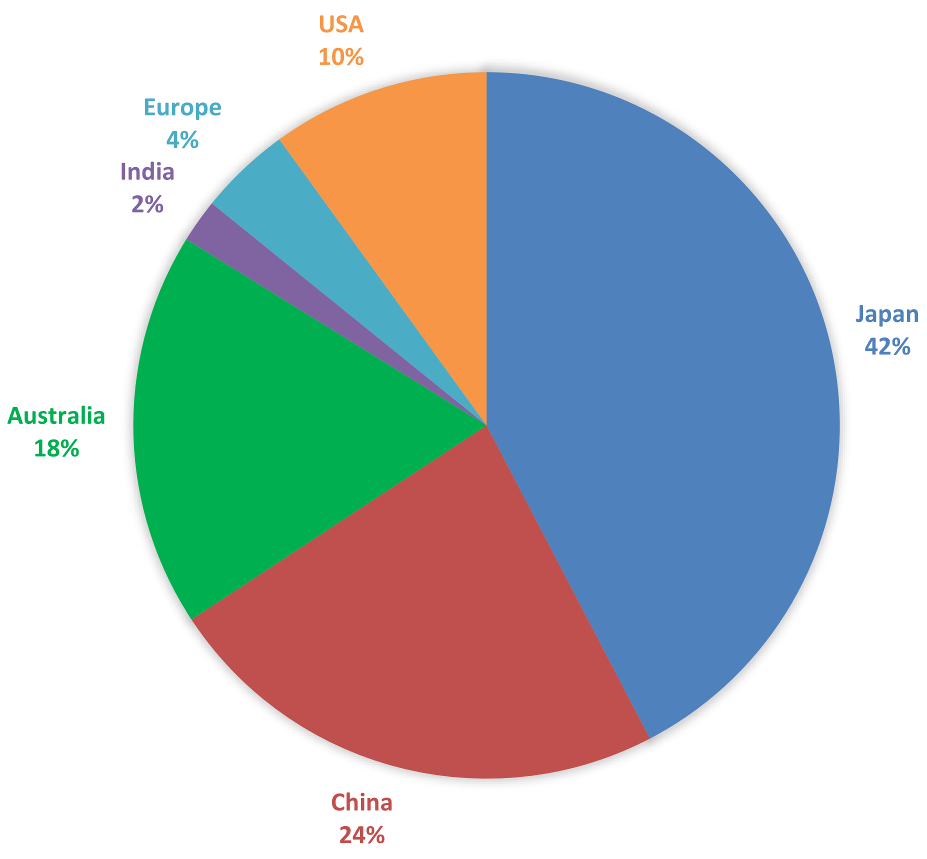
This means Disney could keep the Fox assets most important to its strategy. Comcast reportedly hasn't yet given up and is trying to find ways to access more capital to improve its offer. The company might find that tough without impacting credit ratings substantially, as it was already the more stretched of the pair with its previous offer.

Disney will be a more serious competitor when it launches its streaming service next year. With Disney classics, Marvel, Pixar and Star Wars IP the offering should draw in many subscribers. The combination of Fox's media assets would further bolster its offering, but even if that doesn't pan out for Disney, the service will attract many families with the platform that will be able to compete with the likes of Netflix and Amazon Prime.

As at the end of June the Fund had **leverage of 33.7%. Since June 30, the Fund has further deleveraged and is currently carrying only minimal leverage.**

Top 10 Holdings	30-June-18	Country
SONY CORP	7.70%	Japan
THE WALT DISNEY COMPANY	7.02%	USA
WYNN MACAU LTD	6.77%	China
PRAEMIUM LTD	6.69%	Australia
BAIDU INC	6.51%	USA
MGM CHINA HOLDINGS LTD	5.61%	China
SUMITOMO MITSUI FINANCIAL GROUP	5.31%	Japan
BHP BILLOTON LTD	4.36%	Australia
NINTENDO CO LTD	4.20%	Japan
VANECK VECTORS JUNIOR GOLD ETF	3.94%	USA

GEOGRAPHIC EXPOSURE AS AT 30 JUNE 2018



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