ASX ANNOUNCEMENT

Sydney, 11th March 2019: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Investors,

February proved to be another positive month for the Global Contrarian Fund. Driving the rally on world stock markets was growing optimism over a trade deal between the US and China – we have had high conviction that a resolution to the trade dispute would materialise for some time.

On a pre-tax NTA basis, the Fund was up 1.43% at the end of February and was leveraged around 17.6%. On a post-tax basis, the Fund closed up 1%.

	28-Feb-19	31-Jan-19	Change
Pre-Tax NTA	1.0138	0.9995	1.43%
Post-Tax NTA	1.0398	1.0295	1.00%

In terms of the upward moves, the **Dow Jones finished the month +3.7%, the S&P500 +3.0%, the Nasdaq Composite +3.4%. In Asia, China's Shanghai Composite index soared more than 13% on prospects of a trade deal with the US. Australia's ASX200 lifted a solid 5.2%, while Europe was also up 4.6%. Japan's Nikkei lagged the other indices with a 2.9% rise.**

	end Jan	end Feb	points move	%ge move
Dow Jones	24,999.67	25,916.00	916.33	3.7%
S&P 500	2,704.10	2,784.49	80.39	3.0%
NASDAQ Composite	7,281.74	7,532.53	250.80	3.4%
FTSE100	6,968.85	7,074.73	105.88	1.5%
EUROSTOXX50	2,897.13	3,029.67	132.54	4.6%
NIKKEI	20,773.49	21,385.16	611.67	2.9%
Shanghai Composite	2,584.57	2,940.95	356.38	13.8%
ASX200	5,864.70	6,169.00	304.30	5.2%

Outlook

Many investors remained substantially cashed up and deleveraged following the substantial decline through to December, and this liquidity is now finding its way back into the market as equities recover. The reporting season failed to produce the poor results that many were looking for late last year, and as result the corporate sector managed to beat consensus forecasts, which places the S&P500 at around 2800 on a very reasonable 16X prospective earnings for 2019.

The Federal Reserve also aided the recovery in stock markets in February with soothing rhetoric allaying investor nerves, that a neutral bias will continue well into the middle of the year.

While many **investors are asking where to next for the markets, it seems probable that after a steep recovery which has erased much of last year's losses,** the indices will pause until an outcome on the trade negotiations, and the next round of the earnings season, which gets underway next month.

February saw the stock markets push higher, but lately it has been into US dollar strength. The euro along with other major currencies have been weakening against the greenback and this has posed a headwind for stock markets. **Recently, the DXY has pushed up towards the top end of the range to test major resistance – see below.** We have been of the view for some time that that the US dollar holds the key to market direction over coming weeks and months.

However, rather than the US Dollar index pushing up on solid fundamentals, it has been more about other currencies weakening, despite the fact that the recent US trade deficit blew out and the Federal Reserve has maintained a neutral stance towards monetary policy. Recent **weakness in the Euro has been driven by the ECB launching a fresh round of monetary stimulus and cutting growth forecasts. In Australia, some economists are forecasting up to three interest rate cuts as economic growth begins to stall.**

<u>The latest correction in US stocks was to be expected with the S&P500 sustaining a steep rally since December and now encountering heavy resistance above 2800.</u> There is not much in the way of catalysts in March other than the next FOMC meeting and a probable outcome on the trade negotiations with a meeting between Presidents Trump and Xi likely to take place later this month.

What are the probable catalysts in coming months?

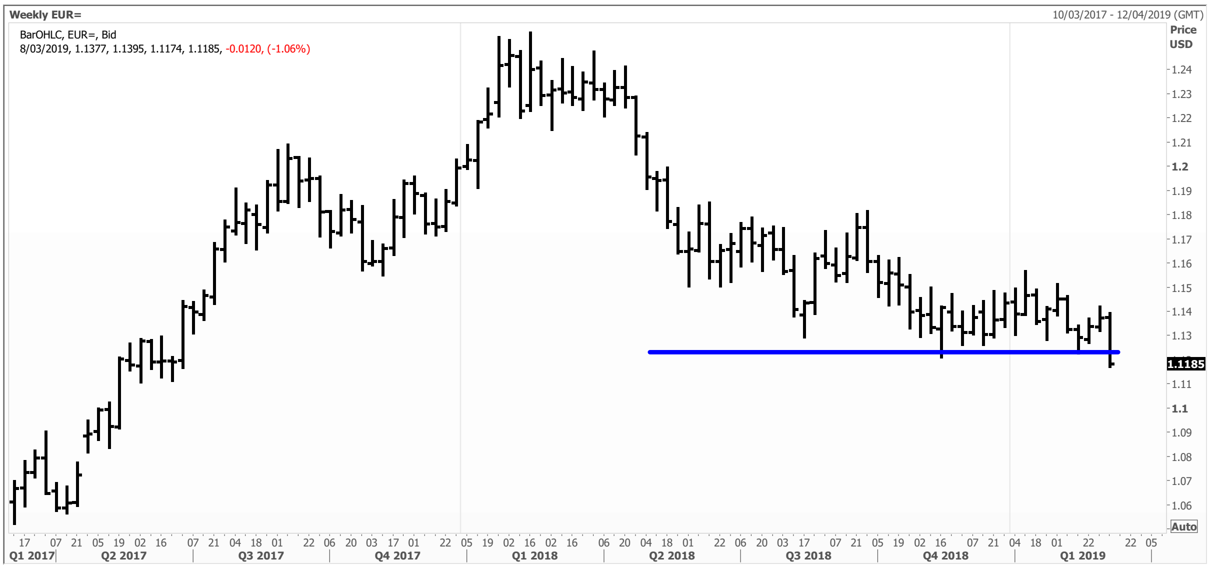
Firstly, we are going to see an outcome on trade with China and the US, which I think is highly probable, with both leaderships now totally aware of the associated economic risks and political fallout of not overcoming a stalemate. **Both sides need to settle and to do so quickly.**

Secondly, **the Federal Reserve is likely to maintain a neutral stance towards interest rates, at least for the foreseeable future with wage inflation yet to make a meaningful appearance.** A disappointing non-farm payrolls number last week (20,000 jobs added in February versus expectations of 180,000), while impacted by the weather and government shutdown, are only likely to reinforce the Fed's caution.

The third catalyst lies further out later in April and will centre on the March earnings quarter when companies begin to report. **The markets will be closely focused not just on underlying profitability within the corporate sector** but the outlook for 2020 and where EPS will likely go. Presently, the market is pricing the S&P500 off around 16X on a consensus $172 EPS estimate for the next 12 months.

Near term the big risk is without question US dollar strength or put another way, further weakness in the euro. The DXY has pushed up to test significant resistance near 98. An upward break through the 98 level yields a target of around 100, which would likely weigh on the commodity complex, precious metals, energy prices and emerging stock markets, not to mention the US stock market itself. The US dollar has however weakened in the face of the non-farm payrolls print.

The Euro accounts for nearly 60% of the US dollar index and is singularly the most important currency. **On a two-year view the outlook for the Euro is resolutely bearish after the currency broke down below important support against the US dollar last Thursday.** This can only be bullish for the Dollar Index over coming weeks and months.



Taking a longer-term view of the euro, our outlook is less bearish, with the latest selloff likely not much more than another leg down in a rolling correction that began early last year. We **think in terms of the bigger picture, the most likely scenario is for the euro to go lower, but downward momentum then dissipates ahead of a major reversal to the upside later in the year.** The opposite would then be true for the US dollar, with new highs above 98 on the cards before a major downside reversal in coming months. We are positioned for this outcome.

In terms of monthly performance attribution in the portfolio, **Nine Entertainment** was the best performer, adding 83 basis points (bpts), following a standout interim result. **QBE Insurance** likewise rallied following a very good earnings number, and added 65 basis points, A further rebound in the Macau casino sector also helped **MGM China** which posted a robust quarterly mid-month, while **Alibaba** also rode the strong rebound in Asian markets during the month. **Mainstream Group Holdings** chimed in with a firm attribution, after a solid half year result during the month.

Positive Attributions

Company	Country	Attribution (bpts)
Nine Entertainment	Australia	83.7
QBE Insurance	Australia	65.8
MGM China	China	44.2
Alibaba Group	China	40.0
Mainstream Group	Australia	25.7

On the negative side, shares in **Nintendo** were lower after the company downgraded sales guidance, costing the Fund around 26 basis points. The shares did recover after the company announced a buyback, and with strong liquidity there could be more of these to come in our view. **Evolution** was lower on its result, and after a strong run since early October. Also, weighing on the portfolio were **Praemium, Baidu,** and **Nufarm** although the latter two have both picked up in the first week of March.

Negative Attributions

Company	Country	Attribution (bpts)
Nintendo	Japan	55.4
Evolution Mining	Australia	53.5
Praemium	Australia	41.6
Nufarm	Australia	40.9
Baidu	China	22.6

Portfolio changes

During February, we made some significant changes to the underlying composition to the portfolio, namely **reducing exposure to Japan** and **increasing exposure to China**. We also **narrowed the portfolio** in terms of number of holdings. As a result, the portfolio is more concentrated and focused on fewer thematics.

The reduction in exposure to Japan was centred on a reduction in bank holdings, with just Sumitomo Mitsu Financial Group retained. We also sold out of the insurance sector and selected industrials such as Sumitomo Chemical. Whilst we remain bullish on Japan over the medium term, we took the view that near term there is greater opportunity in China, with valuations hovering near historic lows.

Additionally, a significant part of our Japanese exposure was to the financials and insurance sectors, both of which are reliant on a positive sloping yield curve. Interest rates have remained subdued in Japan, and whilst this is likely to change at some point, there could be much longer to wait.

Of the major economies, China's stock market was hit the hardest in 2018 falling more than 30% from peak to trough. We have taken a contrarian view that the stock market should fair relatively much better this year with prices already reflecting a worst scenario. The Chinese authorities have thrown nearly everything at the economy (but not yet the kitchen sink) and this stimulus will bound to have some effect. Additionally, we believe a trade deal is not too far off with the US, given both sides need to settle soon given domestic political risks.

We added to our holdings in **Alibaba,** as well as **Tencent**, and new name, **Meituan Dianping**, which is the number two player in home food delivery in China. We have reduced our exposure to **Baidu**, but in doing diversified and broadened our exposure to other fast-growing IT companies in China, all of which had fallen by a similar amount last year.

In Australia we added to exposure in Nine Entertainment after the company delivered much better than expected results and confirmed our view that the shares are substantially undervalued. We also added Vocus to our portfolio, with the view that the midcap telco has reached an important turning point, which was also validated in the recent profit result.

Portfolio positions

The Fund's largest exposure, **Collins Foods,** ticked higher in February, and in the absence of any major announcements. We continue to be positive about the KFC operator's expansion plans both domestically and abroad, with the roll-out of Taco Bell in Australia another long-term growth angle.

The company's offering is a highly defensive one, which was illustrated by a recent update from fellow KFC franchisee Restaurant Brands. The NZ listed company reported that full-year sales for KFC Australia were A$178.3 million, an increase of 27.8% on a total basis and 4.7% on a same store basis. Like for like fourth quarter sales for KFC Australia rose 6.9%.

During the month we added Australian telco **Vocus Communications** to the portfolio. The company is in the midst of a turnaround under new management and the interim results released at the end of February certainly hit the mark with investors. This was despite the numbers being less than impressive at first glance. Underlying net profit fell 29% to $48.8 million, with revenue declining in retail brands, and offsetting growth on the network side. Total revenues were up marginally by 1% to $974.2 million.

The bottom-line result was however in line with expectations and needs to be set in context of the three-year turnaround program which is taking place under CEO Kevin Russell who took over last year. This seems to be progressing well with the business footprint being optimised and costs taken out. Retail EBITDA margins improved from 12% to 13%, and management also reaffirmed full year earnings guidance for the group of $350 to $370 million.

Previous management at Vocus had been guilty of expansion for expansion's sake (which was always going to end badly), and a more pragmatic approach under CEO Kevin Russell has underpinned our confidence in the turnaround story.

An industry veteran, Russell has been quick to assess that Vocus is not maximising the business potential of its existing assets, and should also challenge the industry mindset in several areas. The latest example is the company's decision to 'go around' the NBN with a mobile broadband alternative. Mr Russell said that with intense competition amongst participants, the NBN was no longer "economically sustainable." He sees no upside in being a 'price taker' and commented further that "Bypassing high-cost NBN with an alternative high-quality cheaper and potentially better product is attractive to us."

Such 'fresh thinking' is the right call, and also with Vocus looking to 'piggy back' the 5G opportunity. Mr Russell predicted that network operators would opt to invest capital in up-to-date 5G equipment, and increasingly outsource the provision of 'backhaul' to companies such as Vocus.

The company's fixed-line fibre business is also doing very well, with revenues up 27% to $360.9 million, and EBITDA rising 3% to $166.9m million. The business includes the new Australia-Singapore submarine cable, which is only just getting started earnings growth rise as the inbound data needs grow. Mr Russell said the cable's most valuable customers would be "over-the-top players" such as Google, Amazon and Microsoft. Vocus didn't declare a dividend at the half, but I wouldn't expect it to be too long before one is reinstated with all the growth coming through.

With the 'once in a century' drought in Australia lingering, **Nufarm** remained under pressure during the month. The company however has a strong international angle, and management are forecasting 2019 underlying EBITDA to be in the $500 million to $530 million range. This puts the stock on an EBITDA multiple of just 4 times, and is based on a partial recovery in the Australian business and the full year impact of the European acquisitions. The outlook assumes average seasonal conditions for the major selling periods in key markets, which can never be guaranteed, but recent weather patterns are more encouraging.

The value hunters also appear to have come into the stock post the month-end, aided by reports that Wesfarmers was considering a tilt for the company, with CEO Rob Scott apparently interested in acquisitions, particularly in the chemicals space.

It is always dangerous to buy into 'speculation' but there appears substantial value in Nufarm, and this will be probably catching the attention of more than just one potential predator. The drought in Australia has significantly eroded sentiment towards the crop protection company, but also despite the fact that Nufarm is globally diversified, with substantial offshore angles. The current valuation looks very light given the demand for crop protection products is going to remain robust, with a rising global population, changing dietary habits and an increasing shortage of arable land. The OECD forecasts that the global population will reach 9 billion by 2050, with 90% of the required growth in crop output expected to be driven by higher yields.

We were positioned in the fund for a strong result from **Nine Entertainment** and this was forthcoming during the month. The shares rallied hard, with streaming business Stan turning out to be one of the highlights. In the first numbers since the merger with Fairfax, Nine reported that on a pro-forma basis, net profit rose 5% to $126 million in the six months to December 31. EBITDA jumped 6% to $252 million, even as revenue tapered 3% to $1.2 billion.

The drag of traditional print media revenues is very much yesterday's story, and I think this has clouded sentiment towards Nine. The real story is the growth in digital revenue channels, and the performance of key assets such as Domain and Stan. We had already seen Domain report earlier in the month, and defy the property market downturn with earnings underpinned by the demand for 'premium' services.

Many it seems have also underestimated Stan, perhaps thinking that Netflix is just too tough to mess with. However, the reality is that these content offerings are very much commoditised, and subscribers don't have to choose between one or another.

<u>Revenues at Stan jumped 60% to $65.2 million, while the loss before interest, tax, depreciation and amortisation improved 27% to $21.8 million. The additions were impressive with Stan putting on 400,000 customers since last August to reach 1.5 million</u> and is becoming widely seen as the go-to brand. This is remarkable given the business was only established four years ago.

<u>Nine expects Stan to be profitable by July, and I see the asset as being a substantial earnings driver for Nine in the years ahead</u>. There have been some suggestions that Stan is worth around $500 million, but I think that valuation is very light, particularly in the event that subscriber numbers lifted towards the 3 million mark which could boost annual revenues north of $400 million. I think that catalyst alone would eventually see Nine stock having a '$3 handle'.

Also as we have seen Stan is now in a position where it can closely match Netflix as the latter puts through price rises, without seeing any lift in churn, but with a significant uplift to earnings. There is also the prospect of a ‘game changing’ agreement with Disney in Australia. Talks have been going on evidently, and not having to compete with Disney, but indeed being its promoter, would be a major boost to Stan.

Turns out as well the Nine’s broadcasting business is also performing, even as revenues at the TV arm fell 11% to $564 million during the December ($15 million of this was due to the impact of one less week in the period) with a tough free to air market. Nine however took market share off Seven and Ten, and cornered 39.3% of all dollars spent on metropolitan free-to-air TV ads.

The regional arm is doing it tough, but management have also flagged that the business will be sold. A liquidity event here should also be well received by the market. I think overall the outlook looks very bright for Nine, and management are also upbeat. The company expects pro-forma earnings before interest, tax, depreciation and amortisation of at least $420 million for the full year.

The response to the result from **Praemium** was not so positive. The shares saw strong selling pressure after the financial services platform provider released half year results. This is despite what would appear to be a solid performance at the top line, and in terms of underlying profitability. Net profit after tax fell 13% to $634,000 (due to higher acquisition costs), but earnings before interest, tax and depreciation (EBITDA) was a record at $5.1 million, representing a 19% increase on the same period last year. Revenues increased 7%, underpinned by a 14% increase in platform funds under administration (FUA) to $8.4 billion.

The company’s Australian business continues to display strong momentum, and I believe that investors may have taken alarm at the international side which posted an EBITDA loss of $1.0 million. Management commented that the UK business has been impacted by ‘volatility’ in global equity markets and outflows in the Smartfund Protected range of managed funds.

While the market was likely looking for the UK business to be closer to break-even, we believe that investors have over-reacted with the sell-off. Praemium still retains significant operating leverage to rising FUA, with this underpinned in Australia by a commitment to innovation; as evidenced by a recent platform upgrade. The outcome of the Royal Commission should also provide some positives, as noted by management. The international business, while still work in progress, remains a key long-term value driver in our view.

Disney shares made slight gains in February, as the company reported better than expected top and bottom lines figures for the key holiday quarter. CEO Bob Iger has noted that the fledgling DTC (Direct-to-consumer, or streaming) business is the “No.1” priority with recent reorganisation efforts and investment spend funnelled towards this division.

It is exciting to note that the Disney is preparing for the launch of Disney+, its namesake streaming service, which is highly anticipated as it will include new Disney’s original programming and a portfolio of its existing IP that will expand as certain prior agreements lapse. I see this as a big earnings growth driver longer term, with content very much king, and Disney in a prime position to deliver it. **The Disney+ platform is due to launch this year to take on Netflix and will join Disney’s ESPN sports streaming offering (which has been attracting subscribers) and Hulu, which it will own most of when its acquisition of Fox formally closes.**

QBE Insurance shares rose significantly in February and those gains have extended into early March, driven by the insurer swinging back into profit in 2018. Cash earnings came in at $715 million compared to a cash loss of $262 million in 2017. Although the company has disappointed the market many times in recent years, it appears the market has more belief in the turnaround this time under new management who have acted quickly to simplify the business, take costs out and reduce exposure to potential negative impacts from costly catastrophe events.

There was a strong uplift in premiums which helped the insurer to deliver a combined operating ratio of 95.7% in 2018 (with anything below 100% indicating underwriting profitability), and increase the dividend. We think ongoing premium growth is likely, given the stage we are at in the cycle. The leverage that QBE has under this scenario, has also been bolstered by the simplification process that has taken place under CEO Pat Regan, and with costs being taken out. QBE has exited portfolios, regions and countries where management felt the business lacked scale or were unable to achieve an acceptable rate of return.

Evolution Mining however delivered a soft first half result for 2019, reporting, in February, a fall of 26% in underlying profit year-on-year (yoy), to A$92.2 million. Over the half, Evolution battled rising operating costs, lower gold production and weaker revenues from by-products in its softer result. Evolution's realised gold price rose by 4.6% yoy, to A$1,695 an ounce, to partially offset the negatives. Evolution's quality balance sheet did improve further on divestments and was the standout for the half. The shares had a strong run since October, but with the A$ gold around record levels (and potentially going higher), the outlook for EVN remains strong in our view.

The **SPDR Gold Trust** turned in a flat performance for February, on a marginal decline in the gold price of 0.6% to US$1,313 an ounce for the month. The negative correlation between the gold price and the US Dollar held, with the US Dollar index rising 0.6% in February, to 96.157. Strength in the US dollar index (driven by weakness in the euro) could be a headwind near term, but we continue to hold the view that gold prices will reassert to the upside, and as global inflationary pressures build.

Hong Kong-listed shares of Macau casino operators **MGM China** and **Wynn Macau** both advanced in February, with MGM China leading the way up. Overall news flow out of Macau on the gaming market was positive overall over the course of February with visitor arrivals to Macau during the Lunar New Year holiday surging 26.6% year-on-year to 1.21 million arrivals, reportedly surpassing the one-million mark for the first time. The so-called Greater Bay Area initiative to integrate the economy and people of mainland China's Guangdong province with the neighbouring Special Administrative Regions (SARs) is also expected to boost visitation to Macau in future years.

This bodes well for mass-market gaming tourism that tends to be higher margin than VIP play. Gaming revenue in Macau increased 4.4% year-on-year in February to approximately US$3.14 billion according to data from the Macau regulator. Both companies reported solid numbers in the fourth quarter and with some of the newest casinos on the Cotai Strip, seem well placed to gain market share going forward.

Chinese e-commerce titan **Alibaba** logged a solid result for 2018 with revenues surging 41% year-on-year to RMB 117.3 billion which was an impressive feat amidst a slowing economy in China. The driver for sales growth was robust demand for apparel, home furnishings and consumer staples while there was noticeable growth in 699 million mobile MAUs (mobile active users) of 33 million in the last quarter with more coming from the third-tier and lower cities – which is still largely underserved. Net income (attributable to ordinary shareholders) rose 37% to RMB 33.05 billion.

Alibaba is expanding internationally as well and figures from the Singapore-based e-commerce group Lazada were included for the first time in 2018, with sales into six Southeast Asian countries from the third-party marketplace. Other measures include inking a deal with Mizuho Financial Group to accept J-coin in their platform as Japan ramps up its tourism drive ahead of the 2020 Tokyo Olympics. Alibaba also became the third largest shareholder of Hong Kong-based China International Capital Corporation when Alibaba bought 117 million shares.

Japanese entertainment giant **Nintendo** initially had a muted in February largely due to the company lowering sales guidance to 17 million units (previously: 20m) for its Switch console system for the fiscal year ending March 2019. Despite that though, actual numbers so far show that it was the only console to maintain momentum in January being the only one to report year-on-year growth and in both dollar and unit figures for Hardware (~285k) in the US and selling circa 271.1k units in Japan.

As an additional kicker in the later half of the month, Nintendo announced a small share buyback of up to 1 million of its own shares (about 0.8% of outstanding shares), which helped to improve investor sentiment. There is also room for buybacks to increase later down the line, with the company having a lot of excess cash on its balance sheet.

During the month, Chinese search engine giant, **Baidu** released its fiscal 2018 numbers, showing a consensus beating and a milestone setting result, with revenues hitting RMB 102.3 billion, up 28% year-on-year. This was all the more impressive given a slowdown in the Chinese economy. The company's core search engine business posted a healthy 22% year-on-year increase in turnover to RMB 78.3 billion while its iQiyi subsidiary – the '*Netflix of China*' – saw the top line jump more than 50% year on year to RMB 25 billion on the back of popularity for its self-produced dramas and other content.

Despite the top-line growth though, investors were perturbed by an increase in content-related costs, which surged 75% year-on-year to RMB 23.5 billion, pushing operating profit down 1% to RMB 15.5 billion.

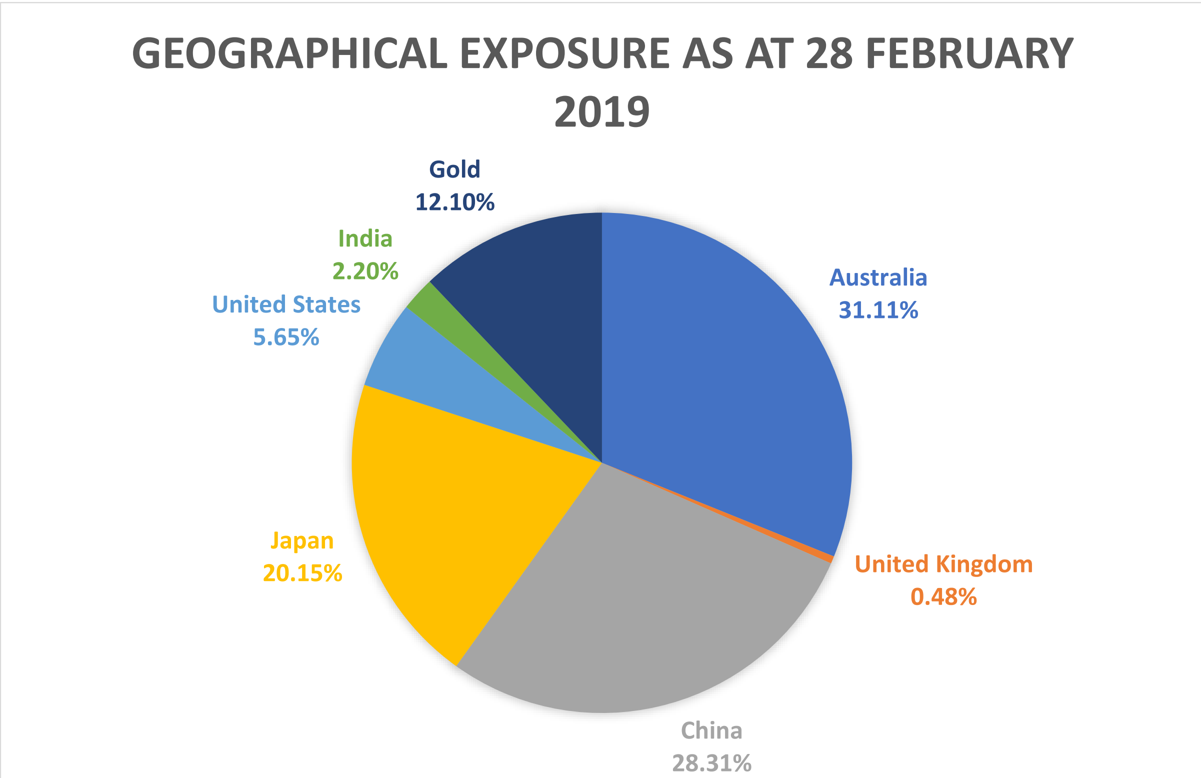
Still, the longer-term earnings growth story remains very much intact. Baidu has the leading online ad platform in China and is therefore well placed to benefit as consumer and advertising spending ticks up in the years ahead. The group has built a robust business franchise due to its dominance in Chinese Internet search. <u>The company's strong brand, network advantage, expertise in AI (artificial intelligence) and substantial R&D budget should reinforce its strong competitive position.</u>

Sony saw its shares come under pressure in early February following third quarter earnings of ¥377 billion, which were below expectations of circa ¥384 billion. Management also trimmed sales forecasts for the year by ¥200 billion to ¥8.5 trillion. This was largely due to an ageing PlayStation 4 platform which already 6 years old – ancient by console standards.

However, the shares rebounded after the conglomerate announced a ¥100 billion ($910m) buyback mid-month, covering 2.4% of outstanding shares. There may still be room for more as Sony has about ¥1 trillion in cash. Another notable announcement from the company was the appointment of Jim Ryan, former head of global sales and marketing, as the new PlayStation 'boss.' This suggests an increasing emphasis on the lucrative services side of the business though Sony's growing PlayStation Network, which has a large subscriber base.

Top 10 Holdings	28 Feb 2019	Country
Collins Foods	6.99%	Australia
The Walt Disney Company	5.65%	United States
Wynn Macau	5.02%	China
Telstra Corporation	4.97%	Australia
Nine Entertainment	4.77%	Australia
Sony Corp	4.54%	Japan
Evolution Mining	4.39	Australia
MGM China	4.25%	China
SPDR Gold Trust	4.24%	United States
QBE Insurance	4.15%	Australia

Geographical dispersion



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