fatPROPHETS™

ASX ANNOUNCEMENT

Sydney, 9th May 2019: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Investors,

April was another positive month for the Global Contrarian Fund with strong performances from **Walt Disney, Wynn Macau, Nintendo, Sony and Meituan Dianping.** On a pre-tax NTA basis, the Fund was up 3.49% at the end of April and was leveraged around 21%. On a post-tax basis, the Fund closed up 2.61%. During the month there were little in the way of negative catalysts as stock markets pushed higher.

	30 Apr-19	31-Mar-19	Change
Pre-Tax NTA	1.0627	1.0269	+3.49%
Post-Tax NTA	1.0778	1.0504	+2.61%

Outlook

Markets consolidated throughout April, and in the US, the indices inched up to near record highs after a relatively buoyant profit reporting season. Of course in recent days, the relative stability and low volatility has been disrupted by the breakdown in trade negotiations between China and the US**.**

Much of the anticipation of a successful outcome to the US/China trade agreement in April was undone with a single tweet. Following another month of low volatility and record highs for the US indices, the strong run was interrupted this week with the US threatening counter measures against the Chinese and to lift rates from 10% to 25% on Friday.

This has precipitated a sharp "counter correction" in US markets and Asian markets. The market is fearful that "recent history will repeat" and that an agreement which looked to be a "fait accompli" last week, looks now to be in jeopardy. On top of that we had more comments from Fed Officials and Chair Jerome Powell that a rate cut was not justified at this point in the economic cycle, which is a reasonable argument given the very strong employment numbers.

Our confidence that a near term agreement will be reached has cycled down a few notches, but we still hold the view that the latest impasse between Washington and Beijing will be resolved, but probably later in March or June.

Both China and the Trump Administration must be cognisant of the downside risks posed to the global economy and the possibility of sending the markets into a tailspin. But **the impasse will most probably result in an extension to the negotiating window, which will allow further breathing space.** The markets, which have already reacted badly, may not fall that much further and we may see the May correction being relatively short and shallow, provided the trade negotiations get back on track.

The S&P500 will probably break resistance on the downside – but if it does, we don't see much risk below 2800/2850

So far, this looks to be a classic May selloff by global stocks. Our target on the S&P500 is for significant support to kick in around the 2800/2850 level. Now we know what the catalyst is**, the driver of volatility will certainly continue to be the trade negotiations.** But watch this space – a lot can change these days on just a tweet. We could easily see markets rebound strongly to the upside if the Trump administration signals to the markets that it is closer to getting what it wants in the trade agreement.

The S&P500 has strong support at the 2800/2850 level, so we stand by our call that the May selloff will unlikely to be much deeper than this, and that a correction will not be too protracted. Underlying fundamentals are sound and corporate America is in good shape.

Attribution

In terms of monthly performance attribution in the portfolio, **Walt Disney**, the fund's second largest holding, was the best performer, adding 154.1 basis points, as investors became increasingly excited about the entertainment giant's move into streaming. **Wynn Macau** wasn't too far behind, adding 123.4 points, and as sentiment towards the Macau casino operators continues to improve on strong visitation numbers. **Nintendo** also performed robustly, contributing 101.9 points, and following the upgrade of the company's Switch console. Prior month laggards also bounced, with **Sony** and **Meituan Dianping** adding 56.7 and 29.1 points respectively.

Positive attribution

Company	Country	Attribution (bpts)
Walt Disney Co	USA	154.1
Wynn Macau Ltd	China	123.4
Nintendo Co	Japan	101.9
Sony Corp	Japan	56.7
Meituan Dianping	China	29.1

On the negative side, shares in **Praemium** came under pressure after the financial service platform operator lost a mandate from ANZ Private, costing the Fund 107.5 basis points. Weaker US$ gold prices weighed on **Evolution Mining** and the **Junior Gold ETF,** while the stronger greenback also contributed to a pullback in **South32**. After a reasonable performance the prior month, weaker sentiment towards Japanese real estate plays took its toll on **Mitsui Fudosan**.

Negative attribution

Company	Country	Attribution (bpts)
Praemium Ltd	Australia	107.5
Evolution Mining Ltd	Australia	67.6
South32 Ltd	Australia	34.5
Vaneck Vectors Junior Gold miners ETF	USA	29.9
Mitsui Fudosan Co Ltd	Japan	20.0

Portfolio changes

During the month we added to our holdings in **Alibaba**, with the shares consolidating after a strong run so far this year, and the value proposition remaining attractive. We sold out of diversified miner **BHP Group** and our holding in energy behemoth **CNOOC**, on our near-term concerns over US$ strength and associated commodity price weakness. More recently we have also sold down our gold positions. This has proved to be the right call, with the greenback rallying (a headwind to commodities and precious metals) in the wake of the Fed meeting, and a 'goldilocks' set of jobs numbers.

Portfolio positions

We added to our position in **Alibaba** as the shares flattened off in April after staging a strong recovery in the first few months of 2019. Alibaba continues to look good value at current levels given its dominance in China, the world's largest e-commerce market and one that is fast-growing.

Alibaba is also making a big push into Southeast Asia through its acquisition of a controlling stake in Lazada and other investment to accelerate its growth. The region has compelling long-term growth prospects given the low penetration rate of online shopping. Cloud computing is another growth avenue and Alibaba has the deep pockets and brand to succeed in the region.

Overall, Alibaba is gearing up to move to its next phase of growth by going global. Management are looking to double transaction volumes within the next 3 years, and 'incubate' 100 new brands that sell over RMB1 billion a year. More recently the shares have retreated as trade concerns have resurfaced, and while the 'settlement' period between the US and China will likely be extended, we see this as being resolved in time.

Walt Disney shares jumped in April as executives provided the blueprint for a major push into the streaming space to aggressively attract subscribers and leverage the best portfolio of in-house content in the entertainment industry. While Disney also talked up Hulu, ESPN+ and its prospects in India for hotstar, it was the Disney+ platform investors were on the edge of their seats for. Disney+ launches in the US on 12 November this year and will be very aggressively priced.

Sentiment was boosted by Disney's target of 60-90 million subscribers for the service globally by the end of FY2024. That certainly seems achievable given its strong global brand and appeal to families, along with attractive pricing and we expect Disney to surpass these targets. The company's movie business is the best in the industry and has been strengthened by the acquisition of a raft of Fox assets. We are excited about the possibilities for leveraging its IP in TV shows that will resonate with subscribers.

The fund's largest holding, **Collins Foods,** rallied further through April, to recently hit fresh all-time highs, despite a lack of news-flow. We highlighted out our positive view on the stock during our investor roadshows around Australia. 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 has also been evident in recent results from fellow KFC franchisee Restaurant Brands, and master franchise holder Yum! Brands. Not that Collins isn't facing cost pressures, with chicken prices on the rise. Collins Foods has however historically been able to mitigate this through prudent cost control and given a degree of pricing power.

Shares of Macau casino operator **Wynn Macau** advanced in April, supported by some positive sector news and continuing progress between China and the United States on trade. Casino gaming revenue in Macau came in at MOP25.8 billion (US$3.2b) in March, representing a marginal 0.4% decline, but that exceeded expectations which was put down to solid mass market demand and favourable VIP luck.

We expect mass market traffic to Macau to swell in the years ahead because of improving infrastructure, a wider range of entertainment and attraction options and expected secular increase in outbound tourism from nearby mainland China. We also expect the company's flagship Wynn Palace property to lift profitability as it matures. We also see macro headwinds abating as a trade deal is reached at some point.

Nintendo had a strong month after the video game goliath provided what we view as conservative earnings guidance, and cautioned investors not to get too excited for the launch of its Switch console in China with local partner Tencent Holdings. Clearly there is some cause for optimism. Nintendo said it was targeting 18 million Switch console sales in the current financial year, which will end March 2020.

That is up on the 16.95 million Switch units sold last year, but falls below the 18.5 million units expected by the market. The Switch has a strong game line-up this year and should benefit from its introduction in the Chinese market, so the guidance appears overly conservative. Management at Nintendo have been 'burnt' in the past when guidance has proved optimistic, and we think they are erring on the side of caution this time around.

Nine Entertainment's share price crept up during the month, but more recently has surged to the upside. We have backed the turnaround at Nine following the merger with Fairfax last year, and as the company looks to leverage high quality digital assets such as streaming service Stan, and listed real estate portal Domain (which Nine owns around 60% of). The market has in our view been too pessimistic with regards to Nine, and a strong interim result in February, and robust trading update recently have caused investors to sit up and take notice.

We have had the view that the significant earnings growth potential of digital treasures such as Stan would be increasingly recognised by the market and help to drive a re-rating. We think the broader market however continues to underestimate the amount of subscriber numbers that will be achieved, and as Stan catches up to Netflix (which has 11 million subscribers in Australia). Indeed, Stan will also be looking to up the ante, and convert the 4.5 million people who have already signed up for either a trial or subscription.

Stan became cash flow and EBITDA break-even in March, ahead of schedule, with price rises also not slowing subscriber growth. Stan recently surpassed 1.5 million paid subscribers, and saw its strongest period of growth period after getting Disney's shows on the platform before Christmas. Some have questioned where the upcoming launch of Disney+ will therefore be harmful to Stan.

Praemium shares came under pressure after the financial service platform provider announced the loss of a key institutional client. The private wealth arm of ANZ is moving to an alternative supplier, commencing from the new financial year. The contract loss is a material one for Praemium, with ANZ Private contributing $4 million worth of revenue in the 2018 calendar year, or around 8% of turnover.

This is a disappointing revelation, and also shows that while client mandates are fairly 'sticky', they can also be extricated from, particularly given the provider choice in the market place. That said, Praemium still has a strong reputation for innovation which continues to hold it in good stead. This has also resulted in contract wins elsewhere, which was highlighted by management as partial offsets to the negative disclosure.

Food delivery and life service e-commerce platform, **Meituan Dianping** saw its shares rise in April, following a bumpy March when the company had faced a double whammy from the timing of the expiry of its IPO lock-up and a difficult 4Q18 results release. There was also improved sentiment on ride -hailing start-ups after Lyft's successful IPO. Management are also being proactive, renewing their focus on the company's core strengths, the lifestyle app, and closing five offline supermarket stores.

While not yet profitable, Metiuan is certainly on track in its efforts to achieve scale. The company has a Platform market share of 47.7% of the 'total internet using public' at 382.3 million users while also being the market leader in the food delivery space with about 61% share based on Trust Data. This has also been helped by a strategic alliance with Tencent.

The company also benefits largely from the fact that it has developed a successful 'super-platform' which is essentially a unified app that combines related activities and services for consumers. Unifying services under one platform creates a much larger marketplace for the B2C (business to consumer) sector.

The long-term case for the company looks highly positive with China shifting towards a more consumer-centric economy from its previous investment-driven structure. This is a side effect of the country seeing higher disposable incomes. Rising incomes will likewise see more demand for convenience and ease of access on modern life's necessities as consumers shift from spending on basic needs to more discretionary expenditures.

Video game console titan **Sony** had a good month in April and surged on the news that US-based hedge fund, Third Point, is once again building a substantial stake in the company to push for changes. These include the sale of the movie business which Third Point believes can unlock value for shareholders. We also believe there remains some scope for optimisation.

Investors also began to doubt how likely Google's Stadia is to seriously disrupt the leaders in video gaming. We too believe Sony will continue to remain one of the big players in the huge and still relatively fast-growing video game market, although it will need to evolve from its current model. Its relationships, IP, content catalogue and experience in the industry provide a strong foundation that aren't going to be matched in just a couple of years.

Late in the month there were also reports that Sony is on the cusp of officially announcing the launch of the PlayStation 5. It has since been established that the new console won't be released before April 2020, further lengthening the wait. Nevertheless, Sony has a solid gaming ecosystem, and is looking to ride the wave of the next step in gaming - cloud gaming subscription - with the PlayStation Now.

Mitsui Fudosan, a major real estate developer in Japan, had a bumpy month in April but due to no fault of its own given that the latest round of results (3Q19) showed impressive double-digit growth in sales and operating income. Share price weakness was more likely the driven by reports that real estate lending in Japan appears to be overheating, and depicting a similar pattern to the last economic bubble in the 1990s. Domestic loans have reached an all-time high for the 4th consecutive year at ¥78.9 trillion (~US$716bln).

With buyers set to potentially shy away on bubble concerns, Real Estate transactions are expected to drop for the first time in 3 years. Property deals so far have declined more than 30% year-on-year while overseas investors have been exiting, as net sellers of ¥179.7 billion from April to February. That said the 'reinflation' story has a way to go yet under Shinzo Abe in our view, and Mitsui Fudosan continues to perform well on the back of a robust commercial market.

Precious metals underperformed during the month, which weighed on the **junior gold miners ETF.** This was as a resilient US$ was a headwind to the gold price. There still however remains the prospect of a downside move in the greenback (particularly if the euro turns around on overly pessimistic expectations), and also as trade concerns linger.

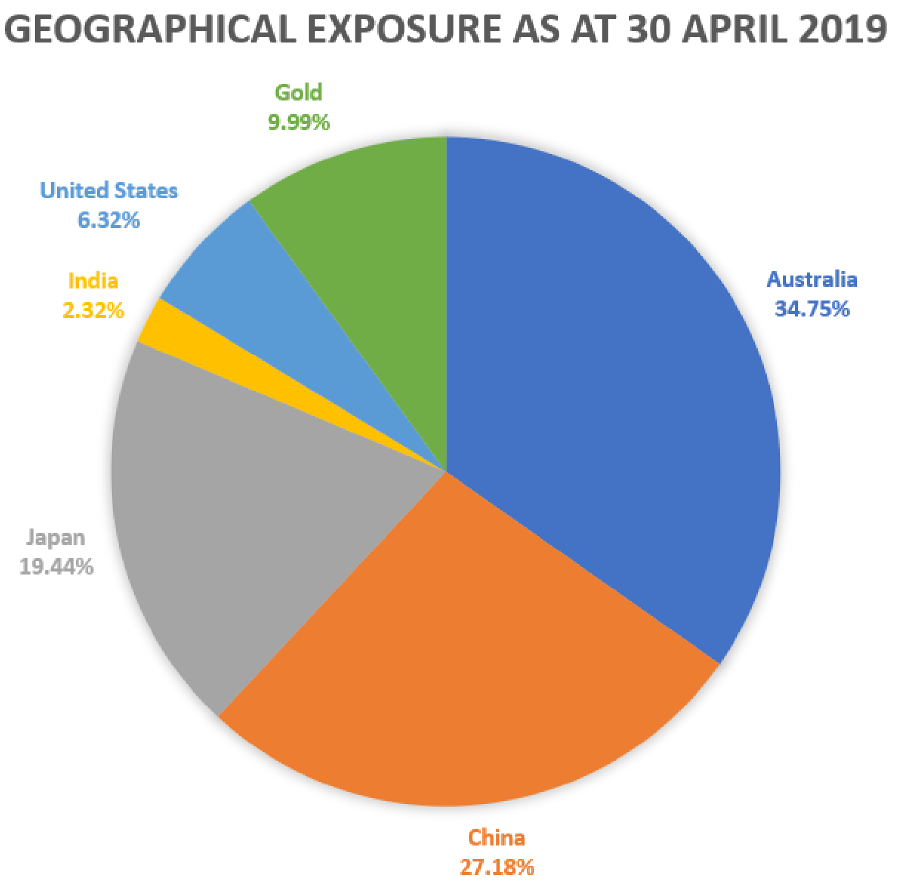
Evolution also turned lower during the month despite the fact that the Australian dollar gold price held around record levels. This therefore would appear to do more with broader sector sentiment (and a weaker US$ gold price) than economic fundamentals. Evolution in fact came in with a strong quarterly update during the month. Production was 175.9071 ounces, with average costs falling to around A$925 per ounce. Management maintained FY19 guidance of 720,000 – 770,000 ounces at A$850-A$900 per ounce. This maintains a compelling margin story under our scenario of robust A$ gold prices. The company's leverage to this has been boosted by the underground expansion of the Cowal gold operation where reserves have increased 27% to 3.88 million ounces.

The Fund's largest exposure, **Collins Foods,** gained further ground in March, despite a lack of news-flow. We highlighted out our positive view on the stock during our roadshows for the fund around Australia last month. 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 has also been evident in recent results from fellow KFC franchisee Restaurant Brands, and master franchise holder Yum! Brands. Not that Collins isn't facing cost pressures, with chicken prices on the rise. Collins Foods has however historically been able to mitigate this through prudent cost control and given a degree of pricing power.

Top 10 Holdings	**30 April 2019**	**Country**
Collins Foods	7.19%	Australia
The Walt Disney Company	6.29%	United States
Wynn Macau	5.25%	China
Telstra Corporation	4.78%	Australia
Nintendo	4.59%	Japan
Nine Entertainment	4.36%	Australia
Sony	3.98%	Japan
QBE Insurance	3.87%	Australia
MGM China	3.75%	China
SPDR Gold Trust	3.70%	United States

Geographical dispersion



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