



ASX ANNOUNCEMENT

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

Dear Investors,

June was a positive month for the Global Contrarian Fund, with many stock markets staging decent rallies following the corrective sell-off in May. The Fund finished up for the month, increasing NTA on a pre-tax and post-tax basis by 6.29% and 4.42% **respectively**. Portfolio gearing reduced modestly. **The most significant change to the portfolio was a further concentration of exposures and a narrowing of diversification.**

The Fund increased exposure to precious metals with **Harmony Gold** and the **Van Eck Gold Miners ETF** added to the portfolio. We also added to the Fund's position in the **Van Eck Junior Gold Miners ETF**, whilst **Oil Search** and **Reliance Industries** were exited. The Fund also exited its Japanese real estate holdings, **Mitsubishi Estate** and **Mitsui Fudosan**.

	30 June-19	31 May-19	Change
Pre-Tax NTA	1.0733	1.0098	6.29%
Post-Tax NTA	1.0858	1.0398	4.42%

Outlook

Markets rallied in June but the lines of demarcation between those bullish and those bearish, remained clearly defined. The bulls see valuations being underpinned by resolution on the trade front and the Fed **"coming back to the party with the punch bowl" and easing towards the end of the month.**

While the bears see trade frictions continuing and taking a toll on the upcoming reporting season and posing risk to the projected c\$177 in earnings for the S&P500 for 2019. Additionally, the bears also see the Fed pulling back from cutting rates in face of the stronger nonfarm payrolls data out recently. **While the US stock markets have pushed up to record highs, bond yields have fallen back towards historic lows, which is something of a dichotomy.**

The lines of demarcation are clearly defined between the two camps, so the next few weeks are going to be important in terms of where markets are headed.

The US and China have relaunched trade talks this week, and a phone conference took place between the two sides on Tuesday for the first time in two months. Whilst many are sceptical about any outcome being favourable, **we still think that the Trump Administration badly needs a deal and will be aiming to settle with China before too long.** The 2020 US election next year is rapidly approaching, and campaigning is already beginning to get underway.

Markets braced for remarks this week from Federal Reserve Chairman Jerome Powell during his two-day testimony before Congress, which started on Wednesday. He confirmed that the Federal Reserve was prepared to consider cutting rates for the first time in a decade at the

next FOMC meeting later this month. This was all but confirmed again in the release of the June FOMC minutes.

The US dollar index lost ground in response to the Fed minutes and congressional testimony while gold and the global gold sector responded positively. The Fund has taken an overweight exposure to the gold sector, primarily through gold mining ETFs – Van Eck Gold Miners and Junior Gold Miners ETFs (NYSE:GDX, GDXJ) both of which have rallied strongly since staging breakouts in June – see below. US gold stocks are cheap by historical standards.

Van Eck Gold Miners ETF – (NYSE:GDX)



The great debate continues over the direction of the greenback and much of the near-term trajectory will be dependent on what the Fed decides to do later this month.

The Fund also established a new position in Harmony Gold (NYSE:HMY) which is one of the cheapest large cap South African gold producers. Gold will need the right catalyst, but we see the Fed's rhetoric being "accommodative" and for a rate cut to come through later this month, placing downward pressure on the US dollar Index and underpinning emerging equity markets, precious metals and commodities generally.

Attribution

In terms of monthly performance attribution in the portfolio, the positive side was dominated by the Fund's precious metals and Asian exposures, while Australia, in contrast to May, proved a headwind.

Strength in the gold price saw **Van Eck Vectors Junior Gold Miners ETF** as the best performer, adding 75.8 basis points. **Evolution Mining** wasn't far behind, contributing 71.9 points, buoyed by record A\$ gold prices. A rebound in Chinese markets was positive for a number of stocks, including **Guangzhou Automobile**, which added 66.2 points, and as passenger car sales in China appear to be turning around. **Alibaba** contributed 65.7 points, with the eCommerce titan also announcing plans for a secondary share market listing in Hong Kong. **Meituan Dianping** added 59.4 points, amidst further strength in China's food delivery market.

Positive attribution

Company	Country	Attribution (bpts)
Van Eck Vectors Junior Gold Miners ETF	Unites States	75.8
Evolution Mining	Australia	71.9
Guangzhou Automobile	China	66.2
Alibaba Group	China	65.7
Meituan Dianping	China	59.4

On the negative side, **Vocus** slid after two potential acquirers departed in quick succession, costing the fund 74.5 basis points. We however took the opportunity to take some gains off the table following the emergence of the first bid, and we remain positive on the investment case for the telco. **Nine Entertainment** slipped into the month-end after a strong performance year to date, costing the fund 69.3 basis points. The shares have notably regained this ground so far in July. **Reliance Industries**, **South32**, and **Mainstream** shaved off 15.5, 12.6, and 11.3 basis points respectively.

Negative attribution

Company	Country	Attribution (bpts)
Vocus	Australia	74.5
Nine Entertainment	Australia	69.3
Reliance Industries	India	15.5
South 32	Australia	12.6
Mainstream	Australia	11.3

Portfolio changes

During the month we increased our exposure to precious metals, adding to our position in the **Van Eck Vectors Junior Gold Miners ETF**, and establishing one in the **Gold Miners ETF**. The Fund also initiated a position in **Harmony Gold**, a major producer in South Africa. Gold itself staged a significant upward breakout during the month, and we see further gains driven by an unwinding of strength in the US\$ as the Fed follows through with a cut in interest rates. We exited underperforming exposure **Oil Search** and took profits on **Reliance Industries**.

Portfolio positions

During June we established a position in **Harmony Gold**. The company is one of the largest gold producers in South Africa (while also having operations in Papua New Guinea). SA producers have been trading at fairly depressed valuations and Harmony is no exception, on a PE multiple of 7 times for FY20. Like many US gold producers, the company has faced tight operating margins, and difficult operating conditions at times.

The tide however appears to be turning, and the March quarter update delivered in May was encouraging. Total gold production surged 29% over the nine months to March, while costs ticked up just 2%, and as underground revered grades rose 6%. Weakness in the rand has also been a tailwind. Harmony has also been touted as an acquirer of gold assets being sold by AngloGold Ashanti, which would significantly refresh its gold portfolio.

Gold generally appears to be turning higher, helped by ongoing trade uncertainties, but also as it becomes evident that central banks globally are back on the easing path. This has boosted the **Van Eck Vector Gold Miners ETF**, and **Junior Gold Miners ETF**, both of which hit year to date highs during June. The US dollar remains very much the lynch pin to the gold price, but with the Fed having signalled a rate cut may be forthcoming, gold will likely push higher in our view.

Amongst the gold producers we continue to favour is **Evolution Mining** which had a strong rise during the month. The company also this week released a robust preliminary print for FY18, and strong guidance for FY19. The company reported gold production of 753,000 ounces for 2018-19, which was above the midpoint of previous guidance. Costs (ASIC) however came in at A\$924 per ounce which were above the guidance range of A\$850-A\$900 due to lower grades, but also increased royalties with a higher gold price.

The company remains an ultra low-cost producer, and FY20 cost forecasts confirm EVN as amongst the most efficient producers globally. ASIC for next year is pegged at an equivalent of US\$635 to US\$670 an ounce, and if we are right on precious metals, margins are only going to go north from here.

Elsewhere **Guangzhou Automobile Group** had a positive month. We added GAC to the portfolio in May given a cheap valuation (10 times earnings) on the back of a recovering Chinese auto market – and one that has been plagued by ongoing trade frictions, tough regulations and weaker domestic demand. The auto sector is in our view set to get a lift from a range of new launches later this year and some supportive regulation changes.

And there are already signs that segments of the Chinese auto market is bottoming. Chinese Vehicle sales have come in 9.6% lower year-on-year in June, but an improvement on the record 16.4% slide in May. Car passenger car sales in June also managed to buck the trend for the first time in 12 months, rising 4.9% year-on-year to 1.8 million.

Alibaba shares listed on the New York Stock Exchange staged a strong recovery in June. The company has been widening its lead in China's huge e-commerce market and in the fiscal year to March booked a record profit as the fiscal fourth quarter easily exceeded expectations. Revenue surged 51% year-on-year to 93.5 billion yuan, while net income increased 42% to 20.06 billion yuan. Monthly active users ticked up. This financial strength provides an edge over competitors, who are struggling with profitability.

Alibaba is ploughing significant investment back into its business to grow offshore, especially in South-East Asia via its Lazada business and AliExpress. The company is also at the beginning of a long runway for growth in cloud computing. In June, media reported that the e-commerce titan is planning to raise money on the Hong Kong exchange in a secondary listing to provide another adrenaline shot for capital investment in its business. Reports varied with the capital likely to be sought in secondary listing in the range of \$10-\$20 billion.

Shares of **Meituan Dianping**, one of the largest food delivery companies in China performed solidly in June. China's online food ordering and delivery market more than doubled in size in 2018 and shows signs of continuing strong growth. The service connects savvy Chinese smartphone users with bricks-and-mortar restaurants. Meituan Dianping has also expanded its short delivery service to more industries and consumers to try and expand its revenue sources to get closer to profitability, as it remains heavily in the red (typical at this stage in its evolution).

With this service, the company should better be able to utilise its workforce during typical quiet periods before and after the busy mealtime slots. The company reportedly has more than 600,000 active daily couriers, catering to over 400 million people across China.

Walt Disney shares advanced in June and recently consolidated nicely after a strong performance in 2019. The key driver for the shares surge in 2019 was a warm reception to the unveiling of more details on the company's video streaming platform strategy at an Investor Day earlier in the year. Recent news highlights just how dominant the House of Mouse now is at cinemas, boding well for the appeal of its upcoming Disney+ streaming offering.

Just halfway through the year and Disney has already racked up more than \$5.7 billion at the global box office. The combined totals of the number two, three and four ranked studios still fall short of Disney's tally. Avengers: Endgame is of course the biggest movie of not only the year, but the decade, while Captain Marvel, Aladdin and Toy Story 4 have all performed very strongly. With the likes of The Lion King, Frozen and Star Wars: The Rise of Skywalker and some others to come,

Disney could finish 2019 with between \$9 billion to \$10 billion at the global box office, setting a record by a wide margin. With the acquisition of Fox assets, Disney has expanded what was already the best portfolio of in-house content IP in the industry. We expect Disney+ subscriber uptake to exceed current market expectations, setting the stock up for further outperformance.

Nintendo shares inched up in June as its popular hybrid Switch console reportedly outsold 2 more mature peers, the Xbox One and PlayStation 4 in May, both in terms of units and revenue. Nintendo has some of the most iconic video game characters, with the likes of Mario and Link (the Zelda franchise), having many millions of fans across generations. The company's software 'chops' are held in very high esteem and its Switch console has breathed new life into sales after the Wii U console disappointed.

There sounds like more innovation to come. At a recent shareholder meeting, Nintendo's legendary game designer Shigeru Miyamoto (the 'father' of Mario) noted that "Nintendo was the first to create the style of playing video games with a plus-shaped directional pad and additional buttons, which has now become the industry standard." Now Nintendo is actively exploring new ways for people to interact with games to enhance the experience. He said, "Our objective is to achieve an interface that surpasses the current controller, where what the player does is directly reflected on the screen, and the user can clearly feel the result," but that the company was not there yet. However, if any company in the industry is likely to achieve this type of breakthrough, Nintendo is a front runner.

Wynn Macau shares staged a solid recovery in June and this has extended into July. A return to gaming revenue growth across the industry in May and June has bolstered sentiment, along with the agreement between China and the US to resume trade talks. Casino gross gaming revenue in Macau increased 5.9% year-on-year in June to approximately 23.81 billion patacas (US\$2.96b) according to data from the Gaming Inspection and Coordination Bureau. It was the strongest growth this year and above expectations.

June marked the second consecutive month of year-on-year growth in the Macau gaming market and it was the third month in total of 2019 that showed a pick-up from a year earlier. June's strong showing took the year-to-date tally to 149.5 billion patacas, marking a slight 0.5% decrease from the comparable period of 2018, but allayed some fears of a more marked deterioration in gaming revenue for the industry in 2019. This resilience was despite prolonged trade tensions between the US and China that have dented economic confidence.

It has been reported that different brokerages are forecasting between approximately 2% to 5% year-on-year growth in gaming revenue for July. Wynn Macau should generate stronger cash flows going forward with the ramp in its flagship Wynn Palace property and margins benefit from the shift to mass-market and premium mass-market in the visitor mix.

After outperforming this year, **Nine Entertainment**, slipped during June. The investment story still remains a compelling however, and particularly with signs that the Australian property market is turning around – Sydney and Melbourne saw their first monthly increases since 2017, last month. The turnaround comes following a ‘market-friendly’ election result, a reduction in lending constraints by the regulators, and the RBC cutting rates twice in quick succession to a record low 1%. **Nine owns 60% of Domain, one of the country’s largest real estate portals.**

Nine’s other high-quality digital asset is streaming service *Stan*. The broader market in our view 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 has 1.6 million subscribers and became cash flow and EBITDA break-even in March, ahead of schedule, with price rises also not slowing subscriber growth.

The Fund’s third largest holding ticked higher during the month, and into July, aided by the fact that the RBA cut rates to a record low 1%. **Telstra** lost some favour after cutting the dividend payout in recent years, but a net yield in the region of 4.5% is still very appealing on a relative basis, and with earnings growth coming through.

Telstra certainly has been a dream run from a Contrarian’s perspective, with the investment community re-embracing and adjusting to the notion of a more sustainable dividend. We also remain of the view that 5G will be a big earnings driver for Telstra, while also complementing management’s T22 turnaround plan which is ahead of schedule.

Telstra is ahead of the game in plans to plug the NBN earnings hole. By 2022, Telstra will have shed close to 20,000 roles, flattened its management structure and cut its product line from 1800 plans to just 20. The job cuts will reduce the company’s payroll by well over \$1 billion by 2022, with the total savings from the T22 cost-cutting programs are expected to reach \$2.5 billion. The company’s proposed sell-off of infrastructure assets into a separate vehicle is also set to unlock significant capital.

The Fund’s largest exposure, **Collins Foods**, pushed onto record highs in June after a strong full year result. The results from the KFC and Taco Bell operator were eagerly anticipated, given the usual lack of company specific news since the interims, but particularly given strong numbers from peers in the space. In the end Collins did not disappoint with the top and bottom lines rising strongly over the past 12 months, and expansion plans largely on track. A reduction in debt and accompanying lift in dividend also went down well with investors.

The Collins story remains a very positive one. While the European roll-out hasn’t exactly shot the lights out, there remains tremendous growth potential in the company’s strategy. This is also while the Australian business has performed strongly, with KFC far from the point of saturation, and with Taco Bell coming through as an earnings driver.

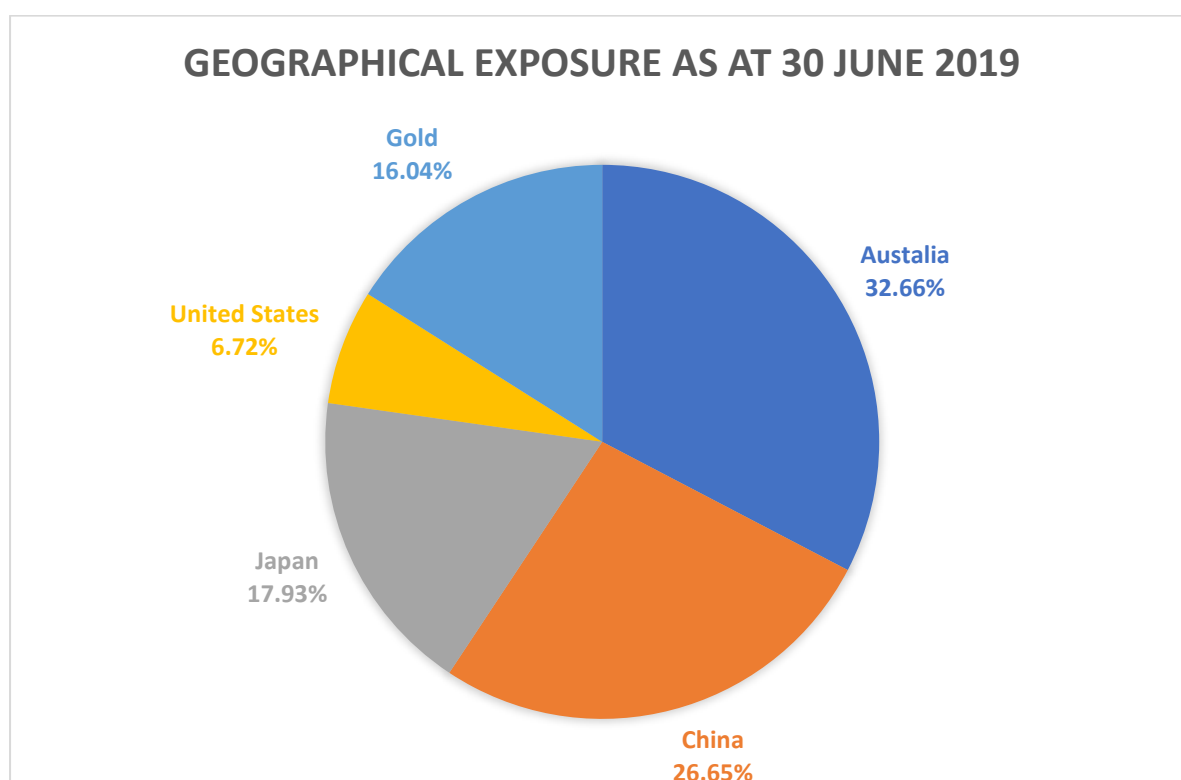
While much of the focus has been on the growth Collins is pursuing in Europe with KFC, and the domestic potential of the Taco Bell brand, the full year results showcased that the core Australian business continues to do very well. KFC Australia saw 15.8% top line growth to \$722.6 million), while same store sales rose 3.7%, with all States performing. EBITDA jumped 20.9% to \$120 million, while a targeted modernisation programme and astute cost control also delivered margin lift (by 70 basis points to 16.6%).

There is much growth left yet in Australia. Collins plans to open 9-10 new sites in Australia in FY20, and will also ramp up the rollout of the drive-thru offering, while expanding the delivery network. Management reports that app sales are showing strong and consistent growth.

We continue to see the Taco Bell rollout as an excellent growth story for Collins, and with the brand having strong appeal against the backdrop of rising appetite in Australia for Mexican food, over the past decade. The development agreement with Yum! brands will see Collins build 50 Taco Bell restaurants over the next 3 years. The business is profitable at the store level, and overall will hit break even by FY21.

Top 10 Holdings	30 JUNE 2019	Country
Collins Foods	8.46%	Australia
The Walt Disney Co	6.69%	United States
Telstra	5.75%	Australia
Nintendo	5.24%	Japan
Evolution Mining	4.98%	Australia
Nine Entertainment	4.93%	Australia
Sony	4.73%	Japan
Vaneck Vectors Junior Gold Miners	4.48%	United States
QBE Insurance	4.37%	Australia
Wynn Macau	4.36%	China

Geographical dispersion



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