



## ASX ANNOUNCEMENT

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**Sydney, 11<sup>th</sup> November 2019: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12**

Dear Shareholders,

The Fat Prophets Global Contrarian Fund had a reasonable performance in October versus generally flat to weaker global stock markets. The Fund increased **net tangible asset backing by 5.42% on pre-tax basis, and 5.77% on a post-tax basis.**

The Fund held approximately AUD\$70.1 million of stocks at the end of October. The largest holding continues to be **Collins Foods at 8.47%**, while internationally the largest holding was **Meituan Dianping at 5.18%**.

Overall the Fund, excluding a futures position in platinum, utilised a leverage of 26.1% against the value of the share portfolio. The domestic split of the overall portfolio was A\$28.9 million with the balance of A\$41.2 million being comprised of international stocks. The largest concentration was in USA with A\$14 million of listed stocks.

	31-Oct-19	30-Sep-19	Change
Pre-Tax NTA	1.2010	1.1393	5.42%
Post-Tax NTA	1.1822	1.1177	5.77%

### Portfolio performance

#### Positive attributions

During October the Fund had strong performances from its underlying precious metal exposure, including **Harmony Gold** and the **Van Eck Gold** and **Junior Gold ETFs, GDX** and **GDXJ**. Precious metals benefited during the month from underlying market volatility and a weaker US dollar. Chinese fast food delivery company **Meituan Dianping** made a strong contribution following strong quarterly earnings and its ongoing dominance of the online delivery market.

Platform operator **Praemium** returned to form after reporting a solid profit result and a corresponding increase in funds under management. Hong Kong gaming stocks recovered in October, and there was a solid bounce in **Wynn Macau**. We continue to see value in the Macau gaming sector particularly with the secular growth in the more stable mass gaming market segment (which is accelerating as China's middle class grows), versus the historically more volatile VIP segment.

Company	Country	Attribution (bpts)
Harmony Gold Mining	United States	133.7
Meituan Dianping	China	109.0
Praemium	Australia	88.4
Japan Airport Terminal	Japan	57.0
Wynn Macau	China	52.4

### Negative attributions

**Evolution Mining** was the worst performer in the portfolio, mainly due to quarterly earnings which disappointed the market mainly on the back of lower production and higher costs guidance. Gold producer **St Barbara Mining** also reported lower than consensus forecast earnings and higher costs. **Nine Entertainment** also underperformed after competitor South Cross Media (we don't hold this company) reported lower than expected advertising revenues and downgraded market guidance. Our newly established holding **Yum China** also declined, despite reporting better earnings and managing costs lower, but disappointed with weaker headline revenues.

Company	Country	Attribution (bpts)
Evolution Mining	Australia	52.8
Nine Entertainment	Australia	35.0
Yum China Holdings	China	25.0
Nintendo Co	Japan	21.9
St Barbara	Australia	17.9

### Portfolio changes

The Fund had several changes during the period, being a new position in **Yum China**, the KFC and Taco Bell franchise operator in China, and established a new position in ASX listed **Domino's Pizza Enterprises**. The fund also reduced its exposure to **Disney**, which was the second largest portfolio holding, and exited the holding in **Nufarm**. The Fund took profits and sold out of **Nufarm** at attractive levels after the market's strong re-rating following the announcement of the sale of the South American division. We added to existing positions in Japanese online retailer **Zozo**, **Samsung Electronics**. **Samsung Electronics has performed strongly since launching a new foldable phone**, and also announcing a strong quarterly result.

Whilst we are still positive on our outlook for Disney over the longer term, we took the opportunity to lock in profits ahead of the launch of the company's streaming channel Disney+. There is significant expectation priced into Disney at present, and this in our opinion makes the stock susceptible to a correction. While Disney is preparing to launch Disney+ soon, other competitors such as Apple are also preparing to enter the market with competition intensifying. Any weakness in Disney would potentially present another buying opportunity. The Fund still holds a reasonable position after selling down two thirds of the original holding.

We established a position in **Yum China**, the operator of the KFC, Taco Bell and Pizza Hut franchises in China. Since the KFC brand was launched in China in the late 1980s, the company has had significant success. Yum China was spun off from Yum! Brands in November 2016 and today operates 8,751 stores throughout greater China. Since listing, system sales growth has increased 7% CAGR, with 11 consecutive quarters of sales growth.

Yum China is well positioned to continue growing within China over the long term with a strong track record of execution. For much of the past 12 months however, **the stock has underperformed on the back of high chicken input prices caused by the outbreak of swine flu** (chicken was used as a substitute). This situation should resolve itself in time, as chicken prices return to more normalised pricing levels. Yum China is not the cheapest company in terms of valuation, and trades at a decent discount to competitors such as McDonalds, Starbucks and Yum! Brands.

**Domino's Pizza** has been a serial underperformer for much of the past four years, but we are of the view that growth and outperformance will soon return to the company. We believe **the outlook for the company has materially improved across all of its key markets in Europe, Japan and Australia, and as a result the company is now at a positive inflection point.**

France will provide the most upside and is set to open a record number of new stores in FY2020, which will be underpinned by a rejuvenated franchise network. Japan has gone from strength to strength with customer and sales growth, while in Australia, sales momentum is rebuilding, which should underpin a jump in margins next year.

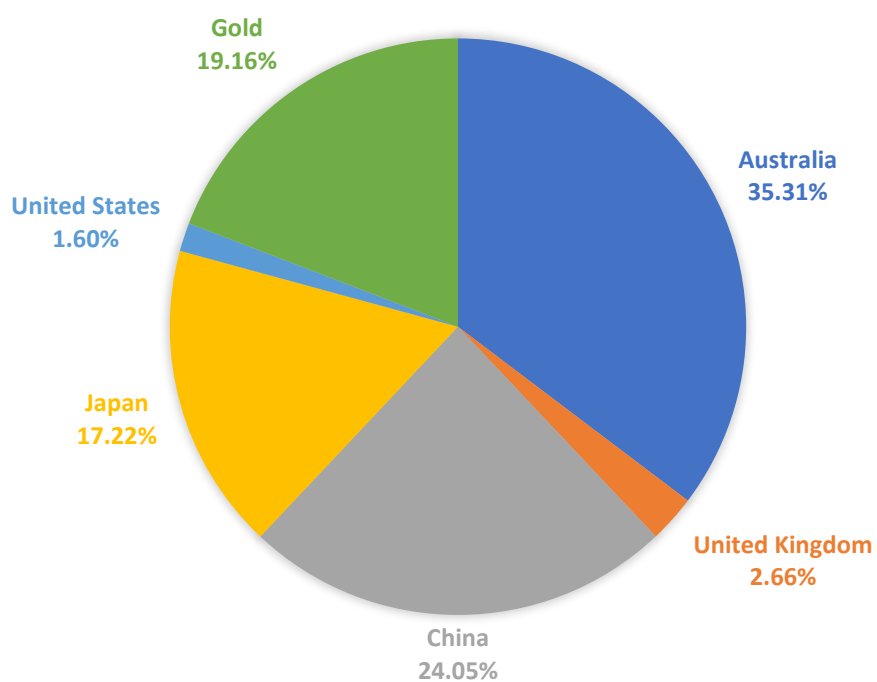
**Domino's Pizza Enterprises (yellow line) the parent NYSE listed company** has outperformed **Domino's Pizza Enterprises Australia (purple line)** for much of the past three years, and we expect this gap to now begin closing, with both companies lifting financial performance on the back of a greatly improved execution strategy.



Top 10 Holdings	31 October 2019	Country
Collins Foods	8.47%	Australia
Meituan Dianping	5.18%	China
Harmony Gold Mining	5.17%	United States
Sony	4.72%	Japan
Western Areas	4.49%	Australia
Telstra	4.37%	Australia

Nintendo	4.35%	Japan
Vaneck Vectors Junior Gold Miners ETF	4.31%	United States
Nine Entertainment	4.06%	Australia
Evolution Mining	3.95%	Australia

## GEOGRAPHIC EXPOSURE AS AT 31 OCTOBER 2019



Angus Geddes  
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**Fat Prophets Global Contrarian Fund**