



ASX ANNOUNCEMENT

Sydney, 12 March 2020: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Shareholders,

The Net Tangible Assets of the Fat Prophets Global Contrarian Fund declined in February following a steep sell-off in global stock markets. Fears of coronavirus contagion and a crash in oil prices sent the indices tumbling. The Fund's **Net Tangible Asset backing decreased at month end with pre-tax and post-tax NTA closing at \$1.1180 and \$1.1235 for a move of -5.21% and -3.68% respectively.**

	28-Feb-20	31-Jan-20	Change
Pre-Tax NTA	1.1180	1.1794	-5.21%
Post-Tax NTA	1.1235	1.1664	-3.68%

We would argue that even if the world's worst fears on contagion are realised, the capital flows into bonds away from equities are going to subside soon when the VIX recedes from panic levels. Given the now very wide disparity between global bond and dividend yields, the risk reward scenario has shifted decisively in favour of equities, and consequently we are buyers at current prices.

The fund held approximately A\$47.6 million of stocks and equities at the end of February. The largest holding shifted to **Walt Disney** at 8% while **Collins Foods** remains the largest holding within Australia weighted at 6.40%.

Portfolio Performance

The main positive contributors to the portfolio's performance in February came from Australian stocks including **Collins Foods, Domino's Pizza Enterprise, Evolution Mining** and **QBE Insurance**, whilst the negative attributions came from the precious metals exposure, and namely the gold and silver exchange traded funds in the US. Despite a solid profit result, Praemium also underperformed badly due to adverse market performance.

Positive Attributions

Company	Country	Attribution (bpts)
Collins Foods	Australia	57.8
Domino's Pizza Enterprise	Australia	48.1
Evolution Mining	Australia	36.9
Powerhouse Energy	United Kingdom	27.7
QBE Insurance	Australia	23.0

Negative Attributions

Company	Country	Attribution (bpts)
Sony Corp	Japan	77.9
Silver Composite Future	United States	69.7
VanEck Vectors Junior Gold Miners ETF	United States	67.3
Praemium	Australia	63.4
Global X Silver Miners ETF	United States	57.9

Portfolio Changes

The Fund was very active during February and liquidated a substantial portion of the portfolio around Monday the 24th February, just before global stock markets went into a substantial decline. Our view was that with global indices at record levels, valuations had become stretched and that risk was skewed towards the downside with the coronavirus contagion set to get worse. Half the holdings of many stocks in the portfolio that were deeply in the money such as **Collins Foods, QBE Insurance, Alibaba, Dominos Pizza, Samsung Electronics, LG Household and Healthcare, Tencent, Nintendo, Sony, SMC Corp, Activision Blizzard, Yum China, UBS, CS Group and Meituan Dianping** were disposed of, realising good profits with the indices near record levels. Our view at the time that would markets would correct sharply and that there would be opportunity to buy back at lower prices.

Other stocks held in the portfolio where we held a much less positive outlook were sold out entirely. Companies such as **Telstra, Japan Airport Terminal, MGM China, Wynn Macau, Western Areas, Sands China, and Walt Disney** were sold out of completely. This eliminated all leverage within the Fund's equity portfolio, with a large allocation in cash remaining. A long Euro Stoxx futures position was also closed, leaving moderate short futures positions in Bunds, Australian Commonwealth and US T bonds.

We opted to retain all our precious metals exposure, holding the view that gold would in particular, outperform if markets came under pressure. The long Platinum position was closed and a moderate long position in silver was established. Whilst the rally in gold has proven to be the case, it has been **disappointing to see precious metal equities come under significant pressure**, and the Fund's ETF holdings in large cap and mid cap gold and silver producers, along with Australian gold producers **St Barbara and Evolution Mining**, despite the elevated and record prices for US\$ and A\$ gold.

The sell-off in markets, when it arrived, was abrupt and led to a very subsequent sharp drop in global indices. On the last day of February, the Fund bought back core holdings in the US disposed of a week earlier at much higher prices. The stocks bought back in the US were **Alibaba, Yum China, Walt Disney, and Activision Blizzard**. The Fund also added online music streamer **Spotify** (after a 30% fall) along with **Uber Ride**, establishing moderate positions in both companies.

Market outlook

What we have witnessed in the past few weeks has been **a spike in global volatility and a steep drop in stock markets to levels unprecedented since the global financial crisis**. Confidence has been shattered after a "black swan event" which was the crash in oil prices last weekend with Russia and Saudi Arabia beginning what looks to be a second oil price war. What has driven markets even lower are investor fears of a full-blown recession brought on by a global pandemic and spread of the Covid-19 virus.

This saw global stock markets incur what is **already one of the steepest declines on record**. On the flipside, bond valuations have spiked every higher and have pushed up to historic records. The volatility index or VIX has also had the second highest spike on record, eclipsed only by the GFC.

Whilst at the time of writing panic reigns supreme and **investor fear of equities is at its highest in more than a decade, value has returned to the markets**. What is more, those central banks that can cut rates, have reduced them to the lowest in history – and not far from being zero. Despite the risks to the global economy, stock market investors are today being offered significant compensation for taking on board equity risk.

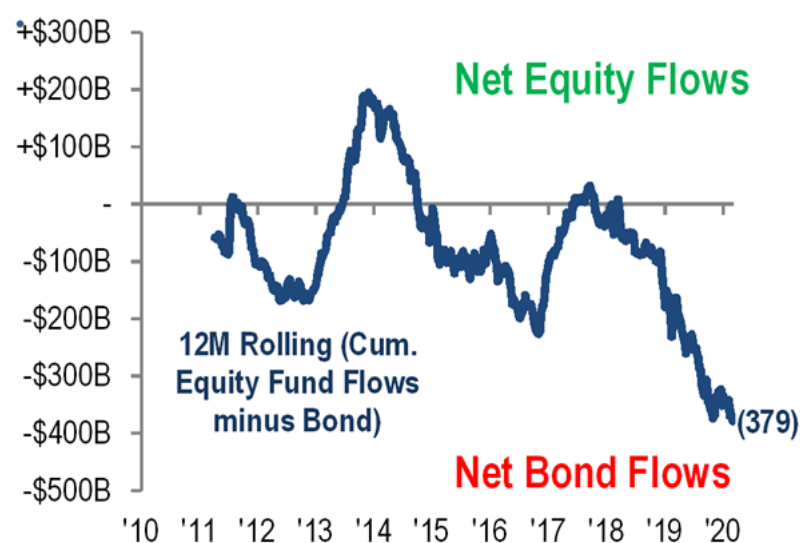
The S&P500 and other main country indices have experienced an outright crash **and the 8% one-day decline on Monday and subsequent falls this week has turned out to be the worst for the S&P500 since 2008**. The world financial markets have just experienced an acute “volatility shock” made worse by program selling and algorithms, which combined with the low liquidity levels, margin calls and forced selling to bring on one of the sharpest falls this week in history, reminiscent of the GFC in 2008.

The S&P500 multiple (along with the rest of the world) **has just experienced one of the largest multiple de-ratings in the last 30-years**, which is comparable to the GFC and other major financial crises in history (the forward PE is now at around 15x). **Meanwhile, risk aversion has pushed bond valuations to never before seen levels and in our view, this is where the real risks lie**. Some 85% of S&P500 stocks are now paying higher dividend yields to shareholders than the US 10-year bond yield – the highest ratio on record.

Equity allocations have been significantly reduced in recent weeks, with record capital allocation flows away from equities back into bonds.

Again, we would argue that even if the world’s worst fears on contagion are realised, the capital flows into bonds away from equities are going to subside soon when the VIX recedes from panic levels. Given the now very wide disparity between global bond and dividend yields, the risk reward scenario has shifted decisively in favour of equities, and consequently we are buyers at current prices.

Bonds Versus Equity flows at 12-month extremes



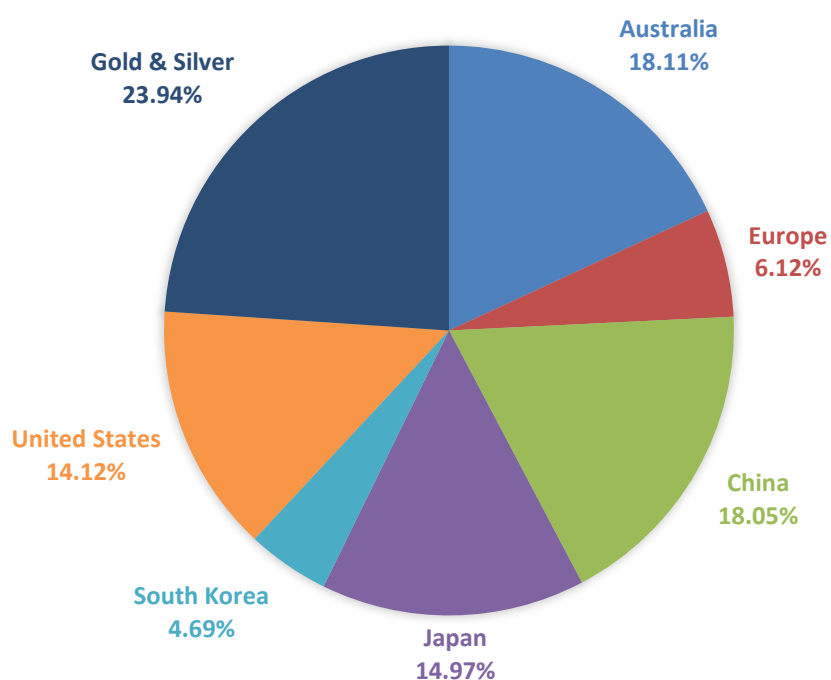
Source JP Morgan

As I see it, **the bond markets are totally imbalanced now within the financial system and the stage is set for a reversal of these flows back into equities** – it is only a matter of time now. Fixed income markets return close to nothing and the yield gap with equities has seldom been this wide.

Top 10 Holdings

Top 10 Holdings	28 February 2020	Country
Walt Disney	8.00%	United States
Alibaba	7.07%	China
Collins Foods	6.40%	Australia
Evolution Mining	5.79%	Australia
VanEck Vectors Junior Gold Miners ETF	5.70%	United States
Global X Silver Miners ETF	4.63%	United States
Meituan Dianping	4.53%	China
Yum China Holdings	4.32%	China
St Barbara	4.14%	Australia
Sony	3.75%	Japan

GEOGRAPHIC EXPOSURE AS AT 28 FEBRUARY 2020



Angus Geddes
Chief Investment Officer
Fat Prophets Global Contrarian Fund