



## ASX ANNOUNCEMENT

### Sydney, 16 November 2020: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Shareholders,

The estimated net tangible asset backing of the Fat Prophets Global Contrarian Fund improved in October 2020. **Pre-tax and post-tax NTA closed at \$1.2592 and \$1.2229 for an increase of 1.57% and 1.21% respectively during October 2020, which was positive given many market indices were down more than this over the same period. During the month, the Fund reduced exposure and net leverage decreased to 22.07%**

	31-Oct-20	30-Sept-20	Change
Pre-Tax NTA	1.2592	1.2397	1.57%
Post-Tax NTA	1.2229	1.2083	1.21%

### Portfolio Performance

The Fund's best performing holding in October was **Coca Cola Amatil** which received a takeover bid from Coca Cola European Partners, that was quickly endorsed by the independent directors. Whilst the prospects of the final bid price being increased are good, we opted to sell out and allocate to other investment themes. Overweight positioning in **China, Australia, South Korea and Japan** helped to shore up performance in October with all of these markets faring generally much better than **Europe and the US**, helped by very low Covid19 infections and resilient underlying economies. The Fund took advantage of recent equity market weakness and added back exposure to **Sony, Nintendo, and Daikon Industries in Japan, LG Household & Healthcare and Samsung Electronics in South Korea, and Alibaba and Tencent Holdings in China.**

In terms of portfolio performance, platform operator **Praemium** had a very strong quarterly and the stock was sharply rerated by the market. FUA has grown rapidly this year, which significantly beat consensus estimates, while the Powerwrap acquisition will add scale and cost synergies.

**Mainstream, the other Australian platform operator** came close to doubling in October after reporting very strong financial results.

Weighing on performance was **Power House Energy**, which completed a capital raise last month and is now focused on rolling out the first three DMG plants at various municipal councils in the UK. Further news flow on the rollout will most likely be the next catalyst for the stock. Disappointing gaming and visitation numbers impact our Macau casino investments, including **Wynn Macau and Sands China.**

## Positive Attributions

Company	Country	Attribution (bpts)
Coca-Cola Amatil	Australia	96.1
Praemium	Australia	66.9
Tencent Holdings	China	63.1
Mainstream Group	Australia	57.7
Domino's Pizza	Australia	40.6

## Negative Attributions

Company	Country	Attribution (bpts)
Powerhouse Energy	United Kingdom	80.6
Collins Foods	Australia	54.8
Wynn Macau	China	25.0
Sands China	China	22.1
Uber	United States	20.8

## Market Outlook and Portfolio Changes

Since the September monthly update, we took advantage of the strong recovery of markets in early October, to lock in profits and significantly reduce total leverage ahead of the US election, positioning for a second leg to the correction. This ensued in late October and the Fund was able to reduce leverage significantly and locked in profits across the portfolio after a big global rally in October. **We were then able to add back equity exposure as stock markets sold off into the US election - as well as increase our short position on long duration US bonds.** The Fund has established a short position on long duration US Treasury Bonds via two listed ETFs. Both ETFs have since performed strongly.

With the US election out of the way, we remain confident that another round of fiscal stimulus will be administered soon. The outcome of the US election was something of a goldilocks scenario for the stock markets with control of the US Senate likely remaining in the hands of Republicans – which will effectively stop any increase to tax rates and changes to antitrust legislation that would have been aimed at the corporate sector. Federal Reserve meanwhile has been vocal about keeping rates low but calling up the Government to do more with fiscal stimulus.

Another dose of fiscal stimulus is however likely to be “**reflationary**” for most asset markets, precious metals and commodities, but could also prove negative for the US dollar and sovereign bonds. The Fund is positioned for this scenario. **Looking further out over the medium term, we are optimistic on the equity markets for 2021 and subsequently.**

On the corporate front, **Sony** surged higher after the electronics and media giant lifted its full year operating profit guidance. **Group sales were effectively flat at ¥2.1 trillion, but operating profit increased 14% to ¥317.8 billion. Sony upped its full year operating profit outlook 13% to ¥700 billion** and we believe this could prove conservative given that operating income hit ¥546.2 billion for the half year. The **gaming segment was the key contributor, with sales up 11% and operating income surging 61% to ¥104.9 billion even as the PlayStation 4 is at the end of its lifecycle.** There were encouraging reports about pre-orders for the PlayStation 5, releasing in mid-November.

The Fund added to holdings in **Yum China**, after a better than expected solid profit result and confirmation that the KFC store rollout in China was tracking to plan. A number of companies in the portfolio reported with solid beats including **Tencent Music, Nintendo, Tencent Holding and Alibaba**. Alibaba came under pressure after the halt to the ANT IPO, but the weakness in the stock has been somewhat mitigated by a very strong profit result.

We took advantage of the depressed global energy sector and **added China Oilfield & Services (COSL) to the portfolio at historically low prices**. COSL is an oilfield services company, and earnings are therefore somewhat insulated to the oil price. COSL reported a very solid profit result recently, with their largest client Chinese energy giant CNOOC – which are committed to their offshore drilling programs. COSL is a majority owned subsidiary of CNOOC, and operates in Southeast Asia, the Middle East and Central Asia. With the energy price also depressed, **we think there is a good probability of recovery over coming months, particularly when the world economy fully begins to reopen next year after the arrival of a vaccine**.

**PowerHouse Energy** shares **surged this month on the announcement that it had reached a heads of agreement with Hydrogen Utopia International Limited (HUI) for a potential exclusive non-transferable licence** for the application waste-to-energy technology in Poland. This is positive **signal of the potential of the technology to “the recycling industry” of potential future revenue streams to come**. With the prototype testing complete and the commercialization rollout of the DMG technology begun, we think the shares have **good prospects of being rerated significantly in the coming year**.

### **Expanded Dividend guidance**

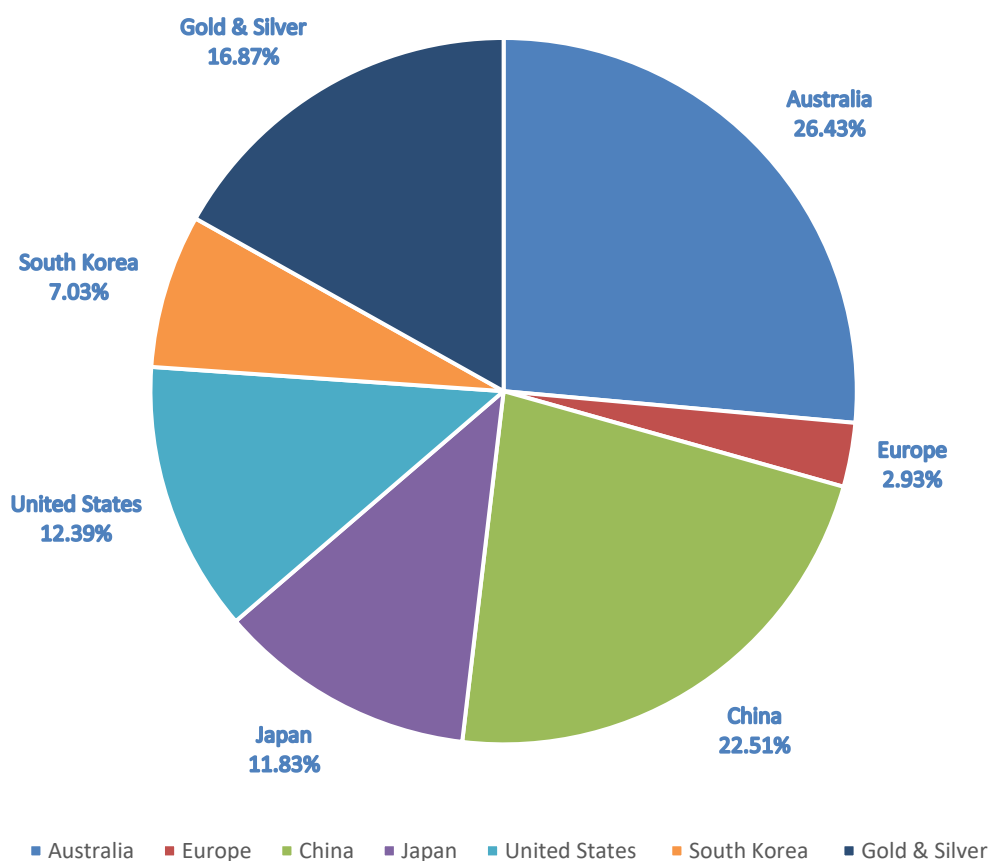
Last month, the Fund announced an expanded dividend policy and that current retained profits available for payment by way of dividend are approximately \$4.3m, being 10.69 cents per share. **On the current share price, this dividend would represent a yield of around 10% for the FY2021, assuming a share price of \$1.08 and all profits were paid out in accordance with prudent business practice.**

The Board was also pleased to announce it's intention to pay a FY2021 interim of 2.5 cents per share, franked to the maximum extent possible (subject to no material adverse change in market conditions). Further it is the Board's intention to declare a final dividend for FY2021 of up to 100% of its after-tax profits for FY2021, franked to the maximum extent possible. This will depend on the Company's performance during FY2021. Note the above guidance is not a formal declaration of dividends, the amount of which will be subject sufficient profit reserves. If an interim dividend is declared, the Board expects that it would be declared in February 2021 and payable in May 2021.

## Top 10 Holdings

Top 10 Holdings	Country	31 October 2020
Collins Foods	Australia	10.13%
Alibaba Group Holding	China	6.13%
Domino's Pizza	Australia	5.63%
Global X Silver Miners ETF	United States	5.31%
Tencent Holdings	China	4.60%
Nintendo	Japan	4.00%
LG Household & Health Care	South Korea	3.99%
Samsung Electronics	South Korea	3.76%
Sony Corp	Japan	3.75%
Powerhouse Energy Group	United Kingdom	3.23%

## GEOGRAPHIC EXPOSURE AS AT 31 OCTOBER 2020



Angus Geddes  
Chief Investment Officer  
**Fat Prophets Global Contrarian Fund**