

26 August 2022

Portfolio Manager's Report

Dear Shareholders,

The full year results through to June 30 2022 were disappointing for the Fund. The second half of the financial year was however one of the worst on record in the past three decades in terms of performance for financial markets. Since the reporting date, we have seen a strong rebound in US and global equities from heavily oversold conditions that persisted in June. Despite the rally, we continue to see challenging times ahead over the next few quarters, but this could be a period of great opportunity.

We believe there is a strong likelihood that markets will be tested again in the third quarter. Companies could soon start facing falling sales prices as inflation moderates but also stagnant revenue growth as profits and margins come under pressure from high labour costs and shifting consumer spending patterns. Downward earnings revisions could have investors once again questioning valuations, with markets yet again looking relatively expensive on a forward multiple and "priced to perfection" in terms of what the US Federal Reserve will do next in its attempt to control inflation.

Despite the recent rally (driven in large part by short covering and low investor positioning) we are yet to also see capitulation on a scale with previous US bear markets. Meanwhile, the Fed appears to be not finished yet with interest rate hikes, as evidenced by the overheating labour market, despite easing inflationary pressure. The bond market has diverged markedly from stocks with the yield curve now prominently inverted. In the past 50 years during every single cycle, recession has always ultimately arrived.

Global growth is slowing in Europe and the UK which appear on the cusp of recession. We also continue to see significant downside risks in China, which might be currently underestimated by the markets. The property contagion has continued to spread and deepen, with consumers no longer responding as they have in the past to government stimulus. China's slowdown comes amid persistent lockdowns and restrictive measures enforced by zero Covid-19 policies. Covid-19 remains a key risk to China's widely expected growth rebound over coming quarters. On this front, we think consensus expectations could be wide of the mark.

While the zero Covid-19 policy is widely expected to end when the Chinese leadership is finalised later this year, we hold some doubt. At present, the portfolio is positioned very defensively, and we look to volatility laying directly ahead for financial markets but also a time of opportunity.

30 June 2022 snapshot

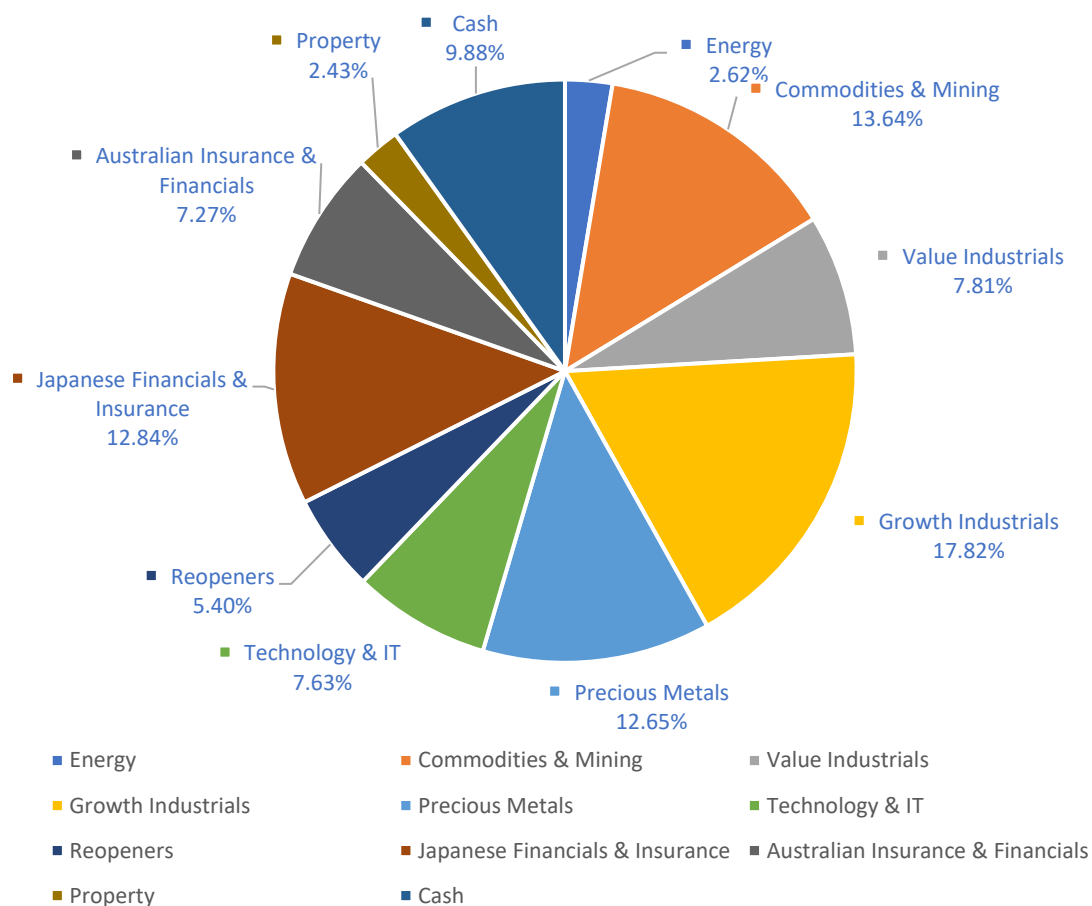
Listing date	22 March 2017
Gross assets	\$39.64M
Market capitalisation	\$37.30M
Share price	\$0.87
Shares on issue	39,682,914
Net tangible assets (pre-tax)	\$0.9964
Net tangible assets (post-tax)	\$1.0534
Since inception fully franked dividends	13.0 cents
FY22 fully franked dividends	7.5 cents
FY22 fully franked dividend yield*	8.62%
Return since inception*	0.58%

**Based on the 30 June 2022 share price of \$0.87 per share*

**Annualised returns exclude the impact of dividends paid during the financial year*

Top 20 Holdings	Country	30 June 2022
Collins Foods	Australia	11.07%
BHP Billiton	Australia	6.33%
QBE Insurance	Australia	5.80%
Telstra	Australia	5.73%
Sands China	Hong Kong	4.37%
Rio Tinto	Australia	4.23%
Sumitomo Mitsui	Japan	4.14%
Domino's Pizza Limited	Australia	3.80%
Dai-ichi Life Holdings Inc	Japan	3.51%
Domino's Pizza Group PLC	United Kingdom	2.97%
Walt Disney	United States	2.94%
Santos	Australia	2.91%
Aberdeen Standard	United States	2.88%
Beston Global Food	Australia	2.72%
Mitsubishi UFJ Financial Group	Japan	2.40%
Global X Sil Min ETF	United States	2.37%
Resona Holdings Inc	Japan	2.28%
Praemium	Australia	2.27%
Intapp	United States	2.26%
VanEck Vectors ETF	United States	2.08%

SECTOR DISPERSION AS AT 30 JUNE 2022



We thank you for your ongoing support.

Angus Geddes
Chief Investment Officer
Fat Prophets Global Contrarian Fund