

**CHAIRMAN'S ADDRESS TO ANNUAL GENERAL MEETING  
OF FAT PROPHETS AUSTRALIA FUND  
6 NOVEMBER 2009**

The year to 30 June 2009 was, of course, one of the most tumultuous any of us have known; a period of time where fear gripped financial markets at around this time last year, leading into a period of complete inertia. Of course, with a 55% rebound in the domestic equity benchmark index since the low point of 6 March 2009, much of this has been forgotten. Many of the debt and equity risk measures we examined at the 2008 AGM have normalised; "equitisation" is the new black as we see placements, rights issues, resale of private equity businesses (some bought at the wrong time and tarted up), share purchase plans and even scrip takeovers re-enter the lexicon of financial terms. Whilst equity markets may well have further to appreciate, there is a whiff of false euphoria in the air – especially with the nationalistic pride in Australia's economic performance. It hides the fact there are still a number of overpriced and unwanted assets to be worked off the books of bankers. There is a desperate hope, in many places around the world that asset markets will appreciate strongly and save the owners of these assets; meanwhile banks love equitisation, but they also love "amortisation" – of their loans. Hence, the markets view of easy credit and narrowing spreads is increasingly at odds with what the bankers want to see – loan repayment. It's clear to us that the current levels of interest rates should not last much longer lest we risk another asset boom of ridiculous proportions. The Reserve Bank of Australia were far too slow in deflating the last credit driven asset bubble, and then short circuited the economy when it was already slowing, before being able to claim false credit for what by any standards was a desperate play of cutting rates sharply. The good news is they seem to have learned and the warning signs are out in time. The key is that markets listen. At the moment, we're not sure they are.

**[SLIDE 4]**

If the RBA may have some soul searching to do over the next few months, so has your company. By any standards, the investment manager of Fat Fund has done a good job at outperforming the benchmark over recent periods. This slide adds back fees, expenses and taxes to provide a GROSS "apples for apples" estimate of portfolio performance against the benchmark, as estimated by the Manager. **[SLIDE 5]** Not only is the performance strong against the benchmark but compares very favourably to other professional "value" style money managers as measured by the well-known "Intech" survey – again measured on the same basis. Note that investors have generally had very good value from professional money managers in the recent past – the median manager has handsomely beaten the benchmark in the past two years.

OK, you might argue, that's not what I get because you take out fees and expenses. The good news is that we compare very well against the peer group of comparable ASX listed investment companies as well, over the past twelve months. **[SLIDE 6]**. This slide shows the change in NTA plus dividends paid from 30 September 2008 to 30 September 2009, and measures it as a percentage return. You can see that we compare very very well. Now let's take some of the data from this slide (12month return from change in NTA plus dividends plus NTA at 30 September 2009) and overlay onto it the price of each LIC share at 30 September 2009 and in bold, in the right hand column the discount – or those numbers in red with brackets being a premium - to pre-tax NTA/share at that date. **[SLIDE 7]**.

Oh dear. The Fat Fund's reward for good performance is purgatory. It's clear, that despite these good numbers, we trade at a significant discount to the peer group. In fact, as the following chart shows, [SLIDE 8] other than a brief period where the discount to pre tax NTA narrowed after the expiry of the April 2008 options, FAT shares have traded at an average 20% discount to pre tax NTA for some time.

Even starker is the next slide [SLIDE 9] which shows that if you remove the value of the Top 100 companies held in the portfolio as at 30 September 2009, together with cash from the prevailing share price – on the assumption that they could be liquidated almost instantaneously – the it shows on that date that the market was paying 2cents per FAT share for 27.5cents of quality smaller companies – a number of examples of which are shown on the slide. What's really distressing is that when you multiply this 25.5cent gap out by the just over 30 million shares on issue at the time, the value gap between what the fund is worth (before attributing a discount for management contracts or adding something in for the tax benefits of franking credits) is \$7.7million. That's the prize for the board to shoot at.

A 20% discount is certainly at the high end of comparable LIC's. Yet in the view of the board, there is less and less justification for this to be the case. Consider:

- Management and board have a real stake in the fund with real money – the board own over 11% of FAT shares – 3.4million plus pieces of paper with an underlying value at 30 September 2009 of close to \$4million;
- FAT has performed well against benchmark and peers;
- FAT has no “lock-in” poison pills like preference shares which inhibit capital returns;
- Indeed, FAT has the opposite – an under-performance clause which enables shareholders to get rid of the manager if they don't perform over a sensible period; and
- FAT has been pro-active at buying back shares at large discounts to NTA to benefit remaining and retaining shareholders.

I have now moved from the Investment Manager's chair, to the board chair. This is an important change because it is the board's responsibility to try and repair this “discount” problem, in tandem with the investment manager. The board **don't** manage the actual investment portfolio – but obviously have oversight of the investment manager, but the board **does** have to take responsibility for management of the capital base of the company, and its ultimate impact on the stock market's pricing of our company. In fairness, over the past twelve months, we were hampered in this respect by being unable to pay a dividend since September 2008; this was the result of a previously progressive dividend policy, which when combined with the sharp decline in the stockmarket, diminished our level of retained earnings to prevent us from having available reserves to distribute.

Of course, as a result of the market rally, we are now in a position to pay dividends, and as note 19 to the accounts shows, have \$1.6million of franking credits as at 30 June 2009, which when grossed up, is the equivalent of around 12.5cents per FAT share.

At this point, I would like to thank the inaugural Chair of the Company, Rob Bolton, who stepped down on 31 October; Rob did an excellent job of establishing the board protocols of the Company, and leaving it in good shape. Rob and his family have recently been given an excellent opportunity to spend time overseas which will result in significant travel; Rob departs with our best wishes.

To the future. I can assure you that in the year ahead, the board's number one priority, will be pulling on all the levers we can to restore a better pricing by the market of the company's shares, starting from the fundamental premise of a quality and well-performed portfolio of securities. We gave plenty of levers – dividends, share buy-backs and also expansion on appropriate terms to glean some economies of scale. We are loathe to do a capital return of significance as we believe the Company offers far more than a plain vanilla equities fund, and such a return would result in significant diseconomies of scale were it to be pursued.

Our pursuit is to find the appropriate balance of capital management and see a better reflection of the manager's skills in the valuation of our company. As we said before, between myself and Angus – who you'll be hearing from after the formalities – there are 3.4million reasons to want to see a better share price.

With that in mind, I would like to move to the formal part of the meeting.