fatPROPHETS™

April 2009 NTA Release

1. Details of Performance and Net Asset Backing at Month end

The net asset backing (“**NTA**”) of Fat Prophets Australia Fund Limited (“**Fat Fund**”) as at 30 April 2009 was **$0.8651 per share** on a before tax basis, calculated in accordance with ASX Listing Rule 19:12, and represents an increase of 4.94% over the month. By comparison, the Fat Fund’s benchmark, the S&P/ASX 300 Accumulation Index firmed 5.7% in April 2009.

After adjusting for the impact of taxation on both realised and unrealised gains, the Fat Fund’s after tax NTA at the end of April 2009 was **$0.9251 per share**.

2. Performance Commentary

The major influences on the Fat Fund’s performance versus the benchmark during the month of April 2009 were as follows (* denotes acquired during month):

Positive Influences			**Negative Influences**		
Company	***% move***	***Position***	***Company***	***% move***	***Position***
Allco Equity Partners	32%	Overweight	Beach Petroleum	-12.5%	Overweight
Newcrest	-8.5%	Underweight	W.H Soul Pattinson	-4%	Overweight
Altium	25%	Overweight	Macquarie Group	24%	Underweight
Wesfarmers	20%	Overweight	Westpac Office Trust	-17%	Overweight
QBE	13%	Overweight	Westpac Bank	0.6%	Overweight

We noted last month that the ferocity of the market rally from the first week of March 2009 should not be too surprising given the preceding carnage. Whilst we remain unrequited bulls on equity valuations, and are more confident that the bottom of the bear market has been seen, we are becoming more circumspect, and foresee a short term consolidation.

If you’ve ever been to the liquidation closing down sale of a discount store, it’s amazing to watch the behaviour of people. They’ll buy **anything** because it’s cheap and not going to be there tomorrow. The author was in the UK in early December when the Woolworths discount departments stores were placed in administration and many had a single day closing down sale. The shelves were stripped bare – indeed in many cases, the shelves were also sold. The buyers were happy to buy all sorts of junk, simply because it was cheap. Much of it will sit on a new shelf at home.

Recent equity raisings in the Australian market have a similar psychological feel. Many institutions have sat on too much cash, and now feel panicked into buying equities because they are cheap. In many cases, trying to set positions at the low levels prevailing in early March hasn’t been possible, other than through placements and rights issue underwritings. In the month of May alone, we have already seen some $10billion of equity raising – about 1.1% of market capitalisation – giving rise to clear potential for indigestion.

It is now noticeable that after the first wave of “quality” issues (mainly financials), the nature of the companies coming to the market has changed somewhat. In the past two weeks, we’ve seen more domestic cyclical companies, such as steel makers and distributors, seeking funds – and plenty of them – as well as low return utilities (who must be making an EVA loss on the cost of capital). The REITs, of course, are back as well. Our strategy in the Fat Fund has been to be highly selective and ensure the quality of company in the portfolio remains high, and that our thematic exposure and bias, at this stage, remains towards financial asset and global cyclicals. In simple terms, these are the areas where conditions will improve first and where either earnings or asset values will show the most rapid recovery. We have been a little contrarian in the past month, “top-slicing” a few holdings and building a cash weighting of about 7%, at a time when others seem to be rushing into risky, lower quality companies. We stress, it’s only a trading view – valuations in the long run remain compelling.

On the financial front, whilst we have taken a little off the top of our banking exposure in recent weeks, the underlying fundamentals for Australian banks over the next few years still look outstanding. The results season, whilst illustrating why there are two premium and two “discount” entities has shown that underlying profits before bad debts and tax are up between 17-24% over the corresponding period, and once the impaired loan situation abates there will be significant bottom line earnings growth. Ironically, the two “premium” banks both have fewer strategic issues - ANZ can’t do what they want to given their capital base and NAB will finally have to decide what they actually are. There is a once in a **lifetime** opportunity available in the UK, but we sense a domestic shareholder base which would panic if it was taken. The pricing of the two securities continues to discount far worse scenarios than are likely. We are also looking at exposures to funds managers and to discounted equity assets and have acquired small shareholdings in two undisclosed companies in these areas, one at prices reflecting a 35% discount to last revealed NTA/share. That’s even cheaper than the Fat Fund………………

We remain fully weighted in oil and gold, as well as the two main resources producers, with renewed confidence from recent Chinese economic data and coking coal pricing. We have generally eschewed the domestic cyclicals on three counts:

- They are not that cheap, trading at 12-15x cycle bottom earnings;
- Most have appalling returns on invested capital far below their global cyclical counterparts, which trade on similar multiples – compare CSR and BHP for example (once upon a time we used to….);
- Many have structural imposts to their businesses, contrasting with the excellent market structures enjoyed by many of the globally exposed companies.

We do acknowledge that there will be a significant private and public sector “infrastructure” boom in Australia, driven both by pump priming and the need to correct the massive underinvestment in housing stock relative to population growth. However, until state Governments – especially NSW - remove their financial and bureaucratic imposts, the situation will not turn rapidly.

We have maintained our exposures in the property sector, on the basis that the discount to gross asset value remains compelling. In rough terms, the sector’s equity was valued at $44.5billion at end April, but was weighed down by an estimated $84billion of “look through” net debt (half of which belongs to Centro and Westfield). Excluding these two contrasting situations, the reminder of the sector had debt:market value of equity of 2:1 but enterprise value stood at a 31% discount to stated value of gross assets. Even allowing for the market’s perception of inebriated valuers, that’s a significant discount when the **initial** recapitalisations have been completed and financing issues have mainly been pushed back into 2010 or 2011. We have a spread of holdings in the sector, the largest being GPT, which of course, has led the pack to double dip and – we believe ultimately to no avail – protect its independence.

3. Top 15 Holdings at 30 April 2009

Company	Symbol	% Weighting
BHP Billiton	BHP	15.53
Westpac	WBC	10.41
Commonwealth Bank	CBA	7.28
National Aust. Bank	NAB	7.24
QBE Insurance	QBE	4.94
Wesfarmers	WES	4.52
ANZ Bank	ANZ	4.22
Woolworths	WOW	3.90
Washington H Soul Pattinson & Co Ltd	SOL	2.45
Rio Tinto	RIO	2.41
Beach Petroleum	BPT	2.38
ALLCO Equity Partners	AEP	2.10
Lihir Gold	LGL	1.83
Westfield Group	WDC	1.66
Seven Network	SEV	1.63

Andrew Brown[a] & Steve O'Hanna[a] 14 May 2009

a: Andrew Brown and Steve O'Hanna are employees of Tidewater Investments Limited. A controlled entity of Tidewater Investments Limited, Tidewater Asset Management P/L (AFSL# 302802) currently manages the Fat Fund under a sub-contract agreement dated 24 May 2007 with Fat Prophets Funds Management Australia P/L.

This report has been prepared solely for the benefit of the Fat Fund and its shareholders. It summarises information on the financial products held by the Fat Fund and the views of the Fat Fund as at the date of preparation of the report. These views and financial products may and will change after the issue of this report. No assurance can be given by the Fat Fund or Fat Prophets Funds Management Australia Pty Limited (the Manager) or Tidewater Asset Management Pty. Limited (the sub contract manager) as to the accuracy and completeness of the information used to compile this report. Past performance is not necessarily indicative of future performance. By making this report available, the Fat Fund and the Manager are not providing any general advice or personal advice within the meaning of section 766B of the Corporations Act regarding the Fat Fund, any potential investment in the Fat Fund or any investments or potential investments of the Fat Fund. This report is made without consideration of any specific person's investment objectives, financial situation or needs. The Fat Fund, the Manager and directors and employees of the Fat Fund and the Manager do not accept any liability for the results of any action taken or not taken on the basis of the information contained in this report, any negligent mis-statements, errors or omissions.