

# Fat Prophets Australia Fund Limited Annual General Meeting 2009

## Manager Presentation

Angus Geddes

CEO – Fat Prophets

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# Today's agenda

- The year that was – where we have come from...?
- How the Fat Fund was positioned over the last 12 months
- What is the value proposition now?
- Strategy and Portfolio Positioning



# The last 12 months - industrials

% change 30 September 2008 – 30 September 2009

<b>S&amp;P/ASX indices</b>	<b>Capital</b>	<b>Income (reinv)</b>	<b>Total return</b>
300 Industrial	2.43%	6.2%	8.63%
Small Industrial	-2.76%	5.67%	2.91%
300 A-REIT	-29.37%	6.3%	-23.02%
300 Pharmaceutical	-1.98%	2.54%	0.56%
300 Diversified Financial	7.84%	7.29%	15.13%
UBS Composite Bond			5.2%

Source: IRESS, Fat Prophets



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# The last 12 months - resources

% change 30 September 2008 – 30 September 2009

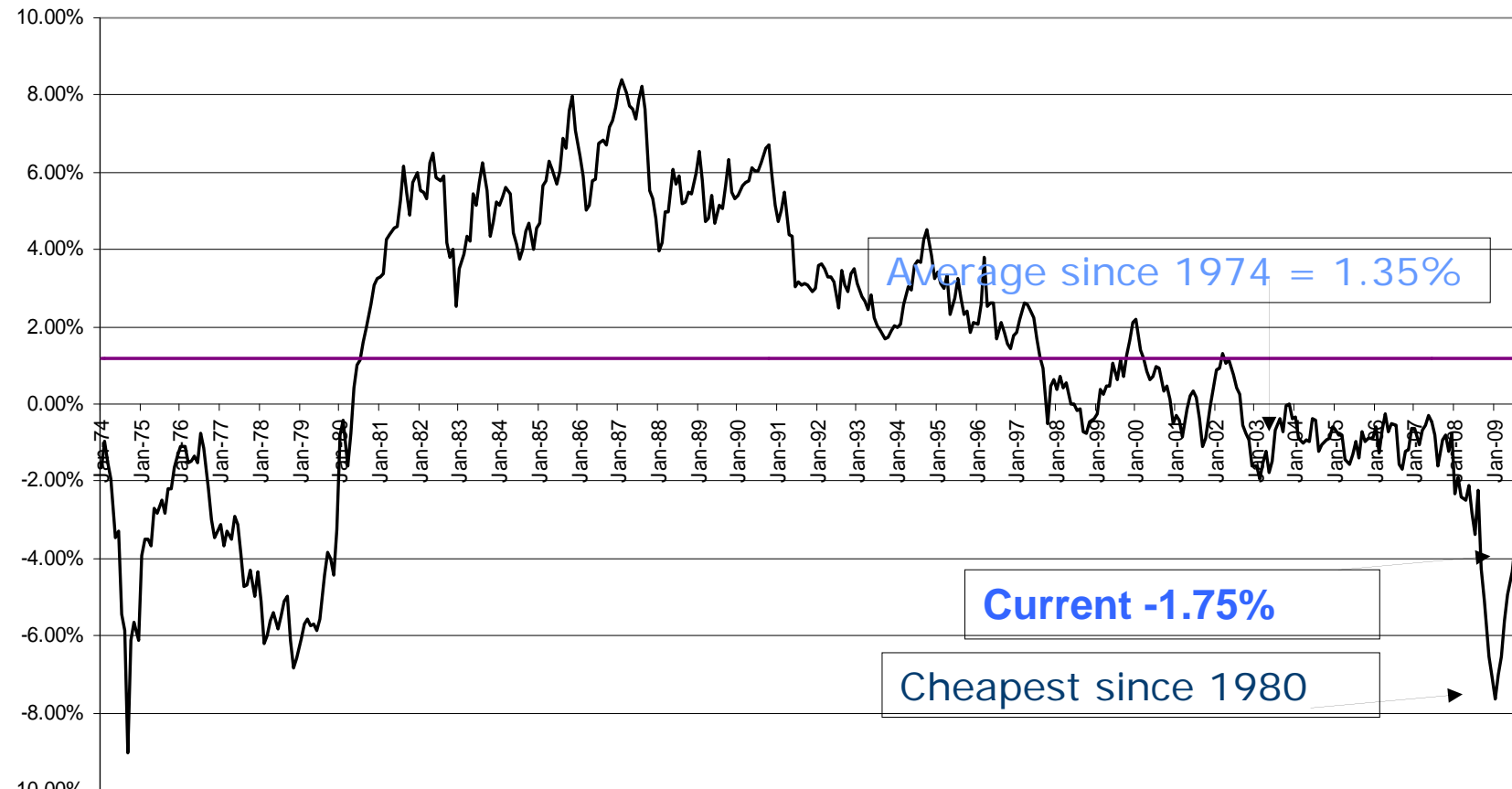
<b>S&amp;P/ASX indices</b>	<b>Capital</b>	<b>Income</b>	<b>Total return</b>
300 Resources	5.8%	2.8%	8.6%
<b>Small Resources</b>	<b>16.14%</b>	<b>0.94%</b>	<b>17.08%</b>
A\$/US\$ rate			11.4%
	A\$ terms		US\$ terms
NYMEX Crude	-22.39%		-13.53%
Nickel	-1.24%		10.03%
Copper	-14.2%		-4.41%
<b>Gold</b>	<b>3.98%</b>		<b>15.85%</b>

Source: IRESS, Fat Prophets



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# Bond Yield minus All Ords earnings yield



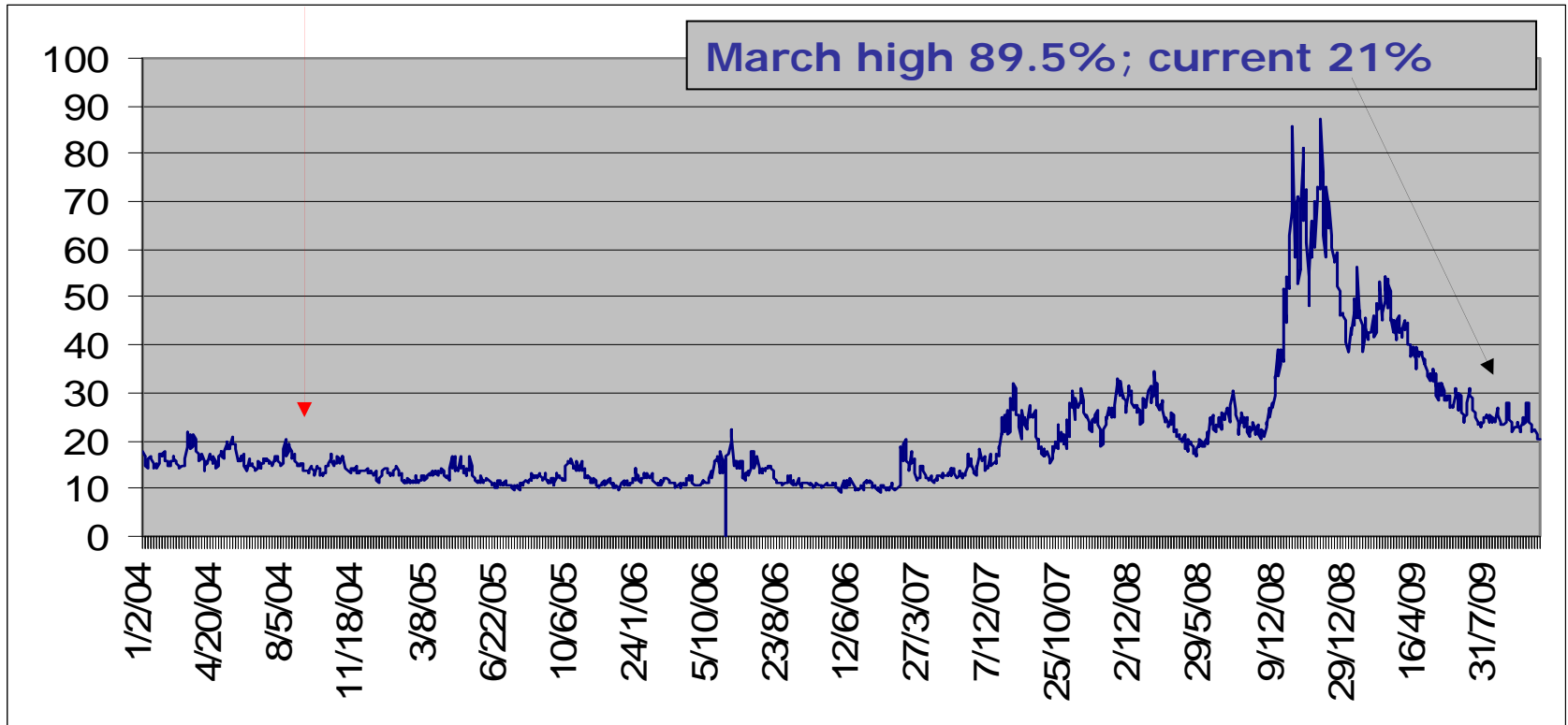
30 Sept 09: trailing P/E 14x (EY 7.1%) with bonds @ 5.4% = -1.75%



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# Fear indicator – VIX or Volatility Index

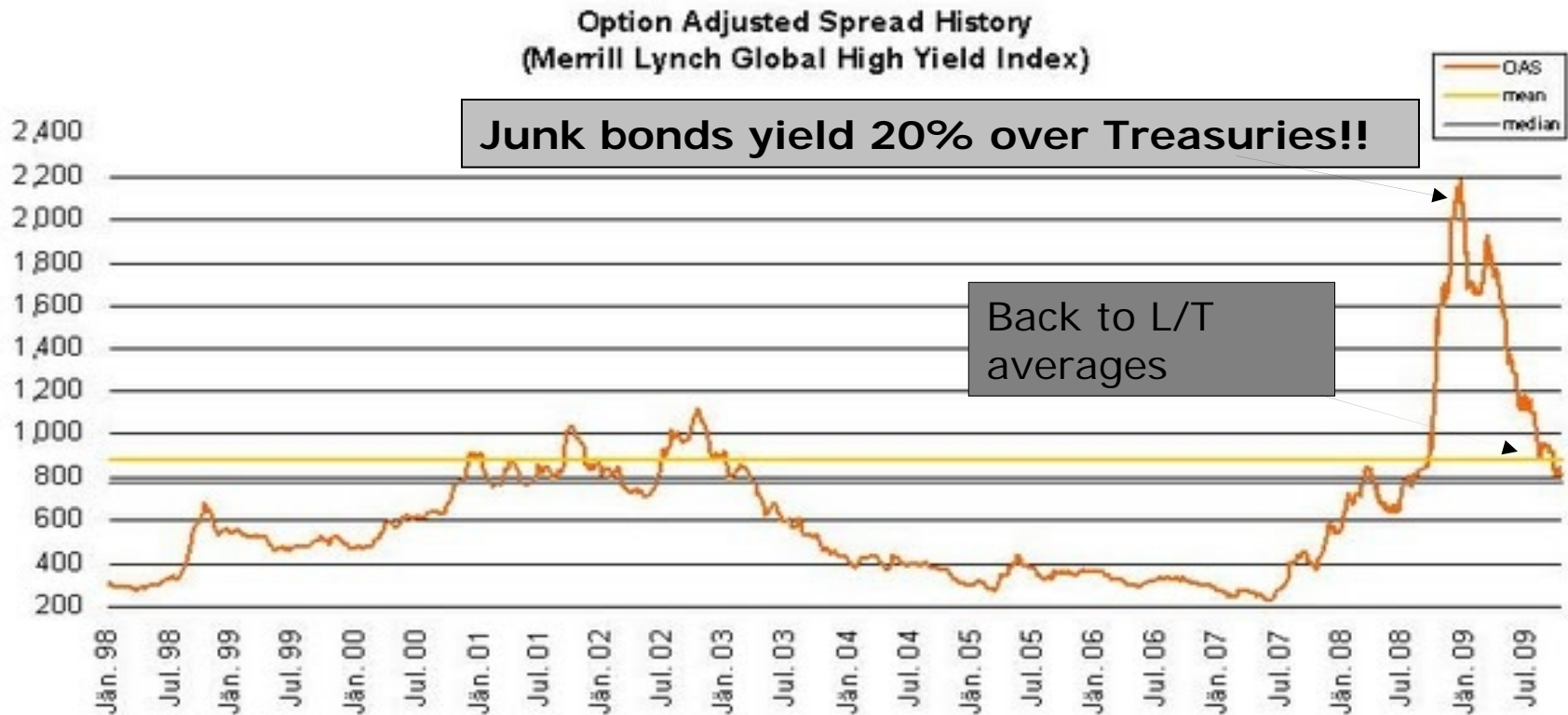
Long term average:  
19.5%



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# Junk versus Treasuries

Merrill Lynch Global High Yield index



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# So where were we?

- VERY overweight **BANKS!** We got in early and cheap and participated in all equity raisings on the way...wanted to be buyers before bad debt cycle had peaked
- Our overweight positions in the four major banks (approx 9%), gave the fund approximately 250bps of out-performance
- The banking environment over last 12 months has seen vastly reduced competition - margins
- We maintained our positions in very cheap asset plays which were very out of favour. eg Oceania Capital
- We maintained full weight in resource majors with a particular bias toward Gold: Newcrest, Lihir, Kingsgate and Mundo
- Portfolio was re-weighted toward large capitalisation stocks as these are typically the first to recover after a downturn
- Strong focus on buyback whilst discount persists



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# Where are we now?

- Interest rate cycle has turned –gradually upward from here - good news for banks (ability to re-price, margins) and insurers
- Value clearly harder to find now – strong AUD benefits retailers – PMV, JBH, PBG etc
- Consumer confidence is high – highest level since July 07 – WES recent trading update – strong!!
- Australia well positioned versus other developed markets – esp. US and Europe
- China will continue to propel resources – next 5 years



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# Portfolio positioning....

- We are lifting our cash weighting – oversold to overbought??
- Lighten our bank exposure- take profits
- Maintain bias to large cap stocks (75% in Top 100) will continue search for value at the small end
- Markets likely to become more volatile – environment similar to 1970's
- We continue to like Gold- systemic drop in USD – likely to increase weight in precious metals
- Sectors we favour at the moment are Energy and Healthcare



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# Gold Price – USD terms

SPTGLD.FX: Candle 1052.85, 1067.37, 1047.2, 1059.92



**Wary of transmission shock if USD keeps falling – Gold will remain well supported**

Source: Iress



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# Telstra – relative valuation...

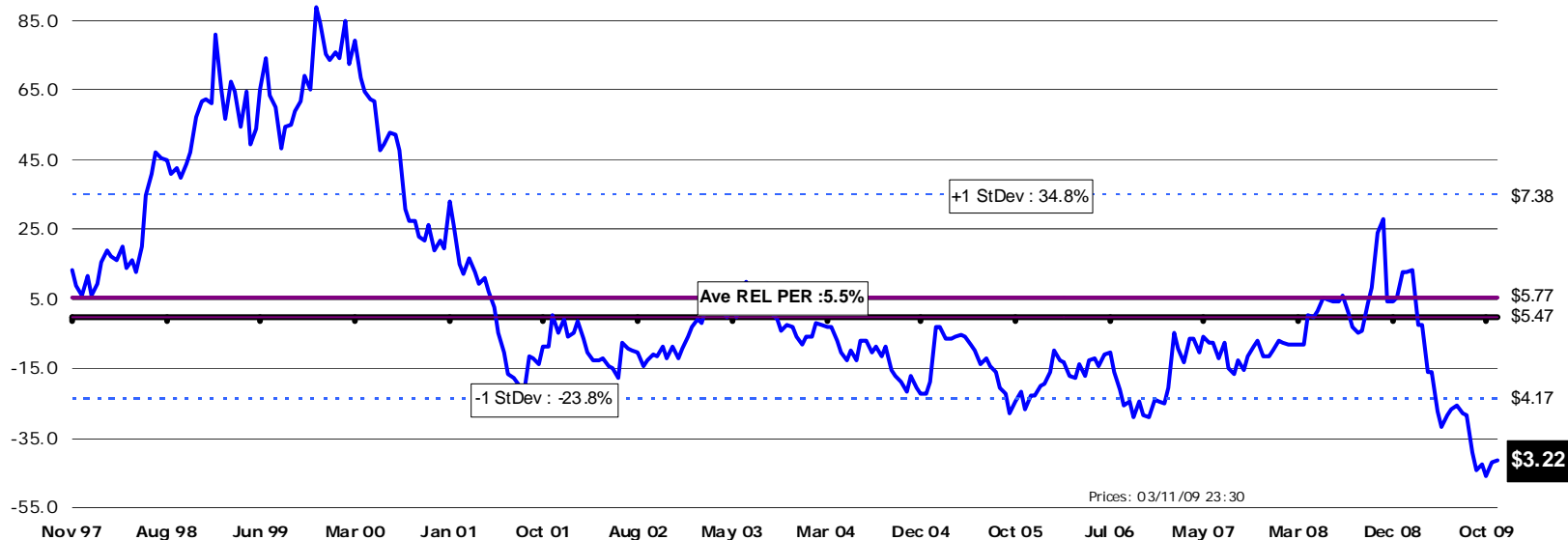
## TLS/LARGE INDUSTRIALS EX FIN (MEDIAN) - Relative PER

Prospective GSJBW TLS PER (Pre G/will) v's Large Industrials ex Fin (Median)

source: GSJBW Research Estimates

	Current PER
TLS (10e)	9.28
Large Industrials ex Fin (Median) (10e)	15.77
<b>PER Relative(%)</b>	<b>-41.2</b>

Prem/Disc (%)



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## Largest positions against benchmark (T100)

<b>Overweight</b>	<b>% devn</b>	<b>Underweight</b>	<b>% devn</b>
Westpac	+3.88	Woodside Pet.	-2.3% #
National Bank	+2.89	Telstra	-2.0%
QBE Insurance	+2.00	Macquarie Bank	-1.4%#
ANZ Banking	+1.25	Origin Energy	-1.3% #
Commonwealth Bank	+1.17	Santos	-1.3% #
Mirvac Group	+1.16	AMP	-1.3% #
CSL Group	+0.90	Fosters Group	-1.0% #
Dexus	+0.83	Brambles Inds	-1.0% #
Aust. Worldwide Expl.	+0.83	Suncorp	-1.0% #
Lihir Gold	+0.76	Westfield	-0.92%

Source: Fat Prophets Data as at 20 October 2009

# = nil holding



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## Largest overweight positions outside T100

Overweight	% devn	Industry
Oceana Capital	+1.95	Investment Company
Beach Petroleum	+1.91	Oil and gas producer
Premier Investments	+1.59	Clothing Retailer
Magellan Financial	+1.39	Fund Manager
GPG	+1.30	Activist investor
Seven Network	+1.29	Media investor
APN News & Media	+1.16	Media
Kingsgate Gold	+1.07	Gold Miner
BT Investment Management	+1.05	Fund Manager
AIQ – Alterative Investment	+0.93	Fund of hedge funds
Mundo Minerals	+0.87	Gold Miner

Source: Fat Prophets

Data as at 20 October 2009



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# QUESTIONS

