ASX ANNOUNCEMENT

Sydney, 12th June 2019: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Investors,

May was a sharply lower month for many stock markets as risk version climbed in line with the trade negotiation impasse between China and the US. The fund finished down for the month but the decline in NTA was better than most of the major indices fared**. The S&P500 and Nasdaq indices lost 6.6% and 7.9% respectively, while China's CSI300, Japan's Nikkei and Hong Kong's Hang Seng fell 7.2%, 7.4% and 9.4% respectively.** Australia proved to be an exception with the ASX200 rising 1.1%. On a pre-tax and post-tax basis the Fund's NTA declined 4.98% and 3.53% respectively.

	31-May-19	30-Apr-19	Change
Pre-Tax NTA	**1.0098**	**1.0627**	**(4.98%)**
Post-Tax NTA	**1.0398**	**1.0778**	**(3.53%)**

Outlook

The rally that began late December came to an abrupt end at the beginning of May when it became apparent to the market that the trade negotiations had gotten completely off track. Investors also became concerned over the economic outlook and earnings growth stalling in the US. Asian markets fell the hardest, led by China, but the US indices also had one of the steeper monthly falls for May.

We saw the May selloff as being more corrective to the sharp run up in prices earlier in the year and consequently added to the portfolio during the month. While the trade negotiations have yet to resume and are far from being resolved, we are less pessimistic probably than the market on an outcome, and it is our view that some kind of resolution between China and the US will be found before too long.

Meanwhile the S&P500 has lost ground, but Chinese equities have once again come back to a more compelling valuation. **We have focused our investing mainly on the Chinese stock market which has partially recovered from last year's bear market, but still offers comparative value.** With top line earnings growth slowing in the US, the S&P500 is not inexpensive but we see more relative value in Asia.

The earnings season is around the corner and due to get underway in the third week of July. Given recent economic data has been patchy at best, scepticism has crept into the markets that earnings will at best be flat. Unlike the December quarter when companies' profit results were generally better than feared, **this quarter looks to be more challenging in the US.** We continue to hold relatively low exposure to the US in the Fund.

Having said that, there is a silver lining in our current macro outlook with the Federal Reserve now pivoting towards an easing bias. While the Fed is yet to make a cut, the market is pricing in a much greater probability that the central bank will ease later this year, possibly in July when reporting season gets underway.

Attribution

In terms of monthly performance attribution in the portfolio, Australia was the standout with the ASX200 lifting 1% in May. **Nine Entertainment,** the fund's third largest holding, was the best performer, adding 105.9 basis points (bpts), following a positive trading update, and as investors became increasingly positive about the prospects for the company's streaming service *Stan*.

Evolution Mining wasn't far behind, adding 94.7 points, buoyed by record A$ gold prices. **Vocus** contributed 72.5 points as the stock leapt following a takeover approach from private equity. **Collins Foods**, the fund's largest holding, delivered 62 points as investors were buoyed by recent results from peers, and look for a similar story with the KFC and Taco Bell operator's results this month. **Telstra** also performed robustly as the telco made further progress on its T22 restructuring plan and had a boost when the ACCC ruled against the merger of competitors TPG and Vodafone.

Positive attribution

Company	**Country**	**Attribution (bpts)**
Nine Entertainment	Australia	105.9
Evolution Mining	Australia	94.7
Vocus Group	Australia	72.5
Collins Foods	Australia	62.1
Telstra	Australia	49.2

On the negative side, China and Japan accounted for all of the downside attribution during May with **Wynn Macau** and **MGM China** coming under pressure amidst the trade war, and as Macau monthly gaming revenue disappointed, costing the fund 175.6 and 121.6 basis points respectively. -**Tencent** and **Alibaba** were also caught up in trade war concerns, falling sharply, despite both companies delivering reasonable quarterly profit results. Sentiment towards **Praemium** also remained at a low ebb, despite the financial service platform provider largely offsetting the financial impact of losing a key client with new mandates.

Negative attribution

Company	**Country**	**Attribution (bpts)**
Wynn Macau	China	175.6
MGM China	China	121.6
Alibaba Group	China	115.1
Tencent	China	69.4
Praemium	Australia	68.2

Portfolio changes

During the month we initiated a position in **Guangzhou Automobile Group**, as a low PE play on a turnaround in the very depressed Chinese auto market. We also added to our holdings in **Tencent**, with the shares oversold in our view, and the company making good progress in growing revenue streams outside of gaming. In Australia we topped up our holdings in **QBE Insurance** and **Nine Entertainment**, with the latter proving fruitful after a well-received trading update from the company.

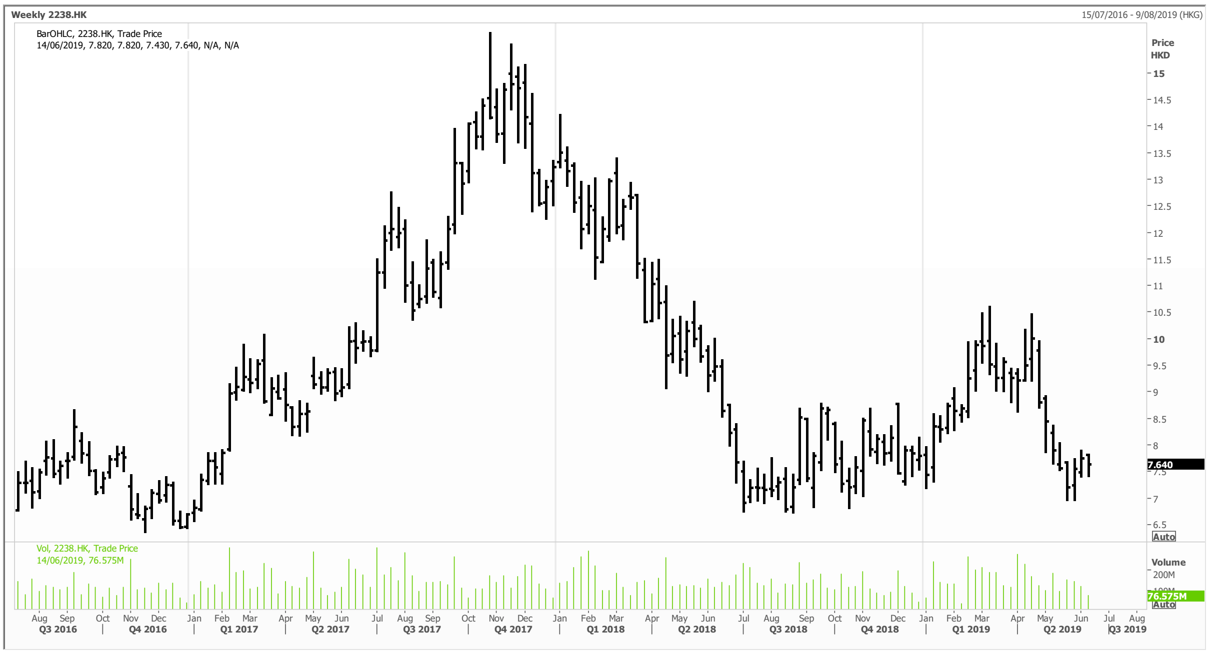
We sold half the Fund’s holding in **Vocus** following a takeover-inspired surge just prior to private equity player EQT walking away shortly after. We still believe there is value in Vocus and a new bidder emerged for the company this week.

Portfolio positions

During May we added **Guangzhou Automobile Group** as a low multiple play (five times FY19 EV/EBITDA) on a recovery in the Chinese auto market. We see our holding in GAC Group as a trading position, and not a long term investment. GAC is well placed to ‘ride’ a cyclical recovery within China’s auto sector, the world’s largest, which has been hampered by weak domestic demand, tougher industry regulations, and ongoing trade frictions. Car sales in China fell 14% in March, but there are some green shoots appearing.

Auto loan asset backed security issuances have risen strongly in recent months which is a positive leading indicator. The market is also set to get a lift from a range of new Japanese SUV launches later this year. Two key ones (the CR-V and RAV4) are from Honda and Toyota, both of which GAC has collaboration deals with, where it produces Chinese versions of the carmakers’ models.

GAC is also set to launch a new GS4 model under the Trumpchi brand by the end of the year, which should boost sales and earnings. Another tailwind locally is coming from the Guangzhou province which has taken steps to bolster the car market by easing procedures to obtain new licence plates while also asking cities in the region to stop introducing restrictions on new cars.



Looking further ahead, GAC is also embarking on a strategy to accelerate its electric vehicle (EV) offering. The JV with Toyota is investing in an expansion of the current production capacity of 480,000 units, adding an additional 400,000 units by 2022.

Shares in **Nine Entertainment** surged in May, with catalysts being asset sales, and a positive trading update at a Macquarie hosted investor summit. Particularly well received were developments at streaming service *Stan*, which continues to flourish. CEO Hugh Marks also noted that the company remains in discussions with Disney about a content deal.

The broader market in our view continues to underestimate the amount of subscriber numbers that will be achieved, and as Stan catches up to Netflix (which has 11 million subscribers in Australia). Indeed, Stan will also be looking to up the ante, and convert the 4.5 million people who have already signed up for either a trial or subscription. Stan has 1.6 million subscribers and became cash flow and EBITDA break-even in March, ahead of schedule, with price rises also not slowing subscriber growth.

Nine also confirmed the sale of the Australian Community Media (ACM) business for $115 million. This looks a good deal for Nine as it exits a non-core business, to reduce debt, but also keep some commercial relationships intact – Nine will receive up to $10 million of advertising on ACM properties over the 3 years from completion.

Looking ahead Nine management see four key earnings drivers, with Stan alone set to add more than $30 million to annual earnings, having surpassed break even and as subscribers grow further. A similar amount is set to come from the cost-out program post the merger, while 9Now is also set to add at least $25 million to the bottom line. Fourthly, and the big unknown in quantity, are the benefits to come as and when the advertising cycle turns around.

We would also make the point that Nine stands to benefit from a turnaround in the Australian property markets which we believe to be occurring. Nine owns around 60% of real estate portal Domain which has thrived even with a depressed level of market listings. The home-buyers' grant being brought in by the Coalition is a positive, as is the avoidance of Labor's negative gearing proposals, but with significant fuel set to come from APRA relaxing a key lending constraint – a cut in the cash rate also won't do any harm.

Vocus surged during the month, after Swiss private equity EQT tabled a $5.25 a share takeover offer for the telco, sending the shares to the highest level since February 2017. We reduced our holdings, taking some strong profits off the table. In addition to regulatory risks, we were conscious that private equity bidders across a number of industries have had a habit of 'walking away,' particularly after getting into the deal room. This is exactly what transpired.

The headlines were all about 'third time unlucky' for Vocus after another private equity player has walked away, but some context should be given this time around. The approach for one was unsolicited, while the turnaround plan at Vocus under CEO Kevin Russell looks to be on track, which is why we have seen some bid interest. Vocus has re-iterated FY19 earnings guidance of $350 - $370 million.

It didn't take long for another bidder to come to the fray, with AGL Energy tabling a $4.85 per share indicative proposal yesterday. Fourth time lucky perhaps?

The Australian dollar was under pressure for most of the month as investors priced in a rate cut by the RBA (the market was completely right with the central bank reducing the cash rate by 25 basis points after being on hold for more than 2 ½ years). Weakness in the currency translated into a record A$ gold price, which is a boon for Australian focussed gold producers such as **Evolution**. The shares were re-rated by more than 20% during the month, with precious metal prices also boosted by safe haven buying on ongoing trade frictions.

After a strong start to the year, **QBE insurance** slipped a bit during May, and also after a broker downgrade. We took the opportunity to add to our position and believe that the some institutions may have the 'wrong end of the stick.' QBE has been in a bear market for much of the past ten years, and the company is just beginning to perform after significant restructuring.

QBE only swung back into profit in 2018 and management believes there remains plenty of scope for improvement in the underlying business yet. The turnaround this time around seem much more enduring, with positive momentum in premium rates, cost reduction initiatives underway, a rejigged structure, strong balance sheet and growing dividends. A PE of 12 times at this point is hardly demanding.

Telstra had a good month after announcing "good progress" on its T22 strategy. The company is increasing its restructuring costs guidance by $200 million for FY19, but this is linked to the planned net reduction of about 8,000 employees and contractors under the T22 plan. The 'rebased' dividend payout arguably became a bit safer after further cost cutting were announced. The telco revealed plans to shed a quarter of its contractors over the next two years, meaning 10,000 jobs will disappear.

Telstra is ahead of the game in plans to plug the NBN earnings hole**.** By 2022, Telstra will have shed close to 20,000 roles, flattened its management structure and cut its product line from 1800 plans to just 20**.** The job cuts will reduce the company's payroll by well over $1 billion by 2022, with the total savings from the T22 cost-cutting programs are expected to reach $2.5 billion**.**

We don't see Telstra's services or products being compromised. Indeed, simpler is often better, and as CEO Andy Penn notes, the company has successfully ratcheted up its use of technology to "reduce the amount unnecessary activity that gets driven into the business".

Also underpinning Telstra's share price resurgence are lower bond yields, after the US Federal Reserve turned dovish, with other central banks, including the RBA, also that way inclined. This bolsters the appeal of Telstra from an income perspective, with the rebased dividend now much more sustainable. We also see Telstra as a clear winner of the decision from the regulator blocking the TPG/Vodafone merger, even if it is eventually waved through by the courts. Meanwhile Telstra has strong growth on the horizon in the form of 5G.

Investment platform provider, **Praemium** continued to see its shares under pressure following the loss of a 'large' client (ANZ Private) back in April. We characterise this development as a gut reaction from the market and not necessarily reflecting fundamental changes in its investment case. The company is still registering rapid growth, especially overseas, and is set to deliver another record performance by the end of the year

The first quarter of the year saw good momentum with quarterly gross inflows hitting the second highest on record at $744 million, up 22.4% year-on-year. Robust inflows were a by-product of the company's commitment to technological innovation, which resulted in the UMA solution and it has been well received with Financial Adviser clients having an 'expanded investment universe' of over 1,300 domestic and international model portfolios.

These robust inflows pushed up funds under administration (FUA) to hit $8.883 billion at the end of the quarter, a substantial 25.6% increase over the past 12 months and the highest on record. International gross inflows were also a record at $234 million, and pushing FUA to $2.35 billion. The international business is close to hitting break-even, and when this occurs could provide a lift to sentiment which is at a low ebb, and despite an undemanding valuation – Praemium now trades at less than 4 times revenues, and has strong operating leverage.

Shares in consumer electronics giant, **Sony**, had a rollercoaster ride in May with the initial gains coming from the fact that management forecast an operating profit of ¥810 billion for the year ending March 2020. This was lower than last year but represented a substantial improvement from the expected ¥700-750 billion. However, towards the middle of the month, Sony's shares began to slip down as the market was underwhelmed by a strategy day meeting where management announced plans to pare down smartphone efforts to reduce costs. Though this shouldn't be a long-term detriment as Sony hasn't been a major player in this market, and we believe reducing the exposure (and focus) here is the right call.

This would allow for more attention on the group's gaming unit, which is one of Sony's strengths, with savvy deal making resulting in a superior game line-up compared to rivals for its PlayStation 4 platform. Sony has also announced it is partnering with Microsoft on several areas with the most lucrative being video game streaming – even Google wants a slice with Stadia. Joining forces would allow both to develop a compelling streaming service sooner than either company would have been able to do separately.

Shares in **Walt Disney,** the fund's second largest holding, had a relatively quiet May, which was a resilient result given the broader market sell-off. The shares were consolidating gains after they jumped in April as management provided the 'playbook' for a major push into the video streaming space later this year with the launch of Disney+. This will allow the company to leverage the best portfolio of in-house content in the entertainment industry and is likely to result in the service rapidly attracting many millions of subscribers.

The price point is a significant discount to Netflix at $6.99 a month (or $69.99 for the year) and seems a 'no-brainer' for parents wanting to satisfy their children's (sometimes seemingly endless) appetite for the likes of Frozen, Toy Story and hundreds of other old and new classics. There will be plenty for the adults to consume as well. Meanwhile, Avengers: Endgame has broken a slew of records at the box office and confirmed Marvel's appeal to a global audience. As at 5 June, the global box office tally stood at $2.72 billion. A new attraction, Star Wars: Galaxy's Edge, launched at the end of May to great fanfare at Disneyland in California and will bolster an already strong theme parks segment. The House of Mouse is on a roll.

Wynn Macau shares corrected sharply in May, roiled by the breakdown of trade negotiations between China and the US and a hardening of rhetoric from both parties. April gaming revenue in Macau was also lower than expected, compounding the impact on Wynn Macau shares and peer, **MGM China.** Casino gaming revenue across the industry fell 8.3% year-on-year in April to approximately MOP23.59 billion, or about US$2.92 billion.

It should be noted that April was up against a tough comparison a year earlier, as April 2018 gaming revenue in Macau had surged 28%. Nonetheless, the decline was more than expected. Modest growth returned in May, with gaming revenue in the world's biggest gambling hub up 1.8% year-on-year to MOP25.95 billion (US$3.21b).

<u>The medium-term prospects remain sound for both Wynn Macau and MGM China</u>, with mass-market gambling a structural growth story on the back of the world-class attractions and dining offers at the same time infrastructure is being improved. Both MGM China and Wynn Macau have some of the newest casino properties on the Cotai Strip and will see free cash flow increase markedly over the next few years.

Shares of Chinese video game and social media giant **Tencent Holdings** corrected in May, largely because of the escalation in the trade dispute between China and the US. The company's second quarter result showed revenue growth at its slowest pace since the company went public, but revenue still increased 16% year-on-year to 85.5 billion yuan. And despite a freeze on new game approvals in China, the company's video game revenue held up well.

It has since been given the go ahead to monetize "Game of Peace" which is expected to generate significant revenue for the company going forward. Tencent also split out its revenue for its fintech and business services unit for the first time and they impressed, with revenue surging 44% to 21.8 billion yuan, making it the second largest revenue contributor. Tencent's widely used Weixin/WeChat platform (with more than 1.1 billion users) has also started to chip in significant advertising revenue. Tencent is showing it is more than a one-trick pony by growing other areas outside of video gaming and its prospects continue to look impressive.

E-commerce titan **Alibaba** reported impressive fiscal fourth quarter numbers in May, far exceeding expectations. Revenue surged 51% year-on-year to 93.5 billion yuan, while net income increased 42% to 20.06 billion yuan. Monthly active users on the company's China retail marketplaces increased 22 million, or 3% to 721 million in March 2019. Gross merchandise value increased across the board on its online marketplaces. The shares still fell in May though, caught up in the downdraft from the heightening of tensions between the US and China.

Alibaba's future continues to look bright, as it has spread its tentacles into a wide range of adjacent market opportunities over recent years and we expect it to be one of the big winners in the huge grocery market in China. It is also growing its international business. After acquiring Lazada (South-east Asia) it has strengthened the company's third-party marketplace business and technology infrastructure. Between AliExpress and Lazada, in the twelve months to 31 March 2019, the businesses had more than 120 million annual active customers. The company is also at the beginning of a long growth runway in cloud computing. Revenue for that segment jumped 76% to 7.7 billion yuan for the quarter.

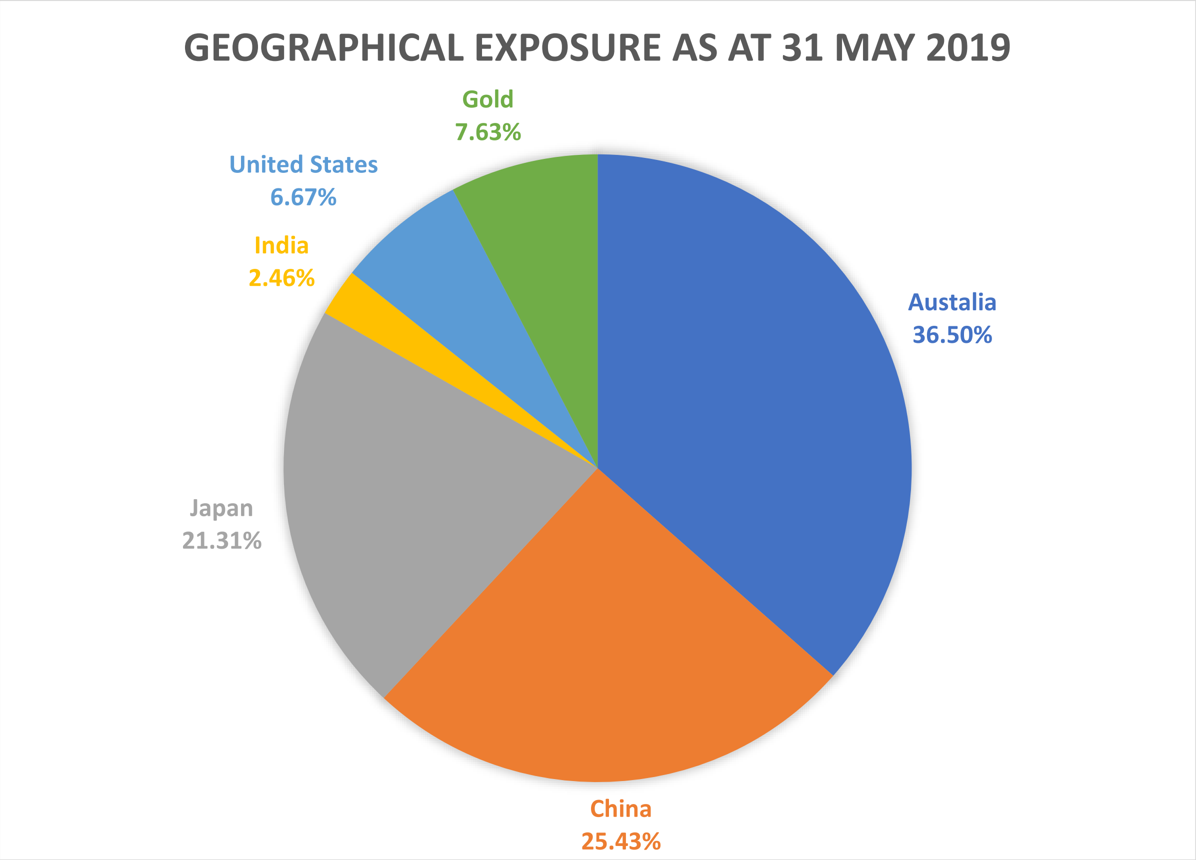
The Fund's largest exposure, **Collins Foods,** gained further ground in May, pushing to record highs above $8, despite a lack of news-flow. Full year results aren't due till later this month, but clearly the expectations are building, and ahead of strong numbers from peers in recent months. This was in evidence when Global KFC and Taco Bell franchise holder Yum Brands reported a few weeks ago, with stronger-than-expected earnings and sales during the first quarter.

Same-store sales grew 4% globally, led by KFC the company's largest brand, which posted 5% same-store sales growth, well ahead of analysts' expectations for 3.1%. Taco Bell wasn't far behind with same-store sales growth of 4%. This all bodes well for Collins which is the biggest KFC operator in Australia, and has spread its wings into Europe, while also have a robust roll-out plan underway for Taco Bell.

Top 10 Holdings	**31 May 2019**	**Country**
Collins Foods	8.36%	Australia
The Walt Disney Co	6.65%	United States
Nine Entertainment	5.65%	Australia
Telstra	5.63%	Australia
Nintendo	5.32%	Japan

Sony	4.57%	Japan
Evolution Mining	4.56%	Australia
QBE Insurance	4.44%	Australia
Wynn Macau	4.35%	China
Guangzhou Automobile	4.05%	China

Geographical dispersion



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