



## ASX ANNOUNCEMENT

### Sydney, 14<sup>th</sup> May 2020: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Shareholders,

The Net Tangible Asset backing of the Fat Prophets Global Contrarian Fund increased significantly during April. **Pre-tax and post-tax NTA at month end closed at \$0.9248 and \$0.9760 for an increase of 15.79% and 9.47% respectively.**

	30-Apr-20	31-Mar-20	Change
Pre-Tax NTA	0.9248	0.7987	15.79%
Post-Tax NTA	0.9760	0.8916	9.47%

### Portfolio Performance

The Fund benefited from a strong recovery in global stock markets, but also in core holdings **Collins Foods** and **Domino's Pizza**. **The sharp drop during March was unwarranted, particularly given both companies experienced a substantial surge in online, drive-through and takeaway sales.** Both Collins Foods and Dominos are in a strong position, being able to fast track new store rollouts into the vacuum left vacant by many high street retailers during the shutdown.

Precious metals recovered well during April, and this led to a better performance from the Global X Silver Miners ETF, which is now back in positive territory. We remain bullish on precious metals generally and see further upside for ETF. **Spotify** reported a solid earnings quarter and a jump in subscriber numbers. **Praemium** also had an improved performance after delivering a better than expected profit result.

On the negative side weighing on performance, the Fund established three Short positions to reduce overall net long exposure, initiating short sales on **Seek**, **Afterpay** and the **S&P500** following a significant recovery in March and April. At the time, **both companies and the S&P500 had recovered significantly since their March lows. We viewed both businesses were facing challenges in the post-Covid world recession, and that the S&P500 had gotten ahead of market fundamentals.**

**With respect to Seek, the employment market is going to face some severe dislocation and will take some time to recover.** With Afterpay, we took that view that discretionary spending and consumer confidence are going to take a hit, and this will likely impact the company's revenues. In terms of the S&P500, the trailing PE had risen to 20x, and we thought this was overdone near term. **We recognised these trades were wrong relatively early on, and cut losses quickly.** Within days of closing out the Afterpay short position, Tencent established a beachhead position and the stock surged.

## Positive Attributions

Company	Country	Attribution (bpts)
Collins Foods	Australia	379.7
Global X Silver Miners ETF	United States	168.4
Praemium	Australia	135.2
Spotify	United States	107.2
Domino's Pizza	Australia	94.1

## Negative Attributions

Company	Country	Attribution (bpts)
E Mini S&P Jun Futures	United States	87.0
Afterpay Touch	Australia	39.4
Seek	Australia	22.9
QBE Insurance	Australia	9.7
Vodafone	United Kingdom	8.2

## Market Outlook

Markets continued to firm during May, in the face of dire economic data with rapidly rising unemployment and declining GDP. **However, the markets are looking through the downturn to the recovery on the other side.** On this front, we anticipate some countries to be faster out of the blocks than others, and Australia and Asia are positioned very well here, relatively speaking, with Covid19 infection rates under control and restrictions now being lifted. China, the first country to emerge from the outbreak, has already reported a sharp increase in industrial activity.

**Near term stock markets have had a strong run in April and into May, and the rally is vulnerable to a correction as investors begin to recalibrate the full economic impact of the Covid-19 shutdown across the global economy.** Unemployment is rising while consumer spending and confidence has nosedived. We think equity valuations have got ahead of themselves near term, but do not see a correction of much more than 10%.

Our long-term view has not changed - and that **fiscal and monetary stimulus measures** being injected into the global economy, **which dwarfs the GFC - will aid a faster economic resuscitation and a consumer-led recovery.** Meanwhile on the other side, as the global economy recovers, **investors will be faced with low to zero interest rates, and in many cases negative yielding bonds, and potentially, a rising outlook for inflation. Equity risk and the dividend yield premium over bond yields – which stands at the widest in history - is likely to come sharply into focus in the second half of the year, and we see this underpinning equity valuations.**

**Cash and liquidity balances have risen significantly, as cash and bond rates have fallen towards zero and this should mitigate any corrective selloff with those overweight cash and liquidity likely to come in from the sidelines.** Additionally, the fiscal stimulus packages being launched by collective governments should help cushion the recession and lead to a 'V' shape recovery in the second half of the year. The March lows may well prove illusive as stock markets bottom out sooner and at a shallower depth in the event of a second selloff.

**Our argument is based on two factors. Firstly, the stimulus that is being injected by collective governments is significant and will act as a “giant shock absorber”. This will**

cushion the Covid-19 inflicted shutdown blow to the economy. The unemployment that would have resulted from the outbreak, has been mitigated, and this will **allow the global economy to stage a “V” shape recovery**. This is however going to have potentially serious inflationary side effects in our opinion.

**Secondly, the rapid deleveraging and raising of cash balances and liquidity has been on a huge scale, and the most in more than a decade.** This cash is waiting to deploy, but the question will be over timing. For this reason, any fall in the market is likely to be relatively subdued, and in our view no more than 10%. **The issue for those overweight cash and bonds, is that in the post Covid-19 world – they pay virtually nothing in terms of yield.**

## Portfolio Changes

After selling out in February, the Fund re-established positions in the beaten down Macau gaming sector after exiting in February. **Wynn Macau, Sands China and MGM China were amongst the hardest hit during the Covid19 shutdown.** However, these Macau casino operators have throttled back cash-burn and all have considerable cash reserves and undrawn credit facilities to weather the storm. **We believe it is only now a matter of time before mainland China lifts travel restrictions to and from Macau,** and with considerable pent-up demand, especially among the VIP and premium mass segments, revenues could recover rapidly.

**Oil prices have been topical,** with WTI futures falling to negative territory. There is a glut of supply that will persist for some time. However, **we see crude prices improving to at least US\$50 a barrel in 2021 and have elected Chinese oil services company COSL (HK:2328) as being one of the better ways to play a recovery.**

**COSL is the dominant oil servicing player in China,** but also with operations around the world. We have taken the view that COSL is significantly undervalued being more than 50% down from the February peak, **but where revenues are likely to be protected with largest customer CNOOC unlikely to scale back operations in China, due to the importance of China maintaining self-sufficiency.** The oil price will eventually turn higher, with the historic low prices ensuring supply destruction, some of which will be permanent, particularly in the higher cost US shale industry.

**The Fund added Daikin Industries at attractive levels in April.** This has long been a company we have admired, being the world leader in air conditioning manufacturing. Daikin has an excellent history of execution and will benefit from the Covid-19 shutdown, with renewed emphasis on air quality. Daikin's high value-added proprietary products including refrigerants and compressors, invertors and ductless air-conditioning systems will continue to provide a “competitive moat” in the post Covid-19 world.

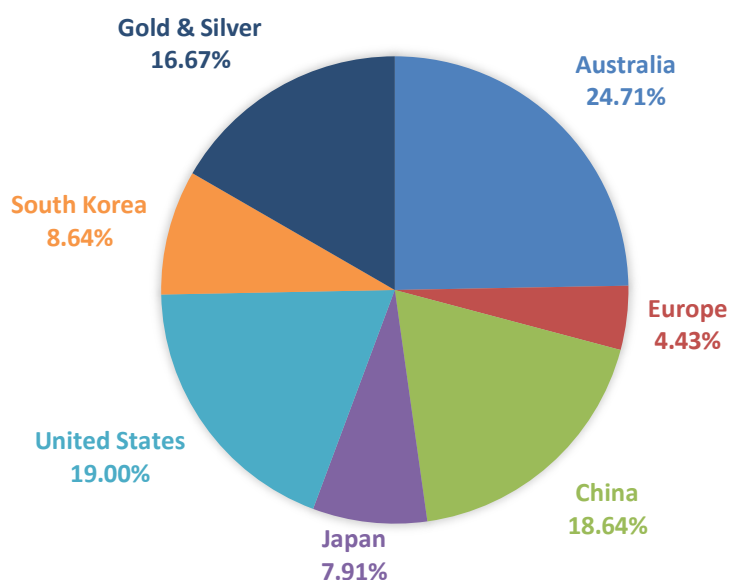
The Fund added long gold equity exposure earlier in April, predominantly in the gold sector. We added to positions in **Evolution Mining, St Barbara Mines, Saracen and Resolute Mining and res-established a position in Harmony Gold.** We added to the Fund's holdings in UK listed PowerHouse Energy, the waste to hydrogen technology company. **PowerHouse Energy** has held up comparatively very well versus the FTSE100 - for a small cap technology company, and recently traded at four-year highs.

PowerHouse is in the process of commercialising a landfill plastic waste to hydrogen plant in the UK, which is due to complete in September. A successful commercialisation of the technology could see a global rollout next year, with rapidly growing recurring revenues. **Peel,** a £5 billion environmental infrastructure fund in the UK has backed PowerHouse Energy and will distribute the technology into the UK.

## Top 10 Holdings

Top 10	31 March 2020	Country
Collins Foods	9.94%	Australia
Alibaba	6.74%	China
Domino's Pizza	5.96%	Australia
Global X Silver Miners ETF	5.16%	United States
Walt Disney	5.04%	United States
Yum China	4.68%	China
LG Household & Healthcare	4.54%	South Korea
Samsung Electronics	4.10%	South Korea
Nintendo	4.03%	Japan
Activision	3.99%	United States

## GEOGRAPHIC EXPOSURE AS AT 30 APRIL 2020



Angus Geddes  
Chief Investment Officer  
**Fat Prophets Global Contrarian Fund**