



ASX ANNOUNCEMENT

Sydney, 13th February 2019: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Shareholders,

While December went down in history for the stock market as being the worst since the early 1930's, January turned out to be the best in 32 years. A lot of the fear around earnings and concerns over the health of the global economy failed to materialise, and this was confirmed by the corporate reporting season for the December quarter. Consequently, confidence returned to the markets which sustained the best month since 1987.

We were clearly **wrong in expecting markets to rally in December, but the decision to stay with our positions and the leverage deployed in late November, paid off for the Fund during the month.** We have since reduced equity exposure and leverage within the Fund during late January, but the portfolio remains geared.

On a pre-tax basis, the Fund was up 9.93% at the end of January and was leveraged around 25%. On a post-tax basis, the Fund closed up 6.89%

	31-Jan-19	31-Dec-18	Change
Pre-Tax NTA	0.9995	0.9092	9.93%
Post-Tax NTA	1.0295	0.9631	6.89%

Despite the fact that sentiment turned decisively bearish in December, **we believe markets have reacted too harshly and too quickly on the downside.** We are more optimistic, and the Fund is consequently positioned for a recovery rally. **The widely pervasive bearishness and extreme pessimism often typifies a turning point,** and we possibly have seen this already in Asia, with China, Hong Kong and Australia all outperforming during the month. We continue to believe that for contrarians, presently oversold conditions, especially in Asia, now opens a window of opportunity.

Many investors have subsequently cashed up and deleveraged, following the substantial decline since September, with liquidity now built up on the sidelines. The corporate sector is also likely to be very active in the weeks ahead when the reporting season gets underway, and we are likely to see the reinstatement of buybacks.

Naturally, after such a bruising four months for the indices, **many investors are asking where to next and what is in store for the US and global economy?**

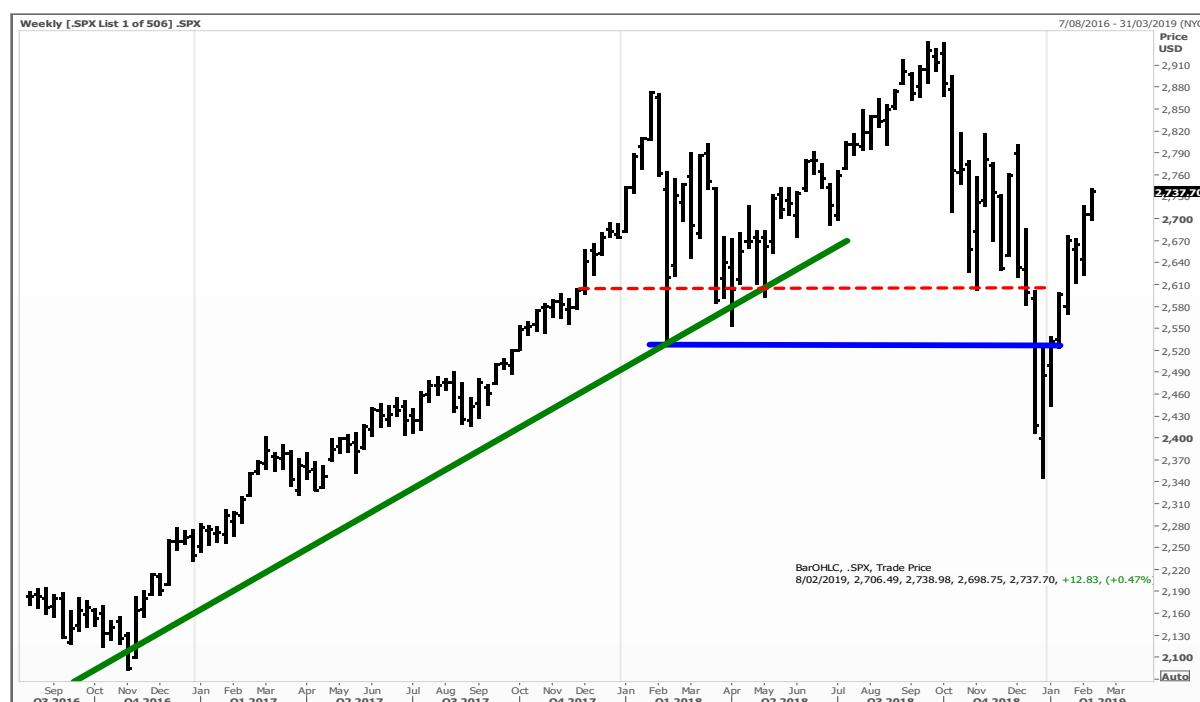
In terms of the upward moves, the **Dow Jones finished the month +7.2%, the S&P500 +7.9% and the Nasdaq Composite +9.7%. Australia's ASX200 'only' posted a 3.9% gain but saw a much more sedate downward move in December. Japan's Nikkei however stood out as a laggard, with a return of just 3.8% after a much bigger fall last month.**

	end Dec	end Jan	points move	%ge move
Dow Jones	23327	25000	1673	7.2%
S&P 500	2506	2704	198	7.9%
NASDAQ Composite	6635	7282	647	9.7%
FTSE100	6728	6969	241	3.6%
EUROSTOXX50	2760	2897	137	5.0%
NIKKEI	20014	20773	759	3.8%
Shanghai Composite	2493	2585	92	3.7%
ASX200	5646	5865	219	3.9%

Outlook

Our view that the US and global indices would rally in the first few months of 2019 has so far played out, and we have already seen a significant proportion of last year's losses recouped, although significant ground in some markets such as Japan and China still needs to be made up. The S&P500 has lifted sharply off December's low of around 2350, and the rallies are likely to be more subdued as the index approaches topside resistance at around the 2800 level.

S&P500



Given the substantial downward moves in Asia, and notably Japan and China, during 2018, we expect relative out-performance from these markets. China's growth has slowed, but the economy still has managed to keep growing, with the authorities holding considerable levers to stimulate the economy. Valuations remain at historically cheap levels, which were last seen in the immediate post GFC landscape. **The Fund is heavily invested Japan, and we anticipate a decent rally back to 24,000 as the corporate sector continues to demonstrate decent growth prospects and a healthy return on capital, which contrasts favourably with other countries.**

Why are we still bullish near-term?

The corporate sector has so far failed to live up to the extremely pessimistic expectations that permeated the market place last year, with the **latest earnings season underpinning valuation support for the S&P500**. US indices are grinding higher in the face of falling volatility, which although still elevated above 15.5 is well down from levels above 35 seen four weeks ago.

VIX index



What is driving the US indices higher? Firstly, many investment fund managers and investors alike are sitting on too much cash, after the significant deleveraging that took place between September and December last year. Consequently, there is substantial liquidity on the sidelines and this is leading to “FOMO” or fear of missing out. Stocks are being chased higher. It’s hard to believe the contrast in sentiment and attitude from last year, when many fund managers had their Christmas holidays ruined by the volatility.

Apart from a solid earnings quarter, the **Federal Reserve’s** pivot away from tightening monetary policy in December and January, has also underpinned valuation support. The S&P500 is currently priced on an EPS multiple 15.5X based on consensus estimates of \$172/173, which is not expensive.

US economic growth is proving to be very resilient – and not anywhere near as patchy as the consensus believed last year. At the core of the US economy is a very strong labour market, record low unemployment and respectable but not overdone wage growth, which in turn will continue to propel GDP growth higher, albeit at probably a more subdued rate than last year – which is not a bad thing. Meanwhile, inflation continues to be benign and we are yet to see any visible sign of rising prices.

A final point is that fears of China having a “meltdown” have been greatly exaggerated, and by all accounts growth is apparently stabilizing in the world’s third largest economy. The trade dispute negotiations between the US and China continue to move forward, and the markets are seeing through the March deadline to some form of “resolution” or “heads of agreement”. If a beachhead HOA can be established by the two economic superpowers by March 1, then other key negotiating points should fall into line over the coming months. **This will remove another headwind for the markets.**

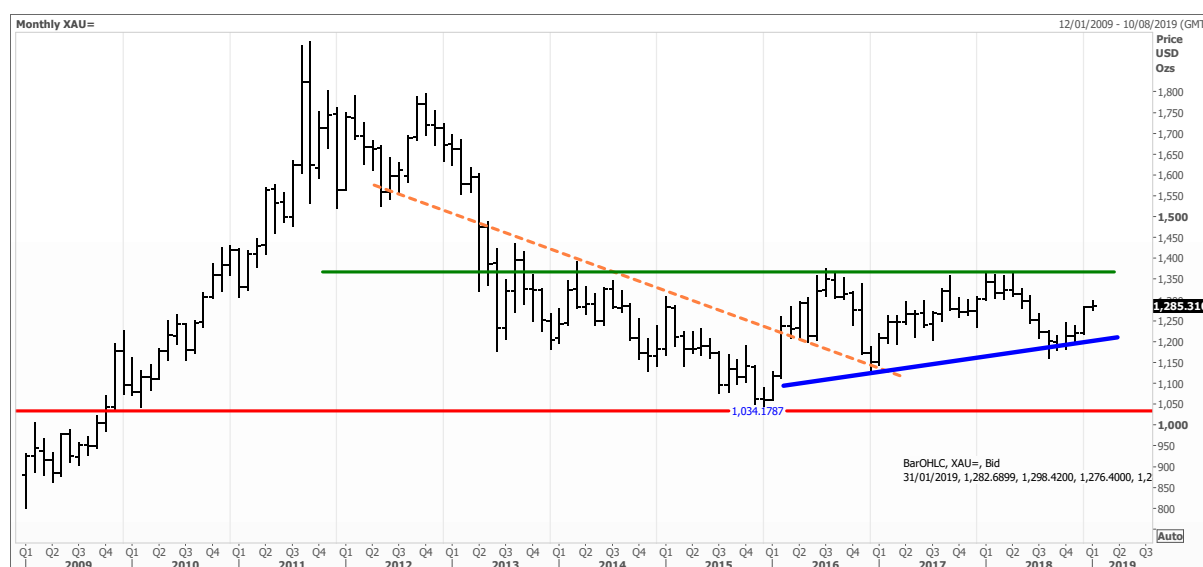
Donald Trump wants a second term, and the 2020 electoral campaign gets underway in just 16 short months. There is no time for a recession now, so I don't expect the Trump Administration to instigate any more uncertainty that will jeopardise this objective. I might sound repetitive on this issue but it's important and relevant, because, remember it was this paradigm that led to the markets suffering one of the worst quarterly declines, and certainly the worst monthly decline, in December, since 1930.

The energy markets have fallen heavily, despite OPEC having cut production. We may well have already seen prices bottom out. Saudi Arabia seems intent on cutting production further, and has said that longer term, the oil price needs to be at around \$70/80 a barrel. The kingdom has cut daily production to 7.1 million barrels and is intent on driving prices back up.

Oil's reaction on the downside seems excessive and we anticipate a counter rally, particularly as OPEC supply cuts begin to kick in this month. **A recovery in the oil price will provide a boost to the energy sector, which will provide a tailwind for the US, UK and Australian indices.**

Precious metals outperformed during the recent volatility. If the Fed pulls back from tightening in the months ahead, we may well see further downside in the US dollar, which will provide support for emerging markets, but also commodities and precious metals. **Gold recently tested \$1300, and we think our scenario of another run at the \$1370/\$1400 level this year is on the cards.**

Gold in US\$



Gold in Australian dollars has broken out on the upside and made historic new record highs. Australian gold producers outperformed in December but have since corrected in recent days, but I expect further upside in the months ahead, if the A\$ gold price can maintain upward momentum, with margins expanding to record levels for the gold producers.

The A\$ Gold price broke out to new historic highs in December and January



Positive Attributions

Company	Country	Attribution (bpts)
Nintendo	Japan	80.4
Wynn Macau	Hong Kong	65.0
MGM China Holdings	Hong Kong	64.1
Telstra	Australia	54.0
Evolution Mining	Australia	50.8

In terms of monthly performance attribution in the portfolio, **Nintendo** was the best performer, adding 80 basis points (bpts), after the game-maker beat expectations for quarterly earnings. A further rebound in the **Macau casino sector** also saw strong gains in **Wynn Macau** and **MGM China**. **Telstra** also delivered solid gains as a key telco competitor abandoned its network build, while **Evolution Mining** also rode the tailwind of an A\$ gold price which hit record levels.

Negative Attributions

Company	Country	Attribution (bpts)
Nine Entertainment	Australia	26.5
Powerhouse Energy	United Kingdom	16.0
Fat Prophets Global Property Fund	Australia	7.2
Mainstream Group	Australia	6.8
Apple	United States	2.3

On the negative side, shares in **Nine Entertainment** corrected in the second half of the month, costing the Fund around 26 basis points. Powerhouse Energy, Fat Prophets Global Property Fund and Mainstream all weighed on the portfolio. Our decision to exit Apple in the wake of a profit warning made for a slight negative attribution, despite the iPhone maker's quarterly result coming in better than expected in the end.

Portfolio Positions

The Fund's largest exposure, **Collins Foods**, was on the front foot in January, and in the absence of any major announcements. We continue to be positive about the KFC operator's expansion plans both domestically and abroad, with the roll-out of Taco Bell in Australia another long-term growth angle.

Telstra performed well during the month of January, with competitor TPG Telecom cancelling plans to build the nation's fourth 4G mobile network. The announcement saw Telstra shares surge to levels last seen in early October. TPG's network would have competed directly with Telstra, and the prospect of less competition has understandably been welcomed by investors and provides further justification for the recovery in the shares since the 2018 lows.

We have taken the view that the market had become excessively pessimistic towards Telstra, in ascribing a very modest valuation towards a company with still strong growth prospects, a dominant market position and a great brand.

We continue to see 5G as a big growth driver for the telco industry, and which should also ensure a re-rating of somewhat modest valuations in the sector. Another point to note with Telstra is that the company is unaffected by the ban on Chinese manufacturers (such as Huawei), using equipment manufactured predominantly by Ericsson. This has also meant Telstra is ahead of the game in terms of its network rollout.

Evolution Mining also had a strong month, propelled along by a record A\$ gold price which hit A\$1900. US\$ gold has also been pushing higher, and we expect this process to accelerate as strength in the greenback unwinds this year, and as inflation comes through the system. It may also be possible for the A\$ gold prices to strengthen further as well, as the local currency remains subdued given the economic risks being faced, and with the RBA's latest move towards a more 'neutral' stance.

We added **Nine Entertainment** to the Fund during the month. The market has priced in a dire outcome for the advertising cycle, which may not actually be realised. Meanwhile, we would not be surprised if the subscriber acquisition rate within the Stan streaming division catches the market out and comes in well above consensus estimates.

The interim results are due out in late February, and we will see definitively how well the merger has gone with Fairfax at this stage. Cost savings will be a big theme, but some may be surprised by the growth coming through in digital, particularly for the likes of streaming platform Stan. At just 5 times prospective earnings, the market has priced in a worst-case outcome for Nine. Yet, blue sky prevails with Stan, the second largest streaming competitor in Australia behind Netflix. We think the subscriber acquisition rate will come in at the top end of expectations with the Platform now offering access to Disney product as well as the James Bond franchise and a lot of Australian content.

Video game giant **Nintendo** reported strong fiscal third quarter and year-to-date results at the end of the month, driven by its hybrid Switch console but the shares fell as the company trimmed its forecast for Switch sales for the full year ending March 2019. The cut in guidance by management was in our view overly conservative. In the October-December quarter, Nintendo generated ¥159 billion in operating profit on ¥608 billion in revenue, up 26% year-on-year. Both figures topped expectations.

The company maintained its full year forecast, saying operating profit would be ¥225 billion on the back of ¥1.2 trillion in sales. This is another figure I expect to prove conservative. Given the Switch's larger installed base than a year ago, and the momentum of the hit titles from the last quarter, especially *Smash Bros. Ultimate*, the operating profit forecast should be exceeded handily.

Elsewhere, global e-commerce giant, **Alibaba** also performed well during the month. The company reported a strong third quarter, with sales growing 41% to 117.28 billion yuan and a 37% increase in net income to 33.05 billion yuan. The top line was shy of expectations, but earnings per share came out ahead, both on a reported and adjusted basis. An 84% jump in Cloud revenue was a bright spot as one of its fastest growing division.

We sold out of **Apple** during the month, with the shares witnessing a sell-off after the company 'lowered the sales and earnings bars' at the start of January. The company suffered its first holiday-quarter decline on the top and bottom lines in over a decade, and questions have been raised over the sustainability of growth within the key iPhone business.

German automaker, **Volkswagen**, finished 2018 on strong footing, reporting a record number of vehicles for 2018 at 10.83 million units across its portfolio of brands. This result was quite an impressive feat despite slowing demand in Western Europe which was crimped by the strict new WLTP (worldwide light vehicles test procedure) standards while demand in China – its largest market – was impacted by the trade war with the US and the end of government subsidies on buying new cars. We sold out of Volkswagen around the January highs.

Our Hong Kong-listed Macau casino exposures **MGM China** and **Wynn Macau** performed strongly in January, while Wynn Macau's parent US-listed **Wynn Resorts** also joined in for the ride. The stocks were bouncing back from oversold levels in 2018, when traders were worried about the slowing Chinese economy, trade friction between China and the US and the implications this could have on gaming revenues in 2019.

More market participants have been coming around to the view that the stocks offer good value in 2019, as the news out of Macau has been better than expected on average. Macau authorities said they expect the number of tourists to visit Macau in 2019 will increase by 5-6% in 2019.

The opening of the Hong Kong-Zhuhai-Macau bridge has improved infrastructure, and sentiment in January was also boosted by the announcement that a detailed plan of Beijing's intention to link Hong Kong, Macau and nine southern cities, called the Greater Bay Area Plan will be published in a couple of months. It is this type of continued improved infrastructure that I believe will support the Macau casino operators going forward.

MGM China is yet to report fourth quarter and full year results, but **Wynn Macau** reported significantly better than expected earnings, resulting in a nice boost to the shares. The company's crown jewel in Macau, Wynn Palace, delivered a solid performance, with operating revenues increasing 12.8% to \$740.6 million. Adjusted property EBITDA increased 19.2% to \$190.1 million.

Shares in financial services platform provider **Praemium** showed some strength through much of January, with a robust mid-month trading update showing record quarterly inflows and funds under administration (FUA) rising 14% during 2018 to hit \$8.4 billion.

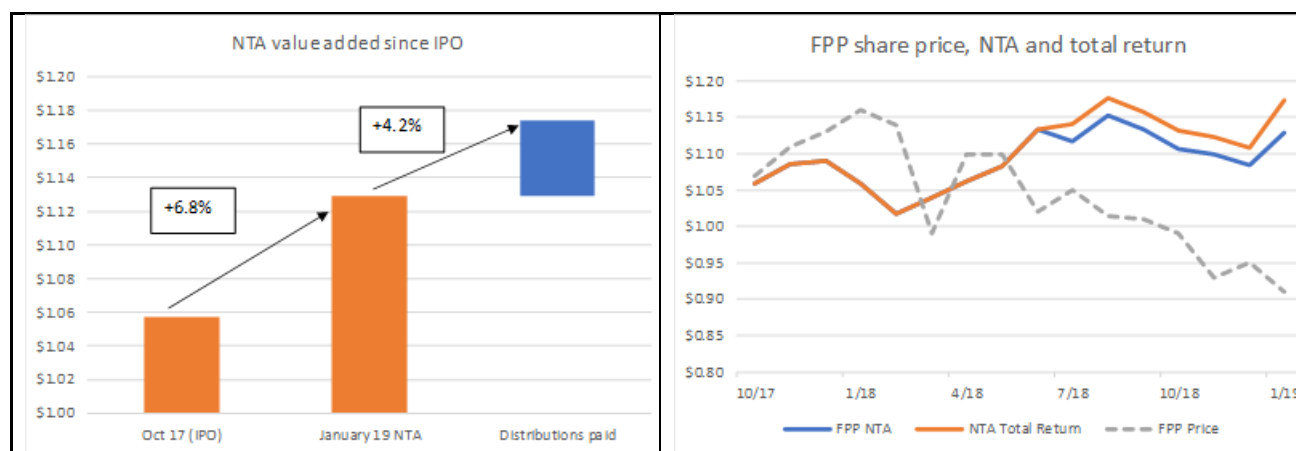
However, post the month-end, the shares have been knocked by weaker than expected half year results. Overall, underlying earnings have been strong, and the company's Australian business continues to display strong momentum. Investors however have taken alarm at the international side which posted an EBITDA loss of \$1.0 million. Management commented that the UK business has been impacted by 'volatility' in global equity markets and outflows in the Smartfund Protected range of managed funds.

While the market was likely looking for the UK business to be closer to break-even, we believe that investors have over-reacted in this week's sell-off. **Praemium still retains significant operating leverage to rising FUA, with this underpinned in Australia by a commitment to innovation, as evidenced by a recent platform upgrade.** The outcome of the Royal Commission should also

provide some positives, as noted by management. The international business, while still work in progress, remains a key long-term value driver in our view.

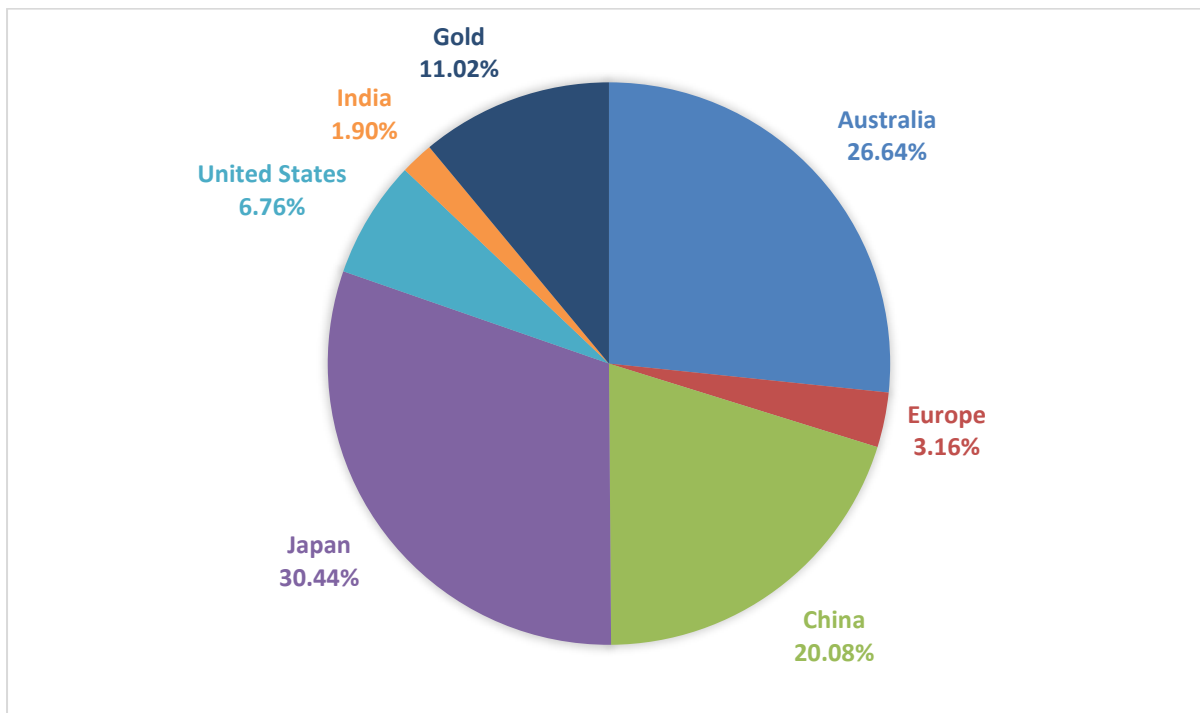
Fat Prophets Global Property Fund (FPP) was slightly down over the month despite a strong 6.3% increase in NTA. US REITs rallied 10% as did European REITs and the total FPP NTA growth would have been higher if not for the Australian dollar strength during the month. Since the FPP IPO less than 18 months ago, the NTA has increased 6.8% and the total NAV return after allowance for the 4.46c of cumulative distributions paid to shareholders, is over 11%.

The strategy of investing in global REITs to deliver capital growth and sustainable half yearly distributions, as well as provide diversification has delivered the results we were initially expecting. The share price in recent times has been disappointing and has not reflected the NTA returns. The Board is looking at measures to address this mismatch but ultimately believe investors will price and value the performance realised.



Top 10 Holdings	31 January 2019	Country
Collins Foods Ltd	6.12%	Australia
The Walt Disney Company	4.86%	United States
Baidu	4.68%	China
Telstra Corporation Limited	4.43%	Japan
Evolution Mining Ltd	4.37%	Australia
Wynn Macau	4.34%	Hong Kong
Sony Corp	4.18%	Australia
Nintendo Company	4.09%	United States
SPDR Gold Trust	3.74%	Japan
Praemium	3.68%	Australia

Geographical dispersion



Angus Geddes
Chief Investment Officer
Fat Prophets Global Contrarian Fund