



## ASX ANNOUNCEMENT

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**Sydney, 10<sup>th</sup> September 2019: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12**

Dear Investors,

The Fat Prophets Global Contrarian performed in August versus weaker global stock markets, **increasing net tangible asset backing 1.08% on pre-tax basis, and 0.72% on a post-tax basis. The Fund will shortly move to weekly NTA reporting, which will allow greater transparency in terms of performance, and more timely updates.**

The Fund held approximately AUD\$ million of stocks at the end of August. The largest holding continues to be **Collins Foods, at 7.78%**, while internationally the largest holding was **The Walt Disney Company, at 6.22%**. Overall the Fund excluding a futures position in platinum, utilised a leverage position of 23.5% against the value of the shares. The domestic split of the overall portfolio was A\$ million with the balance of A\$ million being international stocks. The largest concentration was in the US with A\$ of listed stocks, which included a significant proportion of the Fund's gold equity exposure.

	31 Aug -19	31 Jul-19	Change
Pre-Tax NTA	1.1426	1.1304	1.08%
Post-Tax NTA	1.1361	1.1280	0.72%

### Attribution

In terms of monthly performance attribution in the portfolio, the positive side was dominated by the Fund's gold exposures. **Harmony Gold** had a strong result, and this along with a rally in precious metal prices saw a strong contribution of 268.4 basis points. The **VanEck Vectors Junior Gold Miners ETF**, and **VanEck Vectors Gold Miners ETF both well**, contributing 54.5 and 40.6 basis points respectively.

Our decision to buy into the nickel sector in July also paid off, with pure play producer **Western Areas** performing strongly, and delivering a contribution of 50.7 basis points. This was as the nickel price hit a 5-year high on major supply disruption concerns and also as Western Areas itself delivered some promising drilling results.

Chinese food delivery platform, **Meituan Dianping** hit the highest level since last year's initial public offering, after posting a 'maiden' profit in its recent quarterly earnings release. The share price rise delivered a robust attribution for the Fund of 83.9 basis points.

## Positive attributions

Company	Country	Attribution (bpts)
Harmony Gold	United States	268.4
Meituan Dianping	China	83.9
VanEck Vectors Junior Gold Miners ETF	United States	54.5
Western Areas	Australia	50.7
VanEck Vectors Gold Miners ETF	United States	40.6

In terms of negative attributions, **Nissha Printing** was the worst detractor, costing the fund 61.3 basis points. The Fund has since exited the stock after a disappointing quarterly. **Tencent** was weaker on the protests in Hong Kong, and also after a soft result during the month. This cost the Fund 58.4 basis points, but we remain positive on the outlook.

The result from gold miner **St Barbara** was not well received, with the profit result coming in below forecasts. We remain positive on the outlook however, following the company's recent acquisition of Atlantic Gold, and with the A\$ gold price at record levels. **Wynn Macau** lost some ground, on a weak first half (which was impacted by the Hong Kong protests), costing the Fund 38.1 basis points. We see the casino group as well positioned to benefit from increased visitation to Macau, which is now the world's largest gaming hub. Weakness in **Telstra** cost the fund 34.7 basis points.

## Negative attributions

Company	Country	Attribution (bpts)
Nissha Printing	Japan	61.3
Tencent Holdings	China	58.4
St Barbara	Australia	46.4
Wynn Macau	China	38.1
Telstra	Australia	34.7

## Portfolio changes

During August we added to our nickel equity exposure following a breakout in spot prices. We added to **Western Areas** twice during the month, and also added another nickel play **Mincor**, which once had a considerable nickel production from a mine which is currently in standby mode. A restart of the nickel operations could see significant value added.

## Nickel spot prices broke out in July



We established a new position in **ZOZO**, a large Japanese online branded clothing discount retailer which is undergoing an operational turnaround, and the recent quarterly profit result saw a return to high level growth.

## Portfolio positions

The gold sector rallied strongly over August on a 7% lift in the \$US gold price. The precious metal gained as central banks cut cash rates and contemplated further quantitative easing action, while there was increased geopolitical tension on many fronts. **Harmony Gold** got a further price boost with the release of an impressive 2019 result, with net losses being pared on strong operational numbers.

Operations formed the foundation of the result, with gold production jumping 17% year-on-year, to 44,734 ounces and all-in sustaining costs improved to US\$1,207 an ounce or 1.9% yoy. As a result, net losses were substantially lowered in 2019 by 42% yoy, to a loss of SAR2.6 million and the balance sheet remained in good order.

The **VanEck Vectors Gold Miners ETF** performed well in August, as the gold price rallied. The ETF's weighting to the much-maligned US gold producers, many of whom have struggled for some time on thin operating margins, saw share prices surge. The **VanEck Vectors Junior Gold Miners ETF** which is exposed to a global pool of quality mid-tier and junior gold producers, also performed strongly.

We are bullish on gold over the medium to longer term, although near term prices look susceptible to a correction. Over half of the global sovereign bond issuance yields negative interest rates with investors seemingly more concerned about the "return of capital" versus the "return on capital". This has closed the gap somewhat with precious metals returning to the foreground with investors.

A weak A\$ is also providing a tailwind for the Australian based gold producers, and **Evolution Mining** once again delivered a solid performance. Full year results were released during August, and Evolution upped the final dividend by 50% to 6 cents per share. CEO Jake Klein commented that this was thanks to a surge in gold prices which are "around A\$450 higher

than the A\$1760 per ounce gold price achieved in FY19.” EVN’s underlying profit after tax was 13% lower at \$218.2 million, however management remains focused on productivity improvements to mitigate industry wide cost pressures.

Evolution has also maintained a strong run of meeting production guidance, with output of 753,001 ounces in 2019, the eight consecutive year it has been within its guidance range. Looking ahead to 2020, Evolution has announced gold production guidance of between 725,000 to 775,000 ounces at an all-in sustaining cost of A\$890 to A\$940 per ounce. Overall the numbers were impressive, with EVN swimming in cash.

There was an adverse reaction to results from gold miner **St Barbara** during the month, with underlying profits of \$142 million for the year down 19% on FY18, and less than the market was looking for. The shares weakened as all-in sustaining costs also rose to \$1,080 an ounce from \$891 last year. The final dividend of 4 cents was halved. There were a number of positive takeaways however, with the extension project at the Gwalia asset set to be completed, and provide a capacity boost. Numbers going forward will also be bolstered by the recent acquisition of Atlantic Gold. SBM’s margins are also very strong, with the A\$ gold price at record levels, and potentially set to go even higher.

Nickel producer **Western Areas** was a robust performer during the month. The company is a strong play within the nickel sector, being a pure play miner, with a great operational track record, which was further evidenced by recent FY19 results. Output came in at the top end of guidance and continued a stellar track record - prior to FY18, Western Areas met guidance for 7 years running. The company in 2019 mined 422,690 tonnes of ore, to produce 17,785 tonnes of nickel at a cash price of A\$2.98 per pound. With nickel currently trading at around US\$5.20 per pound (circa A\$7.75 per pound), operating margins will be significant. Any weakness in the A\$ will add to the positive mix.

Western Areas has a first-class suite of nickel mines, in the Flying Fox and Spotted Quoll projects, both located in the Forrestania region of Western Australia. Western Areas also has a 25% non-contributing interest in the Mt Alexander nickel/copper project, where St George Mining, as project operator, last week announced a new high-grade shallow nickel/copper sulphides discovery. The first drill programme at the Radar prospect has intersected a new zone of massive nickel-copper sulphide.

We added **Mincor** as another nickel play during the month. The company signed an OTCPA, in August, with BHP Nickel West for that company to process up to 600,000 tonnes of Mincor nickel pa, which was a positive for the share price. Adding to the positive news was the announcement of a 33% increase in Cassini’s nickel resource to 37,800 tonnes. Mincor’s share price not surprisingly also found a tailwind in the upside reversal of the nickel price in August.

Chinese ‘lifestyle’ platform, **Meituan Dianping** saw its shares hit the highest level since last year’s initial public offering, after posting a ‘maiden’ profit in its recent quarterly earnings release. The company is a China based e-commerce ‘super’-platform for ‘life services’ – from food delivery, to hotel bookings, and even ride hailing. The company generates revenues from a mix of commissions, online marketing and value-added services from acting as a marketplace for the Services sector.

Meituan is on a rapid growth trajectory, and also has a rather sticky natural market, backed as it is, by We-Chat operator Tencent Holdings. This has helped the company to drive robust growth in user numbers and transaction volumes, winning over market share in the lucrative online services industry; estimated to be worth circa US\$1.3 trillion.

We added Japanese online fashion retailer **ZOZO** in August. The company registered a solid start to the new fiscal year, showing a quick turnaround from last year's difficult trading performance. Profits last year plunged 20% to ¥16 billion, which was the first such decline since the IPO in 2007, and the share price subsequently declined sharply but has since stabilised after a much better financial performance.

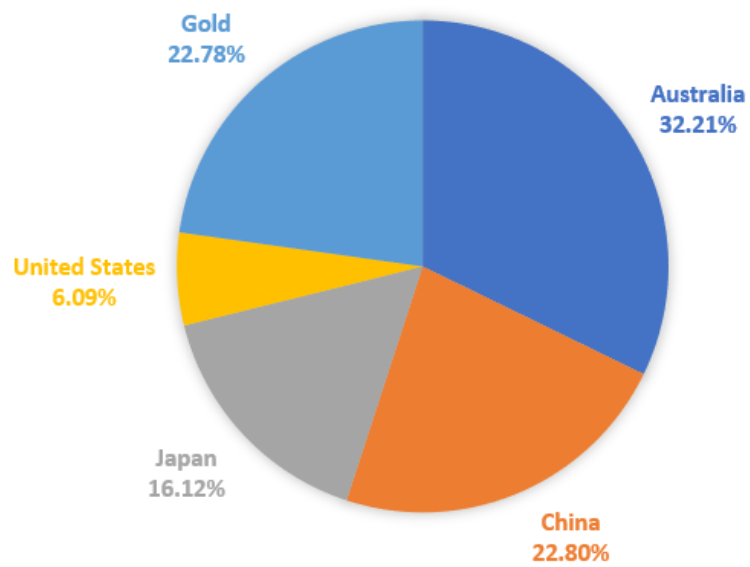
The company (which has nearly half of Japan's online sale of mid to high end clothing) since appears to be getting back on track, with Q1 operating profit surging 32.6% to ¥7.79 billion and margins recovering 100 basis points to 9.8%. A closer look shows that this was largely due to scaling down operations and focusing on the core business.

**Collins Foods**, the Fund's largest holding, continued to perform strongly during the month, with the share price reaching new all-time highs. Investors continue to appreciate the growth angles at home and abroad with KFC, and as the demand for chicken generally has continued to growth. This is also while stagnant chicken prices (a key input) have bolstered margins. The company has a number of growth drivers (including Taco Bell and European expansion).

The test launch of *Beyond Fried Chicken* at the KFC in Smyrna, Georgia, has been a smashing success. Patrons waited up to 3 hours to be served due to the queues, and because of the huge backlog of orders for the vegan chicken. The restaurant apparently sold out of it shortly after lunchtime. Animal rights groups such as PETA are hopeful that KFC recognizes that consumer demand for vegan foods will only increase and that this launch will be the first of many. KFC has been working with the popular Beyond Meat to create its original vegan recipe: Beyond Fried Chicken. Investor appetite for Collins should also increase further, with the stock added to the ASX200 from this month as part of the quarterly index rebalance.

Top 10 Holdings	31 August 2019	Country
Collins Foods Ltd	7.74%	Australia
The Walt Disney Company	6.06%	United States
Harmony Gold	5.95%	United States
Evolution Mining	5.21%	Australia
Nintendo	4.96%	Japan
Telstra	4.89%	Australia
Vaneck Vectors Junior Gold ETF	4.84%	United States
Sony	4.70%	Japan
Nine Entertainment	4.61%	Australia
Meituan Dianping	4.57%	China

## GEOGRAPHIC EXPOSURE AS AT 31 AUGUST 2019



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