



## ASX ANNOUNCEMENT

**Sydney, 12th October, 2017: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12**

Dear Shareholders,

September was a good month for the Contrarian Fund, with a rally in Macau gaming stocks and a solid performance by both Baidu and our Japanese equities helping to buoy the NTA. This resulted in the post-tax net tangible asset backing per Fat Prophets Global Contrarian Fund Limited share as at 30 September 2017 to be \$1.1109. This represents a 2.42% increase on last month's NTA of \$1.0847.

	30-Sep-17	31-Aug-17	Change
Pre Tax NTA	1.1147	1.0790	3.31%
Post Tax NTA	1.1109	1.0847	2.42%

Movers during the month were **Wynn Macau** (+22.5%), **MGM China Holdings** (+19.4%), **Sands China** (16%), **Baidu** (+8.6%) and **Bank of Kyoto** which was up 12.5% after adjusting for a 5 to 1 share consolidation. Detractors over September include **ICICI Bank** (-8.6%), **PICC Property & Casualty** (-6.3%) and **BHP Billiton** (-5.8%).

It was the Macau casino stocks that were the strongest performers during the month, with gambling revenue in the region growing 20.4% year-on-year to approximately 22.68 billion patacas (US\$2.8 billion) in August, according to data released by the city's Gaming Inspection and Coordination Bureau. That marked the 13th consecutive month that gross gaming revenue (GGR) grew year-on-year, firmly snapping an earlier streak of more than two years of declines.

Gaming revenues would certainly have been higher, but for some disruption caused during the month by the powerful Typhoon Halo that struck Macau on August 23. This led to some hotels and casinos temporarily suspending operations due to damage, power cuts and interrupted water supply. Still, the 20% growth rate was above the downwardly revised consensus estimates of 18% growth.

**We expect the Macau mass-market will continue to grow from current levels.** New properties with world-class entertainment and improved transport infrastructure are set to draw punters and inbound tourism from a growing pool of Mainland Chinese consumers eager to travel.

The Macau casino sector has also benefited from a more family friendly approach. The casual, or so-called mass-market segment, began picking up early in 2016 and the trend strengthened this year. Casino revenues have also been bolstered by a stronger than expected rebound in VIP traffic this year. With Macau gambling revenue now having strung together more than a year of positive gains and given a boost by the opening of Wynn Macau's and Sands China's new resorts towards the end of 2016, the so-called monthly growth 'comps' will be a bit tougher over the rest of the year, although we would still expect to see 2017 finish with a low double-digit increase in gaming revenue versus last year.

## Monthly Gross Revenue from Games of Fortune in 2017 and 2016

	Monthly Gross Revenue			Accumulated Gross Revenue		
	2017	2016	Variance	2017	2016	Variance
Jan	19,255	18,674	+3.1%	19,255	18,674	+3.1%
Feb	22,991	19,521	+17.8%	42,246	38,195	+10.6%
Mar	21,232	17,981	+18.1%	63,479	56,176	+13.0%
Apr	20,162	17,341	+16.3%	83,640	73,517	+13.8%
May	22,742	18,389	+23.7%	106,382	91,906	+15.8%
Jun	19,994	15,881	+25.9%	126,377	107,787	+17.2%
Jul	22,964	17,774	+29.2%	149,340	125,560	+18.9%
Aug	22,676	18,836	+20.4%	172,016	144,396	+19.1%
Sept	21,362	18,396	+16.1%	193,378	162,792	+18.8%
Oct	-	-	-	-	-	-
Nov	-	-	-	-	-	-
Dec	-	-	-	-	-	-

Source: Macau Gaming Inspection and Coordination Bureau

After breaking out earlier this year, **Baidu** has reached a record high, surging past the previous record that was hit back in 2015. It has been reported that Chinese internet giant is looking at a potential initial public offering in the US next year. Reuters has reported that the company is considering plans to float the hugely successful video streaming service iQiyi – which is the Chinese version of Netflix. The listing could value the IPO at between \$8 billion and \$10 billion according to reports out on Bloomberg.

iQiyi has 481 million monthly active users as of the end of last year. Whilst Baidu and iQiyi representatives have declined to comment and confirm the news reports, where there's smoke, often there is fire. A spin-off would make strategic sense and unlock value for Baidu shareholders. We also see plenty of additional positive catalysts, including further announcements around the company's rapidly developing AI technology and applications within the driverless car space, not to mention further top line revenue growth.

Strength in the US economy and low unemployment should eventually underpin wage inflation in the world's largest economy. This would fuel upward pressure on consumer prices and could be further exacerbated by Trump's tax cut package (if he can get this across the line). Should this play out we expect that US inflation will pick up in 2018, and that precious metal producers will be some of the key beneficiaries.

During September, the manager has been focussed on fine tuning the portfolio by simplifying the number of names. To this end we exited our positions in Spanish stock market operator **Bolsas Mercardos** and UK online property portal **Rightmove**. In their place, we continued to upweight exposure to Japanese equities (to 35.5%) and select resource companies.

Over the month we added to our position in US Silver producer **Coeur Mining**, which after a multi-year slide has broken out to the upside and is testing historical resistance at \$10. Coeur Mining closed a recent acquisition of the Silvertip Mine in Canada, which should be EPS accretive when the mine commences operations.

We also expect the return of inflation to be a feature of Japan's economy over the medium term, with the Japanese Tankan survey of Japanese manufacturers rising to +22 for the September quarter – the highest since 2007. This compares to +17 in the June quarter and forecasts for an improvement of a more moderate +18. With the labour market extremely tight and unemployment down at 4.3% - the lowest since the early

1990's – Japanese companies are fretting about worker availability for the first time in decades. While this is yet to exert itself in the form of wage inflation we are of the view that it is only a matter of time now.

**Chart 4: Japan: Core Inflation vs. Wages**

As of 1/15/2017



Source: Thomson Datastream (Core Inflation), Bloomberg (Hourly Wages)

**At some point wholesale inflation is going to force companies into boosting prices for retail goods – which is a paradigm that has been absent from the Japanese economy for three decades.**

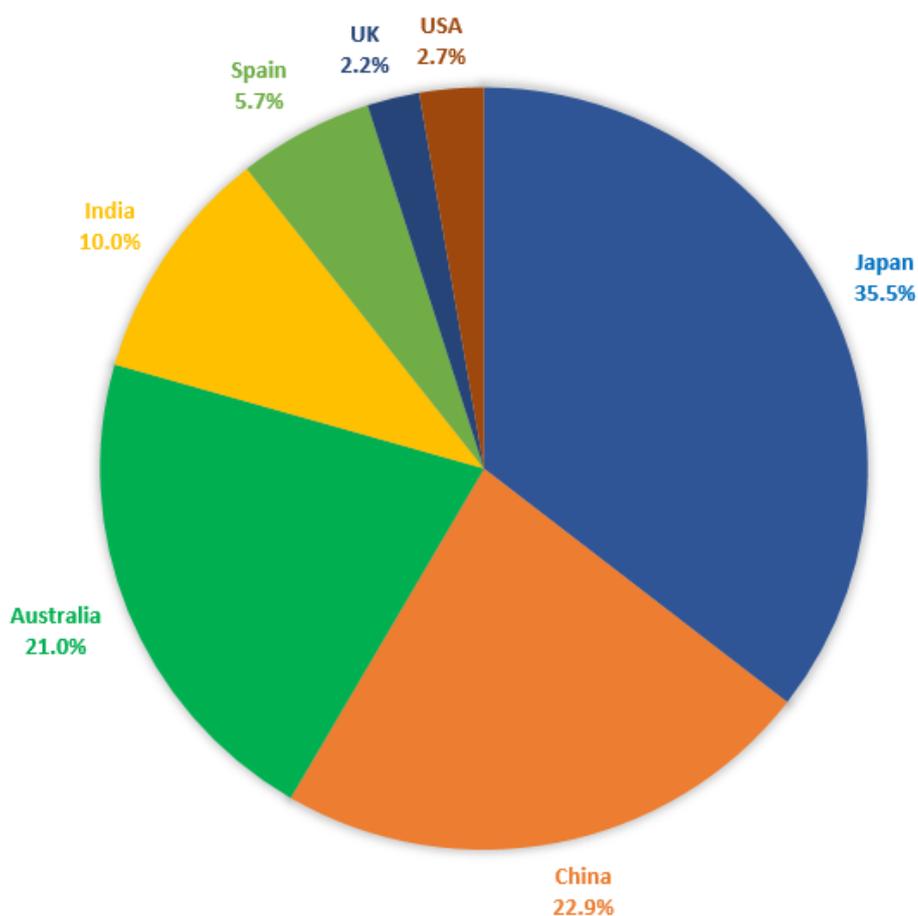
Closer to home, hotel operator **Mantra** has accepted an offer from French multinational hotel group Accor S.A. to acquire 100% of its shares at a price of \$3.96 per share. This represents a 23% premium to where the stock was previously trading and values the business at \$1.18 billion. We have long held the view that Mantra represented strong value and that fears by the wider market over the competitive threat of Airbnb was overdone, so we are not surprised that this has also been recognised by one of the company's major competitors.

While the transaction is still subject to both shareholder and Australian Competition and Consumer Commission (ACCC) approval, as Mantra is one of the Funds Top 10 Holdings a takeover proceeding at a premium of this magnitude would provide a very good outcome for investors in the Fat Prophets Global Contrarian Fund.

As at the end of September the Fund had leverage of 25.7%.

Top 10 Holdings	30 September 2017	Country
BAIDU INC	9.6%	China
WYNN MACAU LTD	6.9%	China
QBE INSURANCE	6.1%	Australia
MGM CHINA HOLDINGS LTD	6.0%	China
FAIRFAX MEDIA LTD	5.8%	Australia
SUMITOMO MITSUI FINANCIAL GROUP	5.6%	Japan
MANTRA GROUP LTD	5.5%	Australia
MITSUBISHI UFJ FINANCIAL GROUP	5.1%	Japan
RELIANCE INDUSTRIES LTD	4.9%	India
SONY CORP	4.3%	Japan

### GEOGRAPHIC EXPOSURE as at 30 SEPTEMBER 2017



Angus Geddes  
Chief Investment Officer