



## ASX ANNOUNCEMENT

6 August 2021

### Fat Prophets Global Contrarian Fund (ASX Code FPC) Estimated Pre-Tax NTA 4<sup>th</sup> August 2021

The estimated pre-tax NTA per share for the Fat Prophets Global Contrarian Fund as at 4 August 2021 is as follows:

	Amount (\$)
Pre-Tax NTA (as at 4 August 2021)	1.3634
Pre-Tax NTA (as at 31 July 2021)	1.3642
Change in NTA (31 July 2021 to 4 August 2021)	-0.06%

For the period from 31 July to 4 August 2021, the Fund recorded a 0.06% decrease in estimated pre-tax NTA from \$1.3642 to \$1.3634.

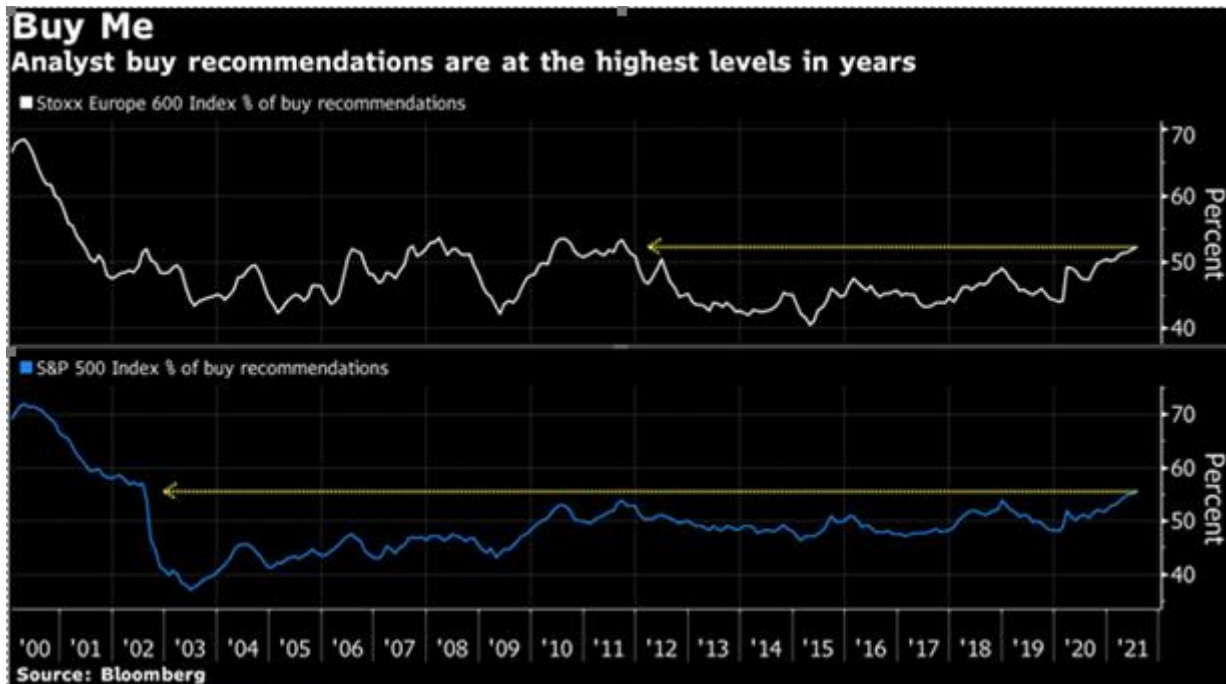
### Portfolio Changes and Market Outlook

While the US stock market has hit record highs, many indices, and sectors such as China internet names, and reopening thematics and financials have been caught up in a rolling correction since earlier in the year. The leadership in the US stock market and others has narrowed in recent months, and narrowing breadth is often a precursor for a correction. Close to half of constituents in the key small cap Russell 2000 index have corrected by at least +20% this year, and the pattern has been similar for many stock markets around the world.

Whilst we think the bull market has further upside extension over the medium to longer term, near term risks are elevated with valuations near historic highs and companies likely reporting peak earnings growth in the cycle. The September quarter, which lays ahead of the markets, is likely to see a slowdown in not only profit growth but also forward estimates.

Earnings growth have been driven by a confluence of factors including, reopening of the global economy (albeit this has been frustrated in recent months by the spread of the delta variant), pent-up consumer demand aided by government fiscal stimulus measures, high consumer confidence from the surging real estate and stock markets, and ultralow interest rates. But arguably that has all been reflected today generally in the stock market indices in an “as good as it gets” risk on environment.

The Bloomberg chart below clearly shows “the bullish consensus” bias amongst analysts, whom are the most bullish on single stocks in Europe and the US in over a decade. The percentage of buy recommendations for companies listed in the Stoxx Europe 600 stood at 52% at the end of July, the highest reading since 2011, and 56% for S&P 500 Index shares, the most in almost 20 years. That exuberance has to get checked at some point.



The drivers of the share market in the first two quarters of this year are not going to be as pronounced in the third quarter, and we believe this could lead to a correction of between 10% and 20%. **A correction would be healthy in that it would reset the bar of expectation lower, as well as valuations.**

Bull (and bear) markets are characterised by corrections, and we have yet to see a meaningful one since October last year. Last year we successfully navigated the recovery in stock markets and established and maintained a leveraged long position which helped performance. We continue to hold the view that the bull market needs a reset before the “buy the dip mentality” undoubtedly reasserts and takes the indices higher later in the year. A reset between now and then would make not only sense but conform to the typical path followed by most bull markets.

In June we eliminated nearly all the leverage within the Fund, but still retained a 100% long equity exposure. In July we reinstated a hedge over 25% of the portfolio utilising a zero-cost collar hedge on the S&P500. Since our last update, we have further reduced our positions across the portfolio by approximately 25%, raising cash levels and further lowering exposure to stock, bond and commodity markets. This places the Fund in a much more defensive position ahead of what we believe will be an upcoming period of volatility. We can look to then take advantage of any correction and reset the portfolio. Meanwhile, capital gains have been crystallized across the portfolio which will be supportive of future franked dividends.

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