



ASX ANNOUNCEMENT

16 March 2020

Fat Prophets Global Contrarian Fund (ASX Code FPC) Estimated Pre-Tax NTA 11th March 2020

The estimated NTA per share for Fat Prophets Global Contrarian Fund as at the 11th March 2020 is as follows;

Month to date NTA

	Amount (\$)
Pre- Tax NTA (as at 11 March 2020)	1.0090
Pre- Tax NTA (as at 29 February 2020)	1.1180
Change in NTA	-9.75 %

Market outlook

For the period from the 29th of February to the 11th of March the fund recorded a decline in Pre-Tax NTA of **-9.75% to \$1.1180**. Since the beginning of March, stock markets around the world have fallen sharply from peak levels only a few weeks ago as the Coronavirus outbreak has extended around the world. The magnitude of the falls these past few weeks have been some of the steepest on record. **Volatility has risen to the highest levels since the GFC as markets contemplate a coming recession while world has gone into lockdown.**

Market panics come and go, and while the full extent of the outbreak of Covid-19 is presently unknown, similarly to the Global Financial Crisis, **great value and opportunity has emerged during a time of maximum fear. Today, we would argue that buyers of equities are being compensated very well to take on risk.** On the flipside, buyers of government bonds are paying a huge premium for "perceived certainty" with bond valuations pushing up to an historic record. At some point the pendulum will swing back, it is just a matter of time.

While the world waits to see just how the Covid-19 spreads and impacts the developed world, and the United States in particular, **we have taken advantage of the volatility to add equity exposure back to our portfolio.** Most of the stocks sold just prior to the stock market meltdown have selectively been bought back, with the exception of the Macau casinos and a few others.

While markets are pricing in an extensive spread of Covid-19, **some countries hit earlier have had significant success in dealing with the outbreak such as South Korea and Japan.** It appears that apart from China, Covid-19 is also receding in these countries. With markets having already priced in a substantial amount of downside risk, it remains for the Covid-19 to actually deliver. **We believe there is an upside risk to current market valuations if Government preventative measures succeed in slowing the spread of the disease.** Meanwhile relative to bonds, equities are now offering the best value in a decade.

As with the GFC, **central banks are cutting rates and throwing quantitative easing measures and fiscal stimulus at the global economy.** However unlike during the GFC, interest rates are lower today **and therefore the dividend yield premium to long term bond rates has broken out to record levels – and albeit unsustainable levels over the medium to longer term.**

There is no question that damage is being done to the economy today, but this could pass sooner than current expectations. As has been the case in China, the containment of Covid-19 and recovery has been quick and the population is now getting back to work.

Portfolio Changes

The Fund has been active in February, buying back holdings such as QBE Insurance, Collins Foods, Tencent, Nintendo and Walt Disney. We have avoided buying back the Macau casino's such as MGM China, Wynn Macau and Sands China, as well Japan Airport Terminal and Telstra. The Fund more recently added BHP in Australia, Yum Brands and Spotify in the US, Panasonic in Japan.

The Fund's gold exposure has been disappointing. **While gold initially rallied strongly on the selloff to make new record highs, precious metal equities have materially underperformed.** We have taken the decision to hold our exposure for now, given the huge amount of stimulus now being thrown at the global economy by the central banks and a return by many, to quantitative easing. When volatility subsides, **precious metals should benefit as markets weigh up the record stimulus and QE measures.**

While the volatility is unnerving, **we are confident that markets will soon begin to look through Covid-19 to when the economy recovers on the other side.** There is no question that the world is going through a demand/supply shock but the recovery could be quick when it arrives. **Stock markets have a habit of reacting early and investors will no doubt be watching closely for global infection rates to live up to expectations in the week or two ahead.**

Angus Geddes
Chief Investment Officer
Fat Prophets Global Contrarian Fund