



ASX ANNOUNCEMENT

Sydney, 17 April 2020: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Shareholders,

The Net Tangible Assets of the Fat Prophets Global Contrarian Fund declined sharply at the March month end **with pre-tax and post-tax NTA closing at \$0.7987 and \$0.8916 respectively. This has by far been the most severe monthly decline not only for the Fund since inception, but since the 1929 crash.** However, we are confident that the Fund can recover, not only given the significant improvement month to date in April, but **with the companies and holdings in the portfolio well positioned for the post Covid-19 economic downturn** that has already begun.

	31-Mar-20	29-Feb-20	Change
Pre-Tax NTA	0.7987	1.1180	-28.56%
Post-Tax NTA	0.8916	1.1235	-20.64%

Market outlook

The markets began the month in a volatile fashion as the world debated the spread of Covid-19 and as Saudi Arabia and Russia split OPEC apart, and the oil price collapsed. Stock markets then went onto lose up to 40% at the March nadir lows as the virus spread, fatalities and infections soared, borders were closed, and the world economy was effectively shuttered.

With the rally over the past few weeks since the March lows, global indices have recovered but **many are wondering whether this is a “dead cat bounce” and or if the lows will be retested in the near term?** With Covid-19 looking like it has reached a peak in many countries and in Australia, **focus will soon turn to the widespread dislocation and damage caused to the Australian and global economies and how to restart them.** There is going to be no avoiding global and domestic unemployment rising sharply over coming months.

We believe that **rather than focusing on whether the recovery will prove to be ‘U’, ‘V’ or ‘L’ shaped, we have concentrated on positioning the portfolio to benefit from the current situation** (which is still seeing the global economy hamstrung by restrictive measures) and for the economic recession that has hit the world.

To this end **we have been active in the past month and previous weeks**, adding to selected companies that can ride out a recession, and to our precious metal exposure including physical gold via the US listed SPDR Gold ETF.

As a result of the Covid-19 calamity, **there is going to be unprecedented money printing and quantitative easing measures** aimed at injecting new liquidity into the global economy on a scale we have not witnessed before. **Whilst some envision an apocalyptic repeat of the 1930s Depression, there is one crucial difference this time round – Governments will print money and inject this into real economy. Banks, airlines, and any other endangered sector deemed**

essential to the public, will not be allowed to fail. The Cruise-line industry we are not so sure about.

One conclusion we hold is that while economic demand is going to fall in the months ahead, ultimately the trillions of dollars injected into small business and the economy generally has to prove inflationary in time. To this end we think a number of businesses will benefit, and precious metals and commodities in particular. Gold in US\$ has in recent weeks **pushed up to within striking distance of the record high set ten years ago back in 2011 – see below.** The other precious metals seem set to follow in the weeks and months ahead.

GOLD in US\$

We are also **likely to see the eurozone and the euro questioned once again**, as countries such as Spain and Italy are going to want to avoid second broad-based recessions in 12 years with unemployment rates going back up to 20%. Politically, it's hard to see the eurozone not being seriously challenged again during this time, particularly if Germany blocks fiscal stimulus programs aimed at putting people back to work.

The US dollar as the “world’s reserve currency” will likely also come into question at some point with the US Government set to spend not only \$2 trillion of direct fiscal stimulus but adding a further \$2.3 trillion of lending assistance via the banking system to smaller business by the Federal Reserve. It’s hard to not see precious metals and commodities benefiting generally in this environment.

With respect to the rest of the portfolio, we believe many of the companies we hold will benefit from the current economic dislocation – and will also do well in a recession. **Collins Foods, Domino's Pizza, Yum China** and **Yum Brands** are all seeing a surge in fast food demand, with takeaway and online delivery sales on the up. Food delivery company **Uber Technologies** has seen demand surge, which is offsetting the downturn in Uber ride.

Also benefitting from the Covid-19 outbreak have been streaming music business **Spotify** and **Disney**. The global lockdown has caused a surge in online subscribers. Similarly, there has been a surge in demand for online gaming and entertainment, which has powered **Activision Blizzard**, **Sony** and **Nintendo up towards new highs**. **Tencent and Alibaba proved to be resilient in March, being China's dominant ecommerce payment systems.**

Global stock markets remain highly volatile, but we have seen a marked reduction in the VIX in recent days as governments have responded to the Covid-19 crisis and stepped up with various fiscal stimulus packages. **This implies that fear and panic are subsiding and receding from peak levels seen a few weeks ago.**

While it has been all “doom and gloom” and hard to see the positives at times in recent weeks, **the world is working its way through this economic and health crisis.** The Covid-19 curve is definitively flattening for most of the world, and “there is a light at the end of the tunnel.” **Some countries are handling the Covid-19 crisis much better than others.** Infection and death rates are stabilising in Asia. In Australia the fatality rate remains low and the number of new infections has fallen sharply. **With the forced liquidation of assets in the past month largely behind us, markets are going to focus on the unbridled monetary and fiscal stimulus led by the US and the resulting impact.**

Whilst we acknowledge that significant uncertainty surrounds the global economy, bear markets typically end with recessions, they don't begin with them. The comments of Sir John Templeton the legendary late fund manager who once said, “bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria” are worth remembering at this time. **Buyers of equities are being compensated a lot to take on risk** today, particularly with cash paying negligible rates of interest and bonds in many cases having negative yields.

Portfolio Performance

While the March performance has been disappointing, many indices were down by as much if not more. There has also been a relative improvement on the NTA at the end of the March of late, with last week's estimated NTA released to the ASX yesterday, and the forthcoming release of the month to date NTA due for release tomorrow.

Positive Attributions in March

Company	Country	Attribution (bpts)
Nintendo	Japan	58.6
Activision Blizzard	United States	8.7
Telstra	Australia	3.9
Gilt Bond Futures	United Kingdom	3.5
Bund Futures	Europe	3.1

Negative Attributions in March

Company	Country	Attribution (bpts)
Collins Foods	Australia	429.5
QBE Insurance	Australia	208.1
Walt Disney	United States	161.8
VanEck Vectors Junior Gold Miners ETF	United States	157.3
Silver Composite Futures	United States	154.5

Portfolio Changes

We added further to our precious metals exposure and established new positions in Australian gold mining companies - **Saracen Minerals, Resolute Mining**, while we re-established and added to positions in **Evolution Mining** and **Harmony Gold**. The Fund also added the US listed **SPDR Gold ETF**, which provides physical exposure to gold itself and is one of the largest companies in the world. The Fund now has total precious metal exposure of around 16%.

Many businesses are also trying to work if they can survive the shutdown. Government assistance has been forthcoming, but more needs to be done to help industries such as the airlines and restaurants survive. The race is on to develop preventative medicines and a vaccine, but governments need to do more than this to ensure the global economy can recover. Stocks we hold such as **Domino's Pizza, Tencent, Alibaba, Sony, Spotify** and **Nintendo** have held up well. **Coca Cola Amatil** and **Collins Foods** after faring poorly in March, recovered strongly in April. **Collins Foods, the Fund's largest holding which we added to in March, is performing strongly because** KFC has remained open, with sales surging in takeaway/drive-through and the home delivery market.

Collins' KFC operation is also well positioned for not only the lockdown, but also a recession with a popular low price point value-oriented menu. The same is also true for **Domino's Pizza Enterprises, as it is for Yum China** (which operates 8000 KFC restaurants in China) and **Yum Brands** which the Fund also owns in the US.

The struggle that many high street retail operators are facing does not necessarily apply to any of the fast food operators we own, and we will likely see these chains expand aggressively into the retail space void left by many failed shop-front businesses. **The unfortunate consequences of the Covid-19 pandemic, will over the medium to longer term accelerate the rollout and expansion of all these businesses in our opinion.**

This is also true for Walt Disney. The shuttering of the theme parks, and the cancellation of all sport in the US which has impacted ESPN, has been negative for Disney's earnings. But on the flip side, the lockdown has been a boon for Disney+, the streaming business. The timing of the launch into India and Europe during the lockdown could not have been better **and this has turbo charged subscriber growth to the point where the 50 million milestone was passed last month**, well ahead of schedule. **In fact, the 90 million subs that Disney is targeting by 2024 could be reached by the middle of next year or sooner** in our opinion.

This is a gamechanger for Disney, and what would have taken years to reach, will have effectively been attained in months. Disney will have a streaming business with global reach and scale that took rival Netflix many years to achieve. **This will allow the rollout of new streaming content to be effectively fast tracked – which in turn will accelerate subscriber growth.** Disney is well positioned for when the lockdowns are lifted although the theme parks business may take some time to recover to pre virus outbreak levels.

QBE Insurance has disappointed. After hitting a near 7 year high in February, the shares were sold off heavily in March as investors began to price in broader market uncertainty, and also the pressure on the insurer's investment income with bond yields collapsing. The shares have stabilised in April and even as the company has announced a major, but not excessively discounted, capital raise to fortify the balance sheet. The company is also undertaking a number of other measures to increase earnings resilience.

Also encouraging was management's confirmation that premium rates continue to increase across the board, a cornerstone of our investment logic. Group-wide premium rate increases averaged 8%

in the first quarter. Gross written premiums in the first quarter grew more than 9% to US\$4.5 billion, aided also by solid volume growth and retention.

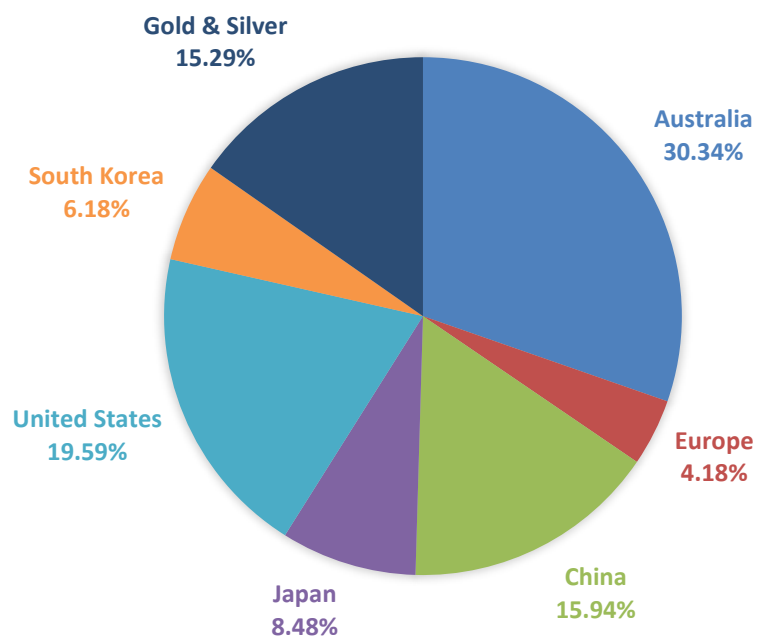
We took the view late last week that the with the Australian dollar falling to record low levels at 55 cents, A\$ gold prices were at a near term peak and to reduce leverage we sold down equity exposure including GDX, GDXJ, and Evolution Mining. However, we still maintain existing holdings in the **Global X Silver Miners ETF (NYSE:SIL)** and the **Prime Junior Silver Miners ETF (SILJ)**. We subsequently restructured our gold position to also include physical gold, via the **SPDR Gold ETF (NYSE:GLD)** and added a number of Australian listed gold producers. We added **Saracen, Resolution Mining and Harmony Gold**, while also buying back **Evolution Mining** and **St Barbara**. The Fund's total portfolio exposure to precious metal equities was around 15% at time of this NTA release.

At the end of March, the Fund had no open futures positions, having exited a short bond futures position and long silver futures earlier in the month. The silver position went against the Fund during the deleveraging sell-off stage in the markets and with soaring volatility we opted to close it out.

Top 10 Holdings

Top 10 Holdings	31 March 2020	Country
Collins Foods	8.75%	Australia
Alibaba	8.24%	China
Domino's Pizza	6.27%	Australia
Walt Disney	5.73%	United States
Yum China	5.24%	China
Global X Silver Miners ETF	5.05%	United States
Nintendo	4.76%	Japan
Activision Blizzard	4.74%	United States
QBE Insurance	4.70%	Australia
Coca-Cola Amatil	4.60%	Australia

GEOGRAPHIC EXPOSURE AS AT 14 APRIL 2020



Angus Geddes
Chief Investment Officer
Fat Prophets Global Contrarian Fund