



ASX ANNOUNCEMENT

Sydney, 13th December 2018: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Shareholders,

November saw a better performance for the Global Contrarian Fund despite a number of stock markets making new lows for the year during the month. Market conditions remain challenging with the ongoing uncertainty continuing around trade tensions between China and the US, concerns over peak growth, the yield inversion between the 2-year and 5-year Treasury notes, and significant deleveraging and short selling by hedge funds. **But with much lower valuations after the not insignificant selloff, there is opportunity.**

| | 30-Nov-18 | 31-Oct-18 | Change |
|--------------|-----------|-----------|--------|
| Pre-Tax NTA | 1.0289 | 1.0022 | 2.66% |
| Post-Tax NTA | 1.0500 | 1.0304 | 1.90% |

Despite the fact that the mood has turned decisively bearish, **we believe markets have reacted too harshly and too quickly on the downside.** We are more optimistic, and the Fund consequently positioned in late November for a recovery rally. While uncertainties still prevail, the markets are presently in quite an oversold state, and thus **risk in our view, is to the upside.**

The widely pervasive bearishness and extreme pessimism often typifies a turning point and we possibly have seen this already in Asia, with China and Hong Kong not reacting as much to negative news. We believe that for contrarians, presently oversold conditions especially in Asia, now opens a window of opportunity, particularly given markets have declined the fastest since the GFC ten years ago.

Many investors have subsequently cashed up, and deleveraged following the substantial decline since September, with liquidity now built up on the sidelines. The corporate sector is also likely to be very active in terms of initiating or reinstating buybacks and we have seen this emerging in recent weeks. **This in our view, structurally sets the market up for a rally.**

Valuations are once again compelling with the S&P500 priced on a 14.5X consensus forward PE for 2019, China on 9X and Australia around 14X. Growth may be showing signs of slowing, but still remains positive. The March 1 extension granted to the Chinese provides a window to resolve the trade dispute. The Federal Reserve has reacted to the market volatility and trade uncertainty and pivoted away from the three rate hikes flagged for next year, signalling that a neutral outlook could be justified sooner than was widely expected.

The Fund was positioned defensively for most of November, but towards the end of the month and just prior to the trade summit, we added leverage, boosting equity exposure and adding to existing positions in the portfolio as well as establishing some new ones.

During the month the Fund took advantage of the volatility and the largest selloff since the GFC, and amongst others, added to core holdings in **Collins Foods, Praemium, CNOOC, Wynn Resorts, MGM China and Baidu.**

The Fund established new positions during the low point in November and took advantage of relatively low valuations for companies that included **Oil Search, Nufarm, Japan Airport, Wynn Resorts, Volkswagen and Apple – all well down from their record highs earlier this year.**

The Fund also added a moderate amount of exposure to beaten down Asian internet stocks **Tencent and Alibaba**, both down considerably from their record highs earlier this year, as well as **Afterpay** in Australia.

The focal point in November for global markets was the trade summit meeting between China and the US, where it was agreed that further tariffs would be delayed until March 1 so that both parties can negotiate. Our argument is that there needs to be an agreement, otherwise the risk of an early recession increases significantly. While it is difficult to predict the next move of the White House, we would argue that President Trump wants a second term. Since WW2, no sitting US President has ever secured a second term when the economy has moved into recession during his first term.

We remain optimistic that both sides will reach a compromise, and that the markets' pricing in of an early recession is premature given that economic data flow continues to be positive.

In terms of monthly performance attribution in the portfolio, Collins Foods, the Fund's largest holding, was the best performer, adding some 109 basis points (bpts). A rebound in the Macau casino sector also saw strong gains in MGM China and Wynn Macau. Fairfax Media also improved heading into the merger with Nine Entertainment, while Reliance Industries in India delivered solid gains.

Positive Attributions

| Company | Country | Attribution (bpts) |
|---------------------|----------------|---------------------------|
| Collins Foods | Australia | 109.0 |
| MGM China Holdings | China | 55.7 |
| Fairfax Media | Australia | 53.2 |
| Wynn Macau | China | 47.4 |
| Reliance Industries | India | 33.6 |

On the negative side, Praemium corrected sharply in November, costing the fund around 56 basis points. The gain in Fairfax was offset by a decline in Nine Entertainment ahead of their merger, while Telstra, Sony, and Fukuoka Financial also weighed on performance. We remain comfortable with the long-term prospects of all these companies.

Negative Attributions

| Company | Country | Attribution (bpts) |
|--------------------|-----------|--------------------|
| Praemium | Australia | 56.6 |
| Nine Entertainment | Australia | 50.3 |
| Telstra | Australia | 28.3 |
| Sony Corp | Japan | 20.3 |
| Fukuoka Financial | Japan | 20 |

Portfolio Positions

The Fund's largest exposure, **Collins Foods**, performed strongly during November, with investor appetite for the KFC operator driven by a robust half-year result, underpinned by solid same stores numbers alongside acquisitions. Management were also very upbeat about future growth prospects at home and abroad.

Collins lifted interim revenues by 27.6% to \$411.0 million, while underlying EBITDA surged some 31.7% to \$53.7 million. Collins is now the largest KFC operator in Australia with 228 restaurants. Management have continued a track record of lifting margins at acquired stores by careful focus on extracting operational efficiencies, along with a targeted modernization program. Plans are for another 40 to 45 new KFC restaurants in Australia over the next 5 years.

Collins also has another growth angle in Australia, with the planned roll-out of the Taco Bell offering. A Development Agreement with Yum! Brands will see 50 new stores across three states over the next 3 years. There is also a big offshore growth story as Collins pushes into Europe. The company has 17 restaurants in Germany and 18 in the Netherlands, and these are performing solidly. KFC is underpenetrated in Germany and the Netherlands (versus MacDonald's and Burger King), and provides an opportunity to drive sustained long term growth.

Disney, the fund's second largest holding, has received additional key approvals from regulators, including Europe and China, paving the way for the company to finalise its acquisition of most of Twenty-First Century Fox's media assets.

We expect Disney to be able to wrap up this game changing transaction relatively soon now and begin on the integration process. The acquisition will bolster Disney's already industry leading portfolio of IP (intellectual property), during what we view as a transformative time for the House of Mouse.

Disney is now hard at work to develop, launch and cultivate its own service to offer consumers a compelling alternative in the streaming world. Disney+ is set to launch next year, and will be "very brand-centric", featuring content from Star Wars, Marvel, Disney, Pixar and other programming from the Fox assets.

Sony was weaker during November but continues to make strong operational progress. The company's PS4 has sold over 84 million consoles to date in its lifecycle, supported by a number of exclusive titles. Gaming segment strength has led management to boost FY18 operating income forecasts by 30% to over ¥934 billion.

Outside of gaming, Sony also recently announced plans to invest some ¥600 billion over the next 3 years to ramp up its Image Sensor business. Sony is the leading provider for smartphones and its image sensors are moving into a growing range of applications such as self-driving cars and home

security.

Records have also been set by **Nintendo**, with sales over the Thanksgiving to Cyber Monday period smashing expectations. It was notable that the company's hybrid Switch console also sold extremely well, with sales more than doubling year-on-year. The console has ranked as the overall top-selling video game product online over the period.

The Macau casino stocks staged a recovery in November, with **MGM China** and **Wynn Macau** both participating. Macau casino gaming revenue came in at 25 billion patacas (\$3.10 billion) in November, marking a solid 8.5% increase from a year earlier – ahead of consensus estimates. Casino executives are also reportedly optimistic about the potential benefits from the recent opening of the Hong Kong-Zhuhai-Macau bridge, the world's longest sea crossing bridge. The gentrification of Macau, improving infrastructure to facilitate visitor arrivals, and robust tourism flows from nearby China, continue to underpin our positivity towards the space.

Indian multinational conglomerate, **Reliance Industries** was a steady performer during the month. The company has announced plans to expand the world's largest refinery complex, Jamnagar, by up to 50% to as much as 30 million tonnes of crude oil per year. Meanwhile, its telecom business Reliance Jio continues to disrupt the Indian market with much success. Subscribers are growing at around 5% a month, with average-revenues-per-user also on the rise.

Baidu has been leveraging its expertise in AI to branch out into new commercial opportunities and has emerged as the leader in the self-driving car race in China, with its software platform acting as the 'brains' for manufacturers vehicles. Its latest tie-up, recently announced, is with Volvo. There is a strong development in autonomous drive in China, where Baidu is a leading player, and the market there offers huge opportunities for us as the supplier of choice for autonomous fleets.

The Fund added moderate exposure two Asian high beta internet stocks during the month, both of which are well down from the highs. One of these was **Tencent Holdings** which came in with a strong quarterly result. The company reported a 30% increase in net profit to 23.3 billion yuan in the September quarter, beating expectations for 19.3 billion yuan. Tencent is also teaming up with Line Corp, an instant messaging application company, to offer mobile payment services for Japanese retailers and to take advantage of the influx of Chinese tourists to the country.

This deal isn't entirely unprecedented as Alibaba's Ant Financial and ride sharing firm, DiDi Chuxing have offered services in the last few months. **Japan is increasingly becoming a tourist hotspot for the Chinese**, having tripled its tourist arrivals in just three years. We also took a position in **Alibaba** during the month. The company is similarly pressing ahead with its global growth ambitions, and has opened its first e-commerce trade hub in Europe in a deal with the Belgian Government.

On Japan, it seems the merger of **Fukuoka Financial's** Shinwa Bank and Eighteenth Bank will be delayed six months to October 2020. Nonetheless, the combination will be a significant value driver, boosting interest income by 10%, and bringing significant scale benefits.

With the sell-off in tech names we also took the opportunity to establish a position in **Afterpay Touch**. The 'buy now pay later' lender has displayed strong growth in Australia, with almost 18,000 merchants now onboard. The company is also intent on building out its footprint in the US.

Shares in financial service platform provider, **Praemium** came under pressure during the month, despite the company barely putting a foot wrong operationally, and as funds under administration surpassed the \$8.6 billion mark. The company's operating leverage can mean a double-edged sword when markets are weak, but we continue to be buoyed by the company's strong progress both domestically, and abroad.

The merger of **Fairfax Media** and **Nine Entertainment** has been waved through by shareholders and the regulator, and has now been implemented. The combination signals the biggest shake-up in the Australian media sector's history, and is a reflection of the disruption being faced by traditional players. Management have been quick to map out further cost synergies, and the plan for leveraging the tremendous potential of some high quality digital assets.

Telstra softened during the month, but has since picked up, with investors beginning to appreciate the value present, and the wider earnings growth story. The company has enjoyed success at the latest 5G spectrum auction, securing 143 lots for a \$386 million spend, meaning Telstra now has contiguous 5G spectrum in all major capital cities (where there was a gap) and all regional areas. **CEO Andy Penn described the recent auction as 'an extremely significant moment' with 5G bringing enormous growth opportunities. We also see Telstra benefitting from the merger of TPG and Vodafone Hutchison in the sense that it now has one less competitor.**

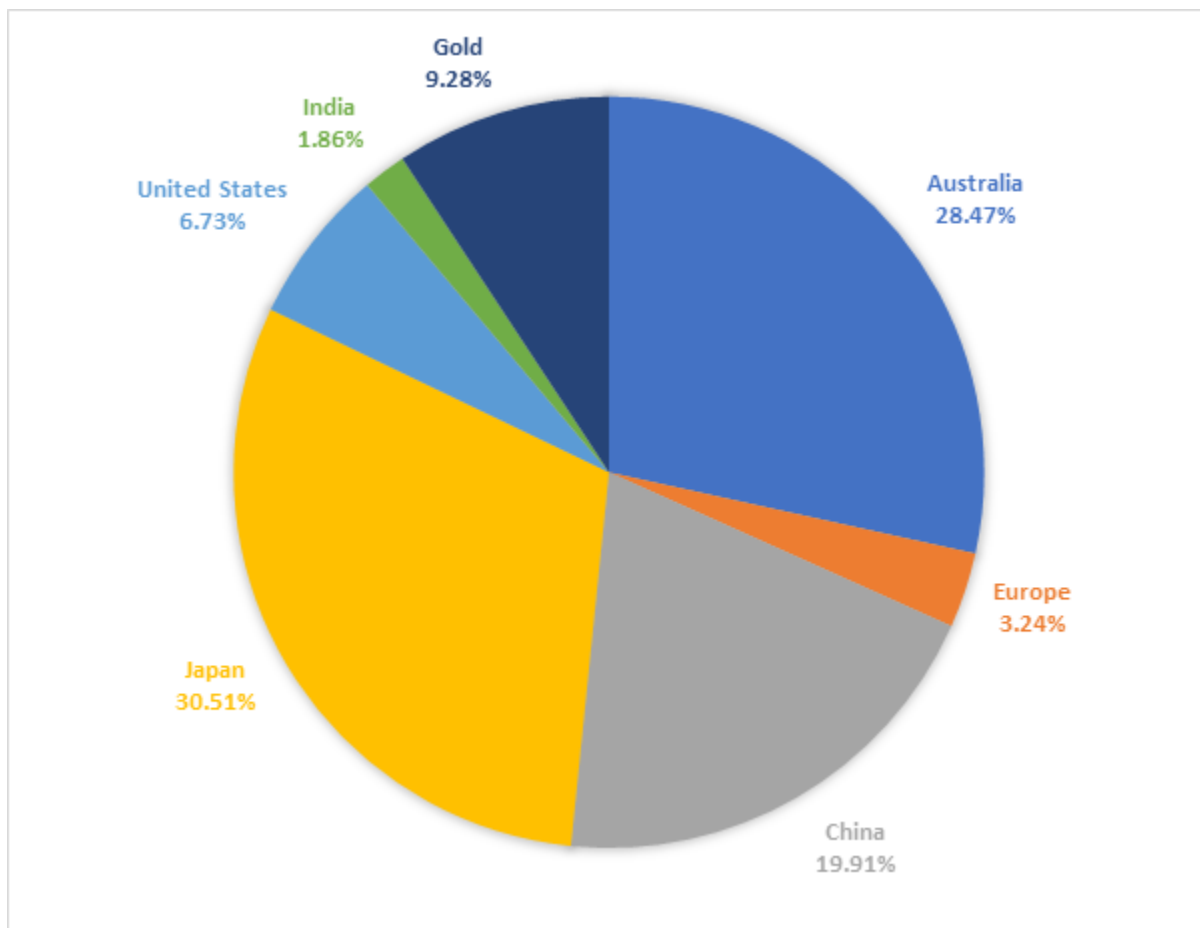
In the agriculture space we added to our position in **Nufarm**. The shares have been under pressure this year due to the drought in Australia, but the longer term thematic is compelling given the world's increasing demand for food and shortage of arable land. The value that has emerged in the sector (and given climate conditions will normalise) was underlined by a \$2.4 billion offer for grain handler Graincorp. M&A in the space could well heat up further as a result. Nufarm is in position to be an aggregator following its capital raising; but could equally be the 'prey' at some point.

Gold miners have been in demand during the broader correction over the past few months, and **Evolution Mining** performed steadily during October. Gold's safe haven qualities have certainly been appreciated by investors, and also while cryptocurrencies have unwound in dramatic fashion. The likes of bitcoin have been promulgated by some as the 'new gold' but this scenario looks a long shot, and with governments calling for ever tighter regulation.

The fact that the Federal Reserve is adopting an increasingly dovish tone, with a more neutral stance, has taken the heat out of the US\$, which has also been helpful to gold. Evolution has also benefitted from the fact that the A\$ remains subdued versus the greenback, with the Reserve Bank of Australia recently signalling that it will leave rates on hold well into 2019, if not 2020.

For its part, Evolution has also been performing very well from an operational perspective, and as it leverages a number of astute acquisitions over the years. The company produced 801,187 ounces in FY18, at an effective cost of around US\$618 per ounce, putting Evolution as one of the lowest cost gold producers globally. The recent approval for the upgrade at the company's Cowal plant has also come 12 months ahead of schedule, following exceptional drilling results This will deliver a production boost in FY20/FY21.

| Top 10 Holdings | 30 Nov 2018 | Country |
|------------------|-------------|---------------|
| Collins Foods | 7.08% | Australia |
| Walt Disney | 5.08% | United States |
| Baidu | 5.00% | China |
| Sony | 4.23% | Japan |
| Telstra | 4.13% | Australia |
| Wynn Macau | 4.01% | China |
| Nintendo | 3.95% | Japan |
| Praemium | 3.84% | Australia |
| SPDR Gold ETF | 4.33% | Gold |
| Evolution Mining | 4.30% | Australia |



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