



ASX ANNOUNCEMENT

18 September 2021

Fat Prophets Global Contrarian Fund (ASX Code FPC) Estimated Pre-Tax NTA 15th September 2021

The estimated pre-tax NTA per share for the Fat Prophets Global Contrarian Fund as at 15 September 2021 is as follows:

	Amount (\$)
Pre-Tax NTA (as at 15 September 2021)	1.3857
Pre-Tax NTA (as at 31 August 2021)	1.3789
Change in NTA (31 August 2021 to 15 September 2021)	0.49%

For the period from 31 August to 15 September 2021, the Fund recorded a performance with a 0.49% increase in estimated pre-tax NTA from \$1.3789 to \$1.3857.

Portfolio Changes and Market Outlook

The Fund continues to adopt a cautious and defensive stance in line with our view that risks are underestimated with the Federal Reserve's need to taper the QE program, rising inflationary pressures within the economy, the impact rising bond yields could have on growth stocks, and the upcoming reporting quarter for September where expectations are high. Many companies will need to deliver a lot to meet analysts' estimates. Investor positioning is also heavy, with significant leverage within the system.

The latest risk to emerge has been in China, with the meltdown of the property sector and the second largest residential construction company, Evergrande. The Chinese Government, which has always stepped up in the past with a bailout of SOEs, seems more reluctant this time. This comes at a time of heightened regulatory risks, with the latest being the Macau gaming sector which came under fire and plunged this week.

In line with our more cautious stance, we liquidated the last of our China facing exposure and sold out Yum China, Hong Kong Exchanges & Clearing, our Macau gaming holdings, and Budweiser APAC. The risk/reward skew has changed in our view. The destabilisation in the property sector which could spill over into the broader economy coupled with heightened regulatory risks have changed our view.

We had already significantly reduced exposure in earlier months this year, and so the last of the positions have been sold. The Fund also reduced its holding in Whitehaven Coal. This raises more cash in the Fund and brings down portfolio risk and beta.

Additionally, we established a second more moderate hedge utilising futures, selling contracts over the Nasdaq100. If bond yields continue to rise, then at some point growth stocks are going to be susceptible to a correction, just as they were earlier this year when the US 10-year yield rose towards 1.8%.

Looking further out, we cannot be too bearish on stock markets given the Fed's propensity to back away in the face of stock market volatility, and that strong economic growth will likely prevail for some time. But geopolitical risks are on the rise as evidenced by Australia's alliance with the UK and the



US to build nuclear powered submarines. This is going to be an increasingly important thematic in 2022. We added Japanese manufacturer Alps Alpine to the portfolio with a moderate position. The actuator (used in phone camera lenses) on the basis of low valuation (the price to book ratio is just 0.7) coupled with strong earnings growth prospects.

Angus Geddes
Chief Investment Officer
Fat Prophets Global Contrarian Fund