



ASX ANNOUNCEMENT

Sydney, 14 May 2021: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Shareholders,

The estimated net tangible asset backing of the Fat Prophets Global Contrarian Fund increased in April 2021. **Pre-tax and post-tax NTA closed at \$1.4922 and \$1.3875 for an increase of 0.61% and 0.09% respectively during the month of April 2021. During April, the Fund decreased exposure and net leverage was 16.24%**

	30-Apr-21	31-Mar-21	Change
Pre-Tax NTA	1.4922	1.4831	0.61%
Post-Tax NTA	1.3875	1.3862	0.09%

Portfolio Performance

The Fund was modestly higher in April. The Fund had a solid contribution from **Mainstream**, following a takeover and subsequent bidding war. The initial takeover offer was pitched at \$1.20, but this subsequently lifted to \$2.65 in a bidding war with a number of parties. Half of the position was sold at \$2.20, with exposure still retained in the event of a higher offer emerging. KFC and Taco Bell operator **Collins Foods** rerated despite no major catalysts as the company heads towards reporting the annual profit result in late June.

Praemium performed well during the month after reporting an upbeat half yearly profit result. Revenue increased 21% in the half year, while net profit jumped 113%. **Domino's Pizza Enterprises** made record highs as a number of broker upgrades were recently issued. **Western Areas** performed well after delivering solid production reports and a surge in the nickel price.

Powerhouse Energy weighed on performance during April, with a general pullback in technology companies. The company has since announced two franchise partnerships in Hungary and Greece, as it focuses on commercialising and rolling out the non-recyclable waste to hydrogen technology. **Whitehaven Coal** declined during the month after a production downgrade. Tencent Music declined in the aftermath of the Archegos Capital liquidation, despite reporting a solid earnings result.

Positive Attributions

Company	Country	Attribution (bpts)
Mainstream	Australia	266.8
Collins Foods	Australia	76.5
Praemium	Australia	66.4
Domino's Pizza	Australia	56.4
Western Areas	Australia	24.2

Negative Attributions

Company	Country	Attribution (bpts)
Powerhouse Energy	United Kingdom	149.0
Whitehaven Coal	Australia	65.7
Tencent Music	China	41.8
Sony	Japan	20.2
Fukuoka Financial	Japan	18.4

Market Outlook and Portfolio Changes

For some time, we have believed that inflationary pressures will lead to higher long dated interest rates. This came through in April with the **annual inflation rate surging to 4.2% in April from 2.6% in March and well above market expectations of 3.6%.** It was the highest reading since September 2008. Strong demand as the economy reopens, soaring commodity prices, and supply chain issues all created a perfect storm to lift prices.

Given our caution towards inflation and the risk it poses to equity markets, we reduced leverage and portfolio risk dramatically in the portfolio. After a more than 4% rally in April the US equity market was showing signs of technical fatigue with valuations elevated. We subsequently implemented a zero-cost put option collar on the portfolio, **significantly reducing beta exposure through a bearish S&P500 option strategy. This strategy involved selling out of the money call and put options and buying near the money puts all on the S&P500.**

This option strategy will help to protect against a fall in the market and up to a 15% drop in the S&P500 by mid-June. At the same time, the Fund has paid for the protection by selling around one third upside greater than 3%. We hedged using S&P500 contracts as the US market has outperformed in April and we now see it being more vulnerable to a near term correction – which duly seems to be underway. **Leverage and overall portfolio risk were reduced significantly through a mix of outright profit taking as well as initiated new option hedging.** Holdings in Kraft Heinz and Uber were subsequently sold in May for a good return and overall US equity market exposure has been reduced. We see relatively more risk with US equities near term, than in Asia and Australia markets which we view as being more defensive. Net long exposure for the portfolio has subsequently fallen well below 100%.

We believe the strong inflationary data in the US has implications for the broader US economy, and interest rates. The Fund did well shorting long duration US Treasury bonds earlier in the year, and after yields at the long end of the curve corrected lower, we made the decision to re-establish a short bond position in the Fund. The portfolio will be further hedged from a possible rise in long dated bond yields, where we believe the primary trend is up.

The blowout inflation number has also impacted the differential between TIPs and ten-year bond yields, where the spread has blown out due to the increase in the CPI and PPI. This has the effect of reducing real interest rates, which could potentially be negative for the US dollar and positive for precious metals. The Fund retains a significant exposure in the portfolio to physical precious metals and gold and silver producing equities.

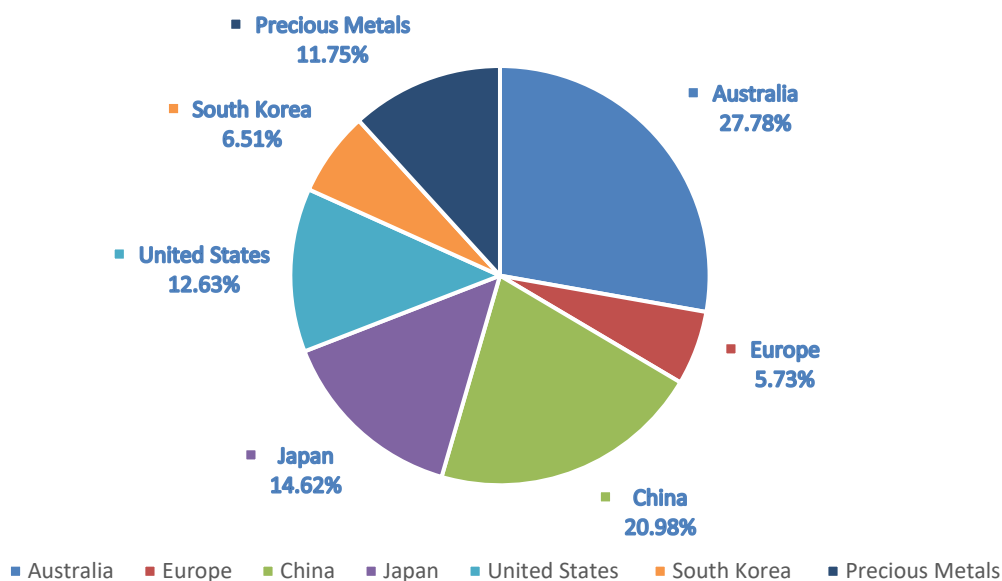
Ultimately, we think inflation will be structurally higher in the post-pandemic world. The deciding factor in this view will be willingness of central banks and the political desire for inflation to deal with unprecedented debt levels. Fiscal support has reached record levels, which comes at a time when there is labour market tightness and supply chain shortages.

The propensity of the US Government to throw unprecedented stimulus at the economy has caused outflows of capital from the US bond market as the foreign holding participant rate has dropped sharply, leaving the Federal Reserve as the “backstop” buyer. We believe this sets the stage for further potential weakness in the US dollar, while providing a tailwind for the commodity and precious metal markets.

Top 10 Holdings

Top 10 Holdings	Country	30 April 2021
Collins Foods	Australia	8.44%
Powerhouse Energy Group	United Kingdom	5.73%
Domino's Pizza	Australia	4.45%
Alibaba Group Holding	China	3.89%
Samsung Electronics	South Korea	3.71%
Walt Disney	United States	3.14%
Aberdeen Standard Physical	United States	2.83%
Praemium	Australia	2.83%
LG Household	South Korea	2.80%
Tencent Holdings	China	2.60%

GEOGRAPHIC EXPOSURE AS AT 30 APRIL 2021



Angus Geddes
Chief Investment Officer
Fat Prophets Global Contrarian Fund