



ASX ANNOUNCEMENT

Sydney, 12th January, 2017: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Shareholders,

Pre-tax and post-tax net tangible asset backing per share in the Global Contrarian Fund as at 31 December 2017 increased 2.87% and 2.05% respectively, net of fees, to \$1.2302 and \$1.1919 on the previous month's net tangible asset backing. We had a strong month as global markets lifted into the end of the year.

	31-Dec-17	30-Nov-17	Change
Pre Tax NTA	1.2302	1.1959	2.87%
Post Tax NTA	1.1919	1.168	2.05%

The positive performance was attributable to a number of fronts. Firstly, the Macau casino stocks continued a strong run since November with gross gaming revenues making a strong recovery. Both **MGM China** (+18.6%) and **Wynn Macau** (+10.7%), two of the fund's largest positions, had double digit gains in December. In Australia **Praemium** rallied +17.5% after a sharp increase in FUM and global asset management firm Blackrock took a 5% stake in the company. Overall our significant exposure to Japan contributed positively to performance, with the exception of **Nippon Telegraph and Telephone** and **Nissha Printing** which were down by 9.8% and 9.3% respectively during the month.

We remain bullish on commodities with demand continuing to grow and supply remaining tight. Accordingly we have positioned the fund to benefit from this thematic in both Australia and Asia. Most commodities have rallied significantly off deep inflection points, yet equity valuations in this sector in many cases remain compelling. LNG and oil in particular have the potential to surprise to the upside, and we positioned the Fund accordingly back in early November.

While some market forecasters are suggesting oversupply for years to come in LNG and oil (and commodities generally), we see demand from China and the rest of the world as being a key driver. China's LNG imports were up by 48% over 2017 with the Chinese government issuing orders to switch from coal to gas in an effort to reduce pollution. This move has also been emulated in South Korea with the country shifting away from nuclear power and placing further restrictions on coal. If rising demand coincides with any supply disruption this could propel prices upward even further.

This year could well prove to be a transitional year for the energy market as US production accelerates but may yet struggle to fill the demand/supply gap as OPEC retains production discipline. We have a similar view in LNG prices, which could also push sharply higher this year as China embraces clean energy and addresses domestic pollution.

Oil & Gas companies, in Asia particularly, offered up compelling valuations last year, trading at a significant discount to global peers. While concerns about electric vehicles are valid, the automotive sector only accounts for 25% of global fuel demand currently and it is likely to take many years to meaningfully reduce

demand. As mentioned last month, we added large Asian energy producers such as **CNOOC** in China and **Inpex Corp** in Japan to the portfolio, amongst other names.

We remain heavily invested in the world's third largest economy – Japan, which continues to outperform global indices and is accountable for around 40% of the Funds' portfolio. We have a significant exposure to Japanese banks and I believe it is only a matter of time before longer term Japanese interest rates (fuelled ultimately by inevitable rising inflation) break out on the upside. Japan's banking system will be a significant beneficiary.

Growth in the Japanese economy has been underpinned by strong external demand with the value of exports rising by 16.2% year to date in November and volumes 5.5% higher. Shipments to China and Asia continue to be robust. Japan remains an industrial powerhouse, despite growth within the services sector, with November exports rising by over 25% to China year on year led by LCD's, while steel exports to Thailand and hybrid cars to South Korea were also key contributors to growth. More pertinently, Japan has significantly improved its technological advantage over the last decade and this will drive growth.

The economy has been growing for seven consecutive quarters to the end of September, where revised growth numbers came in at a 2.5% annualized rate. While inflation to date remains low, the ultra-tight labour market is at some point going to give way to wage increases. The Bank of Japan's aggressive negative interest rate policy will at some point also likely to be addressed, and probably halted. Short term interest rates remain at -0.1% and while the current target for the 10-year government bond yield is 0%, this is likely to change as global rates and inflation rise.

During December we reduced the Fund's largest holding in **Baidu, but which remains a top ten position.** Following the recent \$52.4 billion acquisition of 21st Century Fox by **Disney**, I believe the combined entity will launch a compelling and formidable challenge to rivals such as Netflix in streaming. While the decline of cable has been a serious challenge for the company in recent years, the rise of streaming will conversely deliver an unprecedented opportunity for Disney to capture global market share. This has not been priced into Disney with a market valuation of \$160 billion, less than twice that of Netflix. With close to 8 billion people around the world, who will soon not have a Disney streaming account?

The Macau casino sector where we remain aggressively positioned, had another strong month in December. Many brokers upgraded their target prices for both **MGM China** and **Wynn Macau over the past few months.** The Macau casino sector is passing through a critical inflection point with a strong recovery in gaming revenue ensuing with what is likely to be a declining CAPEX cycle.

Casino gross gaming revenue (GGR) in Macau increased 14.6% year-on-year in December to 22.70 billion patacas (US\$2.72 billion) according to Macau's Gaming Inspection and Coordination Bureau. It was the 17th straight month of year-on-year gains and stronger than the average growth estimates. At 265.74 billion patacas for 2017 Macau gaming revenue was 19.1% above 2016 with this falling within Reuters analyst estimates of 18 – 20%.

This marks an impressive turnaround from an earlier losing streak of more than two years of declines when Macau was facing pressure from a slowing Chinese economy and a crackdown on corruption by the Chinese government. Build it and they will come. Macau is a special administrative region of China and is the only district where casino gambling is legal. Macau is reliant on visitors from Mainland China, but will be a significant beneficiary of increasing middle class discretionary incomes and I expect, will follow exactly the same relative trajectory as Las Vegas in the US over the past five decades.

China is the largest single source of visitors to Macau and this trend is set to accelerate in upcoming years due to growth in the number of Chinese travelling, new infrastructure build-out and more coming attractions.

The ongoing development of world class accommodation and casino facilities is likely to be an increasingly prominent drawcard for tourists with MGM Cotai set to open at the end of this month. MGM China and Wynn Macau are today the two largest holdings in the Fund.

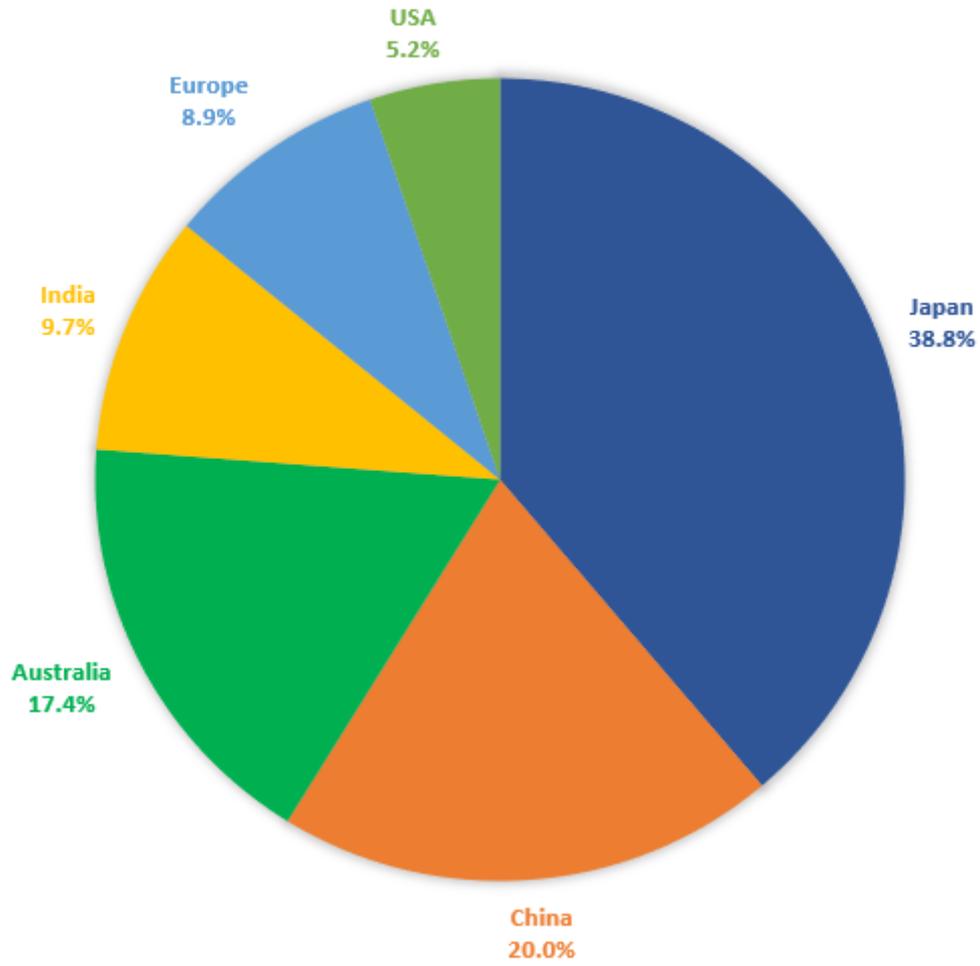
It wasn't all good news in December however, with **Nippon Telegraph and Telephone Corp** caught up in a sell-off of Japanese telco giants following the announcement that online retailer Rakuten was looking at entering the mobile carrier market. Rakuten plans to join a government auction for wireless spectrum that will be held this month which could see the company become the country's fourth major wireless carrier.

If successful, the company would raise US\$5.32 billion by 2025 to invest in base stations and other infrastructure. NTT's shares fell by nearly 10% over the month, although the share price has stabilised at current levels. The sell-off appears to be an overreaction in the short term, with many variables at play and if Rakuten is successful it is likely to take many years for the company to have a negative impact on NTT's earnings.

As at the end of December the Fund had leverage of 44.76%.

Top 10 Holdings	31 December 2017	Country
MGM CHINA HOLDINGS LTD	7.7%	China
WYNN MACAU LTD	7.0%	China
THE WALT DISNEY COMPANY	6.1%	USA
SONY CORP	5.7%	Japan
QBE INSURANCE	5.7%	Australia
SUMITOMO MITSUI FINANCIAL GROUP	5.5%	Japan
BAIDU INC	5.3%	China
RELIANCE INDUSTRIES LTD	5.2%	India
MITSUBISHI UFJ FINANCIAL GROUP	5.0%	Japan
FAIRFAX MEDIA LTD	4.1%	Australia

GEOGRAPHIC EXPOSURE as at 31 DECEMBER 2017



Angus Geddes
Chief Investment Officer

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