ASX ANNOUNCEMENT

Sydney, 13th August 2019: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Investors,

For the month of July, **the Fund increased its net tangible asset backing 5.32% on a pre-tax basis and 3.89% on a post-tax basis.**

The Fund held approximately AUD$64.7million of stocks at the end of July. The largest holding being **Collins Foods, at 7.78%,** while internationally the largest holding was **The Walt Disney Company, at 6.22%.** Overall the Fund, excluding a futures position in platinum, utilised a leverage position of 23.5% against the value of the shares. The domestic split of the overall portfolio was A$25.8 million with the balance of A$39.8 million being international stocks. The largest concentration was in the US with A$13.8 million worth of listed stocks, which included a significant proportion of the Fund's gold equity exposure.

	31 July-19	30 June-19	Change
Pre-Tax NTA	**1.1304**	**1.0733**	**5.32%**
Post-Tax NTA	**1.1280**	**1.0858**	**3.89%**

Attribution

In terms of monthly performance attribution in the portfolio, the positive side was dominated by the Fund's exposures in Australia. Financial service platform provider, **Praemium,** confounded the bearish sentiment which has persisted for some time, to deliver a very robust fourth quarter result during the month. The shares rebounded strongly, contributing 92.6 points. Fresh all-time highs for the A$ gold price, saw **Evolution Mining** hit a record, contributing 91.3 points.

The Fund's largest holding, **Collins Foods,** also hit a record high, adding 58.9 points, as investors continued to digest the KFC and Taco Bell operator's impressive full year result at the end of the previous month. In Asia, **Sony** had a good month, after a record fiscal first quarter result, and contributed 53.4 points. **Nine Entertainment** was also in demand, adding 46.2 points, with investors remaining enthusiastic about the prospects of high growth digital assets such as *Stan*, and also Domain, with signs the property market is turning around.

Positive attributions

Company	Country	Attribution (bpts)
Praemium	Australia	92.6
Evolution Mining	Australia	91.3
Collins Foods	Australia	58.9
Sony Corp	Japan	53.4
Nine Entertainment	Australia	46.2

On the negative side, **Meituan Dianping** was on the back foot, costing the Fund 34.2 basis points. Shares in the Chinese food delivery firm have performed strongly in previous months and increasing trade frictions clearly had an impact in June; but held up well all the same. Nickel producer **Western Areas Mining** cost the Fund 25.0 basis points, but the shares have since risen strongly in the past week, on a surge in nickel prices amidst potential supply disruption. **Guangzhou Automobile Group** cost the fund 19.8 points, but we reduced our position, taking some profits off the table on the Chinese automobile player during the month. **South32** and **MGM China** shaved off 13.2 and 10.0 basis points respectively.

Negative attributions

Company	Country	Attribution (bpts)
Meituan Dianping	China	34.2
Western Areas Mining	Australia	25.0
Guangzhou Automobile Group	China	19.8
South32	Australia	13.2
MGM China	China	10.0

Outlook

Stock markets continued to improve throughout July, buoyed by a better than feared US reporting season, a rate cut from the Federal Reserve and generally easier monetary conditions globally, and further signs that China's economy has bottomed. In terms of where the market goes this month, **our view, is that with valuations once again fairly reasonable and with central banks adopting a mostly benign approach to monetary policy, the current environment is generally supportive of equities,** but performance as much as ever is reliant on active "stock picking."

Our exposure to gold and precious metals helped lift performance in the Fund throughout July. We hold a bullish view on the gold price and precious metals generally with around half of the global sovereign bond issuance yielding negative returns. In the current climate, some investors are prepared to lend certain governments money and receive less back after ten years.

This is distorting capital markets, **and the comparative gap with gold, which traditionally pays nothing, has significantly dissipated.** We think that gold and the PGM complex is headed significantly higher over the medium to longer term, although on a short-term basis, gold equities appear somewhat overbought.

Portfolio changes

During the month, we made a number of changes within the portfolio. We added to our position in **Meituan Dianping,** as we see the company continuing to consolidate its position as a major player in China's food delivery market. We also added to crop protection business, **Nufarm**, on valuation grounds, and with our view that the market will increasingly look beyond the drought in Australia and some operational headwinds which are being addressed.

In the resources sector we added gold producer **St Barbara** to the Fund earlier in the month, given our bullish view on the precious metal. We also see similar tight supply conditions in the nickel market, with LME inventories at very low levels. Around 70 kilograms of nickel will be required in each electric car, with long-term demand set to rise substantially in the years ahead against potential restricted supply.

The Fund added **Western Areas, an established Australian nickel producer.** We also established a long position in platinum futures, with the view that the precious metal will soon follow gold, silver and palladium on the upside, as a broadening bull market in the PGMs gets underway.

On the sell side, we exited base metals player, **South32**, and as a means to reweight into gold and nickel. We also exited Japanese bank **Sumitomo Mitsui FG,** with lower interest rates set to squeeze margins, and with the high opportunity cost of capital. We also reduced our position in **Guangzhou Automobile Group**, taking some profits off the table, and diverting these towards other opportunities.

Portfolio positions

Shares in financial service platform provider **Praemium** have underperformed this year, with sentiment having been undermined by the loss of a key client. We have retained a positive view on the stock, given that little has changed with the investment case, and with the earnings hole replaced by other mandates.

The market has also possibly woken up to this fact, with Praemium's share price rebounding strongly during July, after a favourable update. The business notched up record quarterly gross inflows across Australia and International of $903 million. Platform funds under administration (FUA) increased to $9.5 billion after $405 million of net inflows and market movements of $244 million. With the inclusion of the VMA Administration Service for the first time, total FUA was $16.1 billion.

The company's strong operating performance was reinforced further this week by FY19 results. Praemium reported record underlying earnings of $11.4 million, up 29% on last year, and driven by a 25% increase in platform FUA to a record $9.5 billion.

A further 3% lift in the Australian Dollar gold price over July, that followed on from the June surge, kept investors focussed on **Evolution Mining**. Investors also looked through the company's preliminary 2019 operational update, early in July, which revealed softer gold production for 2019 and a rise in all-in sustaining costs (AISC).

Helping was the fact the Evolution maintained 2020 production guidance. However, a growing view of ongoing currency deflating interest rate cuts and the possible reintroduction of quantitative easing programmes, collectively by central banks, stoked the positive outlook for gold. Investors remained well focussed on Evolution and the broader precious metals sector, going into the close of July.

Our positive view on gold was also behind our purchase of **St Barbara**. The company reported full year production of 362,346 ounces. Q4 output was 86,197 ounces at an ASIC of A$,219 per ounce. St Barbara's Simberi deposit in PNG delivered record production and cashflow during the quarter. The company's production profile has been boosted by the acquisition of Atlantic Gold which itself produced 22,948 ounces of gold in the June quarter. St Barbara is also working on an extension of its own Gwalia (WA) mine.

We also established a position in nickel producer **Western Areas** during the month. The company reported at the June update that it had met full year guidance metrics for nickel production with 23,208 tonnes for 2019. Costs rose by 13.3%, to A$2.98 per pound, but fell within 2019 guidance. The company's Odysseus project is tracking well, and will underpin the development of the next long life nickel sulphide operation. Cash flows were strong with the company having $144 million in the bank, which will be boosted further (~$33 million) by a proposed change of control transaction for Kidman Resources.

It was the nickel price on falling London Metal Exchange inventories, and talk that Indonesia, a major nickel producer, will bring forward the export ban on raw nickel slated for 2022, that sent the nickel price soaring**. Over July the nickel price jumped circa 14% to close the month out at US$6.55 per pound. Western Areas is well leveraged to our scenario of further strength in the nickel price.**

Nickel has been in a bear market for some time – see below – and recently broke out to the upside

Nickel is now clearly the best-performing base metal this year with demand rising, given the commodity's use in electric-vehicle batteries. **The situation is very similar to the dynamic we saw in iron ore from the end of last year**, although the supply crunch is potentially being politically rather than environmentally generated.

Nickel has broken out of a multi-year bear market and is now clearly in "a new bull phase." Technically, the overall picture bodes very well for nickel producers – and nickel producing equities. We are bullish on the whole industry, and particularly given that 70 kilograms of nickel will be required in every electric vehicle. There is a looming supply shortage and London Metal Exchange inventories are near record lows.

A growing view of currency deflating interest rate cuts and the possible reintroduction of quantitative easing programmes, collectively by central banks, stoked the positive outlook for precious metals, and gold especially in July. Platinum however has yet to break out to the upside during July, and the price response to date has been tempered compared to the price moves in gold and silver. **We hold the view that central banks, collectively, will remain predisposed to supporting economic growth with rate cuts and possible quantitative easing programmes**, leading to deflating currencies and higher precious metal prices. The Fund established a moderate long position in **platinum via comex futures**.

Collins Foods pushed onto record highs in July, after the strong full year result at the end of June. The Collins story remains a very positive one. While the European roll-out hasn't exactly shot the lights out, there remains tremendous growth potential in the company's strategy. **This is also while the Australian business has performed strongly, with KFC far from the point of saturation, and with Taco Bell coming through as an earnings driver.**

While much of the focus has been on the growth Collins is pursuing in Europe with KFC, and the domestic potential of the Taco Bell brand, the full year results showcased that the core Australian business continues to do very well. There is much growth left yet in Australia. Collins plans to open 9-10 new sites in Australia in FY20, and will also ramp up the rollout of the drive-thru offering, while expanding the delivery network. Management reports that app sales are showing strong and consistent growth.

July was a solid month for consumer electronics giant, **Sony,** after it unveiled its video gaming strategy, specifically the stance on the upcoming next generation PlayStation 5 (PS5), which is being positioned to focus on 'AAA' titles. The PS5 will boast higher end specifications and will be able to run games at 8K resolution with ultra-high definitions graphics. The company also revealed a record fiscal first-quarter result, with a strong showing by the ageing PlayStation 4 which is nearing the end of its lifecycle, reporting a operating profit of ¥230.9 billion, up 18% year-on-year.

Nine Entertainment ticked up during the month, on a lack of news, as investors continued to appreciate the digital growth angles and the broader transformation occurring at the company. Signs that the domestic property market is turning around – Sydney and Melbourne recently saw their first monthly increases since 2017. The turnaround comes following a 'market-friendly' election result, a reduction in lending constraints by the regulators and the RBA cutting rates twice in quick succession to a record low 1%. Nine owns 60% of Domain, one of Australia's largest real estate portals.

Arguably Nine might make a move for the rest of Domain it owns, as it looks to fully control what it sees as a valuable asset. The company has also this week announced plans to gain full control Macquarie Media with an offer that values the 2GB and 3AW owner at $275.4 million. Nine currently owns 54.5% of the radio station owner, and the deal will consolidate Nine's position as a supplier of News and Current Affairs content across all its key platforms.

Nine's other high-quality digital asset is streaming service *Stan.* **The broader market in our view continues to underestimate the amount of subscriber numbers that will be achieved**, and as *Stan* catches up to Netflix (which has 11 million subscribers in Australia). *Stan* will also be looking to up the ante and convert the 4.5 million people who have already signed up for either a trial or subscription. Stan has 1.6 million subscribers and became cash flow and EBITDA break-even in March, ahead of schedule, with price rises also not slowing subscriber growth.

Hong Kong-listed shares of **Meituan Dianping** have held up well amid the escalation of the trade war between the US and China, reflecting the secular growth opportunities the business has and its strong competitive positioning. Second quarter results are due out later this month.

We regard the investment case for Meituan Dianping very positively. China's online food ordering and delivery market more than doubled in size in 2018 and is continuing to grow strongly. In late July, it was reported that Meituan Dianping saw daily orders surpass 30 million for the first time over a weekend when hot weather saw many consumers opt to stay at home and order online. First quarter results showed a 38.6% year-on-year increase in gross transaction value of food deliveries to 65.6 billion yuan. Transaction volumes across food delivery, in-store, hotel & travel, new initiatives and others increased 27.9% to 138.4 billion yuan. This helped group gross profit surge 57.8% to 5.07 billion yuan.

Shares in **Guangzhou Automobile Group**, or GAC, started July strongly, bouncing back from the year to date lows in June. This also came as Chinese vehicle sales in June bounced back after a big slide in May, with a push towards hybrid vehicles given pollution concerns and with

retail sales data showing an increase in auto spending. Taking advantage of the developments, we opted to take profits and reduced our position, proving to be a prudent call, as the shares trailed lower towards August.

A less than well received FY19 operational result, and a base metals market that faced the headwinds of global growth concerns and a stronger US Dollar made for a difficult share trading environment for **South32** over July. South32 reported flat to negative results for annual production across eight of its ten product offerings. A lack of exposure to gold and diluted exposure to silver, both of which caught investor attention in July, did not help South32's share price. We exited South32 to increase our weighting in the Fund to precious metals.

Shares in **Telstra,** the Fund's third largest holding, ticked higher during the month, and ahead of results due this week. The focus on income stocks has been driven by the RBA having cut rates for a second time this year, to a record low 1% at the July meeting. Telstra lost some favour after cutting the dividend payout in recent years, but a net yield in the region of 4.5% is still very appealing on a relative basis, and with earnings growth coming through.

Telstra certainly has been a dream run from a Contrarian's perspective, with the investment community re-embracing and adjusting to the notion of a more sustainable dividend. We also remain of the view that 5G will be a big earnings driver for Telstra, while also complementing management's T22 turnaround plan which is ahead of schedule.

Telstra is ahead of the game in plans to plug the NBN earnings hole. By 2022, Telstra will have shed close to 20,000 roles, flattened its management structure and cut its product line from 1800 plans to just 20. The job cuts will reduce the company's payroll by well over $1 billion by 2022, with the total savings from the T22 cost-cutting programs expected to reach $2.5 billion. The company's proposed sell-off of infrastructure assets into a separate vehicle is also set to unlock significant capital.

Nufarm has also been recovering steadily from the June lows. Much has been priced in already with respect to the drought, and investors are perhaps beginning to appreciate more that Nufarm is globally diversified (and that the drought will end at some point). Legal judgments against Monsanto in the US have also eroded sentiment, given glyphosate is an ingredient included in the products which Nufarm distributes. Management have however been quick to point out that scientifically, the chemical has not proven to be carcinogenic, while Nufarm's market position is somewhat different to that of Monsanto.

Shares of **Sumitomo Mitsui Financial Group** were flattish for most of July and turned down in the first week of August. We opted to exit the position as central banks around the world have become increasingly dovish and interest rates are headed lower. Given the strong export tilt of Japan's economy, this will pressure the Bank of Japan to further ease monetary policy, as the strengthening of the safe-haven yen pressures major exporters. The Bank of Japan has stood pat for now, but it looks increasingly likely future changes will further place pressure on the country's embattled banking sector.

Macau casino operator **MGM China** has been pressured by the escalation in the US-China trade war, as traders worry that it will slow visitation to the Special Administrative Region (SAR). Figures released in early August also showed that there was a 3.5% decline in gaming industry revenue in Macau in July, with revenue of MOP24.45 billion (~US$3.03 billion at the time.) We continue to have confidence in the medium-term investment case for the sector, with relatively higher margin mass-market traffic having a long runway for growth.

Disney (the Fund's second largest holding) has performed well this year but took a hit last week after the market was disappointed with its latest quarterly report. The result was

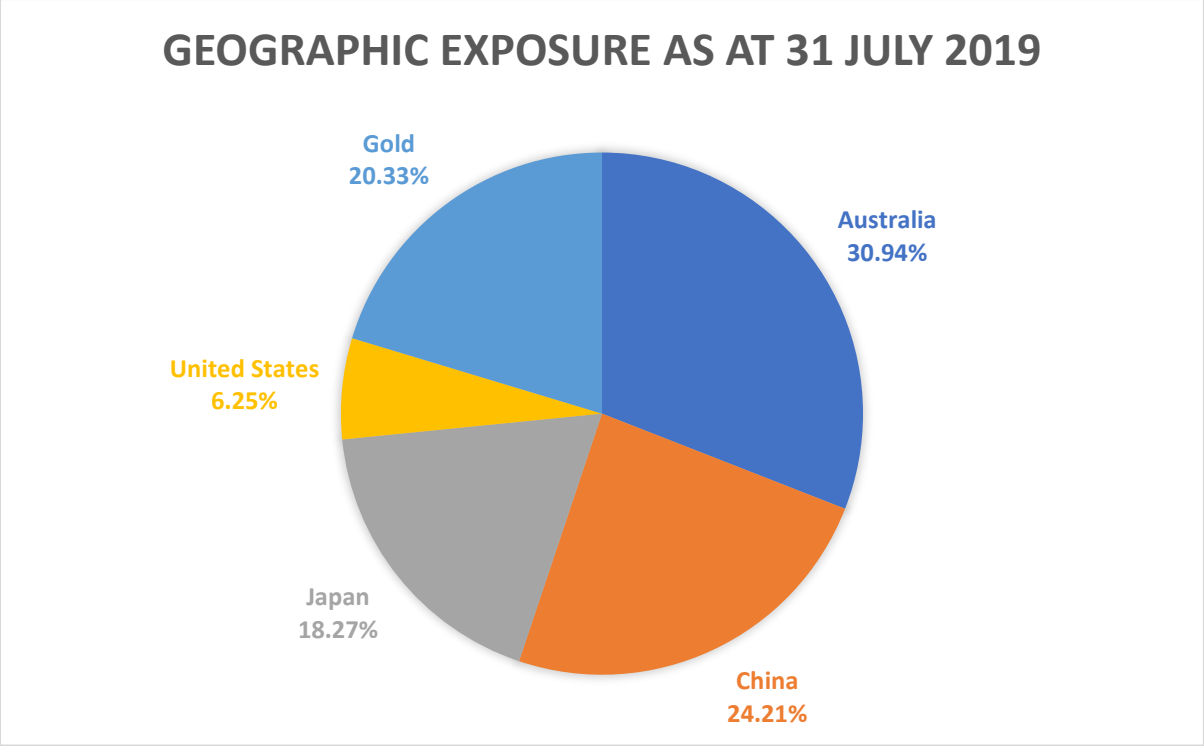
somewhat of a 'messy' one, as Fox assets were consolidated for a first full quarter and we expect continued short-term volatility around quarterly reports as Wall Street analysts come up the learning curve on modelling the business with all of Fox's moving parts.

We continue to have a positive investment outlook on the stock and view any weakness as a buying opportunity. The upcoming launch of Disney+ and uptake of subscriptions will be a key focus for investors over the next couple of years. We believe the pieces are in place for this to add significant value for shareholders with appealing high-quality content and aggressive pricing. At the time of the recent earnings announcement, Disney said it will provide the Disney+, ESPN+ and Hulu bundle for US$12.99 a month, the same price as Netflix's most popular subscription plan.

The biggest developments surrounding the electronics giant **Nintendo** have been related to none other than the *Switch* console. Tech titan Tencent has provided hints of a collaboration to distribute the highly popular portable console to mainland China, with more details due soon. A new Pokémon game is also in the works – note that the Pokémon Company is a long-time partner and partially owned by Nintendo.

Nintendo has also released details on the upcoming new Nintendo Switch Lite, a version of its popular hybrid console that will be focused on portable play and retail for a cheaper price of circa US$199.99, versus the current US$299.99. This model was released at the timely midpoint of its lifecycle to capture customers from a different part of the market and with the launch in China. There may also be more exposure towards the emerging markets of Asia, with the additional announcement from Nintendo, mid-July, that it would begin producing some Switch consoles in Vietnam, after the US-China trade conflict threatened the company's reliance on its China-based production.

Top 10 Holdings	**31 July 2019**	**Country**
Collins Foods Ltd	7.78%	Australia
The Walt Disney Company	6.22%	United States
Telstra	5.21%	Australia
Evolution Mining	5.04%	Australia
Nintendo	4.72%	Japan
Nine Entertainment	4.67%	Australia
VanEck Vectors Junior Gold Miners ETF	4.59%	United States
Sony	4.58%	Japan
Harmony Gold	4.14%	United States
QBE Insurance	4.05%	Australia



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