ASX ANNOUNCEMENT

Sydney, 12th June, 2018: Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Shareholders,

The month of May proved to be a frustrating one for the Fund with initial strong gains in the first three weeks being eroded in the last week after falls in global markets, triggered mainly by political instability in Italy. Pre-tax and post-tax net tangible asset backing per share in the Global Contrarian Fund as at 31 May 2018 **decreased by 2.68% and 1.6%** respectively to **$1.16** and **$1.148** on the previous month's net tangible asset backing.

Also weighing was the Fund's meaningful exposure to Japan; a market we continue to have a strong conviction on. We took an active management approach to the Fund holdings during the month to respond to ongoing volatility; we also lowered overall leverage.

	31-May-18	30-Apr-18	Change
Pre Tax NTA	1.1617	1.1937	(2.68%)
Post Tax NTA	1.1482	1.1669	(1.60%)

Some shareholders will be equally frustrated, **but the markets have been challenging for many, ourselves included.** The solid first quarter earnings results boosted sentiment with nearly 80% of companies beating profit estimates in the US, paving the way for a different May. Nevertheless, investors have still been relatively cautious, as opposed to the buoyant sentiment seen in January.

The correction arrived earlier than just about everyone anticipated in February, and it was the deepest since 2015. **Since the correction lows however, we have seen a number of risk factors recalibrated.** Firstly, <u>sentiment has changed significantly with bullish optimism giving away to caution.</u> This was the catalyst for **significant deleveraging in the markets** with equities having substantial capital outflows in the US ($300 billion on some estimates), and this was also true globally, particularly in Japan.

Secondly, **volatility (as measured by the VIX) spiked much higher in February and remains elevated above the average levels seen last year, but has since declined to below the "breakout" level at around 15. Some are questioning whether the "short vol" trade will see a resurgence.** The higher volatility levels have been somewhat of a 'brake' for the market, however any drop below this level – or even for that matter the continued range trading between 15 and 18 – <u>could boost and embolden sentiment and equity demand.</u> We are optimistic on the global stock markets heading into June and July with the US reporting season just around the corner, that will likely produce another strong set of results.

VIX

Technically, the S&P500 is behaving following the February/March corrective selloff, and has established a base of support above 2,700 whilst grinding higher on a weekly basis. The price action is similar to conditions that preceded the Feb/March correction with small advances being eked out in the face of what is once again a declining volatility dynamic. **With January's optimism suddenly replaced by "cautiousness", financial market settings are almost back to where they were at the beginning of the year.** This price action reinforces our base case that the US indices will make new highs some time during the Northern summer.

S&P500 – daily chart

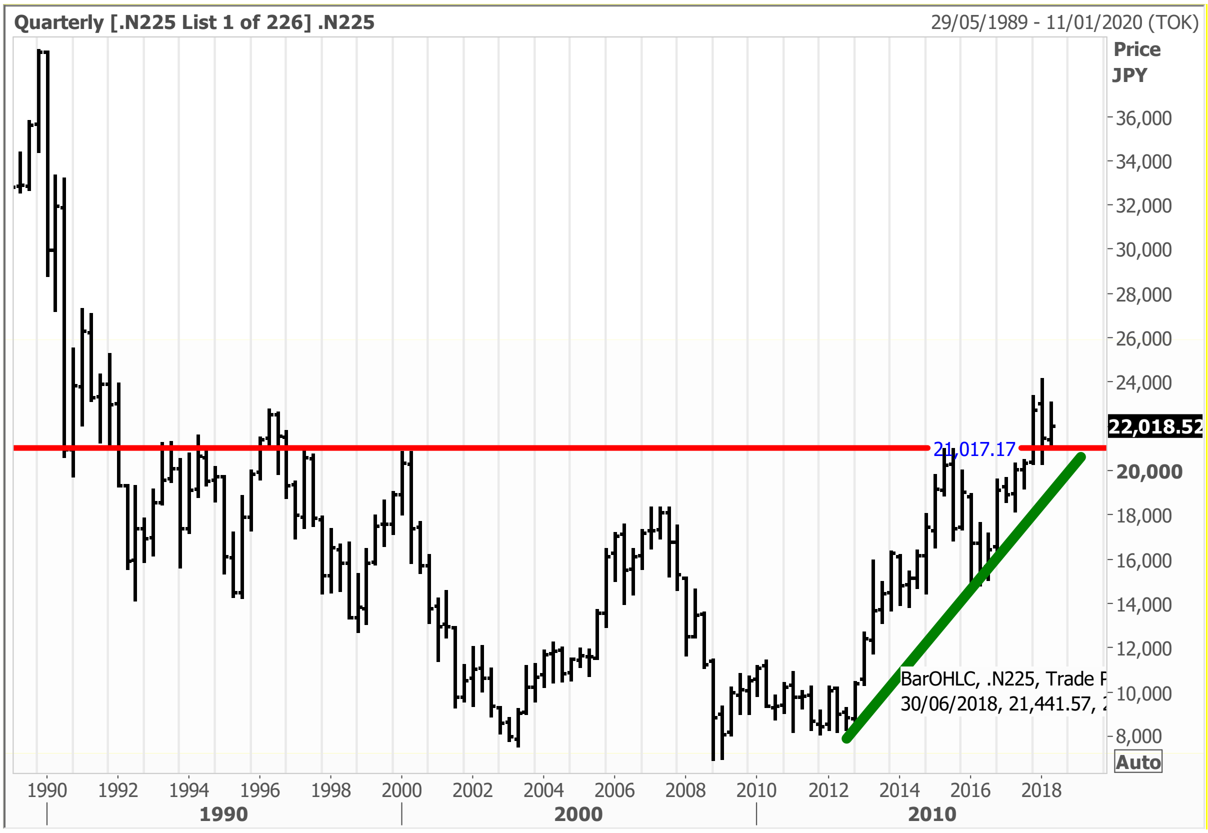
Whilst some see the markets advance as narrow and centred on the tech sector, the Russell 2000 made new record highs in May. The index measures the performance of approximately 2,000 small/mid-cap companies in the US. This is important because the breadth of the rally in the US markets since the nadir of the correction has widened. Whilst we think new record highs for the S&P500 and Dow Jones are still a few months off, **targets towards the top end of their respective ranges are within sight.**

The positive aspect of the rally in the Russell 2000 **is evidence of the bounce in the US indices having breadth and diffusing to the small/mid cap end of the market.** It is when the field of advancing stocks narrows sharply that provides cause for concern. This is not the case, and we have seen a similar trend in other markets globally, and notably in Japan where the 2nd section of the Tokyo Stock Exchange has also performed more strongly than the larger cap indices.

Japan's stock market, where we have significant exposure in the Fund, **disappointed in May. However** we the see the Nikkei really as just "consolidating" before the next leg higher. Japan's stock market has only just emerged from a near 30 year bear market and is making the "first steps" above the base of the break out level. Fundamentally, Japan's economy and the corporate sector is in the best shape in decades. **Therefore we continue to be of the view that the bull market in Japanese stocks has really only just begun "after a very long convalescence".** Much of the selling this year in Japan has been by foreigners and it is to be expected that capital would be withdrawn quickly at the first sign of trouble.

Not that there has been any trouble apart from the "flight to safety" in recent months with the yen. **But to run away on the first corrective phase is definitely not in keeping with our medium to longer term view.** While the 24,000 level remains formidable, the reality is that valuations are once again compelling but it might take several more months yet before new medium term highs are established.

Nikkei 225

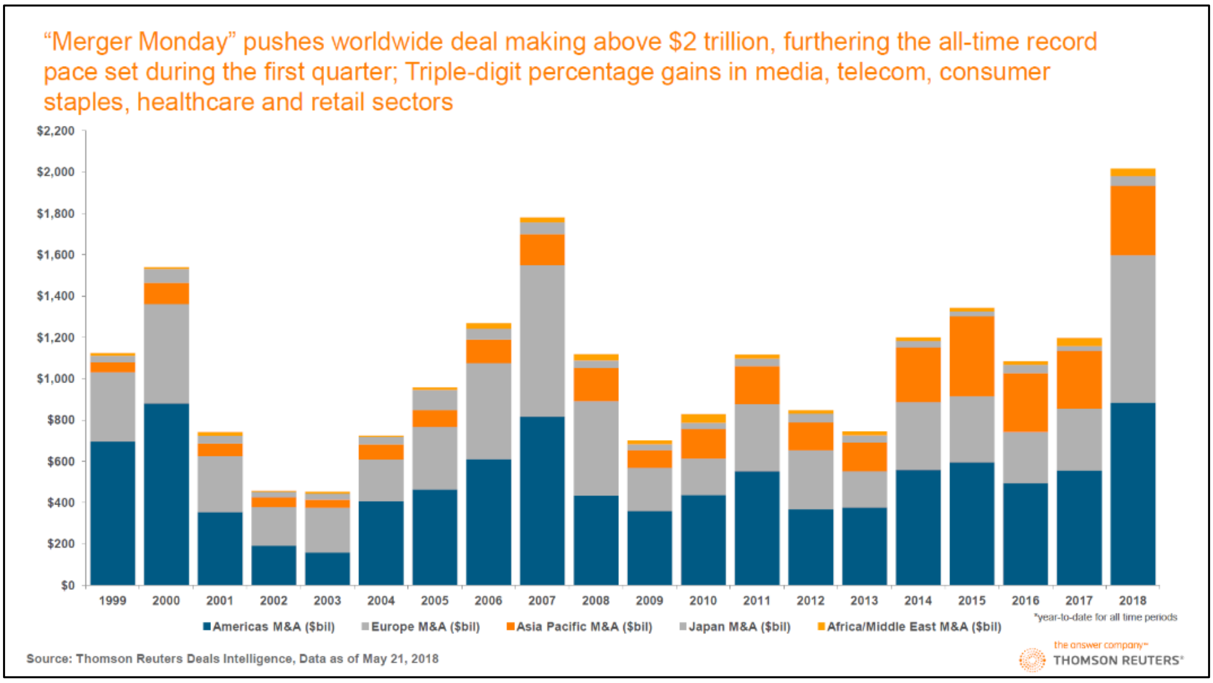


Stock markets typically plateau and turn down well before an economic recession and many tops occur before there is even "trouble on the horizon". For now, global stock markets are continuing to grind higher "up the proverbial wall of worry" **with earnings momentum and valuation support proving to be the trump card in the US.**

There is also a healthy amount of scepticism and doubt amongst investors generally about how late in the stage the economic cycle is, and where the markets are headed. This was an absent dynamic in January, which leans us towards an upward bias for at least the next few months with nerves still fragile following the worst corrective selloff in several years. We are yet to see the "excesses" that characterized the major market top in 2007, despite the fact that there are some signs with **mergers & acquisitions activity hitting an all-time record high.**

No major top in the stock market has not been accompanied by feverish deal making, **corporate mergers and takeovers.** The overall message here is that investors need to remain vigilant and open to any changes in the underlying the market.

Global mergers and acquisitions have already reached $2 trillion in 2018, a record for the value of deals in the period according to a report on from Thomson Reuters. A flood of deals last month, including the $11.1 billion merger of GE's transportation business and rail equipment maker Wabtec, has boosted corporate activity to an all-time record. **The last two periods when M&A activity reached similar levels were in 2007 ($1.8 trillion), and in 2000 ($1.5 trillion), just before the bursting of the dot.com bubble of technology and internet related stocks.**



The upcoming June earnings quarter will likely **reaffirm consensus EPS forecasts of more than $170 for the S&P500.** This would price the Index on an attractive forward PE of around 16X – **so near term we see downside risks as diminishing**, with the bull case increasingly justified for a renewed challenge of the record highs.

Near term, **there seems to be little in the way holding the US indices back for another run to the upside.** We therefore think on balance, May is an outlier month (in terms of posting a positive performance) with **the indices readying and consolidating ahead of a strong start to June.**

Turning to the portfolio and **changes made** in the month of **May** included selling **Hino Motors**, **ICICI Bank** and **HDFC Bank**. We also reduced holdings in **Mitsubishi UFJ**, **Sumitomo Mitsui**, **Shizuoka Bank**, **Bank of Kyoto, QBE Insurance** and the **Fat Prophets Global Property Fund** to lower the Fund's leverage and to fund new positions in **Mitsubishi Estate** and **Japan Post Holdings**.

Standout performers for the Fund during the month came from **Sunny Optical Technology** (+22.67%), **BHP Billiton** (+5.95%), **Telepizza** Group (+4.32%) and our Macau Casino stocks **MGM China** (+5.07%), and **Wynn Macau** (+2.56%). Stocks that weighed on the portfolio were Japanese firms **Mitsubishi UFJ**, **Inpex Corp** and **Nissha Printing**.

There was a sharp selloff in Italian Government bonds with the 10-Year yield hitting 3.4% at one stage, as investors switched funds into German and US bonds. **This was the biggest drop in Italian bond valuations since 1992 – we made use of this opportunity to lock in profits on our short bond position.** The euro also hit multi-month lows, as credit rating agency Moody's signaled a possible downgrade for Italy if the next government failed to address its debt burden.

Oil prices have had a big run since OPEC and other key producers agreed to limit supply some 18 months ago, and the suggestions that the supply constraints are about to end has clearly rattled the nerves. Given the run up in oil prices (and some angry tweets from President Trump), some cooling words were always going to come at some point from the world's biggest oil producers. Particularly as oil is such an integral input cost to the global economy, and could arguably stifle the recovery.

The overall positive outlook for commodities generally remains intact, with demand rising, and supply in many cases being rigidly constrained. China also remains front and centre, with robust demand for much of what Australia produces mineral wise. In iron ore Australia has a 'quality' advantage and it was timely to hear comments from Brazilian mining giant Vale that the market's preference for higher quality ore is *"here to stay."* Good news for Australia, and big producers such as **BHP Billiton**.

Madrid-headquartered **Telepizza** continued to rally on its partnership with Pizza Hut announced this Month. **The deal will see Telepizza become Pizza Hut's largest master franchisee globally by store count and will almost double its store footprint to more than 2,500 units.** The alliance will see Telepizza Group opening 1,300 new stores over the next 10 years in countries. This will turbo charge growth of Telepizza's already rapidly expanding network.

The Funds two largest positions at the end of May were **Wynn Macau** and **MGM China**. May was another strong month for the **Macau casinos** on positive tourist data out of Macau. Total spending, excluding gaming expenses of visitors to Macau surged 22% to 16.4 billion patacas ($2.03 billion) in the first quarter. Total spending of overnight visitors was up 19.6% to 12.7 billion patacas, while same-day visitor spending surged 30.7% to 3.7 billion patacas.

In the first three months of 2018, some 8.55 million visitors to Macau represented a year-on-year increase of 8.6%. Visitors from mainland China are the biggest spenders, with aggregate spending from them surging 26.5% to 13.5 billion patacas, marking over 82% of total visitor spending. This reflects our investment thesis that Macau will continue to ride the wave of growing mainland China tourism, especially that of the mass market going forward. While gaming revenues and inbound tourism are still growing strongly, the casino sector underperformed in May due to the Government crackdown on UnionPay, but this impact should prove to be transitory.

Baidu fell sharply from 52-week highs, and this weighed on the Fund's monthly performance, after the announcement earlier in the month that company President Qi Lu will step down from his operational roles at the company come July, citing family reasons. We believe the share price reaction now looks overdone, as although Qi Lu is highly respected and will be missed, Baidu has recruited a lot of AI talent in recent years to create a team with breadth and depth and therefore its momentum in AI is likely to continue. The streaming spinoff and Netflix equivalent in China, iQiYu, has since doubled in value and Baidu retains a significant ownership stake.

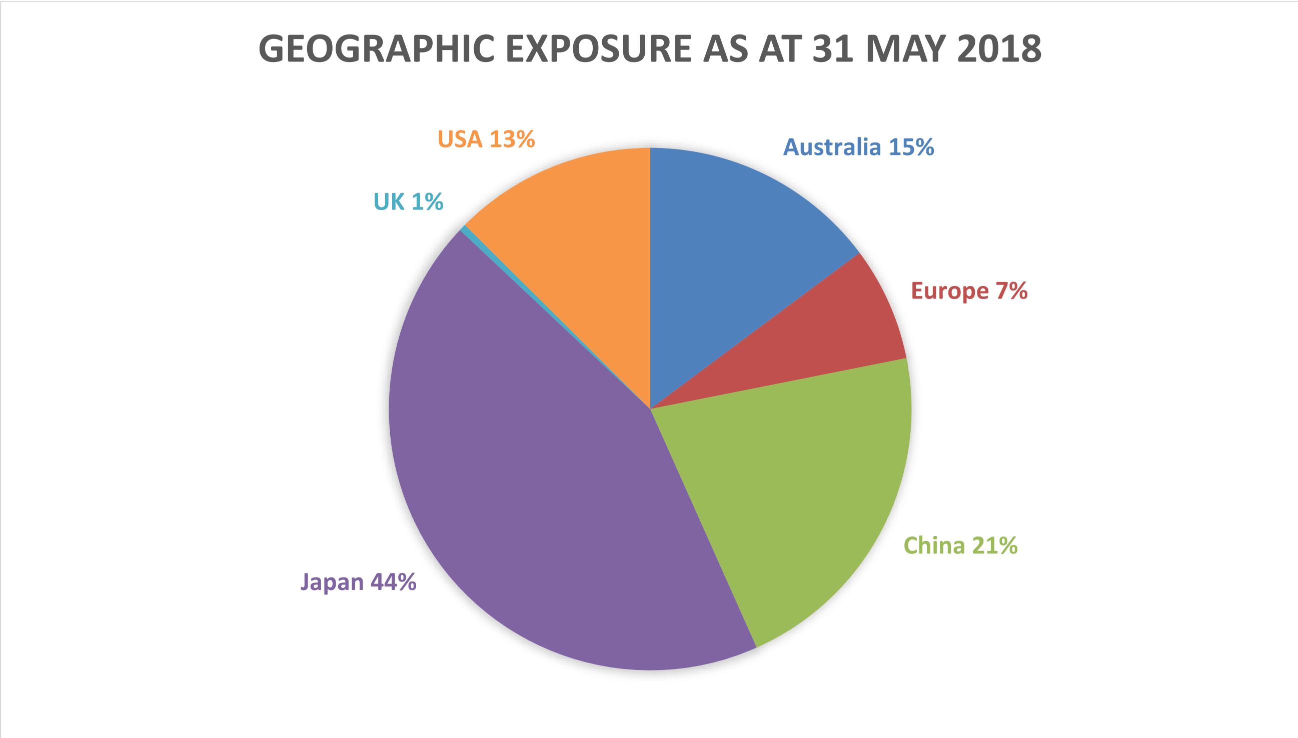
Comcast confirmed it is in the final stages of making an all-cash bid to top **Walt Disney's** US$52 billion bid for most of the assets of 21st Century Fox**.** This will likely see Disney respond in kind. The Fox assets are a much better strategic fit with Disney which also has a stronger balance sheet. Fox has refused to engage with Comcast, so any takeover will likely go hostile.

The market is concerned that this could lead to a bidding war and Disney overpaying. It will be difficult however for Comcast to win, given that many major Fox shareholders are pro Disney and see the decline of cable TV as being a secular problem. **Comcast will have to take on an enormous amount of leverage to fund a cash bid.**

Entertainment conglomerate **Sony** outlined its continuing shift away from low-margin hardware to content and the consumer experience. Its decision to buy a controlling stake in the EMI music business for $2.3 billion reflects that shift, with **Sony becoming the world's largest music publisher through the move and will benefit directly from the rapidly growing music streaming industry,** and players such as Spotify and Apple music which will have to pay royalties.

As at the end of May the Fund had **leverage of 46.59%.**

Top 10 Holdings	31-May-18	Country
WYNN MACAU LTD	9.51%	China
MGM CHINA HOLDINGS LTD	8.21%	China
SONY CORP	6.72%	Japan
THE WALT DISNEY COMPANY	6.29%	USA
BAIDU INC	6.10%	China
SUMITOMO MITSUI FINANCIAL GROUP	5.32%	Japan
PRAEMIUM LTD	5.08%	Australia
SANDS CHINA LTD	4.36%	China
MITSUBISHI UFJ FINANCIAL GROUP	4.12%	Japan
SUNNY OPTICAL TECH GROUP	4.10%	China



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