

Fat Prophets Global Contrarian Fund (FPC) announces a Disclosure pursuant to ASX Listing Rule 4.12

Dear Shareholders,

The estimated net tangible asset backing dropped in June 2022 with pre-tax and post-tax NTA closing at \$0.9964 and \$1.0534. **The decline was largely attributable to falls in global equity markets, but significant capital outflows also contributed. The Fund incurred payments during June for the dividend of 3 cents per share, tax, along with a moderate outflow for the EABB.** Pre-tax NTA after adjustment for the dividend, tax and EABB outflows would have been an estimated \$1.0680, for an 11.28% decrease in June. Post-tax NTA after adjustment for the outflows would have been an estimated \$1.1241 for a 3.86% decrease in June. At the end of June, net cash for the Fund was 9.88%.

	30-June-2022 Before adjustments	30-June-2022 After adjustments*	31-May-2022	Change
Pre-Tax NTA	0.9964	1.0680*	1.2038	-11.28%
Post-Tax NTA	1.0534	1.1241*	1.1693	-3.86%

*NTA is adjusted for the capital outflows that occurred during June, including EABB, dividends and tax payments. The impact of these capital outflows on each unit decreased NTA by \$0.0716 before tax and \$0.0707 on an after tax basis.

MARKET OUTLOOK AND PORTFOLIO PERFORMANCE

The past six weeks have been a challenging time for financial markets which have been buffeted by high inflation, central bank tightening and ongoing fears of a recession. We significantly pivoted the Fund portfolio over the past four weeks, eliminating leverage, reducing market risk and the overall size of the portfolio, and raising cash levels to near 50%. While this tactical move is defensive, the Fund is now in position to take advantage of the significant trading opportunities that are likely to arise in financial markets over the second half of the year.

Near term we continue to be cognisant of a number of near-term risk factors. In past major market drawdowns over the past five years such as in December 2018 and March 2020, we saw widespread capitulation. Whilst volatility has been high, we may yet see another leg down in the ongoing US bear market. For that possible outcome, we want to be in position to move quickly and capitalise which is one explanation for the considerably raised cash balances. With the benefit of hindsight, we should have positioned earlier this year, but better too late than never.

Financial markets will likely remain on edge for some time, but this could also lead to some good trading opportunities with positive risk reward skew. The sell-down of the portfolio will also allow greater focus on a few key themes. Looking back at the past six months for example, we successfully exploited the selloff in the US bond market with a short position, but the Fund should have backed the theme to a greater degree and profited more. Sometimes less is more in terms of portfolio concentration and the potential that provides. The portfolio today is greatly slimmed down which now allows greater focus.

While a lot of negative news has been priced into financial markets, we believe there are 3 key near term risks. Firstly, the US earnings season is underway and in terms of the direction of the stock market, much now depends on future underlying guidance rather than actual results. Earnings revisions have come down on persistent inflation, and a lot of negative factors have been priced in such as labour constraints, supply bottlenecks and inventory overhangs.

However, the very high US dollar which is at decade highs against the major currencies might be somewhat overlooked at present. US multinationals are likely to be squeezed badly on this front placing consensus forecasts at risk to some extent. Covid variants are playing havoc in the Australian winter and could also re-emerge in the northern hemisphere winter to exacerbate labour shortages. We believe the US market could consequently have further room to move lower over the third quarter and subsequently removed nearly all US exposure including **Disney, Warner Music Group and Intapp**.

The second near term risk to global growth is the current Russian/European standoff on gas supply. Russia may have major gas storage capacity issues that George Soros noted recently, could run out in July. Russia could soon be faced with the decision of either restarting the Nordstream Pipeline and supply to Europe - or capping some major gas fields. These gas fields once capped cannot be easily restarted. This would place Europe in the midst of an energy crisis. Whilst we think the situation will be resolved, this is one near term risk that could quickly see Europe enter into recession, which has connotations for global growth.

The third key risk concerns the situation in China with the spread of the recent variants and the subsequent lockdowns. Ultimately restrictions are doomed to fail, especially in a nation that purportedly has 1.4 billion people. However, the virus will spread. The Chinese government is in a tough position with the upcoming leadership to be resolved where President Xi is seeking another term. The government will not want to admit the lack of efficacy with its covid vaccine against newer variants and the lockdown could persist for some time.

However, the spread of covid is developing at a critical time when China is seeking to reboot growth. The lockdowns if ongoing will be detrimental for China in trying to restart growth. If not the lockdowns, then the spread of covid could also equally take a toll. For most nations the path through covid has been established in terms of infection, rising immunity levels and effective vaccines. China faces a dilemma on this front. Whilst we continue to see a long-term super cycle in commodities, there are growing near term risks and we reduced exposure significantly to resources and sold most of our energy exposure including **Inpex, Woodside Energy, Halliburton, Schlumberger and the Sprott Physical Uranium ETF last month**.

Gold and precious metals have not performed but this might change in the year ahead, especially if central banks lose their nerve on the tightening front. Recession risks will have to be balanced against inflation targeting. On this front the central banks might continue to print money and it is difficult to see little or no intervention on some level in the bond markets. The US dollar has been a headwind for gold and the broader commodity complex. But dollar strength cannot last forever, and we continue to look for an important top during the second half of the year.

We sold our holding in physical platinum and as well as reduce exposure to precious metals equities. However, we could look to re-enter and scale up exposure when there are signs the US dollar has peaked. The bull market in gold is likely to continue given the propensity of central banks to print money and rising geopolitical risks. The energy thematic also looks good over the medium term, but near-term risks remain with China. The supply side response if anything will go backwards with the recent drop in oil. Some challenging times for the markets lie ahead, but equally, this could be a time of great opportunity.

KEY METRICS

Gross Assets

Cash

Trailing 12 month
Dividend Yield (FF)

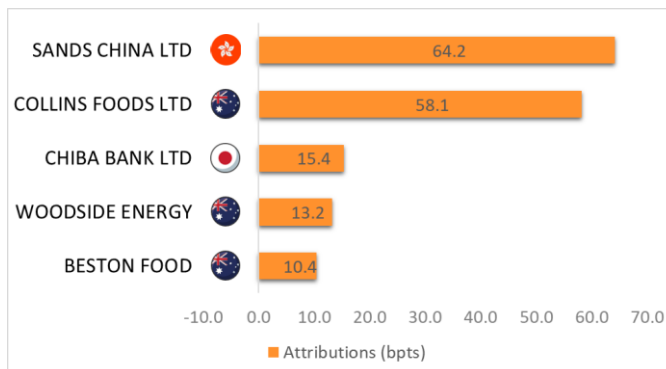
\$39.6M

9.88%

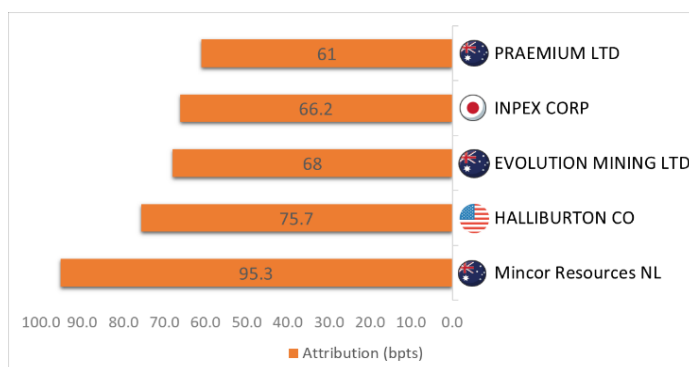
8.62%

POSITIVE ATTRIBUTIONS

The largest positive attribution in June was **Sands China** as China began to reopen, we have subsequently closed this position. **Collins Foods** delivered a very strong profit result that highlighted defensiveness and the ability to pass on costs and raise prices. **Japanese banks** did well on the back of rising bond yields and a healthy domestic market. **Beston Food** is experiencing very strong demand for cheese and milk-based products. Contracts are due to rollover and recalibrate at much higher prices and a placement was conducted to a key customer at well above market.



NEGATIVE ATTRIBUTIONS



Praemium weighed on the portfolio but managed to complete the UK sale which will fund a share buyback and special dividend. Energy producer **Inpex** was sold last month, and we continue to look for a more favourable re-entry level in the months ahead. **Halliburton** and **Mincor** succumbed to lower commodity prices, and we exited last month. **Evolution** was hit by higher production costs.

In terms of the top ten holdings, the composition has changed significantly since June 30. We have reduced exposure across the portfolio with an emphasis on resources and growth stocks. We sold out of Sands China, Dominos Pizza Group PLC (UK), and Rio Tinto.

TOP 10 HOLDINGS

Top 10 Holdings	Country	30 June 2022
Collins Foods Ltd	Australia	11.07%
BHP Billiton Limited	Australia	6.33%
QBE Insurance Group Limited	Australia	5.80%
Telstra Corporation Limited	Australia	5.73%
Sands China	Hong Kong	4.37%
Rio Tinto Limited	Australia	4.23%
Sumitomo Mitsui Financial Group	Japan	4.14%
Domino's Pizza Limited	Australia	3.80%
Dai-ichi Life Holdings Inc	Japan	3.51%
Domino's Pizza Group PLC	United Kingdom	2.97%



ASX:
CKF



ASX:
BHP



ASX:
QBE



ASX:
TLS



HKG:
1928



ASX:
RIO



TYO:
8316



ASX:
DMP



TYO:
8750



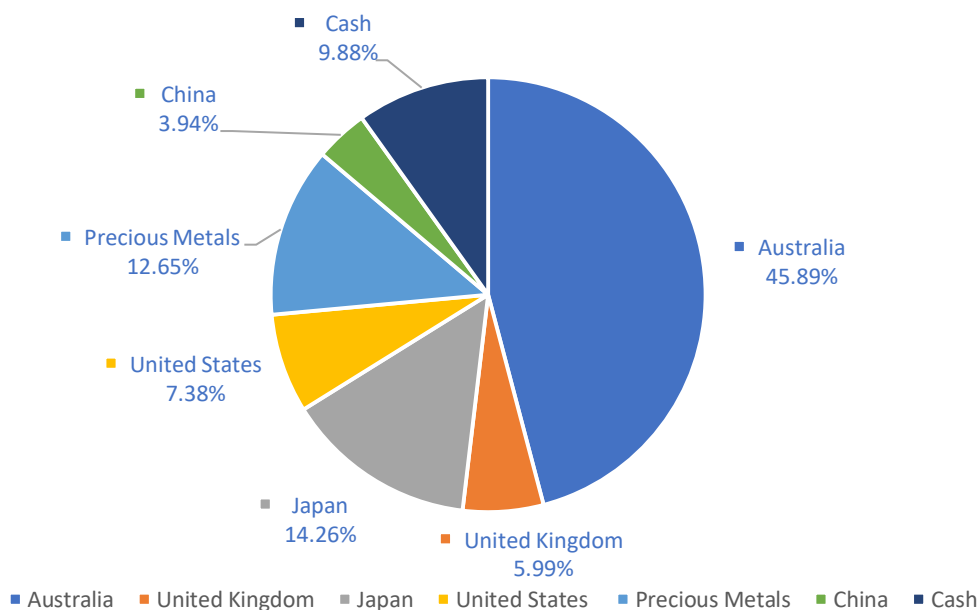
LSE:
DOM



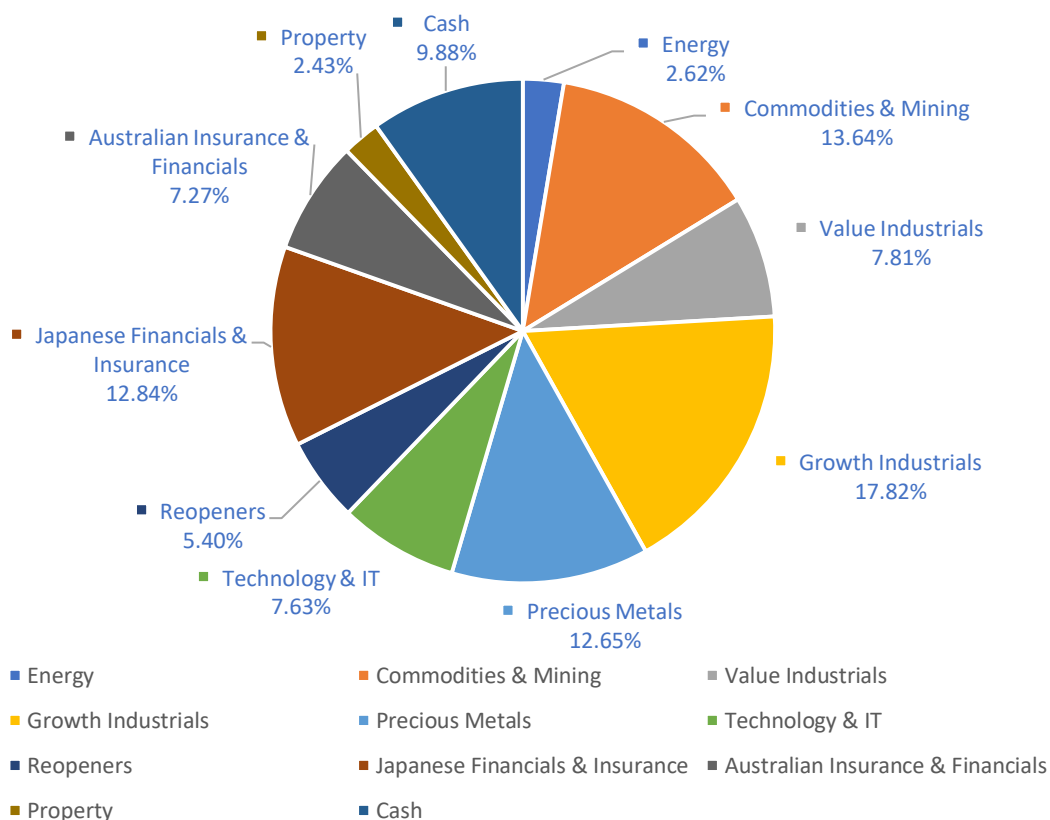
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GEOGRAPHIC EXPOSURE AS AT 30 JUNE 2022



SECTOR DISPERSION AS AT 30 JUNE 2022



Angus Geddes
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Fat Prophets Global Contrarian Fund

