Where we took profits and losses in 2021

December 22, 2021 FAT-AUS-1050

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In a year where the world was recovering from Covid, the number of sell recommendations we issued was more than 2020. This was in keeping with the value that we saw following the pandemic induced sell-off in 2020 and we maintained a greater number of buy recommendations in 2021. As the year draws to a close this strategy looks to have been the right call as we are going into 2022.

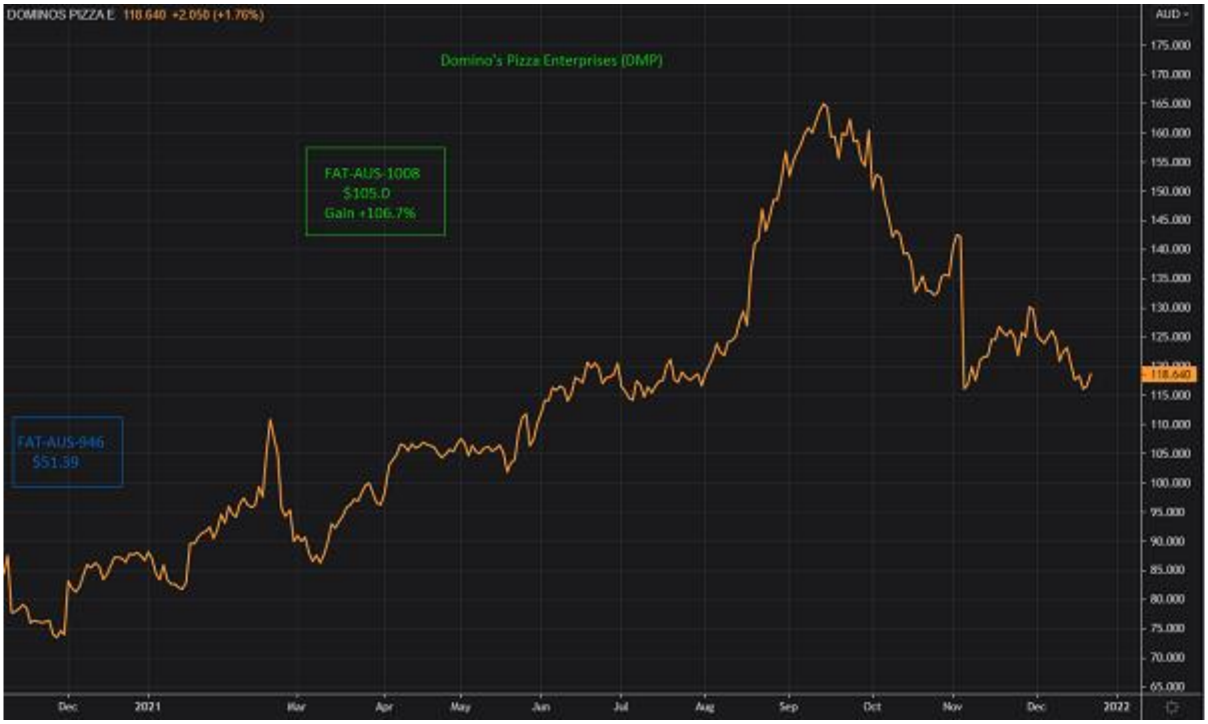
In 2021, we published twelve sell and sell-half recommendations, with ten marking impressive gains and only two registering losses – a consequence of opportunistic acquisitions amidst the Covid pandemic. The sell recommendations this year reflected the prudence of hanging tight during pandemic driven volatility, and as the market rebounded strongly during the year. In any case, the returns noted below include dividends. Our calls by stock are provided below in chronological order:

Domino's Pizza Enterprises

The global quick-service-restaurant (QSR), **Domino's Pizza Enterprises (DMP)**, was initially added to our portfolio back in November 2019 (FAT-AUS-946) on the back of a positive growth outlook. The QSR has improved significantly across all of the company's key markets in Europe, Japan and Australia and has a track record of operational excellence.

In February 2021 (FAT-AUS-1008), the shares of DMP crossed into the triple-digit territory and **traded on a forwarded PE of around 50 times earnings for**

FY21. We took some profits off the table at this juncture. Members that followed the sell-half recommendation would have made a handsome 106.7% total return.



Vocus Communications

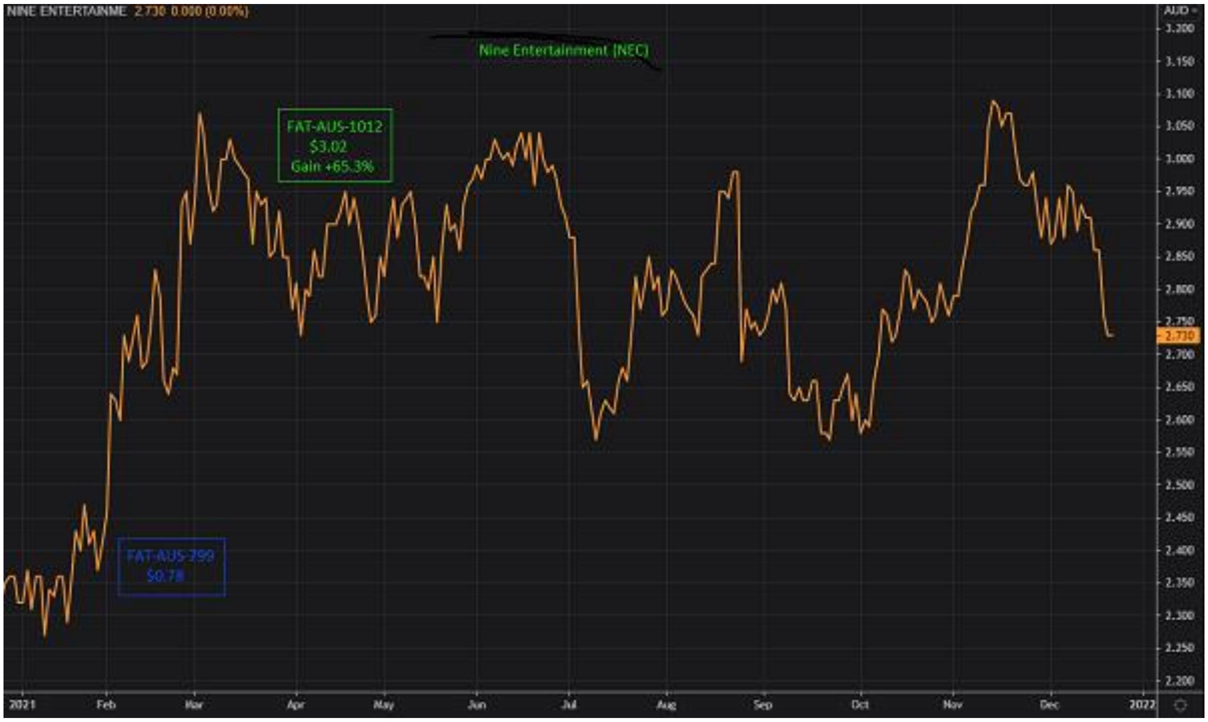
Fibre and network provider, **Vocus Communications (VOC)**, was another stock that doubled in price since it was added to our portfolio in March 2018 (FAT-AUS-866), based on attractive valuation metrics, improved balance sheet and new management. VOC has been through takeover offers in the last two years, with foreign and local buyers entering the game.

We issued a take profits sell-half recommendation back in March, after VOC entered a scheme implementation deed with the consortium of Macquarie Real Infrastructure and Real Assets and Aware Super. **Pleasingly, we finally saw VOC successfully acquired by Voyage Australia in June (FAT-AUS-1025)**, and VOC was removed from our portfolio with an overall gain of around 125%.

Nine Entertainment

Nine Entertainment (NEC), deferred ex Fairfax Media (FXJ), was initially added to our portfolio in November 2015 (FAT-AUS-799) at a 13 times FY17 earnings, with management looking to turn competitive threats into an opportunity to go digital. Significant progress had been made and highlighted at its AGM. Fairfax was also valued on a marked discount to peer digitally-oriented companies.

We were conscious of the massive re-rating that has been seen in the shares over the past years. We recommended our Members sell half in March (FAT-AUS-1012) with a decent total return of 65.3%. The company was trading on **a forward PE of around 20 times earnings, which is arguably high for an old media business**.



Platinum Asia Fund

We picked up **Platinum Asia Fund (PLAF)** back in September 2015 (FAT-GLF-017), based on a positive long-term view on capital growth through searching out undervalued listed and unlisted investments in the Asian region. Fund manager Dr Joseph Lai suggested a minimum 5 years or more time horizon. PLAF is an unlisted investment vehicle.

The Fund has provided Members with exposure to Asia from the perspective of a global economic growth driver benefiting primarily from a booming middle class, increasing urbanisation and a host of other tailwinds. However, **since the departure of Dr Lai the Fund hasn't performed up to par**. We believe it would be appropriate to 'rotate out' the Fund with a total return of 15.6% (FAT-AUS-1026).

Omni Bridgeway

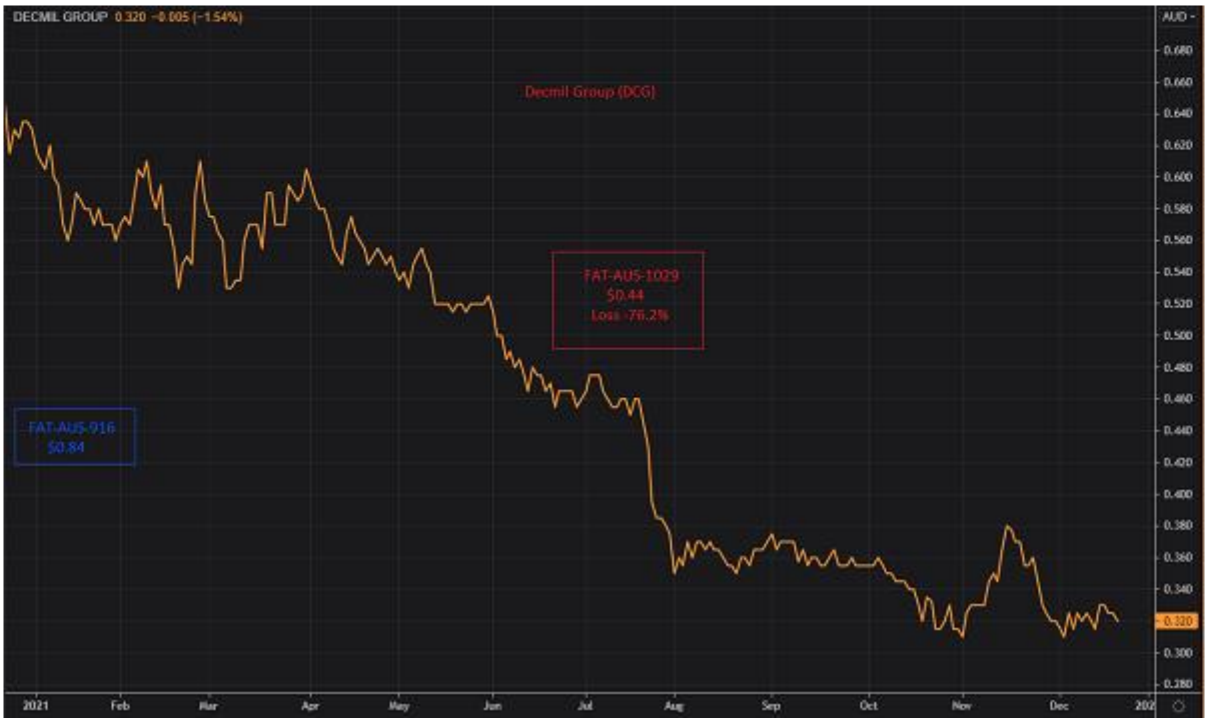
Litigation financing and managing legal risk leader, **Omni Bridgeway** (formally known as **IMF** Bentham), was initially introduced to our portfolio in August 2012 (FAT-AUS-589). The company was well funded, had a team with an excellent track record and deep expertise, a solid portfolio of cases and a good deal flow.

However, **there are risks that competitors would enter the same game and determined regulators regulate the sector**. Share price action coupled with these concerns, hence, in July (FAT-AUS-1029), we believed it more prudent for Members to sell IMF with a total return of 189.2% and look for other more lucrative alternatives.

Decmil Group

The boom in Australian infrastructure has been continuing for a few years and that current spending is only about the minimum necessary to keep up with population growth, which in Australia is relatively high for a developed country. We introduced this diversified design, construction and engineering services provider, **Decmil Group (DCG)**, to our portfolio in April 2019 (FAT-AUS-916), with the above attractive tailwind.

However, by our last coverage (FAT-AUS-1029), DCG had massive o**verweight government projects**, accounting for 70% of its total business. The **loss of two big projects placed the company's financials under stress and its capital base was reduced**. Consequently, we opted for a 76.2% total loss.



Boral Limited

Multinational building and construction materials supplier, **Boral Limited (BLD)** had been shaping up as a classic Fat Prophets countercyclical investment since June 2009 (FAT-AUS-431). BLD was a well-run company exposed to a severe cyclical downturn in its industry. We cautioned that the recovery period might be extended, particularly in the US. Still, we could see that BLD was doing all the right things to ensure it emerged in a strong market position when normal business conditions resumed.

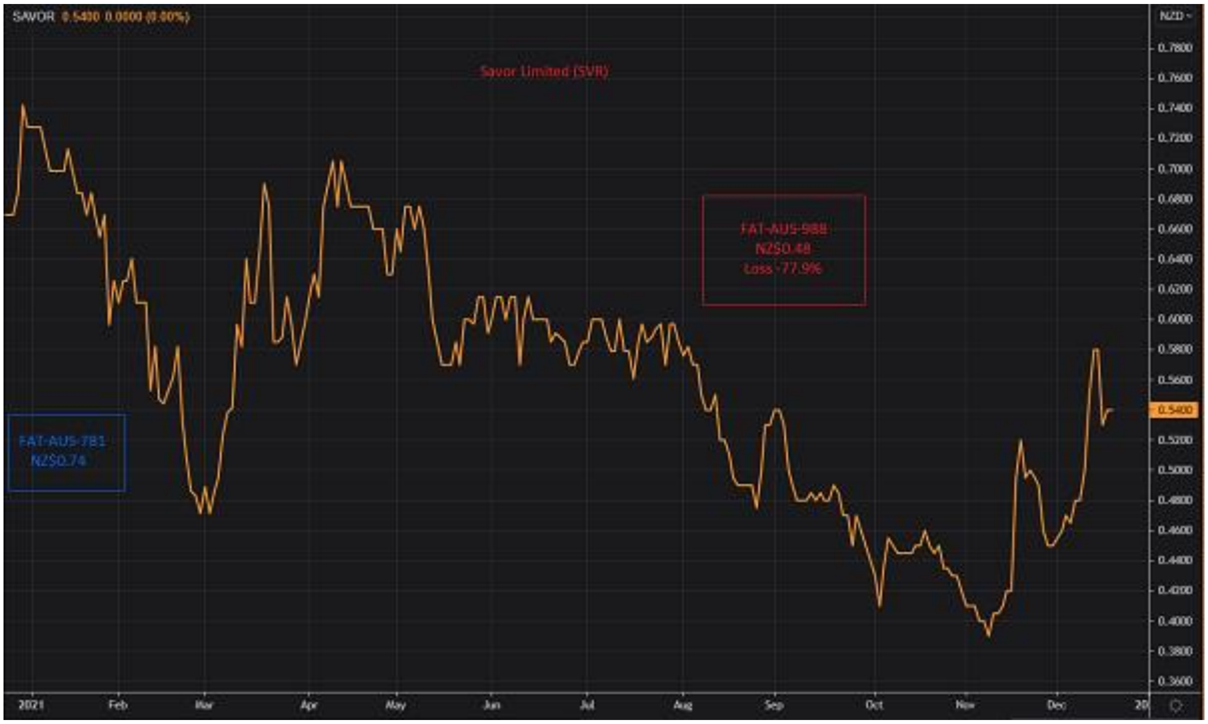
BLD was **successfully acquired by Seven Group** when the outlook for construction markets (both in Australia and the US) picked up significantly amidst ultra-low interest rates and post-Covid stimulus plans. We issued a take profit sell half recommendation in August (FAT-AUS-1031) and collected a total return of 42.1%.

Savor Limited

New Zealand's hospitality leader, **Savor Limited (NZX.SVR)** – previously Moa Group (NZX.MOA), was initially added to our portfolio back in July 2016 (FAT-AUS-781). We had a positive view of the trends within the craft beer market and on the ability of management to leverage the company's position.

Unfortunately, we had to recommend an exit in September (FAT-AUS-1038). As the pandemic hit New Zealand severely, all the bars and restaurants of SVR located in Auckland had to shut down with government lockdown restrictions. In our view, **the high-end, centrally located venues in which SVR operated were**

unlikely to bounce back that quickly. Consequently, we opted for a 77.9% total loss.



Mainstream

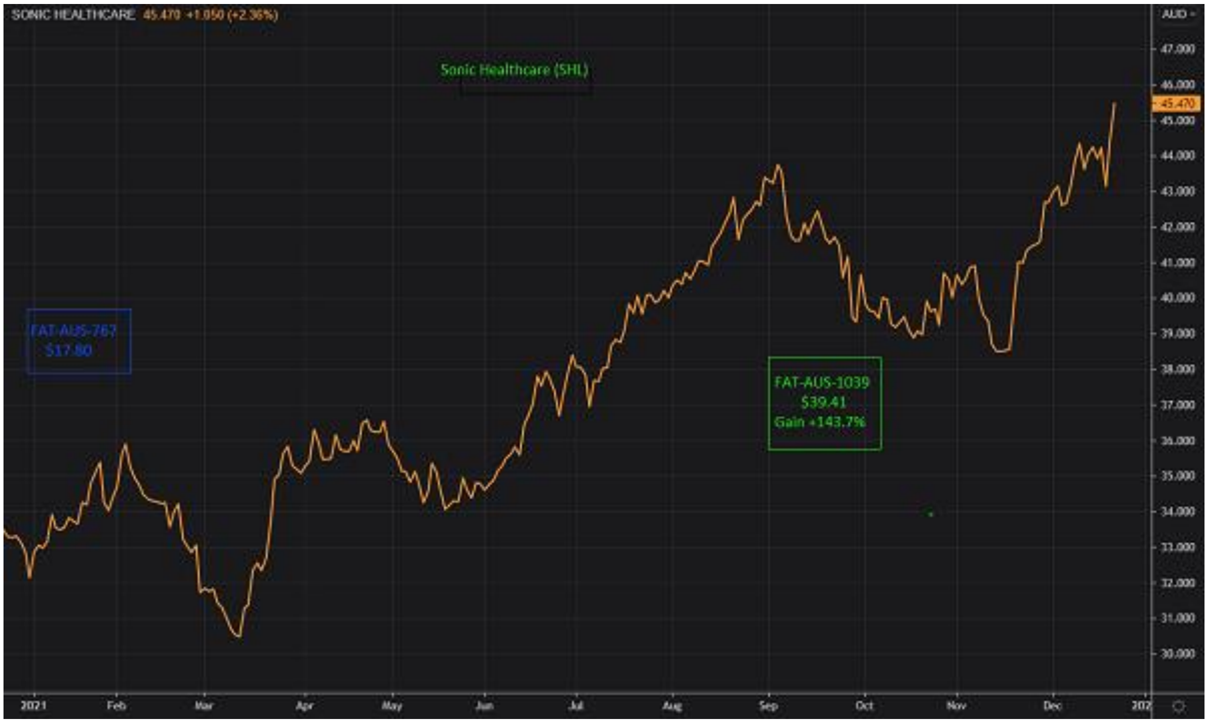
Independent fund administrator, **Mainstream (MAI)** provides the entire gamut of Middle-to-Back Office services for fund managers and superannuation trustees, was recommended in our portfolio in March 2019 (FAT-AUS-913). The company boasts a sound business model with sticky clients and was growing rapidly and clinching larger mandates.

In July (FAT-AUS-1030), after Apex acquired MAI with an attractive offer, following earlier bids starting from $1.20, **we were comfortable recommending that Members sell their shares at around $2.78,** which equates to a total return of 379% on our initial buy recommendation.

Sonic Healthcare

Next on the list is **Sonic Healthcare (SHL)**, a global pathology provider added to the Fat Prophets portfolio in April 2016 (FAT-AU-767) with a medium-term investment horizon. The company benefited from its regionally diverse operating model and had a solid growth rate over the last few years.

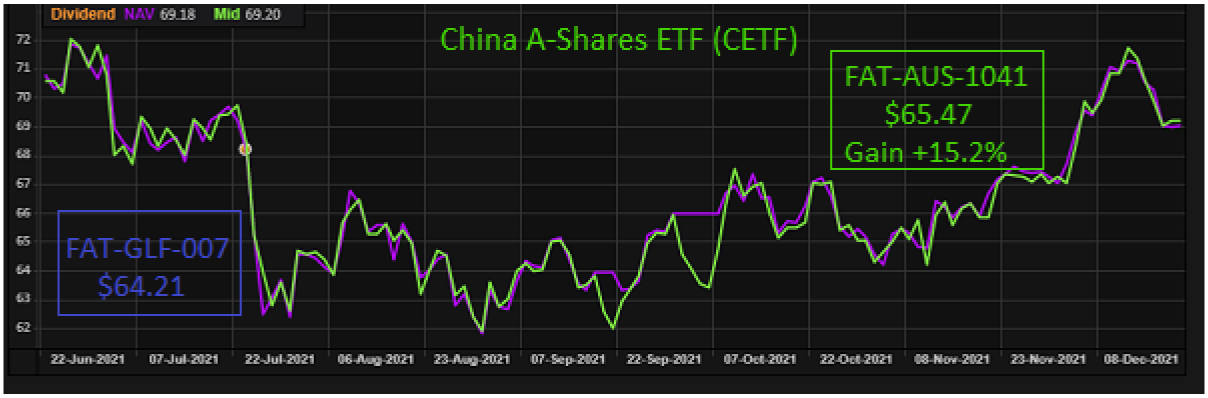
SHL has been a 'Covid beneficiary' in that the company has been able to leverage existing infrastructure in virus testing, and its core business rebounded well when Covid restrictions were removed. However, **we doubted the Covid favourable trading conditions were unlikely to persist in the long run**. In late September (FAT-AUS-1039), while the shares doubled since the Covid lows, we believed it was prudent to take some profits off the table at this juncture and recommended our Members sell half with a total return of 143.7%.



China A-Shares ETF (CETF)

After a six-year bear A-share market in China, we introduced the **China A-Shares ETF (CETF)** to our portfolio as we saw the stock market in a corrective mode in July 2015 (FAT-GLF-007). The Chinese authorities were going to continue to loosen monetary policy and ramp up fiscal stimulus, which would help the market, together with the positive signs that Chinese property was bottoming in our view, which created a longer-term bull case for Chinese equities.

Despite China being one of the first countries to emerge from the Covid pandemic, **recent developments at the time suggested that the speedbumps from Covid were being overtaken by regulatory policy**. It didn't help that the regulatory climate and the increasingly anti-wealth stance from the government were pressuring both stock prices and corporate profits. In October (FAT-AUS-1041), with risks rising we believed it was prudent to make an orderly exit and we moved CETF to a sell with a total return of 15.2%.



Domain Group

The residential and commercial property marketing services provider, **Domain Group (DHG)**, was officially added to our portfolio in November 2017 (FAT-AUS-849). It was demerged from Farifax, freeing it to be priced more in line as a new media company and not be weighed down by depressed sentiment towards the old media business. Compared to its peer REA, DHG is smaller and nimbler, and we believe this should allow earnings to grow faster. DHG has benefited from the Australian property boom in the past years, especially during Covid when interest rates hit the ground.

In December (FAT-AUS-1048), we raised our concerns about the residential property market going into a downturn, driven by **interest rate increases** on the horizon. And the **Omicron disruption** increased fears that the domestic property demand would fall as it had excluded seasonal travellers, overseas students, new immigrants entering the property market. We think it is time to collect some profit and recommend our Members sell half of DHG shares with a total return of 61.74%.

Interests associated with Fat Prophets hold shares in Domino's Pizza Enterprises, Nine Entertainment, Boral Limited, Sonic Healthcare and Domain Group Holdings.

DISCLAIMER

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