fatPROPHETS GLOBAL CONTRARIAN FUND

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

Dear Shareholders,

The estimated net tangible asset backing of the Fat Prophets Global Contrarian Fund dropped in April with pre-tax and post-tax NTA closing at $1.2398 and $1.1951 for a decrease of 5.78 % and 4.58% respectively. At the end of April, net leverage for the Fund was 23.89%.

	30-Apr-2022	31-Mar-2022	Change
Pre-Tax NTA	1.2398	1.3159	**-5.78%**
Post-Tax NTA	1.1951	1.2524	**-4.58%**

MARKET OUTLOOK AND PORTFOLIO PERFROMANCE

For the month of April the portfolio declined by a lesser extent than the S&P500 (-8.8%) and the MSCI Global index (-8.3%). Since the S&P500 peaked in November, the past six months have been characterised by a steep selloff in bonds and equities, with growth and expensive technology shares bearing the brunt of the falls. The Fund being positioned in physical commodities, energy, and value stocks managed to outperform the broader indices in April but has not been immune to the global selloff.

Year to date, the Nasdaq has lost close to 30% in what is unfolding as a bear cycle for the US stock market. Bond yields have risen in line with elevated inflation, which has prompted the Fed to take more hawkish action and increase interest rates. The Fund's major themes performed well on a relative basis with commodities, agricultural softs, energy and precious metals all providing some insulation to the general downturn in April.

Interest rate beneficiaries also held up relatively well as long duration interest rates rose. **Insurance, telcos and financials** all performed within the portfolio. The downturn in both bond and equity markets has raised fears and overall pessimism to relatively extreme levels, not seen since March 2020 and the GFC. Presently, the overriding factors driving sentiment in the markets are primarily inflation and just how far the Fed will have to go in terms if lifting rates. The ongoing war in Ukraine and associated geopolitical risks and the covid lockdowns in China and accompanying growth slow down have not helped sentiment either. Many economists fear the onset of a recession.

However, with the US yield curve steepening, global economic growth still in expansion mode, consumer and corporate balance sheets robust, the fear of recession might be somewhat overstated. Recession has seldom hit when the labour market has been this strong, and consumer & corporate in such strong financial shape. Recession typically arrives when there is too much leverage within the system and spending power is waning. We would also expect the US yield curve to be strongly negative if recession was just around the corner.

Against this backdrop, valuations in most stock markets have improved significantly. Arguably, the US stock market is still overvalued with the S&P500 and Nasdaq currently priced on forward PE's of 18x and 24x respectively. In the case of the Nasdaq the forward PE has declined from a peak of 35x, and still likely has further go in terms of the downward adjustment. Having said that, deeply oversold stock markets could well stage a decent near-term bounce.

Whilst US stocks still remain expensive, for other stock markets valuation is a different story. For instance, the UK's FTSE100 is priced on a forward multiple of just 12x, and for likes of Australia and Japan it is a similar story with both markets priced at around 15x. In the case of Australia, GDP is

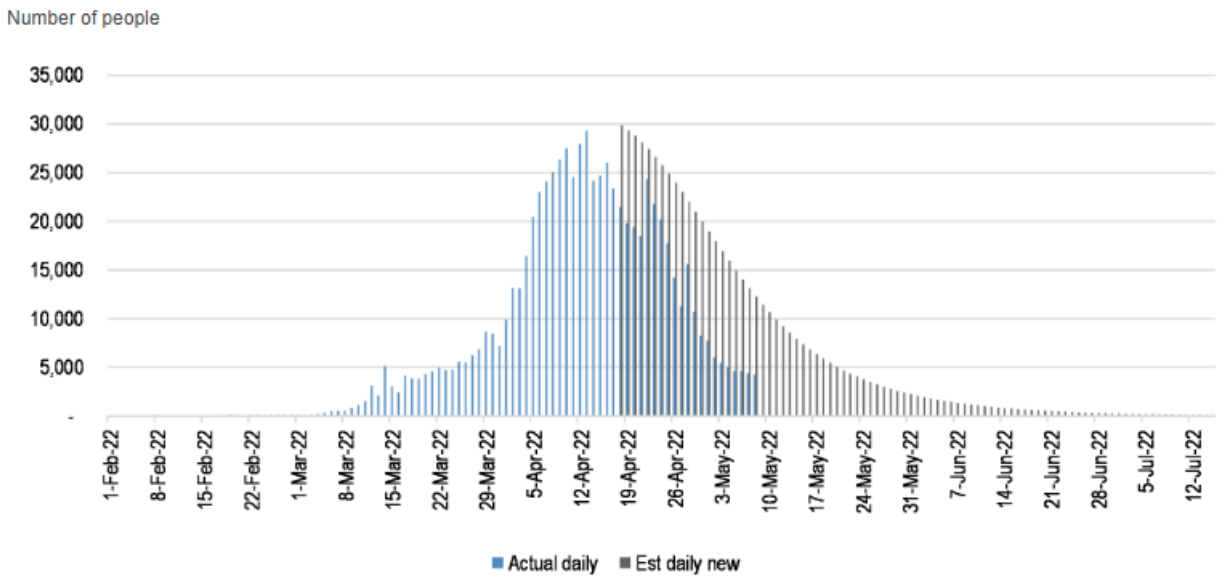
expected to grow at 4.5% over the coming year, so we continue to see less downside risk for value concentric stock markets. With the recent decline, arguably these stock markets now have a favorable risk/reward skew. We believe the relative outperformance of Japan, UK and Australia versus the US is likely to persist for some time as US markets face the bigger recalibration to higher interest rates. The Fund continues to be overweight equities in cheaper stock markets and maintains a bias towards value equities and commodities.

Whilst we have yet to see the hallmarks of "peak capitulation" the current US market cannot be too far away from an important near-term low, but the catalyst for a rebound remains elusive and not obvious. The recent April CPI is still elevated in the US; however our **key takeaway is that peak inflation fear might now be in.** Markets today have priced in much downside risk. Interest rises have been already widely discounted in equity markets as has the war in Ukraine, however one concern is the ongoing lockdowns in China and the associated risks to slowing growth in what is the world's second largest economy.

One potential positive catalyst, especially for the mining and energy centric Australian and UK equity markets could be a China reopening. China's covid infection curve has been trending down since April with the lockdown measures being quite effective.

China's top epidemiologist asserted recently that the country shall "not pursue prolonged dynamic zeroing in the long run but instead shall adapt to reopening to bring social and economic development back to normalcy". The policies don't make a lot of sense, but China is also on a time-line given mounting domestic economic pressures. A lifting of the restrictions would have positive implications for the global economy, commodity markets and ease the supply constraints that have wreaked havoc around the world that has fueled inflationary pressures.

Figure 1: Mainland China: Total daily new infection case forecasts (Including symptomatic & asymptomatic)



On this front, we note that President Biden who is sagging in the opinion polls because of rising living costs, recently had a cabinet meeting to consider lifting the tariffs imposed on Chinese goods. **A cynic would almost argue that China has persisted with their lockdown measures to exacerbate supply chain constraints that in turn has elevated inflation in the developed world – and the US in particular.** China itself has had very low inflation, much less severe than in the Western world. However, a pivot here from China to reopen earlier could be one potential circuit

breaker for equity markets. Another would be a topping out of inflation and inflation expectations, that would likely elicit a softening at the Fed.

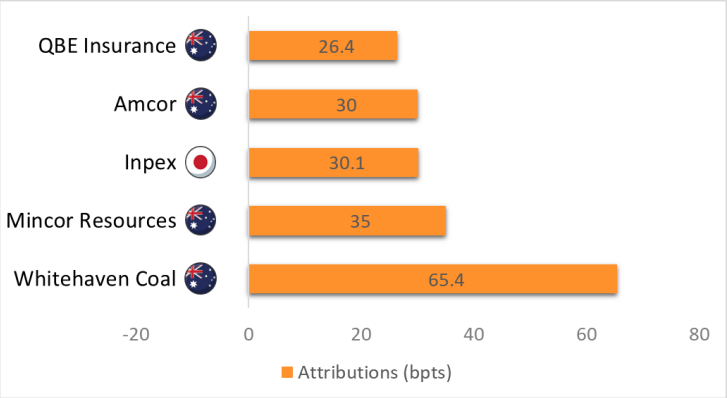
During the month of April, we disposed our holdings in **Netflix** after the company reported a dramatic slowdown in subscriber growth numbers. We added crop protection company **Nufarm t**o the portfolio, given our favourable outlook for soft agricultural commodity prices and the cyclical leverage in the share price. Nufarm is well positioned to benefit from the rising cost of food production. We added to our holdings in online cosmetic company Adore Beauty on valuation grounds – the shares are down nearly 80% from the IPO price of less than two years ago.

KEY METRICS

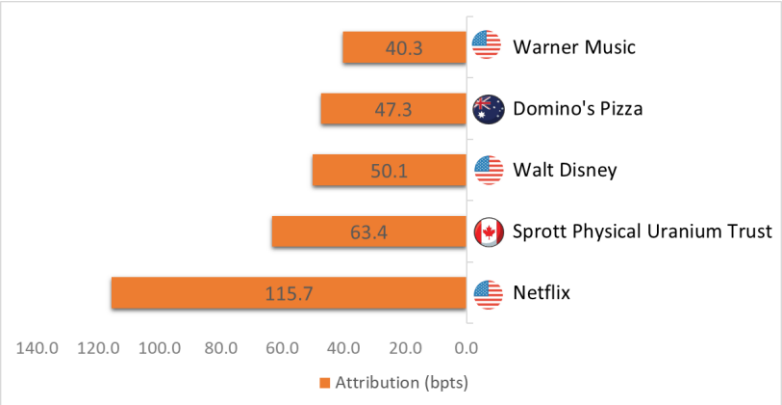
Gross Assets	Gearing	Trailing 12 month Dividend Yield (FF)
$50M	23.89%	6.55%

POSITIVE ATTRIBUTIONS

The largest positive attribution in April was derived from resource exposure, including coal (**Whitehaven**), nickel (**Mincor)** and energy (**Inpex**) which benefited from a sharp rise in commodity prices. **Amcor** was rerated after delivering a strong financial result, and demonstrating cost control and pricing power. **QBE Insurance** benefited from stronger earnings guidance and buoyant premiums conditions along with rising bond yields.



NEGATIVE ATTRIBUTIONS

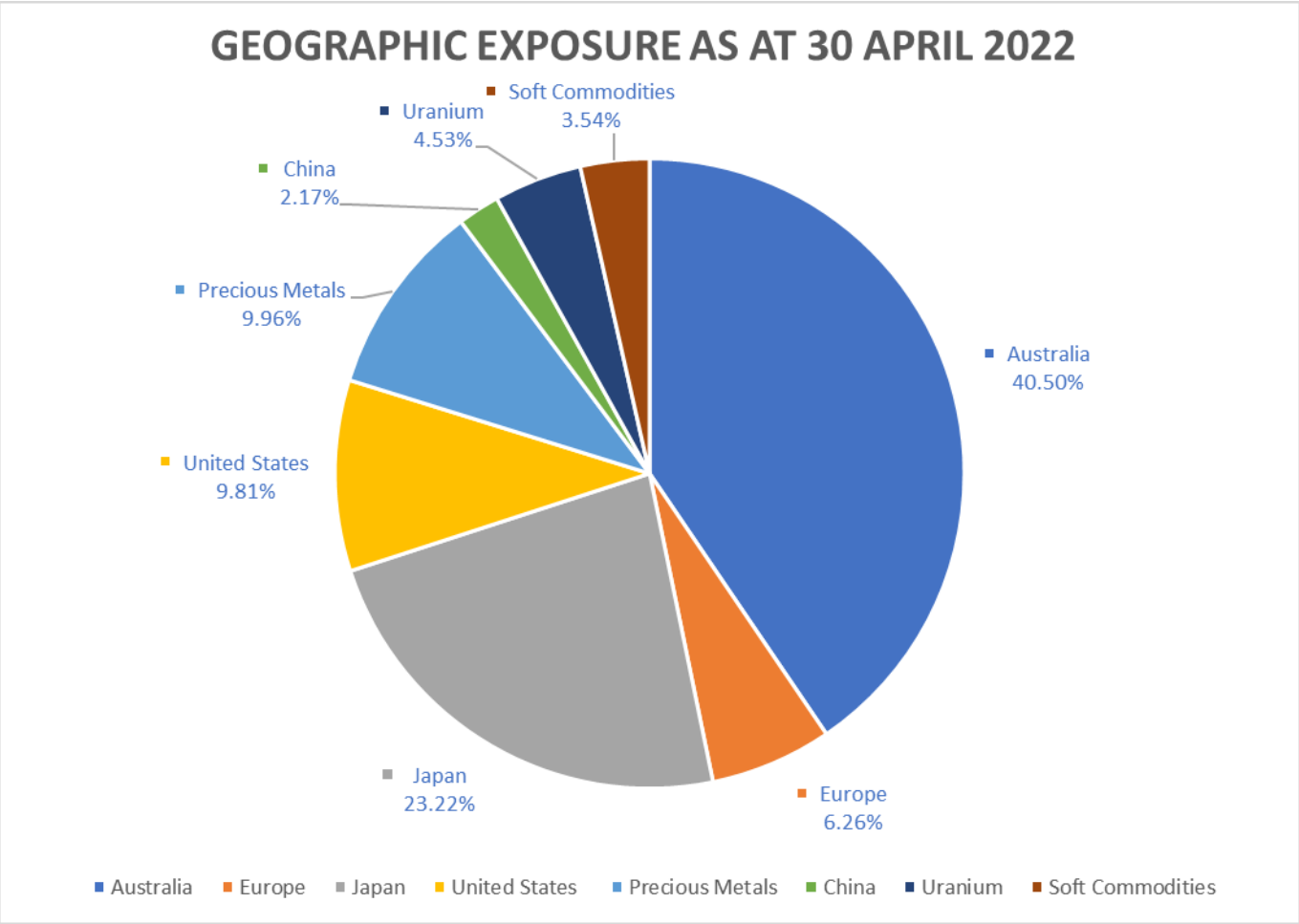


The largest negative attribution in April was attributable to **Netflix** which was derated by the market after missing consensus estimates. The position was quickly exited. Falling uranium prices impact **Sprott Physical Uranium Trust.** The read across from Netflix also derated **Disney**, which subsequently reported strong sub numbers. **Domino's Pizza** was caught up in the global selldown of growth stocks, as was **Warner Media**.

TOP 10 HOLDINGS

Top 10 Holdings	Country	30 April 2022
Collins Foods	Australia	6.28%
Sprott Physical Uranium ETF	Canada	4.53%
Inpex Corp	Japan	4.18%
BHP Billiton	Australia	4.01%
Invesco DB Agricultural ETF	United States	3.54%
Whitehaven Coal	Australia	3.37%
Telstra	Australia	3.27%
QBE Insurance	Australia	3.20%
Nintendo	Japan	2.97%
Amcor	Australia	2.57%

ASX: CKF	TSE: U.UN	TYO: 1605	ASX: BHP	NYSE: IVZ	ASX: WHC	ASX: TLS	ASX: QBE	TYO: 7974	ASX: AMC



Angus Geddes
Chief Investment Officer
Fat Prophets Global Contrarian Fund

Fat Prophets Global Contrarian Fund
www.fpcontrarian.com.au
invest@fatprophets.com.au

ACN: 615 414 849
3/22 Market Street, Sydney
NSW 2000