

## Where we took profits and losses in 2017

In 2017, we published a total of 15 sell and sell-half recommendations, with 12 of them resulting in positive gains and 3 registering losses to various degrees. Below we provide a brief review of the stocks we recommended exiting or reducing over the course of the year.

We note that in the cases of Jumbo Interactive (ASX: JIN), Crown Resorts (ASX: CWN), and Astro Japan Property (Formerly: AJA), we recommended Members partially exit the stocks earlier in the year and fully exit the positions later in the year. Our calls by stock/fund are provided below in chronological order:

### **Jumbo Interactive (JIN)**

We initially recommended Jumbo Interactive (ASX: JIN) back in March 2013 to gain exposure to the online lotteries business which was amid a global secular uptrend, with increasing demand, high margins and impressive cash flows to the sector. Jumbo Interactive was selected given its strong domestic operations coupled with a kicker from its plans for international expansion into the Americas and German lottery markets. However, given the complexity of international lottery markets, we rated the stock as a high risk, speculative buy. Over time, it was proven that entering international markets was indeed difficult, with Jumbo Interactive putting their German operations on “autopilot” and ceasing their activities in Mexico.

In May 2017 (FAT-AUS-821), we issued a Sell-Half recommendation due to talks of a possible takeover from lottery sector disruptor, Lottoland Holdings. In July (FAT-AUS-829), we opted to exit from the stock entirely as Lottoland sold its stake in Jumbo Interactive after Jumbo decided to grant a blocking stake to Tatts Group, which effectively closed the door to any potential takeover.



In hindsight, our decision to exit from Jumbo Interactive proved to be bit early as the stock continued to rally to its 5-year highs of \$3.46 as the market viewed the non-exclusive reseller agreement with Tatts Group more favourably than anticipated. Jumbo Interactive was still a decent performer for the portfolio during its tenure, with an absolute return in the double digits.

### **Westfield Corporation (WFD)**

Westfield Corporation, the international shopping centre giant was part of the Australian portfolio back in 2009-2010 under a different incarnation, as the Westfield Group (WDC). At the time, the company's primary business was the management, marketing and leasing activities related to its shopping centres in the Australian and New Zealand (ANZ) as well as the US and UK. We then exited from the stock in November of 2010 (FAT-AUS-498) when the group decided to spin off their half of their ANZ retail assets into a separate listed entity as the Westfield Retail Trust (WRT).

Later we found value in WDC given that it maintained a substantial exposure to the US retail market which at an inflection point to a recovery, while simultaneously sporting a more robust capital structure than WRT, and generating an attractive dividend yield.

Later the group decided to house all of its international assets under a new entity to be called Westfield Corporation (WFD), while all of its Australia and New Zealand businesses merged with the Westfield Retail Trust (ASX: WRT) to create a new entity, called Scentre Group (SCG). This restructuring was completed in late June 2014. Thus, the shares in WDC became WFD.

We held onto WFD until May 2017 (FAT-AUS-824) where we opted to exit from the stock given its underperformance against the broader market. This was a mix of medium-term and longer-term issues.



Management's focus on quality was prudent to sustain earnings, and income distribution, however, effectively capped earnings growth, and subsequent share price appreciation. Furthermore, the rise of online shopping and video streaming put pressure on shopping centres as retail traffic, and subsequent sales, tapered off.

Since then, the shares have had quite a rollercoaster ride dropping to a 52-week low of \$7.35 but recovered as increasing mergers and acquisition (M&A) activity boosted investor sentiment towards the sector. The shares in WFD have moved to \$9.32 after receiving a takeover offer from Europe's largest commercial real estate company, Unibail-Rodamco.

### **ThinkSmart (TSM)**

Point-of-sale financier, ThinkSmart (TSM) was added to the Australian portfolio in early 2011. Despite having an attractive niche and providing value to its customers, ThinkSmart struggled in Australia as it faced against the likes of FlexiGroup whilst mired in a difficult market with the IT and electronics categories experiencing a prolonged downturn that lasted for over 18-24 months. Unsurprisingly the shares likewise suffered as the domestic business reported losses with the stock bottoming at \$0.16 in 2012.

Ultimately, in December of 2013 (TSM-12DEC13) the company opted to sell off their struggling Australian operation to FlexiGroup for \$43 million, or \$39 million net of tax and transaction costs and focussed their attention towards the UK division which remained firmly on a growth path. This was prudent as the company's earnings and share price were on an upward trajectory.



Accordingly, this shift in strategy as well as the timing of the Brexit vote has led management to delist from the Australian Stock Exchange and to maintain their listing on the London Stock Exchange's Alternative Investment Market (AIM).

Though we maintained a positive long-term view on company's growth prospects, the fact that the AIM shares are illiquid, currently with only a market capitalisation of less than £10 million, and lack of strategic fit for the Australasian Equities portfolio, we believed it was prudent to exit from the stock. The share price has since halved compared to the time of our SELL recommendation in June.

### **Crown Resorts (CWN)**

Crown Resorts (CWN) was initially added to the Australasian Equities portfolio back in September 2011 (FAT-AUS-540) as we viewed the shares significantly undervalued. The Australian operations were trading at a discount and the 34% interest in the Macau-based Melco Crown were effectively valued at nothing at our initiation price of \$7.85. The shares trended upwards to peak at \$18.22.

However, since peaking in 2014, the shares drifted downwards as the Chinese government initiated a crackdown on corruption. This promptly scared off high rollers from Macau. They opted to divest their interests in Melco Crown and focus more on the home front. Following that shuffle in strategy, the share price began to recover which we took as an opportunity to realise profits and issued a Sell-Half recommendation in June (FAT-AUS-827).

Later in the year, in August (FAT-AUS-834), after reviewing the business, we believe that their exclusive focus on the Australian casino market put a cap on the growth which prompted us to fully exit from the

position.

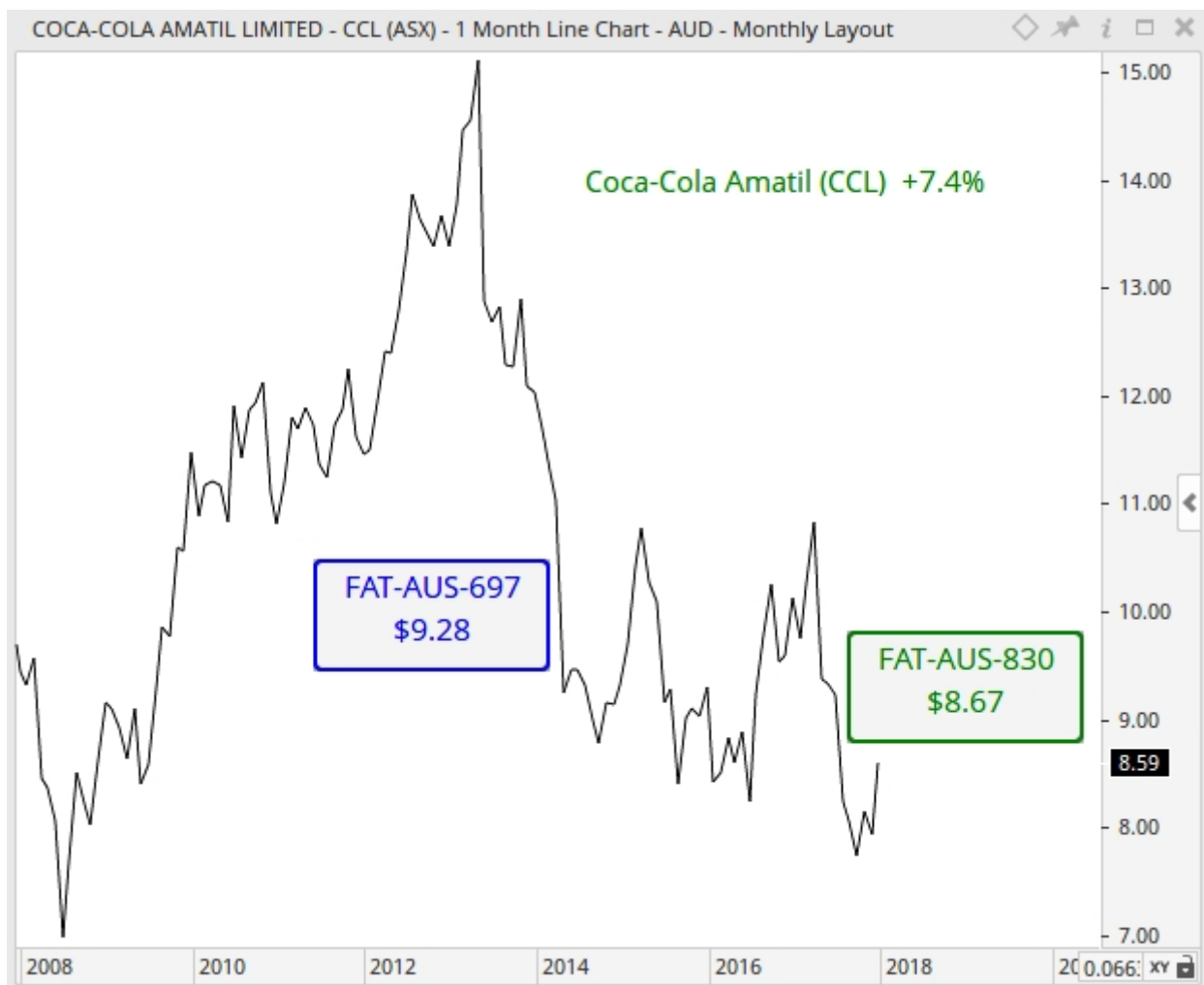


Ultimately, that view has been warranted as the shares have underperformed relative to the broader S&P/ASX 200 index and it faces a class action lawsuit launched by Maurice Blackburn as well as allegations that the company tampered with its slot machines.

### **Coca-Cola Amatil (CCL)**

In July 2017 (FAT-AUS-830), we fully exited our position in the bottler and food processor Coca-Cola Amatil (CCL) due to stiff headwinds for the business. In our view, the straw that finally broke the camel's back was Domino's Pizza's decision to not renew their product supply arrangement with Coca-Cola Amatil.

We are cognisant of the changing consumer trends towards healthier alternatives as evidenced by further price or volume erosion across products where branding is a lot stronger, such as Coca-Cola.



Our decision to exit in July has been justified as the shares have continued to trend downwards. Although our exit price was below our entry price of \$11.37 in January of 2011, dividends received over years kept the position modestly profitable, resulting in an absolute gain of 7.4%.

### **Astro Japan Property (AJA)**

In April 2013, we introduced Astro Japan Property Group (AJA) to the Australasian equities portfolio given the improved prospects for Japan's real estate market, supported by accommodative policies of the government and central bank.

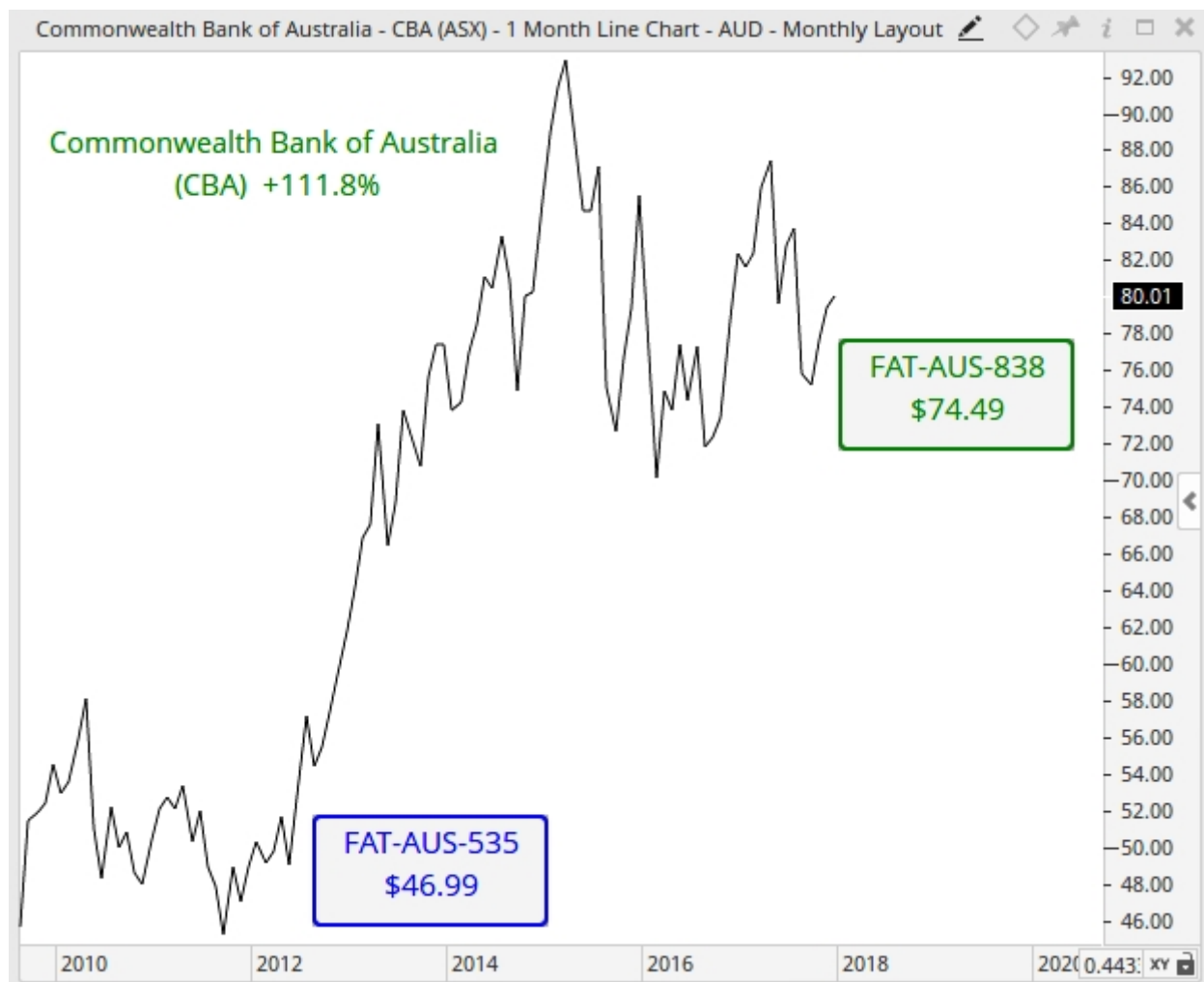
Our view was validated with a confluence of factors buoying the real estate market and supporting yields. In August 2017, the continued strength in the Japanese real estate market attracted suitors and Blackstone (via Jetsons Holdings) proved to be the most compelling one. We recommended a Sell-Half (FAT-AUS-834) to lock in the gains ahead of the deal completing, with this returning 123.9% including dividends.



Finally, in October (FAT-AUS-845), the deal reached completion with Jetson Holdings, finalising a price (net consideration) of \$7.18 per security.

### **Commonwealth Bank of Australia (CBA)**

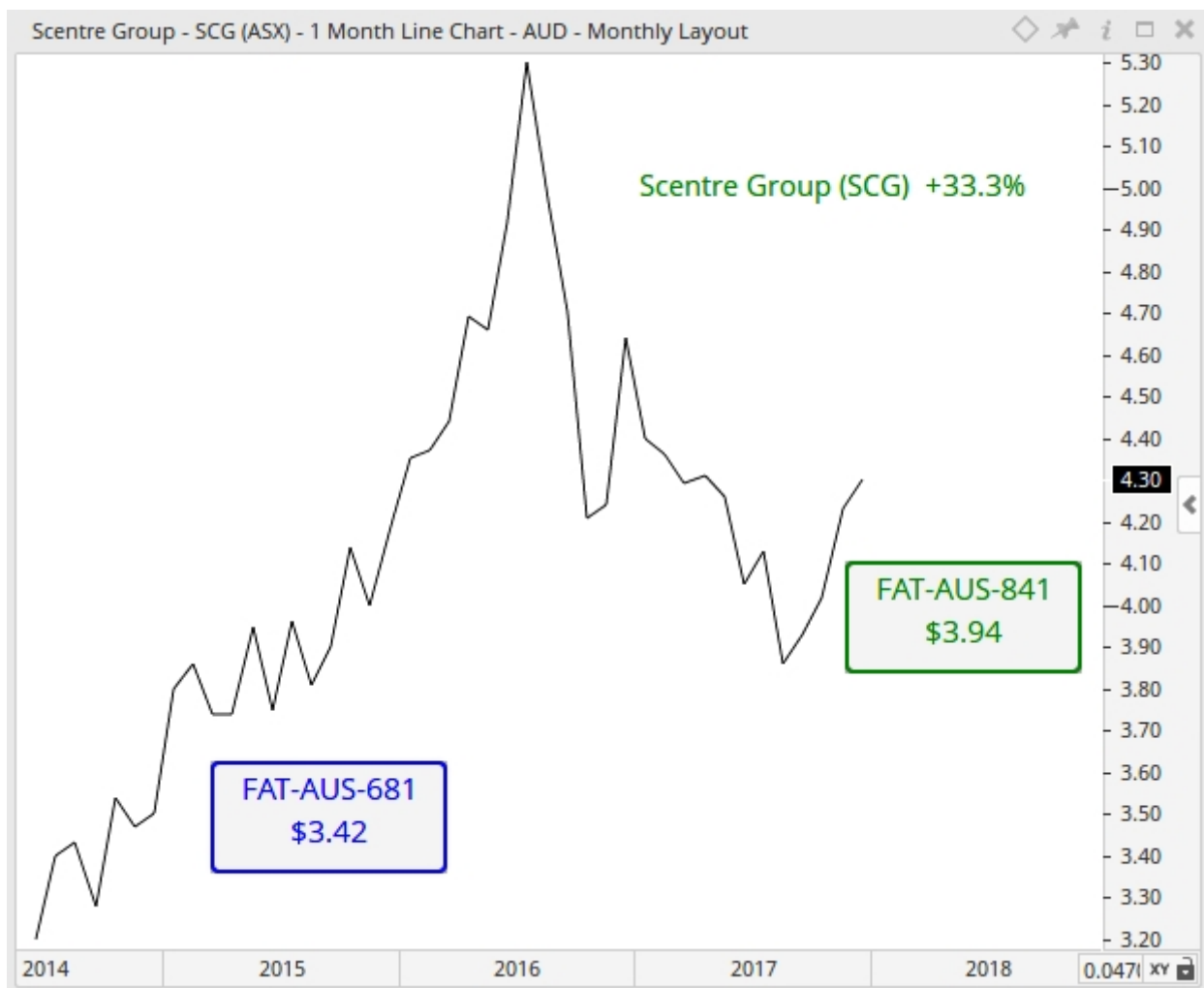
In early September (FAT-AUS-838) we opted to fully exit the position in Commonwealth Bank of Australia (CBA). Despite a strong full year result and less onerous than expected capital regulations from the Australian Prudential Regulation Authority, these positive developments were overshadowed by allegations from the financial intelligence agency, AUSTRAC, that the bank breached the Anti-Money Laundering and Counter Terrorism Act multiple times. The bank's woes didn't stop there as these claims have led to a class action lawsuit and resulted in two additional regulators probing into their governance and disclosure practices.



### Scentre Group (SCG)

For Scentre Group (SCG), much like Westfield, longer-term headwinds in the retail space are likely to have a pronounced impact given its concentrated portfolio. We opted to exit the stock in September (FAT-AUS-841), well ahead of Amazon's arrival and locked in a profit of 33.3%.





Since exiting, shares in SCG have rallied on the back of a seasonal Santa rally as well as the delay of Amazon's arrival, which was expected in October. Furthermore, Amazon Australia has reportedly faced some operational kinks with customers disappointed by slow shipping times. Nevertheless, given Amazon's track record, it is likely only be a matter of time before it remedies these delays.

### Myer Holdings (MYR)

Moving on to another retail exposure, and Myer Holdings (MYR) was originally added to the portfolio back in February 2010, after it had sold off following an over-hyped IPO in late 2009. Later in 2010, we sold half of the stock for a 24.1% profit.



Since that point, we've held on to the stock with expectations that management could continue to create shareholder value. However, increasing competition, with the arrival of foreign retailers, and increasing online disruption proved too much for the company. We issued a sell recommendation in September (FAT-AUS-841).

### **Fidelity Asia Fund**

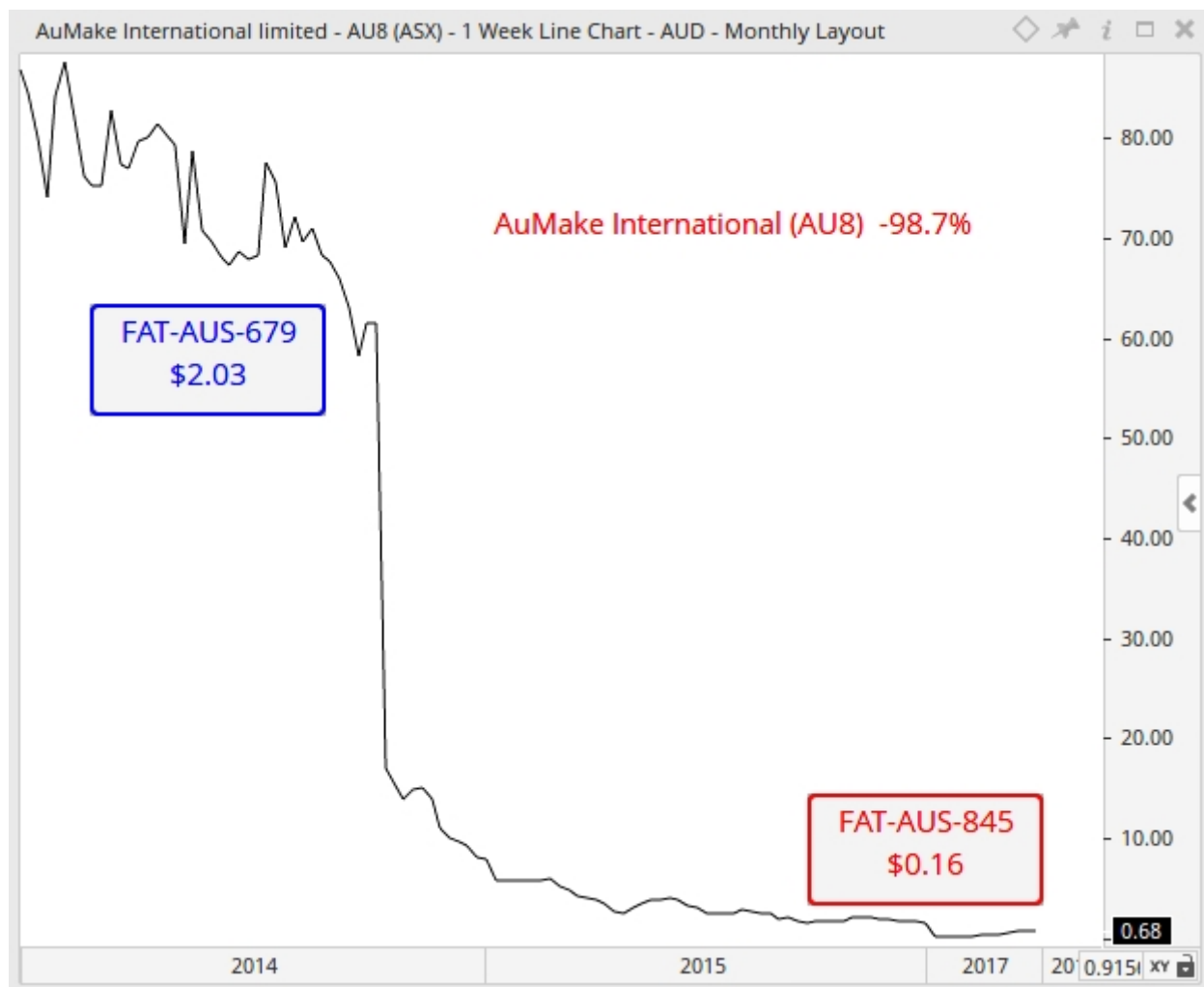
The Fidelity Asia Fund, was a mutual fund first recommended in the Global Funds portfolio back in October 2015. This was added into that portfolio given the attractive prospects of the Asia region, spearheaded by China and India.

We transferred Fidelity Asia Fund to the Australasian portfolio in March 2017. Though we remain bullish on the region, we opted to exit from the position back in October locking in a profit of 35.9% and decided to focus on the better performing alternative, the Platinum Asia Fund.

### **Titan Energy Services (TTN) / AuMake International (AU8)**

Titan Energy (TTN) was added to the Australasian equities portfolio in July 2014 given its unique offerings to oil and gas sector which, at the time, was faring well on the back of attractive macro prospects and high oil prices.

However, innovations in shale oil fracking caused a glut in oil supply and prices plummeted. This in turn impacted the energy services sector and placed much financial stress on Titan Energy Services.

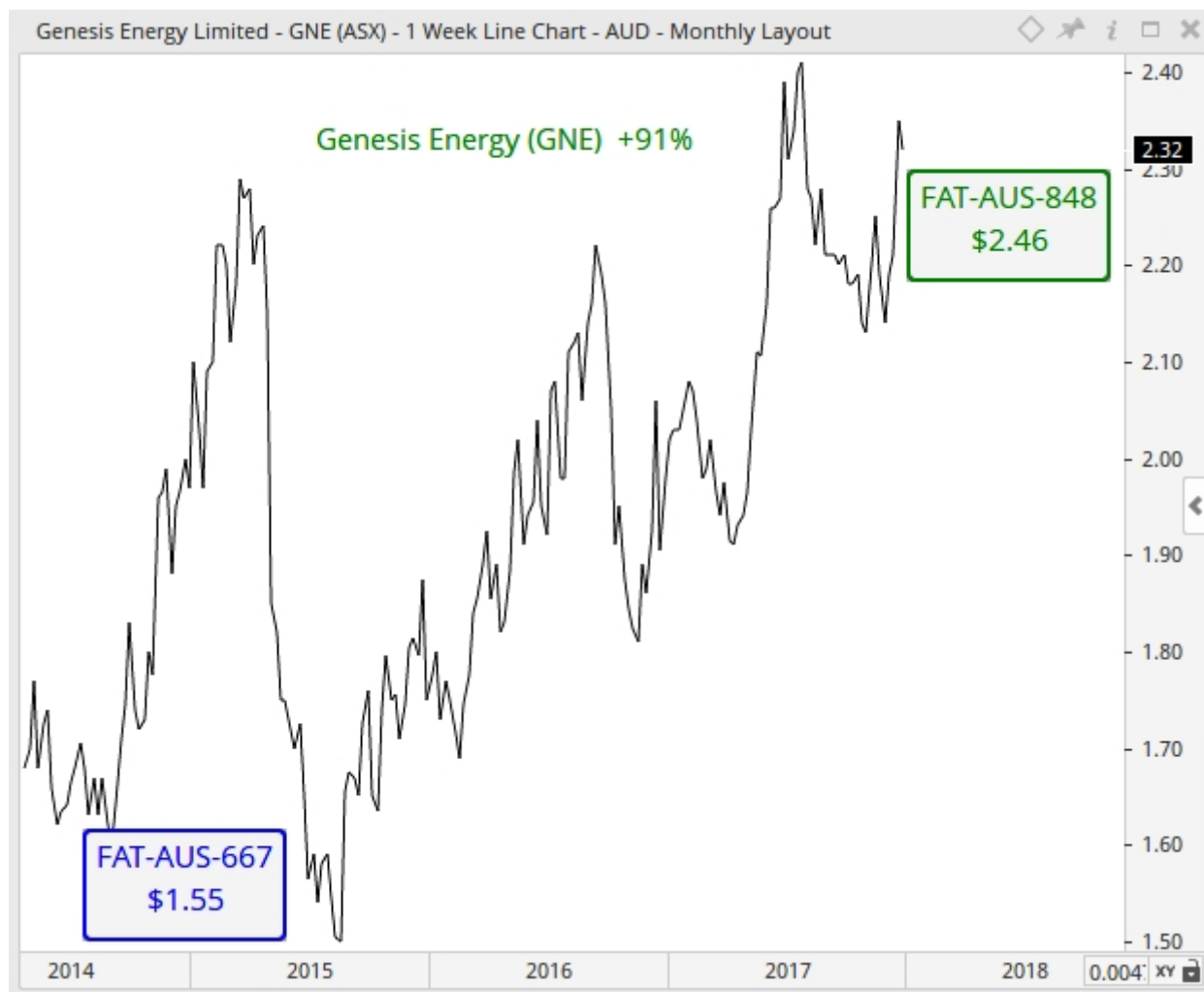


Since then, the company has faced a mix of troubles which eventually led to it opting for Voluntary Administration in late 2015. In May 2016, the company was recapitalised and the name changed to Augend Limited. But that was short lived as the company eventually sold its shares to AuMake International, which was involved in Chinese tourism retail. Given that it was no longer aligned with our initial buy recommendation, we issued an exit from the stock in October 2017.

### Genesis Energy (GNE)

Lastly, Genesis Energy was added to the portfolio in April 2014 as another exposure to the energy market with a power generation twist. The company was appealing given its partial privatisation and attractive dividend yield.

In November 2017, we opted to exit from Genesis Energy despite a decent performance on the operational and financial side, as the Labour/NZ First coalition deal included plans for a full-scale review of retail power pricing which may impact earnings going forward.



Furthermore, we are concerned with the government's 'spend and tax' plan which is expected to ratchet up interest rates and inflation, which will not be conducive to investor appeal for bond-like utility stocks like Genesis Energy. We locked in a solid 91% return including dividends.

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