Where we took profits and losses in 2018

In 2018, we published a total of 26 sell and sell-half recommendations, with 19 of them resulting in positive gains and 7 registering losses to various degrees. Below we provide a review of the stocks we recommended exiting or reducing over the course of the year.

We note that in the cases of Invocare (ASX.IVC), Australian Vintage (ASX.AVG), Qantas (ASX.QAN), and MNF Group (ASX.MNF), we recommended Members partially exit the stocks earlier in the year and fully exit the positions later in the year. The returns noted below include dividends. Our calls by stock/fund are provided below in chronological order:

Michael Hill International

International jeweller **Michael Hill International** (ASX.IVC) has been part of the portfolio since 2016, with the stock holding appeal due to its efforts to internationalise as well as list in the ASX. The shares enjoyed a solid run on the back of strong operational execution, while a wider net of investors on the ASX also boosted the price. In September of 2016 (FAT-AUS-791) we issued our first profit-taking recommendation, and with pricing looking somewhat full.

Earlier this year we decided to make a full exit at the end of January (FAT-AUS-857) when the shares firmed up following a trading update that noted the 'strategic shift' out of the USA as well as entry into the 'demi-fine' segment – a cross between fine and costume jewellery. We believed these to be significant changes that would kill off the long-term growth angle and herald the entrance into a riskier segment.

Our decision to exit the shares have ultimately proven prescient as it was near the top price level for the year, and the shares have since halved in value following a horrendously poor operational performance, with global sales dropping off a cliff and management drastically underestimating the marketing and promotional activities required to support its strategic shift.

Invocare

Next up is mortuary services provider, **Invocare** (ASX.IVC) which has been a long servant in the portfolio (~2010) and a 'quiet achiever' thanks to its highly defensive nature with a sustainable demand profile. The company has also supplemented well-run operations with prudent bolt-on acquisitions.

In February (FAT-AUS-861), the company, announced a solid fiscal 2017 (FY17) with double-digit growth in operating earnings per share, though the outlook was tempered by a muted FY18 forecast as costs from the company's "Protect & Grow" plan (a refurbishment and expansion programme) were set to weigh on operating earnings. In light of this development, along with lofty valuations and a weak technical picture, we recommended a Sell-Half, locking in an absolute gain of 182.6%.

INVOCARE LTD - IVC (ASX) - 1 Month Line Chart - AUD

Later on, in May (FAT-AUS-873), we finally decided to lay this stock position to rest when its trading update showed confirmation of flat operating earnings and a concerning revelation about future EBITDA growth. We then locked in an absolute 144% gain.

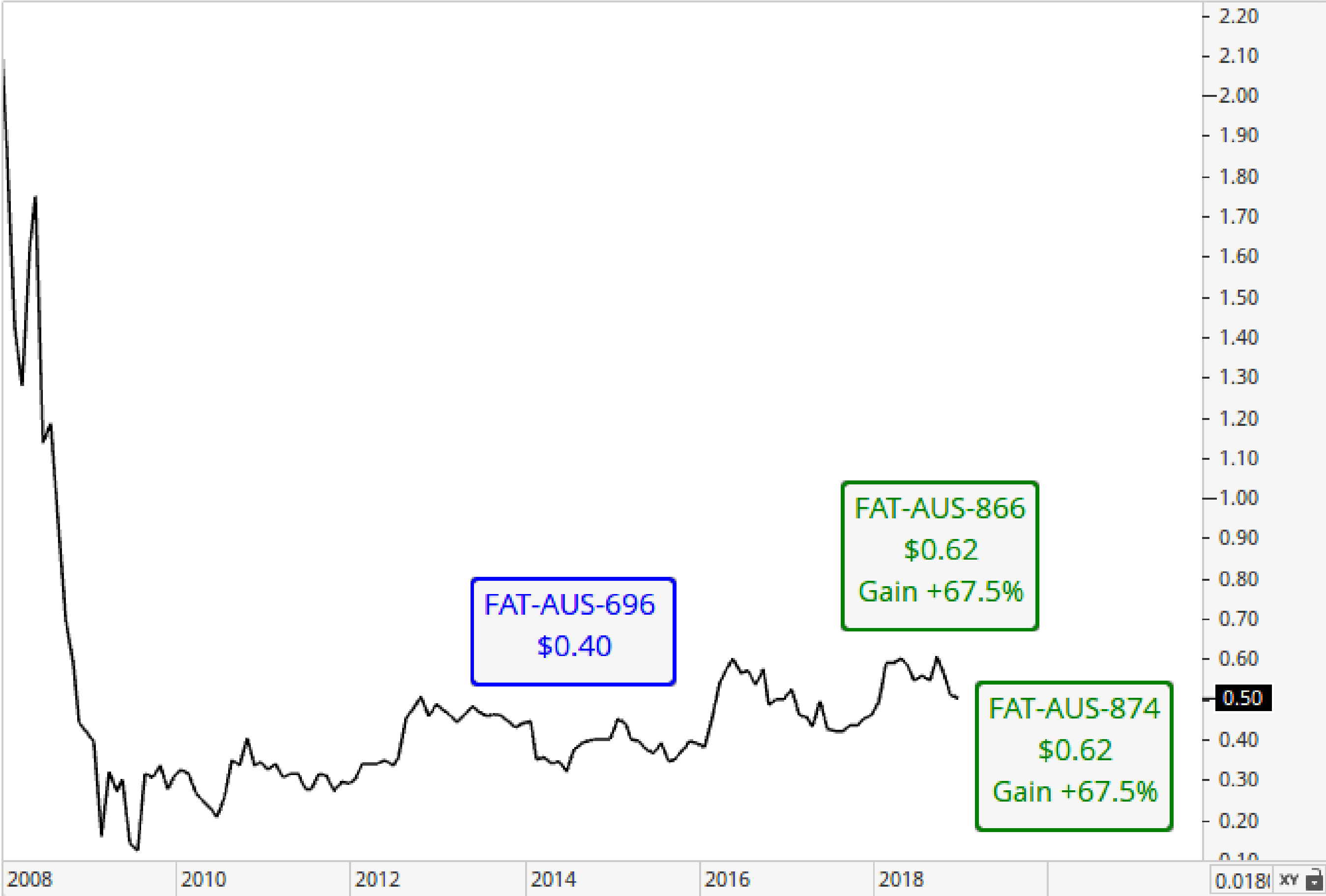
Since then, the shares have had a roller coaster ride where they began trending up with the company making numerous acquisitions to support the "Protect & Grow" plan and anticipation of a better 1H18 result. However, the market was sorely disappointed with the shares dramatically falling after the 1H results showed declines in operating earnings. and the shares have continued to trend downwards to date. Though, the timing was not optimal (no one has a crystal ball that works), our point was ultimately proven.

Australian Vintage

Australia's fifth largest winemaker, **Australian Vintage** (ASX.AVG) was a welcome addition to the portfolio back in late 2014 (FAT-AUS-696) due to it being well managed and having an undemanding valuation. We also liked the growth story in UK & Europe.

After holding the stock for a few years, we opted to take some profits in March (FAT-AUS-866) after a stellar run benefitting Australian vintners owing to a weak vintage (output) in Europe from unfavourable weather while California's production was impacted severely by wildfires. We also factored in upcoming risks from Brexit to a lower 2018 vintage with production normalising.

Australian Vintage Limited - AVG (ASX) - 1 Month Line Chart - AUD



Following that, in May (FAT-AUS-874) we decided to fully exit from the position when the sector began facing issues in China with a supply glut leading to shipment delays and as the government imposed stricter verification requirements.

With both exits at the same price point, we locked in an absolute gain of 67.5%. This proved the right call - shares in the winemaker have since fallen around 20%. We believe recent weakness reflects a weaker 2019 vintage outlook due to a combination of frost and drought impacting different vineyards.

Trilogy International

Trilogy International, a New Zealand based cosmetics and candle manufacturer, was added back in 2014 (FAT-AUS-680) largely due to the company's ability grow revenues and earnings amidst a challenging trading climate while benefitting from a recovery in consumer spending. We managed to pick the lows in the shares with our buy recommendation, and the shares went onto become a stellar performer as the company ransformed dramatically, vertically integrating New Zealand distributor CS Company while also building up key rosehip oil supplies by buying a stake in Forestal Casino.

Following on, and in April (FAT-AUS-868), the company's attractive portfolio offerings and a burgeoning cosmetics market in China attracted a takeover offer from CITIC Capital, one of China's leading asset managers. This bid of NZ$2.90 per share valued the company at NZ$210.97 million giving Members who bought it at initial recommendation of NZ$.0.48 a 531% gain.

AWE Ltd

AWE Ltd had an interest in two major natural gas fields in the Waitsia field (AWE's interest 50%) part of the Perth Basin and the Casino field (AWE's interest 25%) in Victoria. The company had been divesting assets to focus on natural gas production and especially from the Waitsia field. This saw the company produce five million barrels of oil equivalent (boe) in 2016 and a forecast for 2017 of only 2.7 million boe to 3.0 million boe.

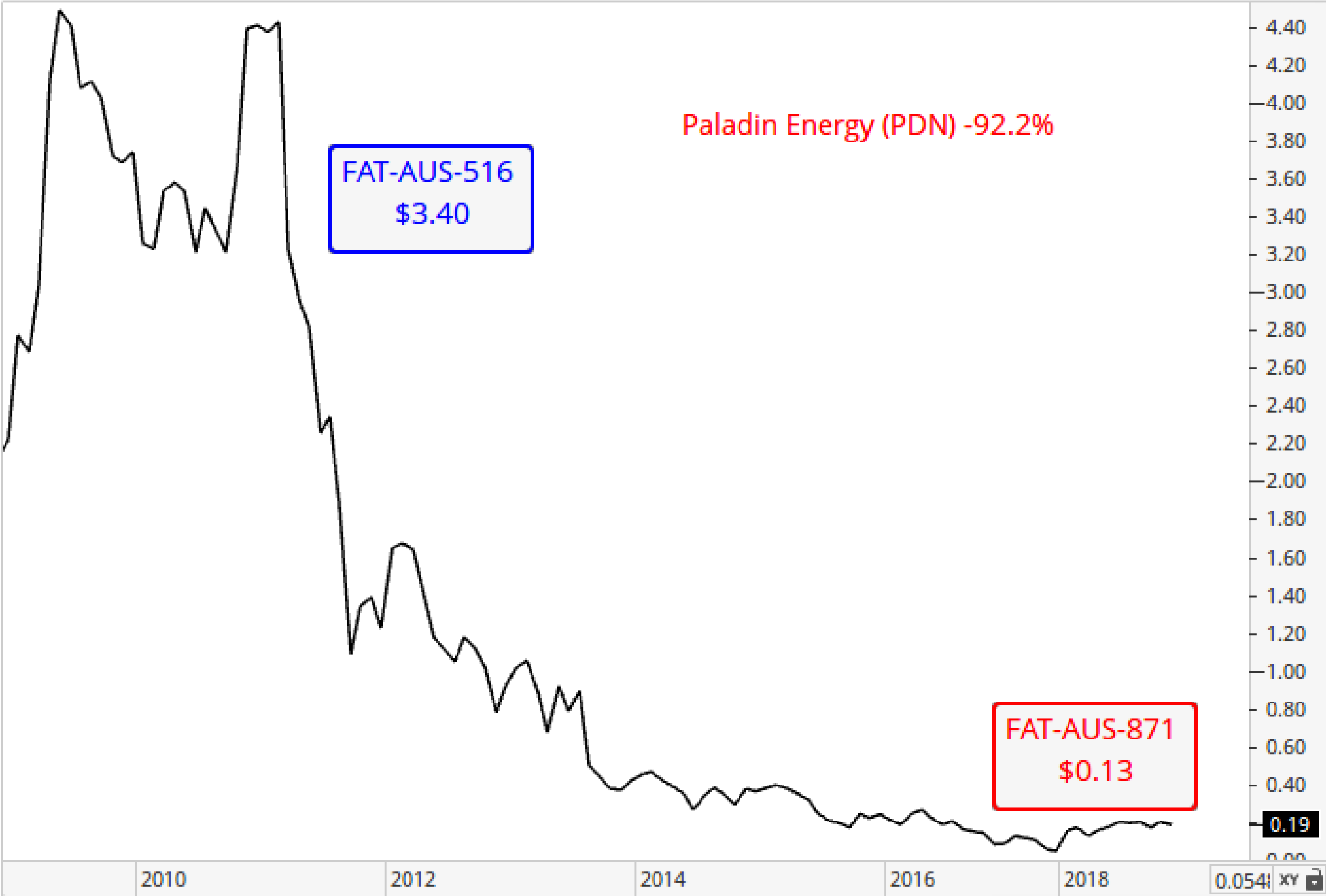
The company was advancing its Waitsia Stage 2 gas project, with a final investment decision on its future was to be made in 2018. The Waitsia field was expected, with the expansion, to deliver 100 terrajoules per day of natural gas over a minimum of the next 20 years. This growth profile attracted the sharks, with two companies (one Chinese and the other Japanese) making competing bids. The AWE price soared to the successful bid of A95 cents per share. This pull forward of value in AWE was enough for Mitsui & Co (the Japanese company) to claim the prize, with AWE removed from the Australian Stock Exchange.

Paladin Energy

Langer Heinrich was **Paladin Energy's** flagship uranium mine in Namibia. The mine was placed into care and maintenance, because of the persistently low uranium price. The company, as a result, went into voluntary administration. Under a Deed of Company Arrangement (DoCA), existing shareholders suffered a heavy dilution of ownership as the creditors of the company took control. With completion of the DoCA, the company was relisted on the Australian Stock Exchange.

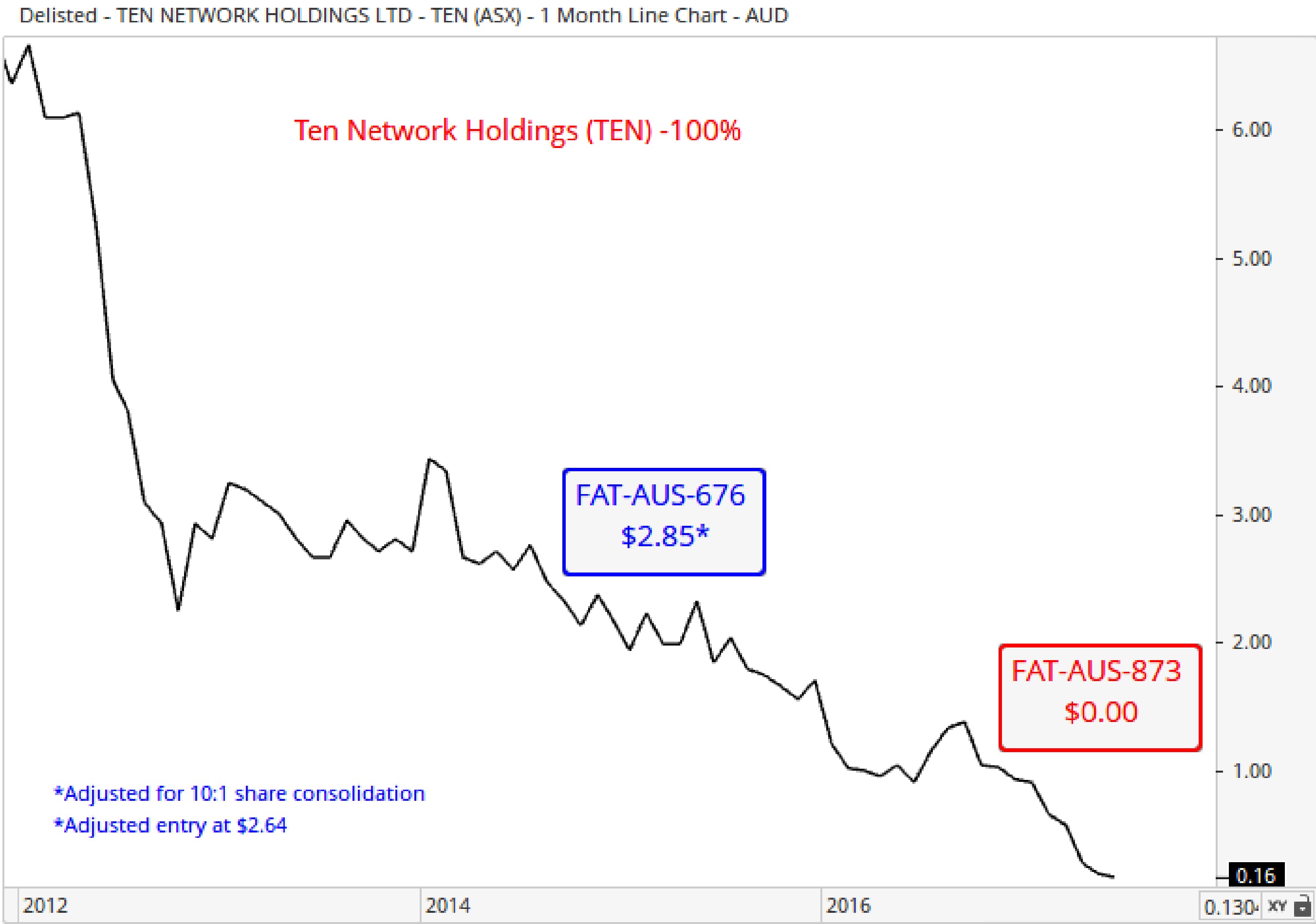
A "sea change" in social thinking around energy in the early part of the 21st century, and two accidents in Chernobyl (1986, human error) and Fukushima (2011, natural disaster) dashed the uranium price. The uranium price hit highs of US$41 per pound in 2014 to lows of US$18 per pound in 2016; and is currently trading around US$29 per pound. We saw little value in the uranium space going forward, to top ownership, on a persistently low uranium price, we therefore quit what was a very disappointing recommendation.

Paladin Energy Ltd - PDN (ASX) - 1 Month Line Chart - AUD



Ten Network Holdings

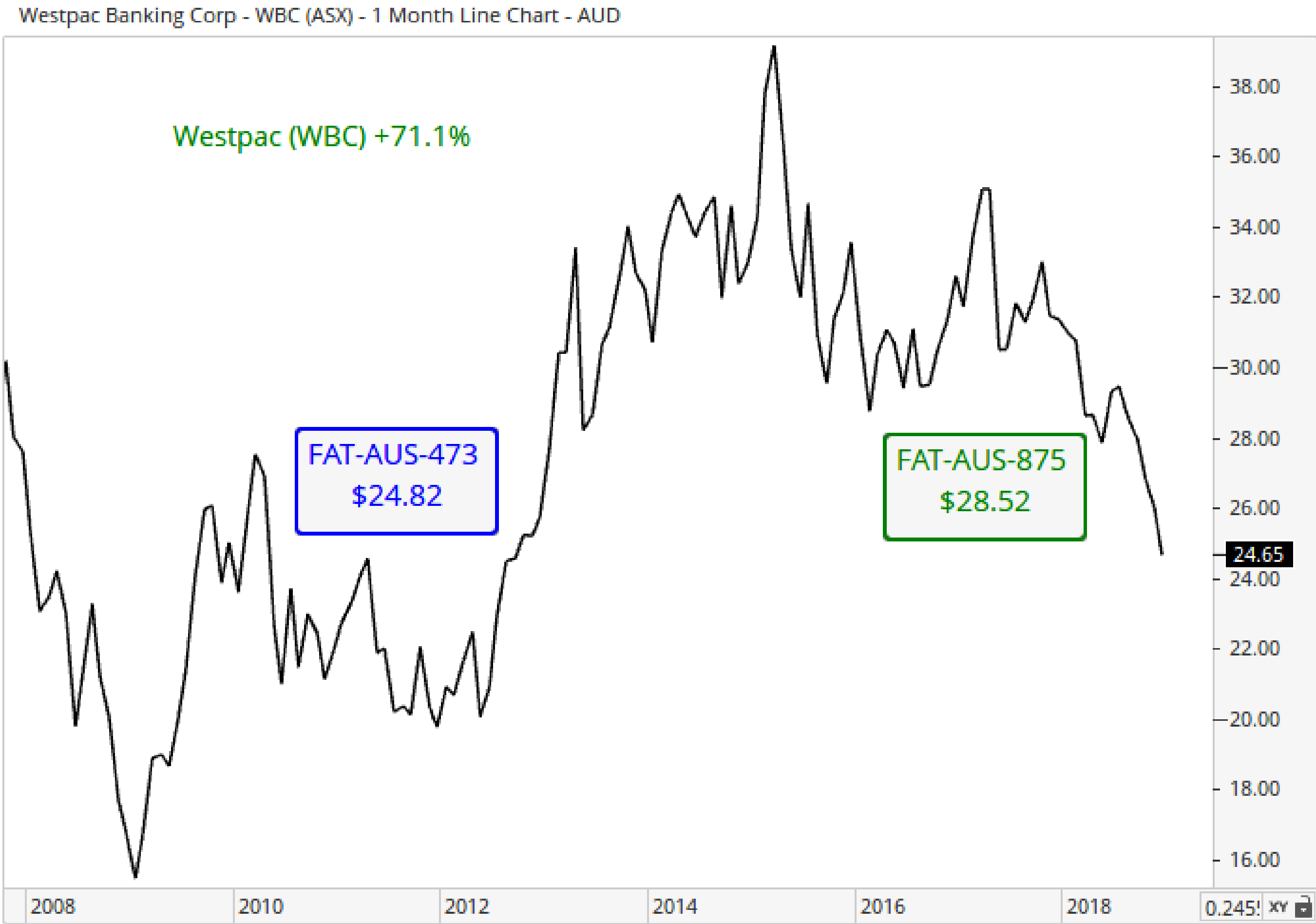
Ten Network Holdings is one of the rare cases of our turnaround selections ending in a compete wipe-out for shareholders. The company had a high risk, but plausible turnaround case in our view, and to a recovery in the advertising market, with a low cost, high profit model, and strong market share. However, this view was tempered with the prevailing risks in the broader industry which was suffering from disruptors such as Google and Facebook as well as the onset of online streaming. Thus, prompted our SPECULATIVE HIGH-RISK rating.



The broader headwinds, however, were far too strong as it transpired, leading to a domino effect with Ten's 1H17 performance resulting to massive losses and an eventual move into voluntary administration. This ultimately led to its acquisition by CBS and paying off debtors first, leaving shareholders in the dust.

Westpac

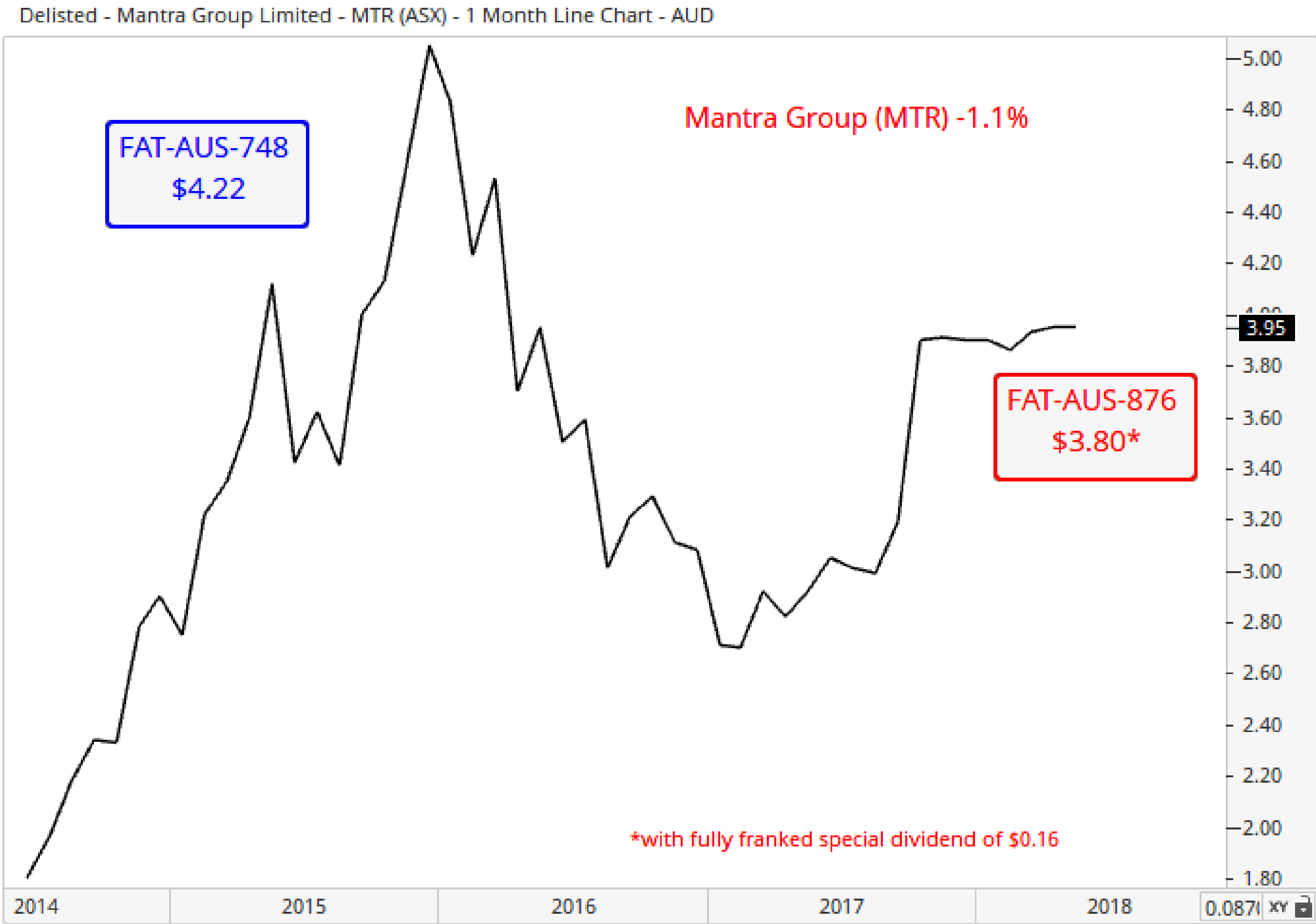
Westpac (ASX.WBC) was one of our solid income plays in the portfolio, steadily contributing healthy dividends over the years held. The bank had also steadily traversed headwinds well, and delivered a decent 1H18 performance in our latest coverage at the end of May (FAT-AUS-875).



However, on that same coverage we noted the prudence of selling out and fully exiting the position considering the hurdles from increasing regulatory scrutiny and concerns in the real estate market. That move proved to be prudent as the shares have since drifted around 14% lower, while following the recommendation resulted in a 71.1% gain, including dividends.

Mantra Group

Hotel and resort operator, **Mantra Group** had been added to the portfolio back in late November 2015 (FAT-AUS-748) with our attention attracted by a resurgence in tourism to Australia, as well as a growing opportunity in the business travel segment. However, the shares had been somewhat of an underperformer due to an (in our view overstated) reaction to Airbnb as a disruptor.

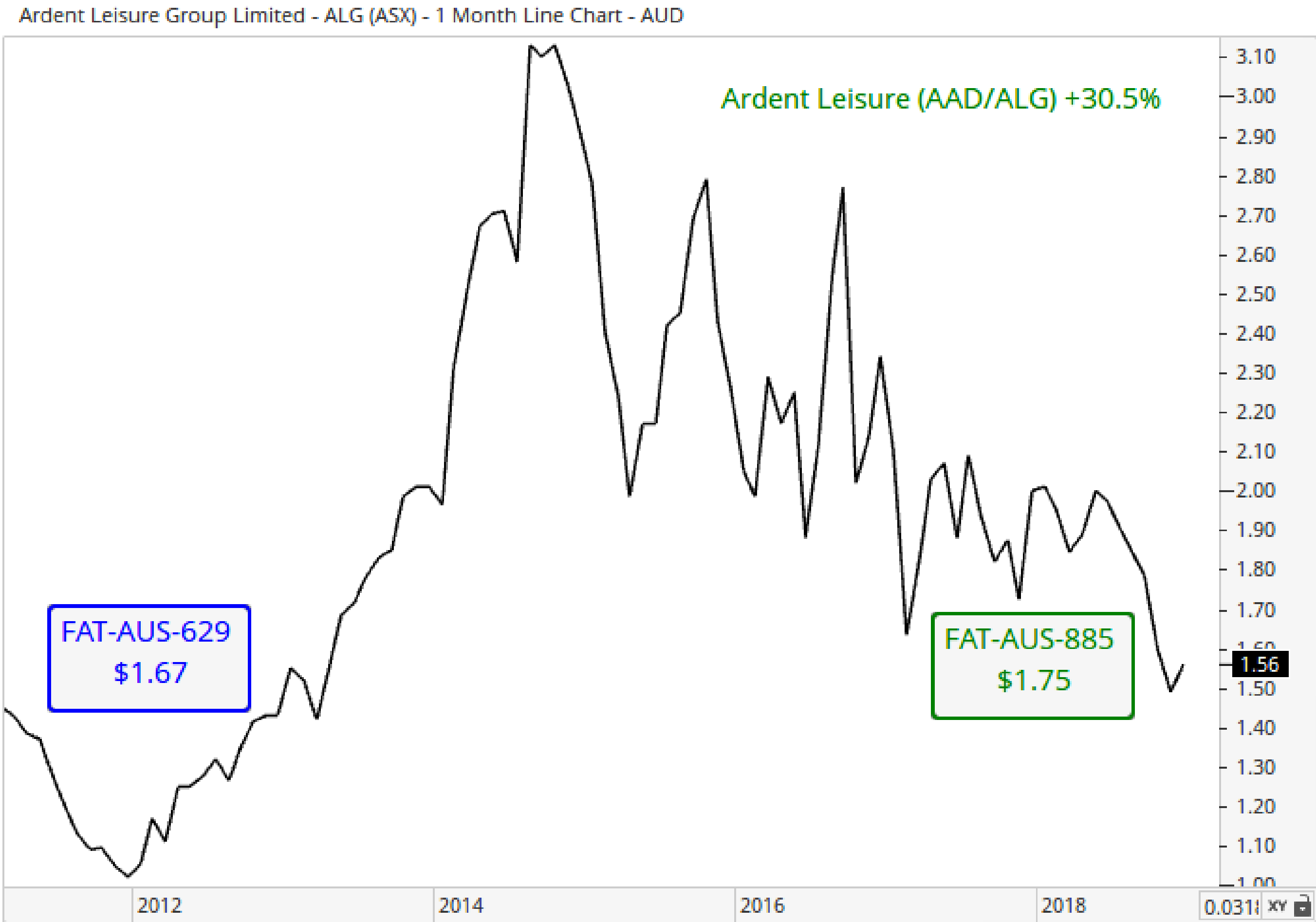


Nevertheless, there was some light at the end of the tunnel when French hotelier, AccorHotels (EPA.AC) in October 2017 saw the value on offer and proposed to acquire the company for $3.96 per share in cash (being $4.02 per share, less the final FY17 dividend) and including a potential special dividend. Despite the long wait, the deal was ultimately completed as covered in our June note (FAT-AUS-876) with AccorHotels making good on its offer.

Ardent Leisure

We exited another leisure operator, **Ardent Leisure** (ASX.AAD), in early August (FAT-AUS-885) when the company reported modest declines in its preliminary numbers due to various charges ranging from property impairments to restructuring and pre-opening costs. There were also revenue declines from the ongoing weakness in the Australian Theme Park division as the fallout continued from the 2016 tragedy on the Thunder Rapids Ride.

With earnings likely to remain muted in the short-term and the technical outlook looking weak, we opted to move on. Exiting the position locked in 30.5% in absolute gains, annualised to 5.3%.



The shares have since been suspended from official quotation at the end of November due to changes in the structure from its stapled security status towards a corporatized structure by combining Ardent Leisure Limited and Ardent Leisure Trust. The company is set to re-list 27th December under the proposed ticker 'ALG'.

Qantas

Our national carrier, **Qantas** (ASX.QAN) has proved one of our stronger turnaround selections since entering the portfolio at $1.31 in August 2014 (FAT-AUS-685). We were a fairly lone voice in expecting a dire earnings situation to reverse, with costs being taken out, and on the back of CEO Alan Joyce's transformation program. Our recommendation was made when virtually every broker in Australia had a sell on the stock.

More than four years on, and with the shares have performed strongly, we in late August (FAT-AUS-888) took the view that the low hanging fruit from the 'transformation programme' was gone, With fuel hedges also expiring, we opted to take some profits, locking in a handsome 422.1% gain which annualises to 50.4%.

Later on, in October (FAT-AUS-896), the company issued a trading update confirming our concerns of rising fuel prices taking a bite out of profitability, with management noting that the rising costs are outpacing revenue growth. In light of these concerns we opted for a full exit and locking in solid 333.6% absolute gain which annualises to 41.6%.

MNF Group

Leading VoIP (voice over internet protocol) provider, **MNF Group** (ASX.MNF) issued its full FY18 results at the end of August showing healthy double-digit growth in revenues as well as improvements in various metrics.

However, it seemed the market was underwhelmed with the performance with modest declines in earnings with investments in the Pennytel business. We noted in our in September report (FAT-AUS-889) that the reaction was excessive though to be fair there is sometimes no point in fighting the tide at that juncture we opted to take profits as the shares staged a minor recovery, locking in a sizeable 351.9% gain which annualises to 31.2%

MNF Group Limited - MNF (ASX) - 1 Month Line Chart - AUD

Following that, MNF acquired Inabox Group's wholesale and enablement business as it looked to bolster its wholesale offerings. However the company provided some muted growth expectations for FY19 which seemed a mismatch to the lofty valuations that priced the company for rapid growth. With the technical outlook looking weak, we opted to fully exit from the position in November (FAT-AUS-897).

This resulted in a gain of 266.6% and annualises to 25.4%. The shares have since trended lower, down a further 6%.

Silver Chef

Equipment financier **Silver Chef** (ASX.SIV) has been a disappointment with the company's exit of the unprofitable GoGetta business taking longer and proving more painful than expected whilst a combo of rising interest rates and stuttering property markets may apply further financial pressure on the company's customer base. We recommended exiting the stock in September (FAT-AUS-890) to avoid a deeper decline in the share price.

SILVER CHEF LIMITED - SIV (ASX) - 1 Month Line Chart - AUD

The little saving grace the position had for Members was our initial take profits recommendation at $7.32 (FAT-AUS-622). Those that exited around our last recommendation would also have saved a further additional decline of around 20%.

Fidelity India Fund

The **Fidelity India Fund**, was a mutual fund first recommended in the Global Funds portfolio back in July 2015. The fund was added to the portfolio as the Indian stock market staged a recovery following the election of Narendra Modi, and with his reforms set leverage favourable longer-term trends such as India's demographics and rising income.

We then transferred Fidelity India Fund to the Australasian portfolio in March 2017. Though we remain bullish on the region, especially in the long-term with its potential to become largest economy in the Commonwealth (and surpassing the UK), we opted to exit from the position back in September (FAT-AUS-890) amidst rising risk in domestic and external fronts.

Members following the recommendation would've locked in a healthy 28.8% profit which annualises to 8.4%. Since then, the fund's unit prices have drifted some 7.2% lower proving a timely exit.

Greencross

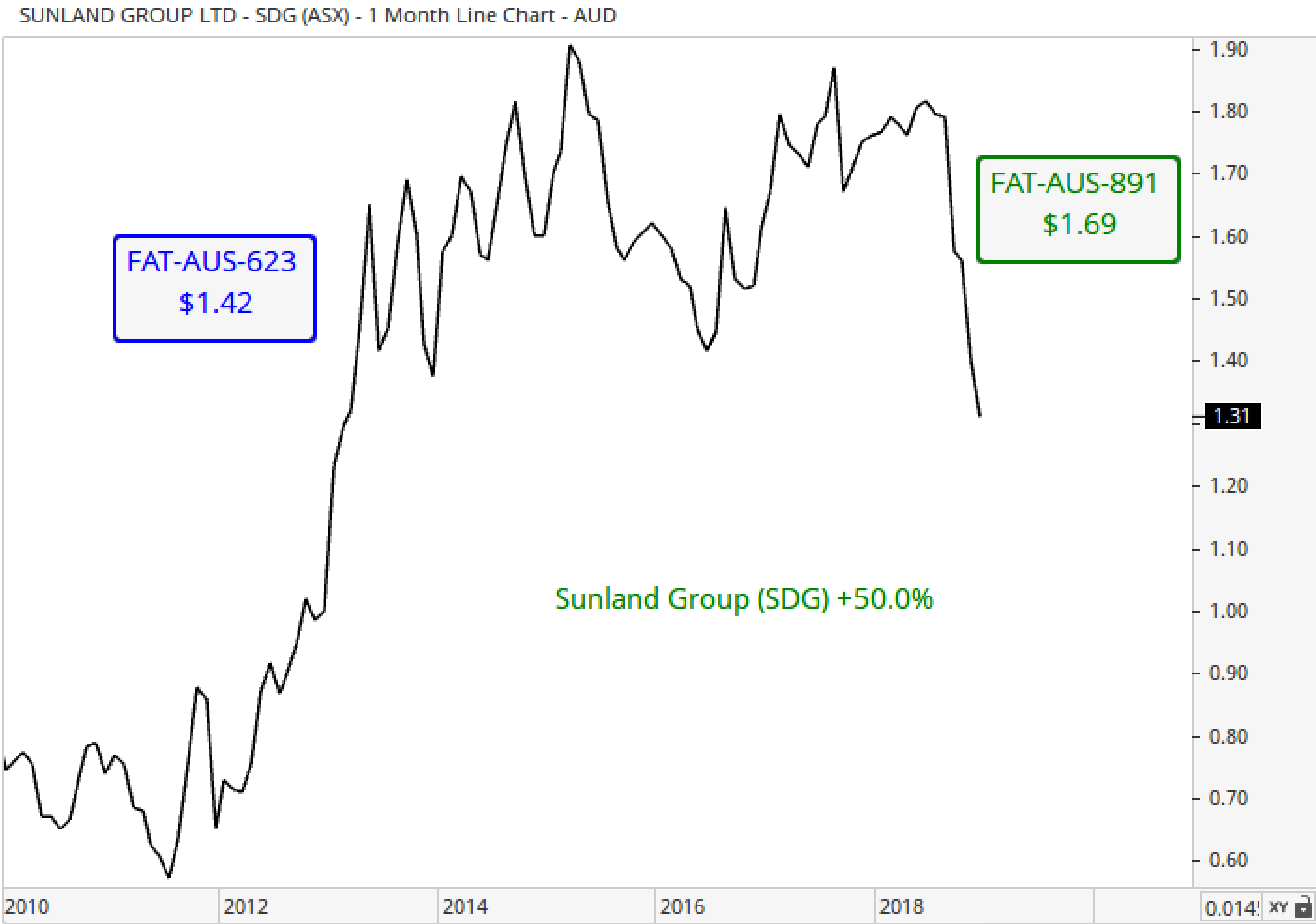
Integrated pet care company **Greencross** (ASX.GXL) had a difficult FY18 having reported declines to its earnings, as its 'integrated model' proved to be its undoing with in-store clinics cannibalising customers from standalone clinics while the costs of new operations skyrocketed leading to lacklustre Vet operations.

There were also concerns that consumer spending was taking a dip with reports of consumer tightening their belts due to the weakening property prices reversing the wealth effect. Another issue was the fact that the shares were significantly under pressure following their removal from S&P/ASX 200 index, causing numerous institutional funds to rotate the shares out of their respective portfolios.

We therefore decided to cut the position in September (FAT-AUS-890). Unfortunately, and on a relatively rare occasion, our decision proved premature, as the shares rebounded following a takeover offer from US private equity firm TPG Capital.

Sunland Group

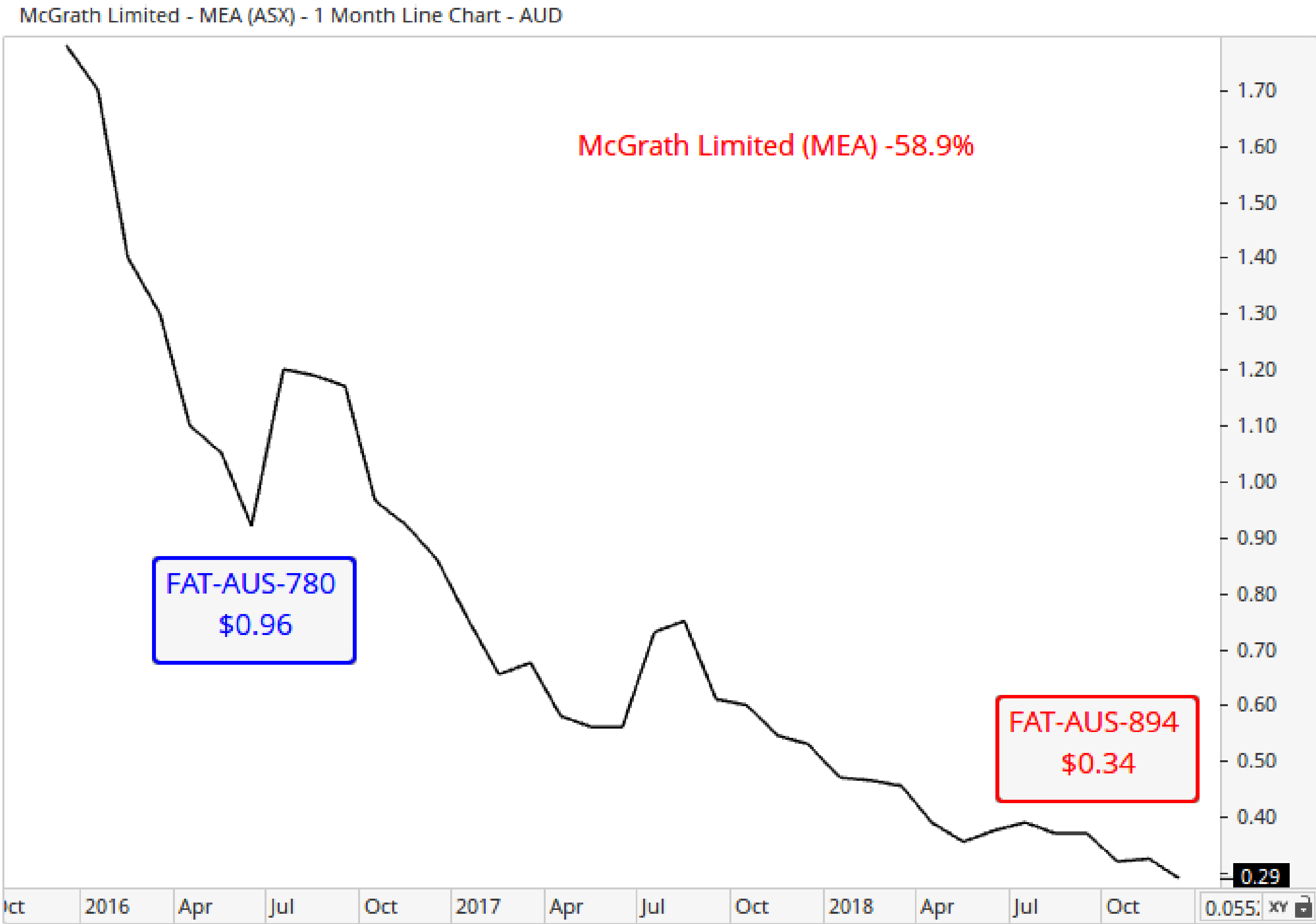
Noting the weakening property prices, we also opted to exit from 'sunshine state' developer **Sunland Group** (ASX.SDG) in mid-September (FAT-AUS-891) after doing a deeper review on the prevailing trends in the sector, and tightening lending standards with more and more loans seeing rejections whilst property auctions have fallen off a cliff.



We also reviewed the company's FY18 results and highlighted management's outlook which was refreshingly honest, noting the 'inevitable consolidation' of the market which, to be fair was already 9-years running. We thus took their cue and made an orderly exit locking in a 50% gain, which annualised to 7.8%. The share prices since have fallen around 23%.

McGrath Limited

Another player in the property sector facing a hit was real estate agent **McGrath Limited** (ASX.MEA) which continued to report lacklustre numbers with revenues slipping due to depressed listing levels, office closures and a decline in agent numbers. To be fair, the business has since stabilised from its worst years when it was impacted by high profile departures from the agent team and senior management.

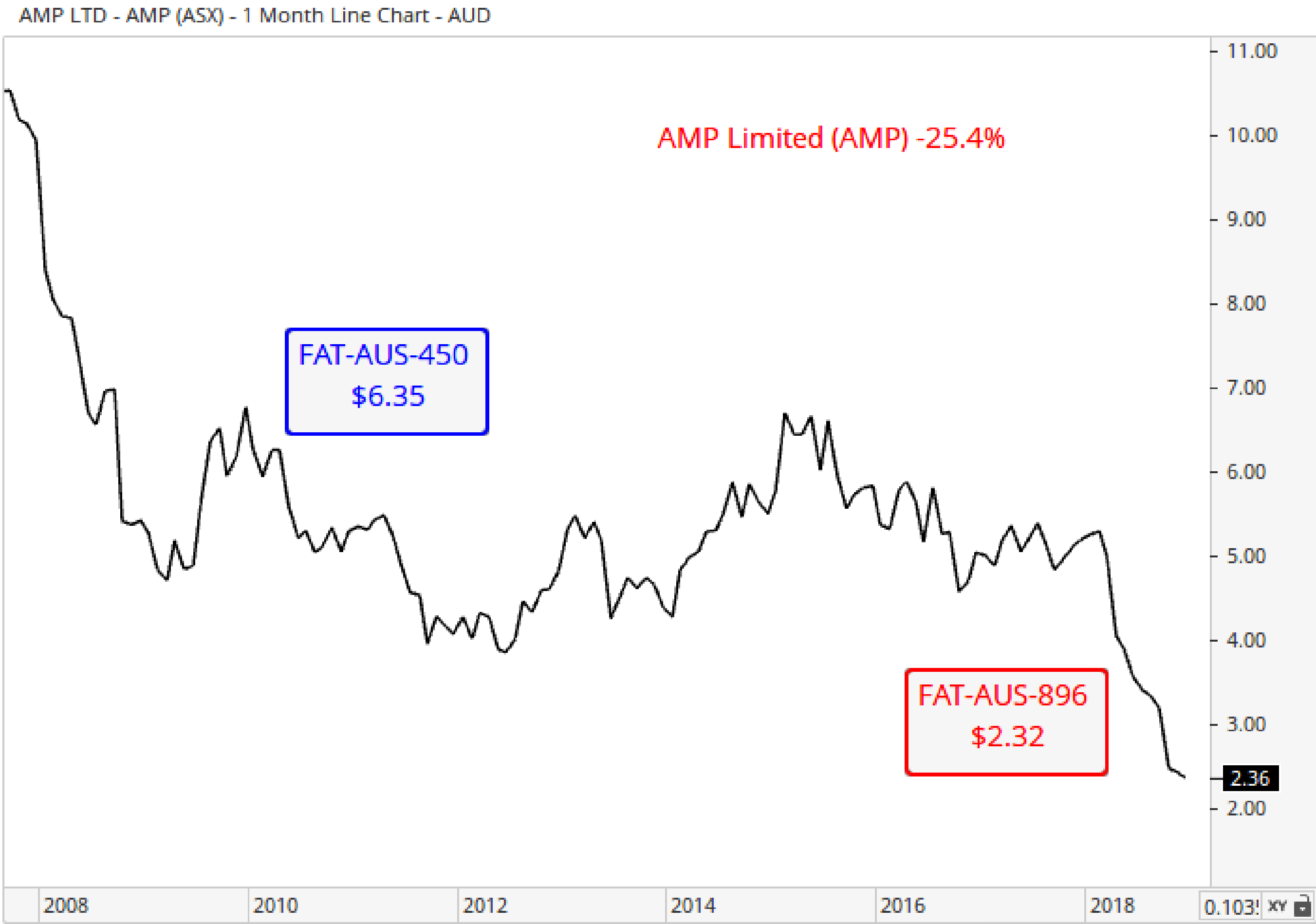


However, with the macro headwinds unlikely to abate soon and the company still vulnerable, we believed it was prudent decision to exit, as noted in our October report (FAT-AUS-894). The shares since our recommendation to exit have fallen a further 15%.

AMP Limited

Wealth Management group, **AMP Limited** (ASX.AMP) was one of the biggest casualties of the Royal Commission, with the wrongdoings highlighted by the enquiry seeing significant capital outflows across its product groups and the company's reputation in tatters.

Aside from such issues, the company also announced of a major restructuring that involves selling off sizeable chunks of its life insurance business in Australia as well as its New Zealand wealth management business. The market has likewise responded with a massive sell-off, no doubt a side effect of divestments without shareholder approval.



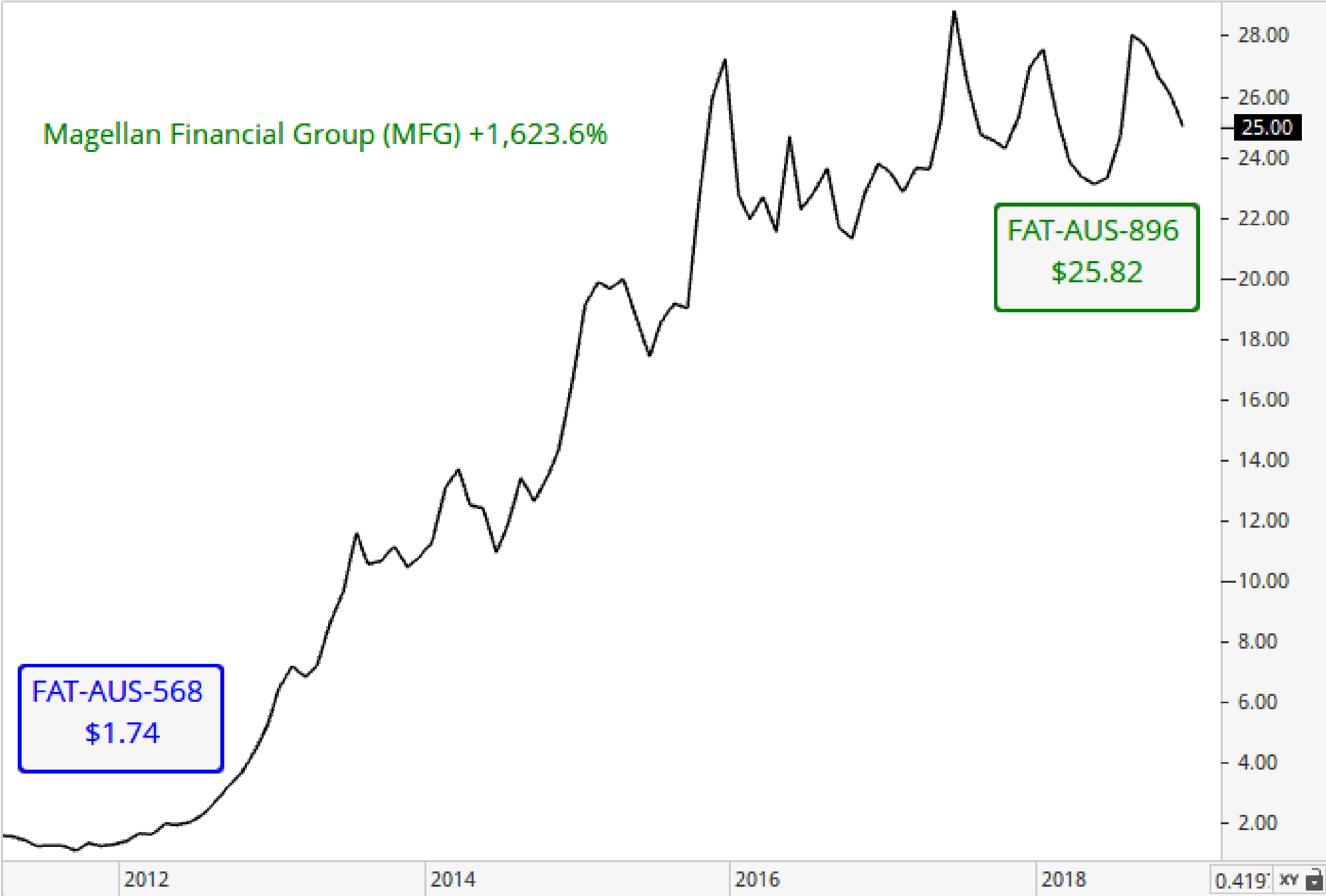
In light of those unsavoury developments, and difficult outlook going forward due to various factors (Royal Commission, untested management, & brand damage) we opted to cut ties with the group with a Sell recommendation at the close of October (FAT-AUS-896).

Magellan Financial Group

Another player in the asset management space covered in the same report in October (FAT-AUS-896) was **Magellan Financial Group** (ASX.MFG) which has been a stellar performer in the portfolio, having delivered strong operational and financial performances with healthy fund inflows, also supported by a robust investment track record. It was also pleasing to note that the company has finally separated the chief executive role and chief investment role, allowing a greater focus for the executives involved.

Despite a strong performance over the years, we were conscious that the company would not be immune to a correction in equity markets, especially being a global asset manager – the signs were already showing with funds under management posting a marginal decline. With the market outlook looking a subdued and likely impacting inflows, we opted to fully exit from the position and take profits while ahead. This netted a 1,623% gain, annualised to 54.2%.

Magellan Financial Group - MFG (ASX) - 1 Month Line Chart - AUD



IOOF Holdings

Wealth management firm **IOOF Holdings** (ASX.IFL) has not had such a happy time of it, with the shares under pressure due to the Royal Commission, and hitting multi-year lows following a series of legal actions against the company by the the Australian Prudential Regulation Authority (APRA).

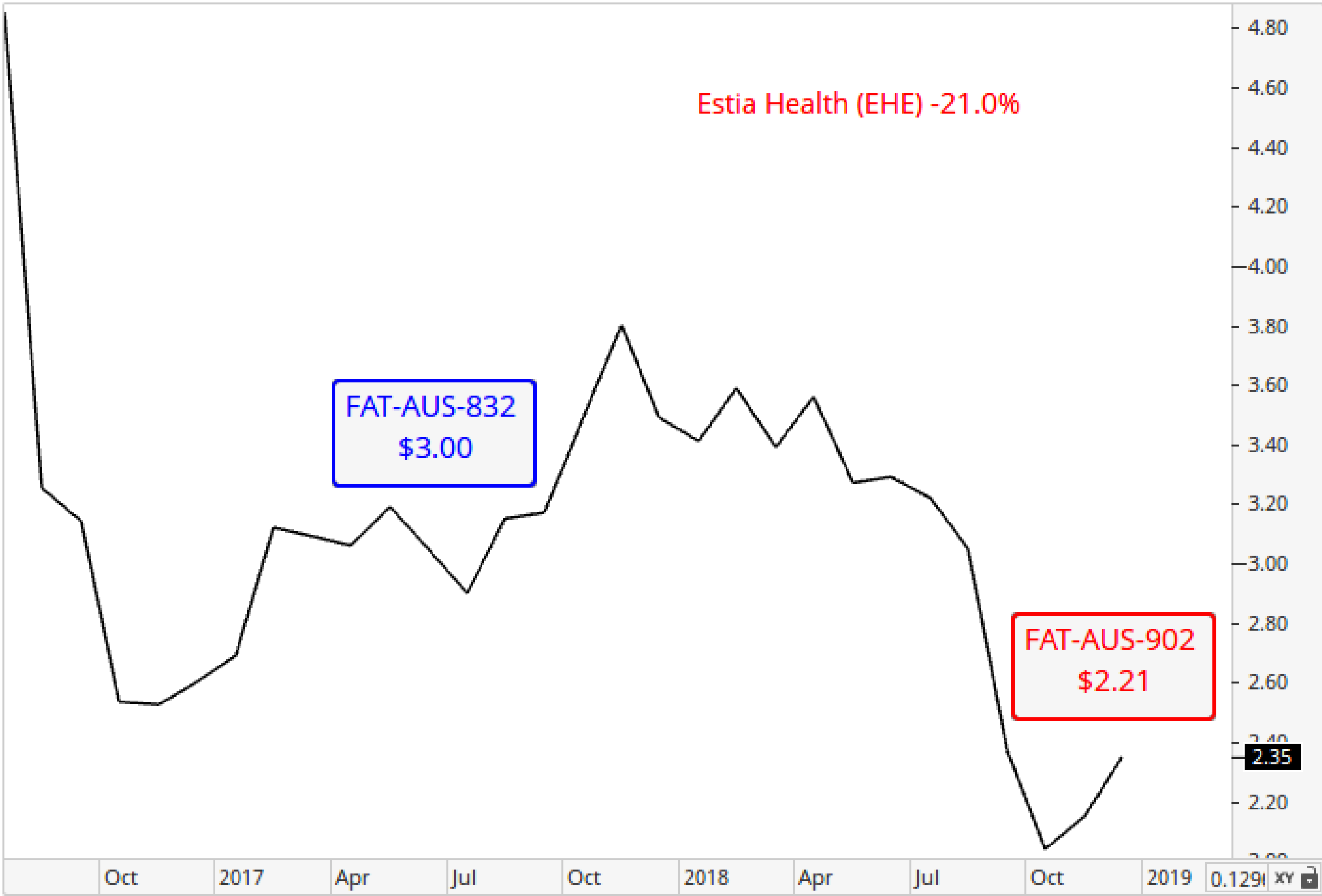
We cut the shares in November (FAT-AUS-902), and noted the increasing risk on the group with its OnePath acquisition looking more suspect and doubtful to reach completion while a series of legal actions could seriously impact inflows going forward.

The decision to exit at the $4.46 mark was disappointing in the end, but offset by strong dividends during the holding period, resulting in a gain of 39.3% which annualises to 4.9%. We had also some years ago recommended locking in profits around the $9.90 mark. There could be further pain for the stock next year in our view, with APRA pushing heavily for a forced restructure.

Estia Health

Next year could also be tougher as well for **Estia Health** (ASX.EHE) which will (along with peers) come under the lens of a Royal Commission into the aged care sector.

Estia Health Limited - EHE (ASX) - 1 Month Line Chart - AUD



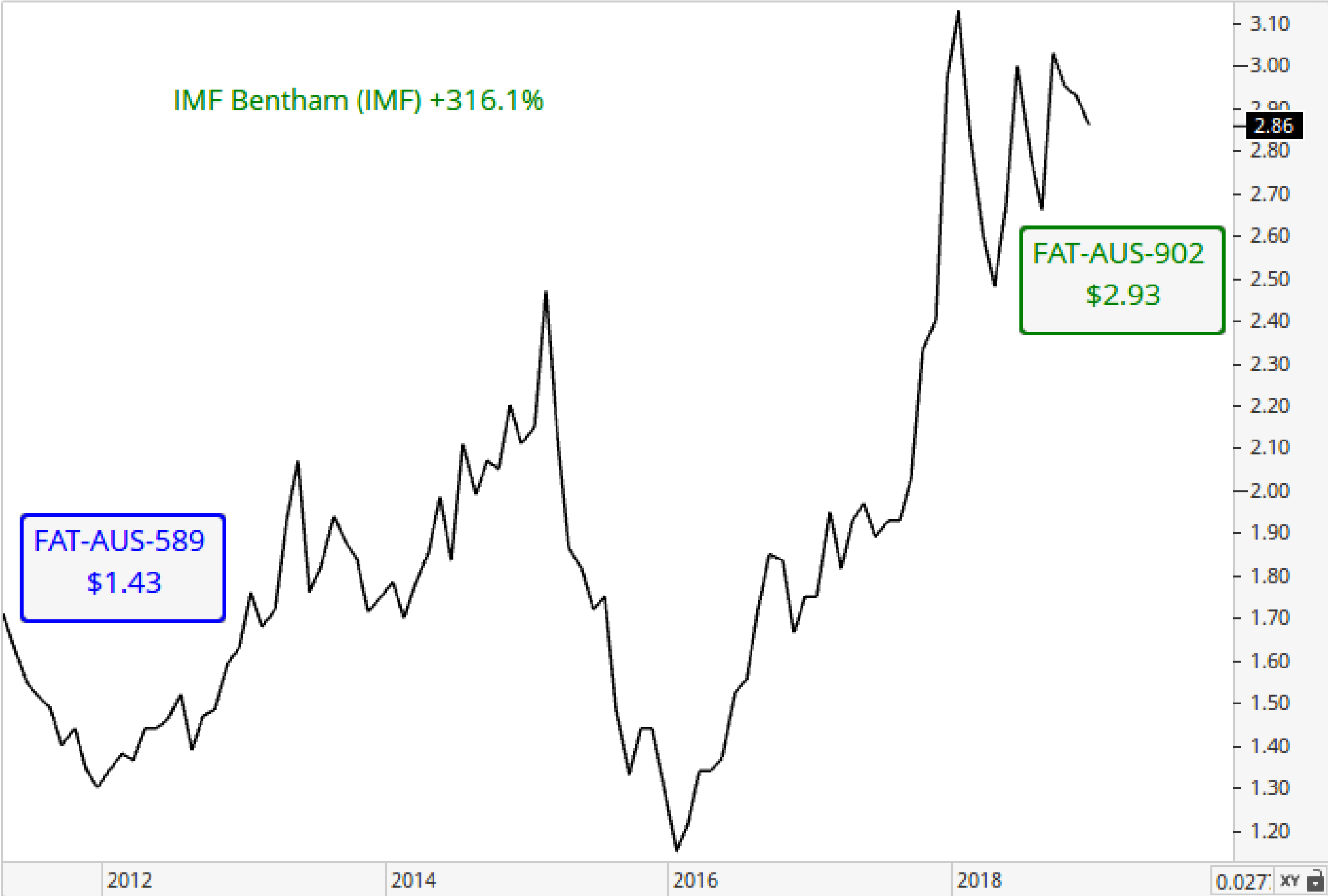
Taking a cue from the Royal Commission into the Banking, Superannuation and Financial Services Industry has shown the destructive effects on valuations in the sector and, in our view, the emotions could be running just as high with respect to the aged care segment, given the allegations of human mistreatment (and the fact that many of us may well end up in such a facility). We actually believe that Estia is one of the better operators, but will likely be tarred with the same brush. We thus opted to make an exit before the situation worsens and issued a Sell recommendation in mid-November (FAT-AUS-902).

IMF Bentham

Litigation funder **IMF Bentham** (ASX.IMF) has been a standout performer in the portfolio, with litigation finance entering the mainstream's purview with the company largely backing 'winnable cases'. We were also heartened by the company's efforts to 'scale up', opening offices globally and expanding the footprint into the litigious USA as well as setting up shop in UK and the rest of Europe.

The most salient development in our view, though, which added to its strength, was the company's pivot towards acting more like an asset manager by opening up special purpose vehicles to manage clients' money instead of adding risk to the balance sheet. This has allowed the company to scale dramatically.

IMF Bentham Limited - IMF (ASX) - 1 Month Line Chart - AUD



However, as we've noted in our November report (FAT-AUS-902) we are concerned about IMF's ability to replicate the same success rate on a global scale with its varied laws, customs, precedents among other things. We also note that the shares are reaching a technical resistance point and opted to take some profits with a Sell Half recommendation. This locks in some 316.1% in absolute gains which annualises to 25.4%.
