Fat Prophets Australia Fund Limited
Annual General Meeting 2007

Manager Presentation

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Today's agenda

- Reiterate what we are trying to do – and the proof
- Look back & analyse four key factors
- Tell you where we think there are opportunities
- Show you our portfolio positioning

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What are we trying to do

- Preserve capital by adopting a value philosophy
- Provide medium to long term capital gain and dividend income
- Outperform S&P/ASX300 benchmark over the medium term
- Assist the Board with an appropriate and value accretive capital management strategy
- Invest across the broad spectrum of the ASX
- Use the “Fat Prophets” report in a structured fashion

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What has changed since the last AGM

- More proactive capital management policy: two special dividends and more aggressive share buyback
- Late AGM since intend to convene EGM for early 2008
- Sub contract agreement to 20 April 2010 with Tidewater
- Removal of “ethical” policy overlay
- “Legacy” stocks from previous fund manager now all gone
- Rating achieved with Aegis Research
- Strongest correlation since inception with “Fat Prophets” newsletter

How do you know we're doing what we say?

- Comparison with other "value" managers
- Comparison with other LIC's
- What we did with our cash during the year
- Our low <u>absolute</u> volatility – only 75% of absolute daily moves in index over past six months

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Gross comparative performance to 31/10/07

	1 year	2 years
Fat Fund	26.4%	25.4%
AMP Value	31.6%	27.5%
Bernstein	27.9%	27.7%
Constellation	22.6%	23.8%
Dimensional	23.7%	23.1%
Investors Mutual	25.3%	23.2%
Maple Brown Abbott	20.2%	22.6%
Perennial Value	26.7%	24.3%
Perpetual	23.3%	25.5%
Tyndall Value	25.5%	24.3%

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Source: Intech, Tidewater

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Pre tax comparison versus selected LIC's

	NTA Oct '06	DPS	NTA Oct '07	Total return
AFIC	$5.04	$0.21	$6.21	27.4%
Argo Investments	$7.15	$0.27	$8.49	22.5%
Century Aust	$1.35	$0.09	$1.44	13.3%
Emerging Leaders	$1.36	$0.05	$1.62	23.0%
Fat Fund	$1.27	$0.06	$1.47	20.2%
Premium Investors	$1.16	$0.08	$1.26	16.0%
Van Eyk Three Pill	$1.27	$1.10	$1.51	26.4%
Whitefield	$4.85	$0.16	$5.49	16.6%
Wilson Invests	$1.27	$0.08	$1.38	14.9%

Source: Company releases, Tidewater

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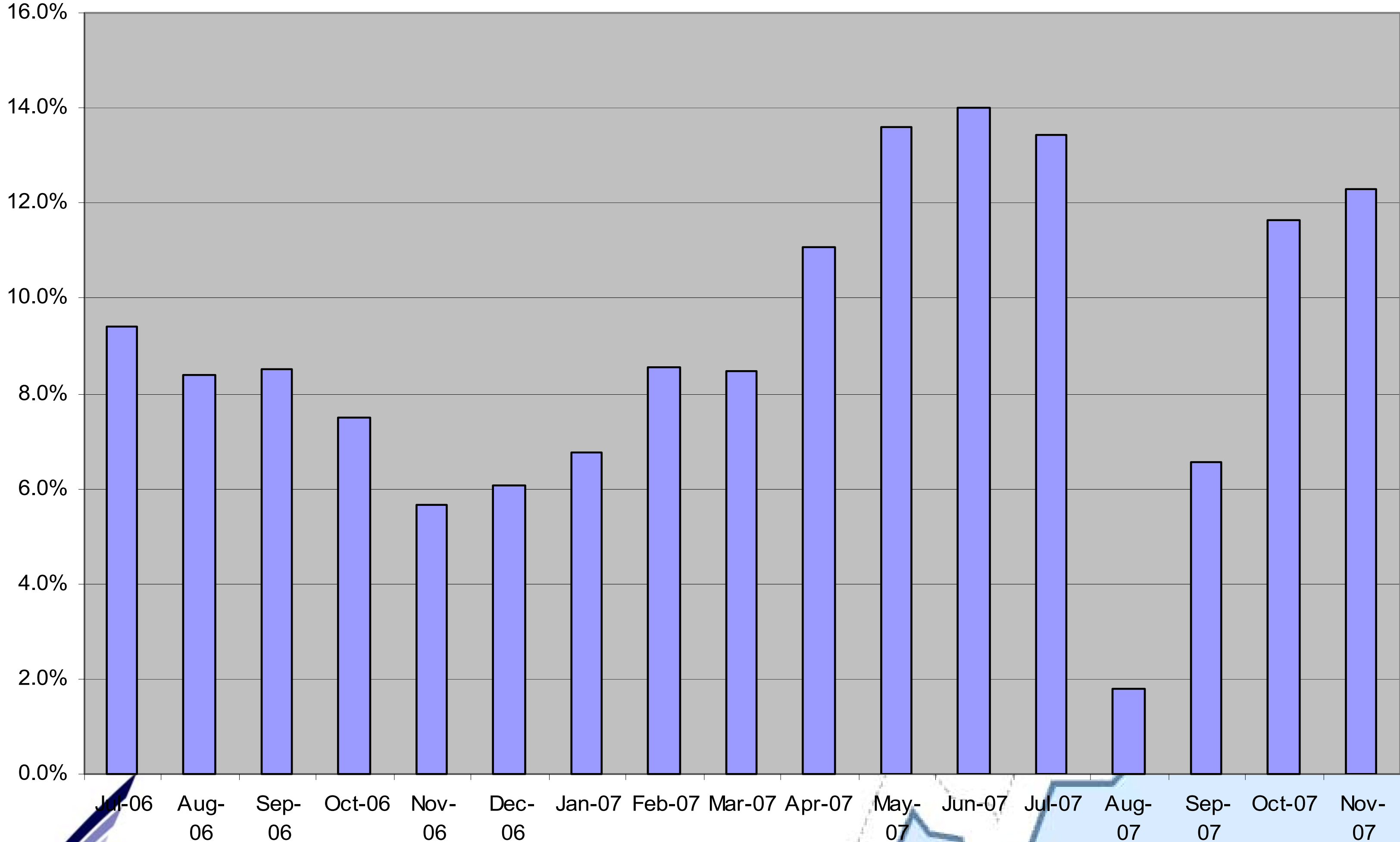
FAT: end month cash weighting



Source: Tidewater

Lessons from the past year: the Four R's

RISK

- Pricing changed dramatically
- Further to go

RAPACITY

- Takeovers
- Corporate behaviour
- Floats

RESOURCES

- Bull markets in bulks, gold, oil
- ..and exploration acreage!
- Base metals faltering

RE-RATING

- Industrial; shares hold up – despite downgrades
- Resources shares significantly rerated

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Risk: easy credit

- Risk pricing absurdly low by June/July 2007
- Spawned LBO/private equity boom
- Major issue is the layering of risk in creating Collateralized Debt Obligations (credit funds – CDO's)
- Losses mainly sit with CDO investors – not specifically banks
- Likely loss from sub prime alone = US$170billion (subprime is 15% of $9 trillion US mortgage market)
- Other problems in high yield markets

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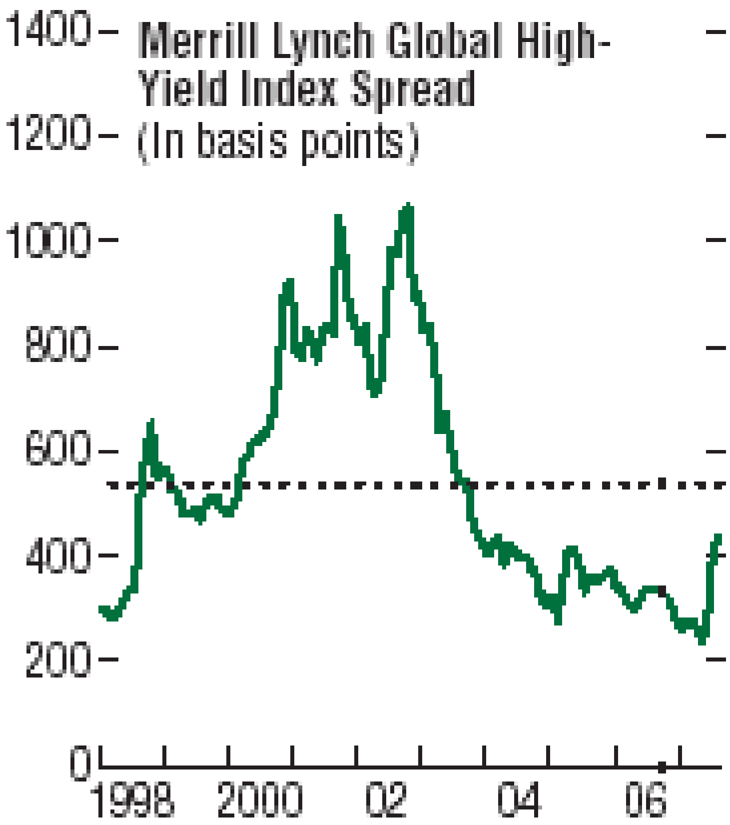
Yield on “junk” – spread vs. US Treasuries



Source: IMF

Re-pricing has occurred – but from obscenely low levels

Still below average and way below past crises

Defaults yet to occur outside sub prime

Sub prime is a major multiplier mess – 14% delinquency of 2006 year loans already

Credit cycle from here: Four stages

- Repricing of risk from previously low levels

  some of this may already have happened – but overshoot likely

- Preliminary damage to portfolios – "fess up" stage

  mainly happened – but two or three goes required due to leverage
  US$30billion acknowledged by ten US banks

- Reaction to the "fess up" by markets and by the victims

  sacked CEO's, job cuts, no bonus, credit squeeze, risk aversion, "Fed will do whatever it takes to protect the system"

- Secondary reaction: wider spread of damage

  NOT YET HAPPENED: impact of risk aversion, housing multiplier

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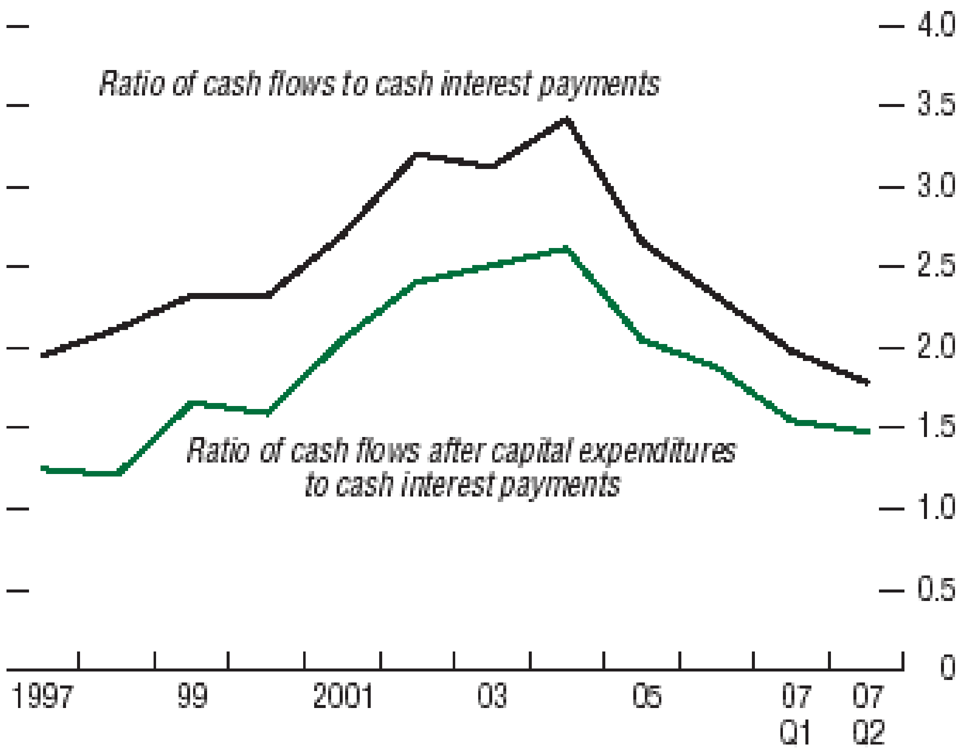
The Greed factors

Interest Coverage Statistics on Private Equity

(U.S. deals with cash flows [EBITDA] greater than $50 million)

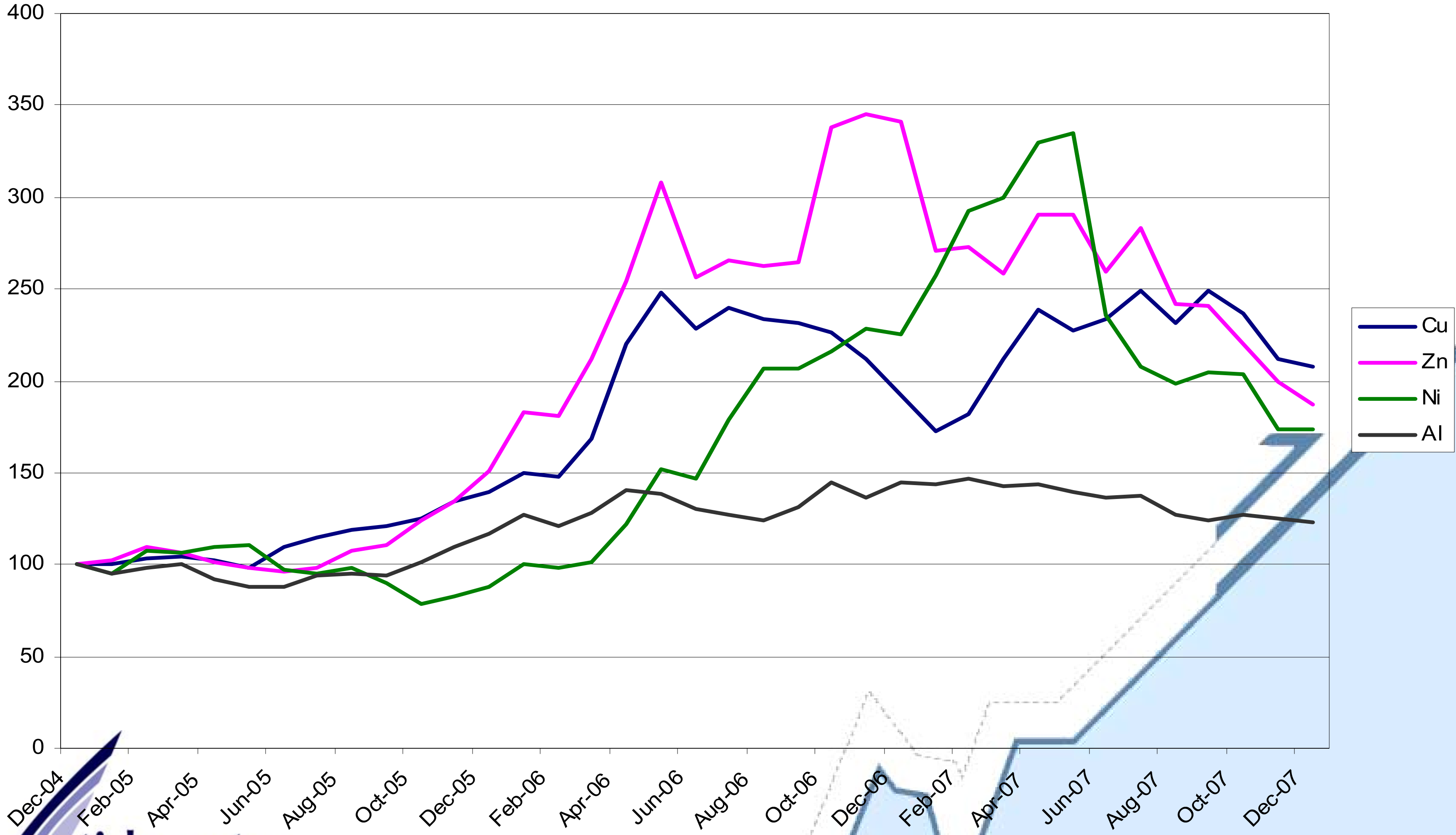


Source: Standard & Poor's Leveraged Commentary & Data.

Source: IMF

- Significantly higher debt applied to later US private equity transactions – debt was available (Qantas!)
- 1460 public and private takeover deals in Australia worth $115billion (2006/7)
- 222 new IPO's worth $10billion (2006/7)
- Price of exploration acreage and corporate shells has risen dramatically

Base Metal prices: 31/12/04 = 100



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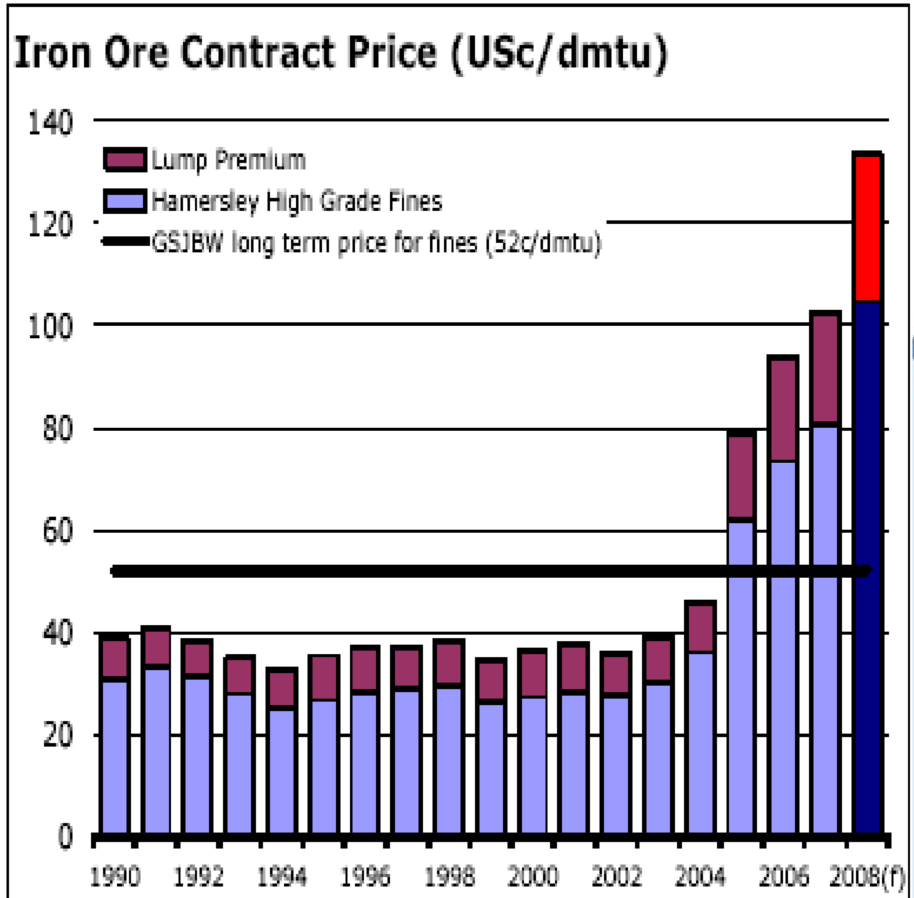
Source: LME, IRESS, Tidewater

Resources: Booming bulks

- Fifth year of >10% China GDP
- FeO2 oligopoly biting hard
- 50%+ increases likely for all coal grades for JFY 08
- Infrastructure and long lead times a significant problem in both commodities
- Spot prices are well above current (and likely contracts)
- Spurring smaller company takeovers



Source: GSJBW Research Estimates, Company Data

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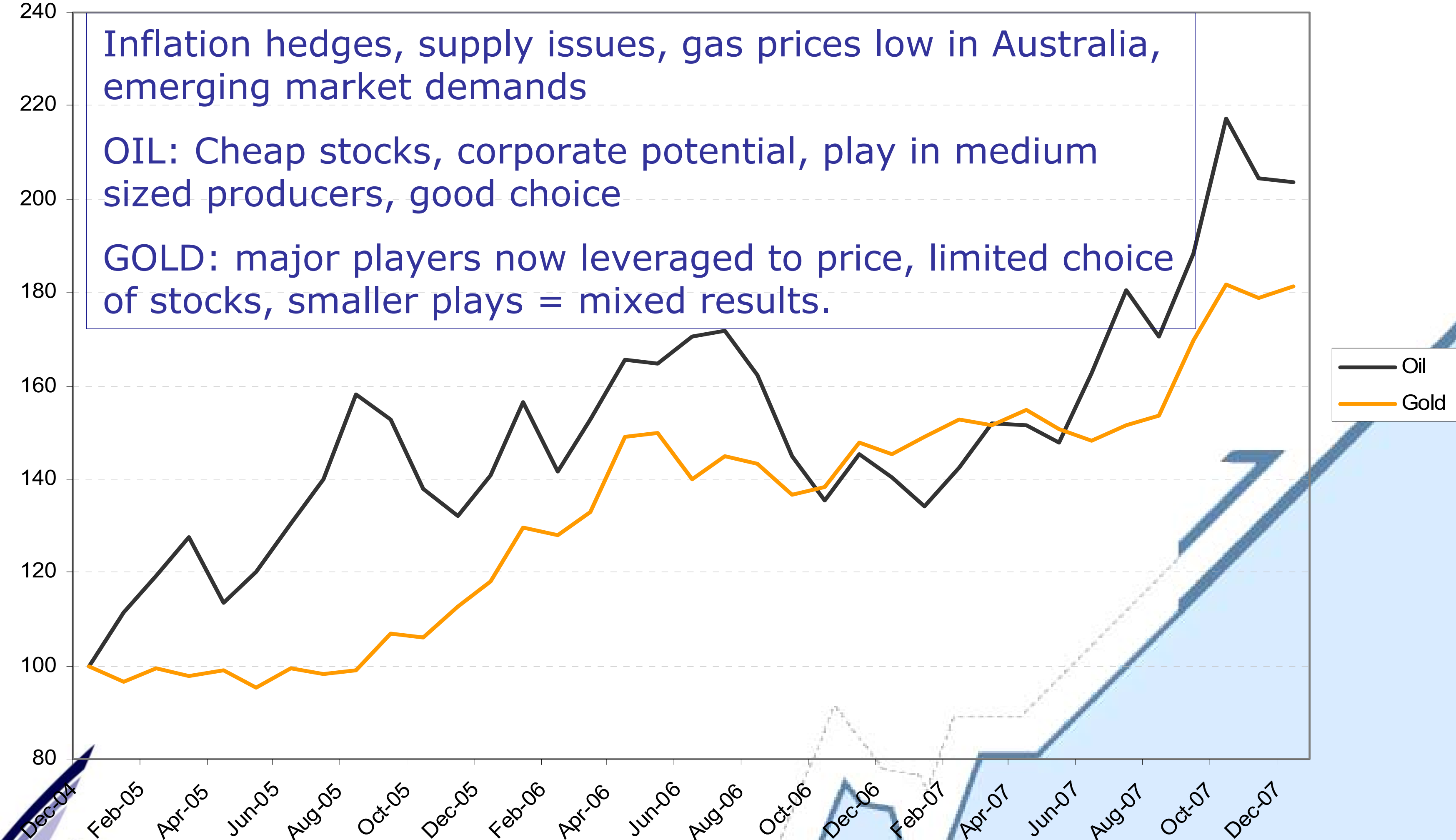
Oil and Gold: still bullish on the shares



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Source: IRESS, Tidewater

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Rerating of Non Financial Industrials

- Rerating has continued despite severe negative earnings revision
- Rising input prices – labour and materials plus high A$
- EPS growth hit from >10% to 7.5% in just over a month
- Strong earners (resource based) have enjoyed MASSIVE rerating: Leighton, Worley P/E's up 70% plus
- 2009 earnings growth numbers look excessively optimistic

June year	EPS (%)	PER (X)	Yield (%)
2006	6.0	21.5	2.9
2007	10.1	19.5	3.1
2008E	7.5	18.1	3.4
2009E	12.0	16.2	3.7

Source: Tidewater compilation of selected broker estimates

fwd P/E 17.3x a year ago

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Our strategy: Cautious, opportunistic

- Have moved cash weighting aggressively: 15% July; 2% August
- Cash weighting now back up to 12%
- FAT shares are at decent discount: a high hurdle to jump
- Overweight financials, resources
- Increased larger capitalisation weight during August
- Lots of asset plays emerging

Four types of asset play

FALLEN ANGELS & CASHBOXES

- Babcock & Brown Capital
- Babcock & Brown Alternative Investment Trust

SMALLER FOCUSED PROPERTY

- Record Realty
- Galileo Japan Trust
- Westpac Office Trust

MUTURE BUT NEGLECTED

- Lion Selection
- Premier Investments
- W.H. Soul Pattinson

FAT SHARES

- Between 27/9/06 & 30/11/07 bought back 2,142,798 shares (6.6%) at average $1.017/share.

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Portfolio at 30 November 2006

Market Cap. rank	ASX 300 weighting	FAT portfolio	Difference
Top 100 Industrial	65.5%	36.4%	-29.1%
Top 100 Resources	23.3%	17.8%	-5.5%
101- 300 Industrial	7.6%	9.7%	+2.1%
101- 300 Resources	3.6%	5.3%	+1.7%
> 300 Industrial	Nil	12.5%	+12.5%
> 300 Resources	Nil	6.0%	+6.0%
Cash	Nil	12.3%	+12.3%

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Source: Tidewater

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Largest positions against benchmark

Capitalisation ranking	Exposures (alphabetical)
Overweight Top 100	ANZ, Crown, Lihir Gold, National Bank, Westpac
Underweight Top 100	Westfield, Wesfarmers, Telstra, Woodside, Macquarie Bank, St. George Bank
Overweight 101 - 300	AWE, Babcock & Brown Capital, Beach Pet, Coffey Int'l, Galileo Japan, Great Southern, Lion Selection, UXC
Overweight > 300	Everest B&B AIT, Image Resources, Mundo Minerals, Perserverance Corp, Premier Invs, W.H. Soul Pattinson,

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Conclusion

- Sticking to our knitting – value investing & using "Fat Prophets" newsletter
- Very cautious – the real US credit damage not yet done
- Very cautious – resources becoming speculative in parts
- Industrials are not cheap against uncertain earnings outlook
- Have a strong quality core to portfolio – banks, BHP, Rio, QBE..
- ..but portfolio subject to small company liquidity effect
- We can find some very cheap smaller companies and asset plays
- We will continue to be pro-active on capital management

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