AROWANA AVOF

Monthly Newsletter and Net Tangible Asset Release

As at 31 August 2017

In August, the fund recorded +3.1% net performance vs the S&P/ASX200 accumulation index return of +0.7%. Cash equated to 40% of fund assets at month end[1]. Net tangible asset backing per share has increased to $1.08 / share.

Performance was pleasing given it was generated during reporting season. We are first and foremost what you might call old fashioned stock pickers. So given company earnings results are the litmus test of any investment thesis, it would be disappointing if we didn't perform during a month when ~85% of our stock holdings reported some kind of financial result.

Afterpay (APT.AU), the Fund's largest holding, reported a very strong result which was well ahead of consensus expectations. The Company's business model is unique (we know of one other analogue based in Northern Europe) and has created a new market for the merchants it partners with which is highly profitable for said merchants and Afterpay. The business is now rolling out in New Zealand, we think as a trial for a broader international expansion drive, along the lines of a "follow your customer" strategy. We remain bullish on Afterpay's prospects.

Weight Watchers (WTW.US) reported second quarter results which materially beat even our fairly bullish expectations. The stock is our second largest holding. Despite its iconic brand name, proven medical efficacy and star power (Oprah Winfrey is an advocate, board member and significant shareholder), the stock remains deeply unpopular as evidenced by a very high short interest. We have added to the position following our participation in a management call. There are structural changes to the company's product offering which we believe will be materially earnings accretive.

Other key contributors to performance during the month were Emeco (EHL.AU), Bellamy's (BAL.AU), Whitehaven Coal (WHC.AU), Platinum Asset Management (PTM.AU) and Interactive Brokers (IBKR.US).

The key detractor during the month was our position in **Silver Chef** (SIV.AU), which stripped a full 1.9% off Fund performance. Silver Chef announced weaker than expected FY 2017 results and weak guidance. We had expected the former, but not the later. Weak results were largely due to Silver Chef putting the brakes on growth in its troubled *Go Getta* division; we welcomed this element of the result as the returns generated by *Go Getta* are well below those generated by the Company's Hospitality division. What we didn't welcome was again heavy provisioning against receivables and equipment carrying value. The cycle of closing out *Go Getta's* "problem contracts" is taking longer and costing more than we had expected and management had hoped. At this juncture, the latest results clearly show that the influx of new uncollectible receivables is declining. The key risk in the next result is going to be asset impairment. Because contract life is ~ two years, these issues should abate…in the interim we wait, given the stock trades at half the multiple of book value it previously did and to date, despite the issues, book value continues to increase. As the impact of impaired contracts rolls off we expect returns and earnings to lift materially.

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[1] We have classified the Fund's holding of 350,000 shares in USD.AU, the Betashares US Dollar ETF, as USD cash and equivalent, given the ETF is a close proxy in substance, to US dollar cash

Chipotle (CMG.US) is a position we have recently been building. Chipotle traded as high as $757/share in 2015 before it (or more correctly some of its customers) suffered from a series of food poisoning outbreaks. The stock is now trading at $308/share, a decline of ~60%[2]. Earnings per share (EPS) forecasts for FY 2018 have similarly declined ~65%. The big question is can earnings recover?

We started to look at analogues – we were searching for examples of where a large listed food company's share price went to zero (searching for the ones that recover is arguably the same as searching for someone that will agree with you). We worked down a list of major food scares but as yet haven't found a large listed company that's gone belly up due to a self-inflicted food scare (IF YOU KNOW OF ONE PLEASE CONTACT US).

We found far worse situations where the subject company's earnings fully recovered and then some. Perhaps the most traumatic of all was that which befell the burger chain Jack in the Box in 1993 when it unwittingly served undercooked meat containing a toxin producing strain of E.coli. The particular variant of E.coli involved led to haemorrhagic diarrhoea and kidney failure in some victims. *Over 170 victims required hospitalisation; 4 children under the age of 10 years died.* Having read some of the news of the day, I can say this was a deeply disturbing episode.

The company in question instituted reforms (as did the entire industry)…most of the customers returned, more stores were rolled out and the profits recovered and grew.

Which really brings us to the crux of Chipotle's recovery capacity. First, the severity of this food crisis versus many others where a large listed company was impacted is simply not comparable. Second, Chipotle is underpenetrated in the US with ~2,300 stores[3]. Before the crisis Chipotle was experiencing double digit same store sales and analysts forecast a torrid pace of store expansion continuing for many years to come.

In a sense, Chipotle's same store sales growth is the fulcrum of its valuation potential because it drives the market ascribed earnings multiple and analysts' long term earnings forecasts. When the number is negative, earnings are revised down and the store roll out program is in question. When it is positive, earnings have a tendency to beat forecasts and analysts proclaim the longevity of the store expansion program.

Chipotle's same store sales were down ~30% in 1st quarter 2016 and revenues were down ~23%. Despite this sharp contraction driving a loss in 1st quarter 2016, operating cash flow remained positive. Chipotle remained debt free and thus resilient.

Not all of the customers from existing stores will return. But we think same store sales growth will track positively from here given depressed levels. New customers will be introduced to the product via new stores. Earnings should retain their prior peak and then some.

Capital Management / Share price discount to NTA

As mentioned in earlier reports, the Company believes that continued trading of its shares at a material discount to the underlying net asset value (which is unfortunately common amongst listed investment companies) may provide an opportunity to increase shareholder value through the operation of an on-market share buy-back. Accordingly, the Company approved a buy-back and announced details to the market on 24 August 2017 and can repurchase its shares from 8 September 2017 for up to 12 months. We will do so, whenever we believe it is beneficial for existing and future shareholders.

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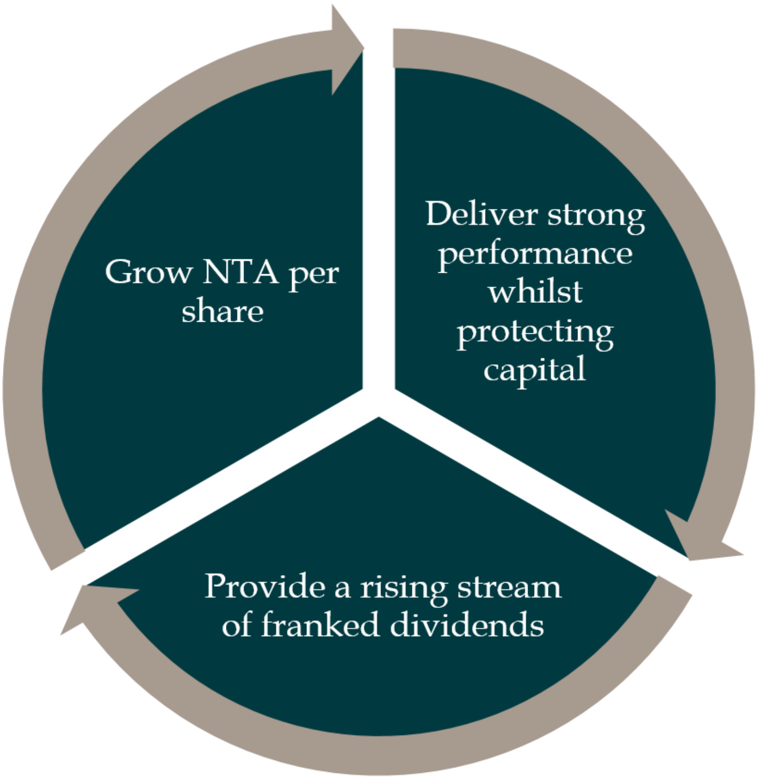
[2] Declines in enterprise value and market capitalization are nearly identical

[3] By way of comparison, McDonald's, a former shareholder of Chipotle, has ~12,500 stores in the US

Arowana Australasian Value Opportunities Fund Limited
as at 31 August 2017

AAVOF Core Objectives



AAVOF Asset Allocation

Asset class	A$m	%**
Australian Equities	36.7	48%
AUD cash and equivalent	24.3	31%
USD cash and equivalent	6.5	8%
Australian Hybrids & Bonds	-	0%
International Equities	16.7	22%
Hedges	(6.9)	(9)%
Portfolio Value*	77.3	100%

* *Totals may not sum due to rounding*
** *Percentage of gross portfolio value*

Top 5 Equity Holdings

Ticker		%**
APT	Afterpay Touch Group Limited	16%
WTW.US	Weight Watchers Int'l Inc.	13%
SIV	Silver Chef Limited	11%
ELD	Elders Limited	6%
USD	Chipotle Mexican Grill	5%
Top 5 as % of Gross Portfolio		51%

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Net Performance

At 31 August 2017	1 Mth	3 Mths	6 Mths	1 year	Since Inception (5-Jan-15)
AAVOF (AWQ) Investment Portfolio*	3.1%	8.2%	12.2%	6.8%	24.6%
S&P/ASX 200 Accumulation Index	0.7%	0.9%	2.4%	9.8%	19.1%
Out/(under)performance V Index	**2.4%**	**7.3%**	**9.8%**	**(3.0)%**	**5.5%**

** Net return after all fees, costs and company tax and before providing for estimated tax on unrealised gains.*

Net Tangible Assets (NTA) per Share

At 31 August 2017	Basic NTA per share ($)
NTA after tax and before estimated tax on unrealised gains	1.08
NTA after tax and after estimated tax on unrealised gains*	1.05

** The Company is required to estimate the tax that may arise should the entire portfolio be disposed of on the above date and show the result per share after deducting this theoretical provision. Any such tax would generate franking credits, whose value would not be lost but rather transferred to shareholders on payment of franked dividends*

About Arowana Australasian Value Opportunities Fund Limited (AAVOF)

AAVOF (ASX ticker: AWQ) offers investors an opportunity to gain exposure to a concentrated portfolio of securities built from a bottom up research process. Whilst the majority of the portfolio is built around Australian listed securities, AAVOF is able to invest in overseas listed securities and to hedge its portfolio.

The core objectives of the fund are to:

1. Generate superior returns over the medium to long term,
2. Provide shareholders a rising stream of dividends, and
3. Grow Net Tangible Assets per share

Ordinary Shares	
ASX ticker	**AWQ**
Last price	$1.00
Number on issue	69,366,895
NTA per share*	$1.08
Market capitalisation	A$69.4m
Gross portfolio value	A$77.2m
Final dividend**	$0.035/share

** Before estimated tax on unrealised gains*
*** Final dividend declared in August 2017, payment date 29 September 2017, fully franked.*