

## Monthly Newsletter and Net Tangible Asset Release

As at 31 December 2017

In December, the Fund recorded +0.1% net performance vs the S&P/ASX200 accumulation index return of 1.8%. Top contributors for the month were Afterpay Touch Group (APT.AU) and Elders (ELD.AU). Our largest detractors were Silver Chef (SIV.AU) and Bellamy's Australia (BAL.AU). A strong Australian Dollar also stripped 87bps from performance during the month.

**Afterpay Touch Group (APT.AU)** advanced 19.4% during the month driven in part by expectations of strong trading conditions throughout the Christmas period and in part by increased positive research coverage from sell-side analysts.

We continue to see considerable earnings and valuation upside as the company expands into in-store and internationally. The scale of the challenge that they face in tackling these vectors is undoubtedly sizeable. However, given Afterpay's compelling value proposition and proven business model, coupled with management's flawless execution to date, we are excited about their prospects, especially as the addressable markets are multiples larger than the market for the base business.

**Elders Limited (ELD.AU)** advanced 18.9% during the month following its results in November which were well ahead of consensus expectations.

When we invested in the common stock in 2015 we were already owners of the Elders perpetual preferred ("hybrid") securities (ELDPA.AU). Our rationale for owning the common was the upside in the hybrid was constrained given its debt-like characteristics and our view that the recovery in earnings for Elders would be much stronger than consensus expectations. Simply, the common stock would be the levered beneficiary of Elders over-achieving its earnings targets.

Elders' recovery has taken four years. As new management simplified operations, earnings and cash flow returned. In turn, this paved the way for ELD to buy back all of its hybrid securities so that it could recommence dividends on its common stock.

When we invested initially we conjectured that the resumption of dividends by Elders would be our signal that the market inefficiency we saw in the stock's pricing had closed and it would be time for us to sell. We underestimated management in this, as the November earnings result attests. The company's current strategy aims to lift EBIT significantly over the next three years via a combination of high return incremental acquisitions, cost control and capital light expansion. November showed us the strategy is working in spades. In a sense, as the strategy plays out, the cyclicity of the old business has been removed and now we see a company which can steadily compound its earnings. This significant decrease in earnings volatility is probably a large part of why the stock has advanced ~60% in the last two months.

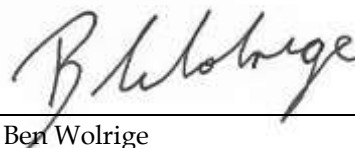
**Silver Chef (SIV.AU)** declined 12.6% during the month as the company announced that the recovery of receivables from the discontinued Light Commercial contracts remains challenging - foreshadowing worse than expected bad debts in the upcoming earnings result.

Whilst frustrated that the issues in GoGetta are taking longer than anticipated to resolve, we are pleased to see the company refocus the business on the much higher quality Hospitality segment. SIV also announced a new securitisation facility which will reduce interest costs and increase gearing capacity - both of which will enhance returns on equity in future periods.



Gary Hill

Portfolio Manager & Lead Analyst



Ben Wolrige

Co-Manager & Senior Analyst



## Net Tangible Asset Release

### Arowana Contrarian Value Fund

As at 31 December 2017

## About Arowana Contrarian Value Fund (CVF)

ACVF (ASX ticker: CVF) 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, CVF 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

## Net Tangible Assets (NTA) per Share

At 31 December 2017	Basic NTA per share (\$)
NTA after tax and before estimated tax on unrealised gains	1.21
NTA after tax and after estimated tax on unrealised gains	1.14

\* 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

## Investment Performance

At 31 December 2017	Since inception (5 Jan 2015)					
	1 mth	3 mths	6 mths	12 mths	Annualised	Cumulative
Arowana CVF Gross performance	0.7 %	15.4 %	24.2 %	34.9 %	17.0 %	60.2 %
S&P/ ASX200 Accumulation Index	1.8 %	7.6 %	8.4 %	11.8 %	8.6 %	28.2 %
Gross outperformance	(1.2) %	7.7 %	15.8 %	23.1 %	8.4 %	32.0 %

At 31 December 2017	Since inception (5 Jan 2015)					
	1 mth	3 mths	6 mths	12 mths	Annualised	Cumulative
Arowana CVF Net performance*	0.1 %	12.7 %	20.9 %	30.3 %	13.8 %	47.5 %
S&P/ ASX200 Accumulation Index	1.8 %	7.6 %	8.4 %	11.8 %	8.6 %	28.2 %
Net outperformance	(1.7) %	5.1 %	12.5 %	18.5 %	5.2 %	19.3 %

\* Net return after all costs and fees (including estimated performance fee accrued) and before tax.

## Ordinary Shares

ASX ticker	CVF	Market capitalisation	A\$78.0m
Last price	\$1.13	Gross portfolio value	A\$86.0m
Number on issue	69,002,131	Final dividend**	\$0.035/share
NTA per share*	\$1.21		

\* Before estimated tax on unrealised gains

\*\* Final dividend declared in August 2017, paid 29 September 2017, fully franked.



## Net Tangible Asset Release

### Arowana Contrarian Value Fund

As at 31 December 2017

#### Arowana CVF Asset Allocation

Asset class	A\$m	%**
Australian Equities	49.1	57%
AUD cash and equivalent	13.6	16%
USD cash and equivalent	8.4	10%
CAD cash and equivalent	2.0	2%
JPY cash and equivalent	0.6	1%
Australian Hybrids & Bonds	-	0%
International Equities	19.8	23%
Hedges	(7.6)	(9%)
<b>Portfolio Value*</b>	<b>86.0</b>	<b>100%</b>

\* Totals may not sum due to rounding

\*\* Percentage of gross portfolio value

#### Top 5 Equity Holdings

Ticker		%**
APT	Afterpay Touch Group Limited	19%
SIV	Silver Chef Limited	10%
BKL	Blackmores Limited	7%
ELD	Elders Limited	6%
TSGI.CA	Stars Group Inc	6%
<b>Top 5 as % of Gross Portfolio</b>		<b>48%</b>

\* Totals may not sum due to rounding

\*\* Percentage of gross portfolio value

