AROWANA CVF

Monthly Newsletter and Net Tangible Asset Release

As at 28 February 2018

In February, the Fund recorded -2.1% performance, net of all fees and charges vs the S&P/ASX Accumulation 200 Index return of +0.4%.

More complete Fund return data, both gross and net, are included towards the end of this letter. CVF's per share net tangible assets (NTA) now stands at $1.22, which fully incorporates the impact of a 4c per share fully franked interim dividend, payable in early April. Trailing twelve-month gross dividend yield at month end, which attributes full value to franking, was 9.4%.

The largest positive contributors to Fund performance in February were our positions in Bellamy's Australia (BAL.AU) and The Stars Group Inc. (TSGI.CN), a Canadian listed global online gaming business that is now our second largest position.

The single biggest detractor during February was our position in Silver Chef (SIV.AU), which stripped ~190bps of performance after reporting a particularly disappointing interim result. A 3.6% depreciation in the AUDUSD exchange rate was an incremental positive given around one third of the portfolio is invested outside Australia.

"No matter how much you know about a stock, it owes you nothing"

The above quote was one of eleven risk management rules followed by an investor I was fortunate enough to once work for. It's a good rule.

Silver Chef (SIV.AU) is a stock we have studied in detail. We think we know the business reasonably well. And yet financial results recently have been much worse than we expected. Further, uncertainty around the business has in some respects increased from a surprise decision to close an underperforming division and doubts about the credit worthiness of some customers.

We still expect a recovery in the stock price, but at this juncture the situation does not offer the kind of positive risk asymmetry we target. We also recognize that thus far, it simply hasn't worked...we've been wrong and it's generally better to recognize that earlier rather than later.

Our response has been to reduce position sizing; the stock at the time of writing no longer features in our top 5 positions. We cut sizing to appropriately manage risk.

February global equities sell off

February was the month that saw the US S&P500 Index decline by 3.9% as inflationary expectations spiked. Most of that lost ground has since been recovered; the index is only 1.4% away from its January month end high.

For some context, we need to remember that 2017 was a particularly good year for global equities, if only a so-so year for Australian equities.

In calendar year 2017 the MSCI World Index rose 20.1% and the S&P 500 Index rose 19.4%.

The S&P 500 Index experienced only a single negative monthly return in 2017. Since 1927, a period spanning 90 years, that's only happened 3 times (1958, 2006 and 2017).

Emerging Markets were where the best index returns were to be had in 2017; the MSCI Emerging Markets Index rose 34.4% for the year.

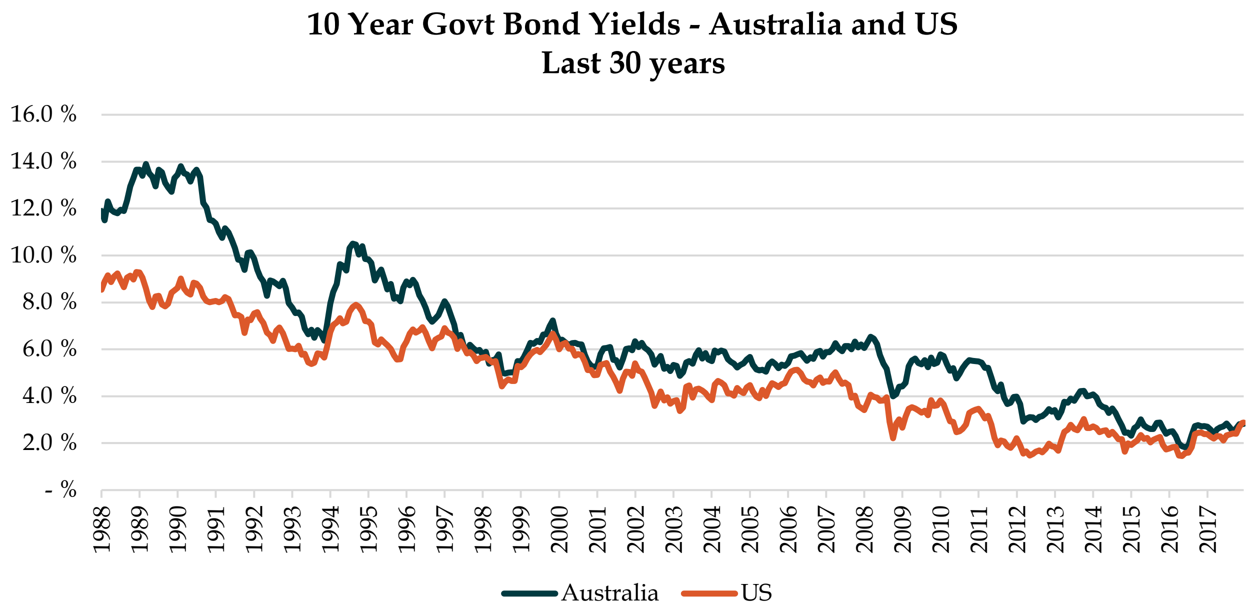
The strong equity market performances of 2017 and January 2018 are important to remember because they are the partial backdrop to what unfolded in February.

The February sell off also appeared reminiscent of 2013's Taper Tantrum, which saw emerging market equities whipsawed.

The episodic equity markets nervousness we've witnessed in recent years has generally revolved around fears of a potential reversal of central bank policy on the one hand, and the specter of deflation on the other.

Until quite recently, many central banks had striven to drive lower term structure of interest rates, in the process stimulating economic activity and asset prices, thus avoiding the risk of deflation.

The policy is working. Only quite recently we had a situation where many countries could borrow short term at negative interest rates. Bond yields in the US and elsewhere are now telling us that change is afoot.



What equity markets now seem to fear is that as interest rates rise, equity valuations will be negatively impacted. Some areas of the equity market are acutely vulnerable.

We have been particularly wary for some time of overpaying for duration (in particular, "safe" stocks with high valuations that typically rely upon an aggressive discounted cashflow valuation model to be able to back solve to their stock price).

The other subtle change occurring in the portfolio is a gradual shift to larger and more liquid exposures. The last three years have seen a dream run for small capitalisation stocks, with the S&P/ASX Small Ordinaries Index outperforming the large cap dominated S&P/ASX100 Index by a cumulative 21.7%. This kind of sustained outperformance tends to be circular in nature. Fund inflows to a market segment tend to follow performance but in doing so can also drive performance in a self-reinforcing manner; especially when that segment tends to have low liquidity. We note a number of high profile micro equity products launched in recent times. As at month end, slightly less than 17% of our portfolio was in stocks with a market capitalisation of less than A$1bn.

No doubt, after a banner 2017, conditions going forwards may be more challenging at a macro level for investors. Every year there are different challenges to face.

Equally, every year when we look back at the performance of individual stocks comprising an equity index, there are always individual stocks that delivered great returns.

Opportunity for stock pickers is always present.

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Arowana Contrarian Value Fund

As at 28 February 2018

About Arowana Contrarian Value Fund (Arowana CVF)

Arowana CVF (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, Arowana 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 28 February 2018	Basic NTA per share ($)
NTA after tax and before estimated tax on unrealised gains	1.22*
NTA after tax and after estimated tax on unrealised gains[1]	1.14*

1.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.

****After declaration of dividend on 28 February 2018, of 4 cents per share, fully franked and payable on 5 April 2018. Shares went ex-entitlement on 5 March 2018.***

Investment Performance

At 28 February 2018	1 mth	3 mths	6 mths	12 mths	Since inception (5 Jan 2015) Annualised	Since inception (5 Jan 2015) Cumulative
Arowana CVF Gross performance	**(2.5)** %	**6.3** %	**24.6** %	**42.9** %	**18.2** %	**69.5** %
S&P/ASX200 Accumulation Index	0.4%	1.7 %	7.5 %	10.1 %	8.1 %	28.1 %
Gross outperformance	(2.9) %	4.6 %	17.1 %	32.8 %	10.1 %	41.4 %

At 28 February 2018	1 mth	3 mths	6 mths	12 mths	Since inception (5 Jan 2015) Annualised	Since inception (5 Jan 2015) Cumulative
Arowana CVF Net performance*	**(2.1)** %	**4.4** %	**20.4** %	**36.8** %	**14.6** %	**53.8** %
S&P/ASX200 Accumulation Index	0.4%	1.7 %	7.5 %	10.1 %	8.1 %	28.1 %
Net outperformance	(2.5) %	2.7 %	12.9 %	26.7 %	6.5 %	25.7 %

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

Ordinary Shares

ASX ticker	CVF
Last price	$1.15
Number on issue	69,002,131
NTA per share*	$1.22

Market capitalisation	A$79.0m
Gross portfolio value	A$89.7m
Interim dividend 2018**	$0.04/share

** Before estimated tax on unrealised gains*

*** Interim dividend declared 28 February 2018, payable 5 April 2018, fully franked.*

Arowana CVF Asset Allocation

Asset class	A$m	%**
Australian Equities	49.2	55%
International Equities	20.3	23%
AUD cash and equivalent	16.5	18%
USD cash and equivalent	6.4	7%
CAD cash and equivalent	3.7	4%
JPY cash and equivalent	0.7	1%
Australian Hybrids & Bonds	-	0%
Hedges	(7.1)	(8%)
Gross Portfolio Value*	**89.7**	**100%**

* *Totals may not sum due to rounding*

** *Percentage of gross portfolio value*

Top 5 Equity Holdings

Ticker		%**
APT	Afterpay Touch Group Limited	22%
TSGI.CA	The Stars Group Inc	11%
BAL	Bellamy's Australia Limited	8%
EHL	Emeco Holdings Limited	6%
SIV	Silver Chef Limited	5%
Top 5 as % of Gross Portfolio		**52%**

* *Totals may not sum due to rounding*

** *Percentage of gross portfolio value*