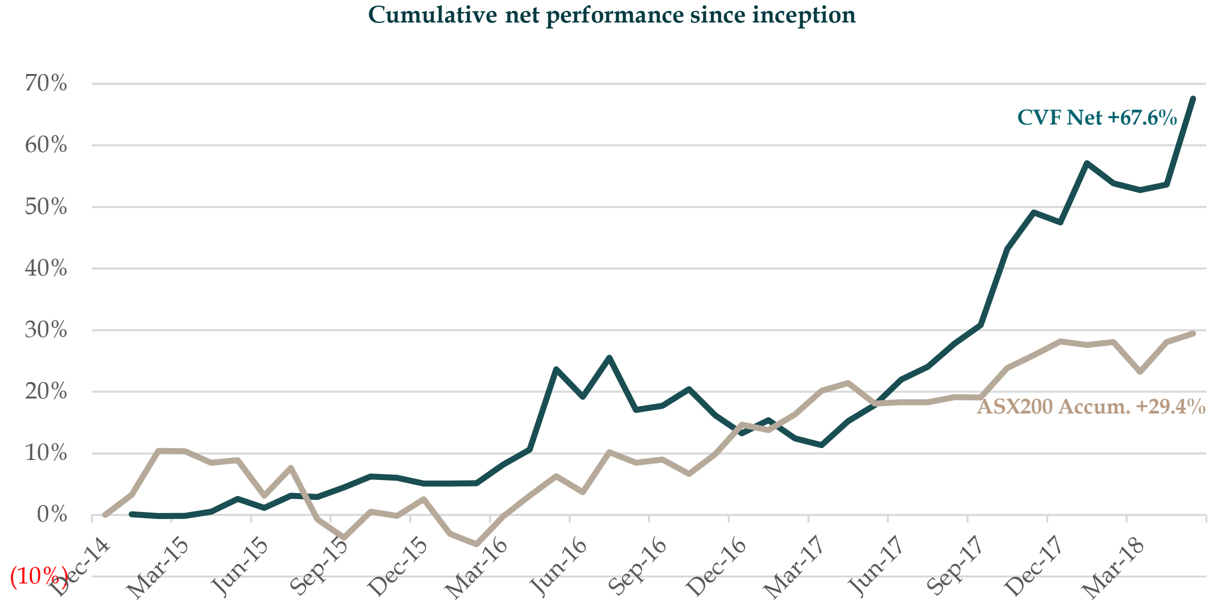
AROWANA
CONTRARIAN VALUE FUND

Monthly Update - May 2018

Fund Performance



					Since inception (5 Jan 2015)	
At 31 May 2018	1 mth	3 mths	6 mths	12 mths	Annualised	Cumulative
Arowana CVF Gross performance	**11.4 %**	**11.5 %**	**18.5 %**	**51.6 %**	**20.5 %**	**89.0 %**
S&P/ASX200 Accumulation Index	1.1 %	1.1 %	2.8 %	9.6 %	7.8 %	29.4 %
Gross outperformance	10.3 %	10.4 %	15.7 %	42.0 %	12.7 %	59.6 %
Arowana CVF Net performance*	**9.1 %**	**8.9 %**	**12.4 %**	**42.2 %**	**16.3 %**	**67.6 %**
S&P/ASX200 Accumulation Index	1.1 %	1.1 %	2.8 %	9.6 %	7.8 %	29.4 %
Net outperformance	8.0 %	7.8 %	9.6 %	32.6 %	8.5 %	38.2 %

** Net of all fees and expenses, pre-tax*

Net Tangible Assets (NTA) per Share

At 31 May 2018	$
NTA pre-tax on unrealised gains	**1.30**
NTA after tax on unrealised gains[1]	**1.20**

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.

Top 5 Holdings (% of Gross Portfolio Value)

Ticker		%
APT	Afterpay Touch Group Limited	15%
TSGI.CA	Stars Group Inc	10%
FB.US	Facebook Inc Class A	9%
EAF.US	Graftech International Ltd	8%
EHL	Emeco Holdings Limited	6%
Top 5 as % of Gross Portfolio		**48%**

Monthly Newsletter

In May the Fund recorded +9.1% performance, net of all costs and fees, versus the S&P/ASX Accumulation 200 Index return of 1.1%.

NTA per share was $1.30 at 31 May 2018.

The largest contributors to performance in the month were *Afterpay Touch Group (APT.AU), Emeco Holdings (EHL.AU)* and *Stars Group (TSCI.CN)*. Gains were widespread; ten of our holdings, representing over 50% of the portfolio by weight, saw price increases of 10% or more during the month.

Our long book contributed a gross 11.9% of performance; hedges cancelled out ~30bps of that. Geographically, two thirds of the gains were generated by domestic holdings.

Afterpay (APT.AU) rallied 30% during the month and contributed 5% of gross performance. We are long, to the gills as it were, with a 15% position at month end, having trimmed into the surge.

The stock has been a polarising force with a large short interest of ~7.5% of free float at the time of writing. The debate on both the long and short side has been increasingly partisan in tone and has played out largely in the media. We've tried to sidestep the invective and focus on the key analytical issues.

The key risk we see is regulation given the new business model, especially the potential requirement for income verification as a means of testing repayment capacity. This would force an adjustment in how customers are onboarded and might even require recertification of existing customers. In short, things might slow dramatically for a while, in the worst-case scenario, which we assess as very low probability.

To be clear, we think such a regulated requirement would be redundant at best and asinine at worst. Why test repayment capability when the vast majority of customers repay the *entire* balance on average every 30 days and part of the initial customer acceptance procedure requires new customers to repay 25% of the initial balance upfront?

Part of why we think it unlikely the regulated downside case crystalises is because it doesn't make sense…but this is precisely where we could be wrong as well, because often economic rationalism isn't the only or even dominant driver of regulatory action. Because of this, regulatory action can be unpredictable.

To be explicitly clear, if something like this befell Afterpay, we would have to consider doubling down as it were, in anticipation of making very large gains. The litmus test is this: does regulatory action kill the business model, or simply interfere in the short term with business flow.

There are a few analogues which point to the types of gains possible in these kinds of regulatory downside scenarios. Back in May 2015, Plus500 (PLUS.LN), a contract for difference trading platform listed on the London Stock Exchange caught a regulatory speeding ticket. The UK Financial Conduct Authority took umbrage with their anti-money laundering (AML) testing as part of client on boarding procedures. This meant PLUS had to stop clients trading and go back and recertify them for AML. There were fears the customers might not come back.

On this news, PLUS fell 67% in a week. If you were carrying a 15% portfolio position, that would be a 10% hit. A famed hedge fund manager doubled down and then some, taking his position from 8.4m shares to 22.4m shares.

PLUS went on to certify most client accounts and the stock recovered. Then the business expanded as a bitcoin platform; the stock is up ~600% today from its May 2015 lows.

We think the regulatory risk for Afterpay exists, but is low probability and at worst a business flow issue, not a business model issue. Thus, the return asymmetry remains exceptionally good on the long side, and marginal at best on the short side.

The other factor percolating in the background is Afterpay's US business launch. If all we were aware of was a few announcements that had been fully discounted into the share price, we'd be feeling a little cautious.

We can see much more than this; a key part of our investment process is a maniacal focus on accessing relevant high frequency data. Since its US launch, customer inquiry on Afterpay has gone parabolic.

Emeco Holdings (EHL.AU) surged 26.5% during the month, contributing ~1.3% to performance. The story of beneficial deleveraging of Emeco's balance sheet continues apace as utilisation and contract rates continue to recover.

The Stars Group (TSGI.CN) our second largest position, rose 9.9% during the month, largely in response to a US court ruling allowing states to determine if they will allow sports betting. The anticipation is that their addressable market will increase materially over time with this result.

Elders (ELD.AU), one of the first stocks we bought in 2015 at fund inception, cracked $9 a share. We started buying the stock at $2.38 when the company was in the early stages of a self-help recovery. Most of that has played out but organic cash generation remains strong.

GrafTech International (EAF.US) is a stock we added to the portfolio over the last two months. GrafTech makes graphite electrodes, which are used to turn steel scrap into molten metal in an Electric Arc Furnace.

There are two basic methods to make steel; Electric Arc Furnace ("**EAF**") or Blast Furnace ("**BOF**"). A BOF uses predominantly iron ore, coke and lime to make pig iron. EAF's use predominantly scrap steel, and pass an electric current through the feedstock, in part via use of a Graphite Electrode, which is a consumable in the process.

Historically, EAF's were used to make long steel products used in construction markets, whereas BOF's were used to make flat steel products largely for use in consumer appliances. However, with improved technology, EAF's are now also used to make flat steel products.

EAF's have the benefit of lower initial capital costs and greater ability to deal with variable production rates. In the context of emerging markets however, the key drawback is typically a lack of indigenous steel scrap.

In 2011, whilst I was in China on a tour of steel mills, a sell-side analyst pitched GrafTech as a play on the future transformation of China's steel industry. The thesis was that as China built out its car fleet, a ready supply of steel scrap would form, and EAF's with their lower capital cost, greater production flexibility and lower pollution levels would take over from BOFs as the predominant form of steel making. Demand for GrafTech's graphite electrodes would explode, and as GrafTech was vertically integrated back into its key raw material of needle coke, profits would surge.

China is a complex place. A lot of the steel mills and banks we visited back then seemed to operate as much on central fiat as on profit motive. What transpired was Chinese over production of steel via BOF, leading to rising Chinese steel exports, crumbling steel margins and falling earnings for EAF's. As GrafTech's customers' earnings tumbled, so did demand for GrafTech's products. The stock collapsed, falling from $20 a share to $5 before it was acquired by a private equity firm.

Now, things are finally changing. Pollution is a big political issue in China. Government led reform is leading to a reduction of steel overcapacity, in turn improving profit conditions for steel makers more broadly.

Parallel with this, demand for needle coke is increasing, as it is used as anode material in some lithium-ion batteries, where demand is being spurred on by electric vehicle demand. GrafTech is backward integrated into its own supply of needle coke.

So as demand lifts for both graphite electrodes and needle coke, GrafTech should benefit as a vertically integrated manufacturer able to capture the full production margin.

GrafTech conducted an IPO to allow its private equity sponsors a partial exit recently; we took advantage of softness in the aftermarket to build a position. There are a number of other companies leveraged to similar thematics, mostly in Japan, where we have studied one maker of coal based needle coke which similarly offers strong upside.

Gary Hui	Ben Wolrige
Portfolio Manager & Lead Analyst	Co-Manager & Senior Analyst

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Monthly Update - May 2018

Fund Information

ASX ticker	CVF
Net Month's performance	9.1%
Last price (at 31 May 2018)	$1.09
Pre-tax NTA	$1.30
Premium/(Discount) to pre-tax NTA	(16.2)%
Fund AUM	A$97.9m
Market capitalisation	A$75.9m
Shares on issue	69,672,141
Interim dividend 2018	$0.04/share
Fund Inception	5-Jan-15
Gross exposure	90 %
Long exposure	81 %
Geographic mandate	Global (45% ex Aust.)

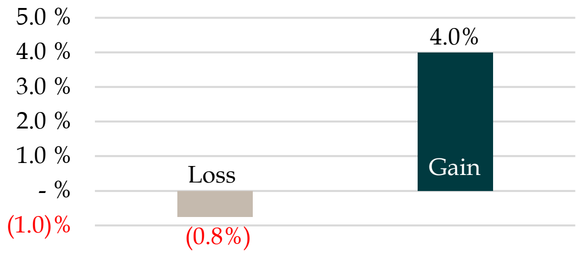
INVESTMENT PERFORMANCE (Pre-tax, net of all costs)

	2015	2016	2017	2018
Jan	0.1%	0.0%	1.9%	6.5%
Feb	(0.3)%	0.0%	(2.6)%	(2.1)%
Mar	0.0%	2.9%	(1.0)%	(0.7)%
Apr	0.7%	2.3%	3.5%	0.6%
May	2.1%	11.8%	2.2%	9.1%
Jun	(1.4)%	(3.6)%	3.5%	
Jul	2.0%	5.3%	1.7%	
Aug	(0.2)%	(6.8)%	3.0%	
Sep	1.5%	0.6%	2.4%	
Oct	1.7%	2.3%	9.5%	
Nov	(0.2)%	(3.5)%	4.1%	
Dec	(0.9)%	(2.5)%	(1.1)%	
Total	**5.1%**	**7.7%**	**30.3%**	**13.6%**

About Arowana Contrarian Value Fund (CVF)

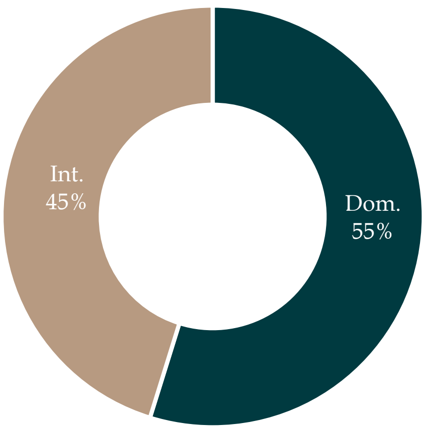
- Focussed on identifying and quantifying **large asymmetrical risk/return situations**
- Monitor stocks by attaining high frequency public **data of critical company drivers**
- Concentrated portfolio of ASX and international stocks;
- Ability to hedge;

Avg position contributions since inception: Realised Asymmetry

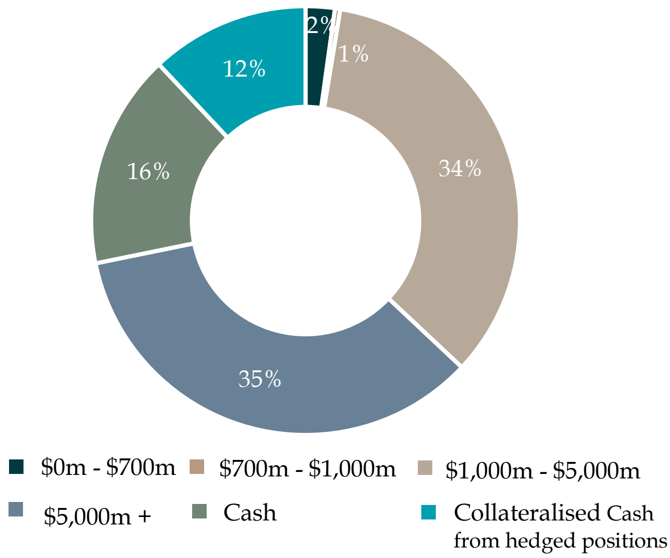


Portfolio Information

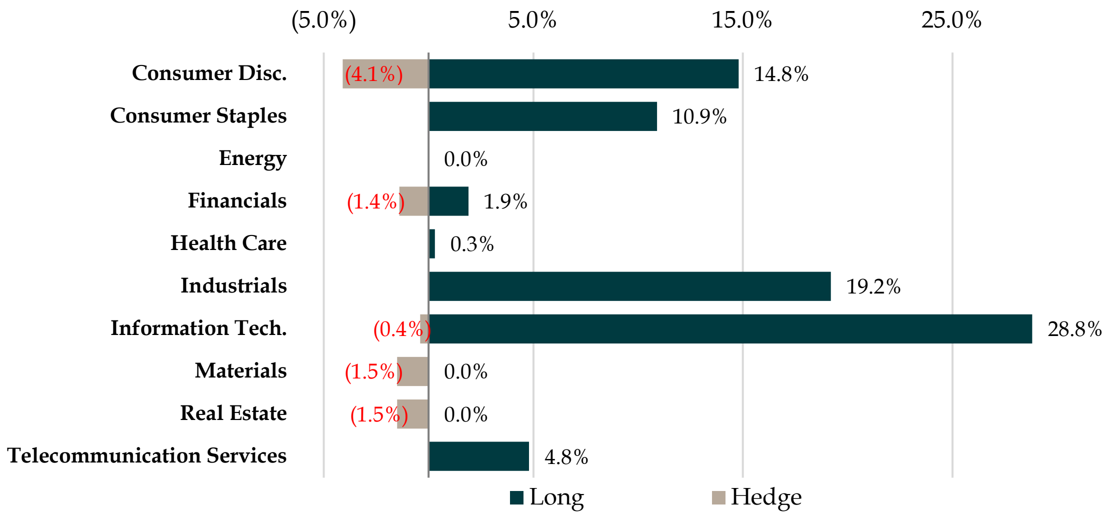
Geographic Mix (including cash)



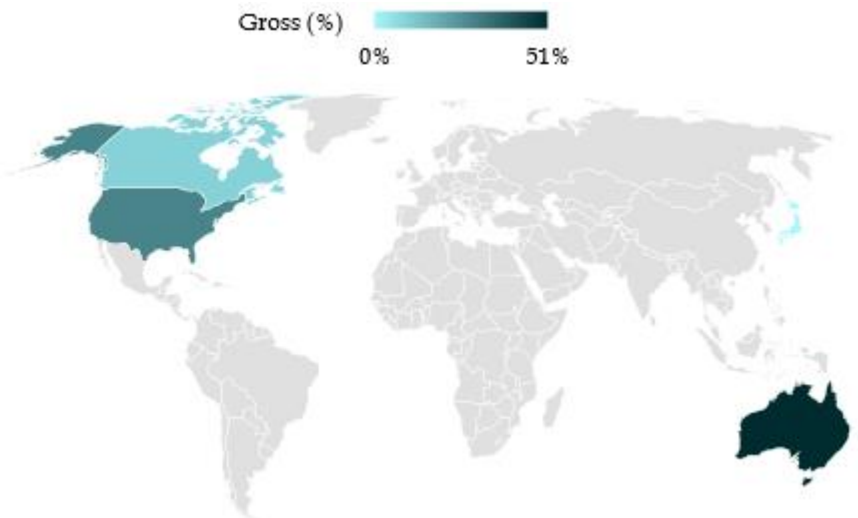
Market Cap Mix



Exposure by Sector



Equities Exposure by Country



Country	Long	Hedge	Gross	Net
Australia	41.8%	(8.9%)	50.8%	32.9%
United States of America	29.0%	-%	29.0%	29.0%
Canada	9.6%	-%	9.6%	9.6%
Japan	0.3%	-%	0.3%	0.3%
Total	**80.7%**	**(8.9%)**	**89.7%**	**71.8%**