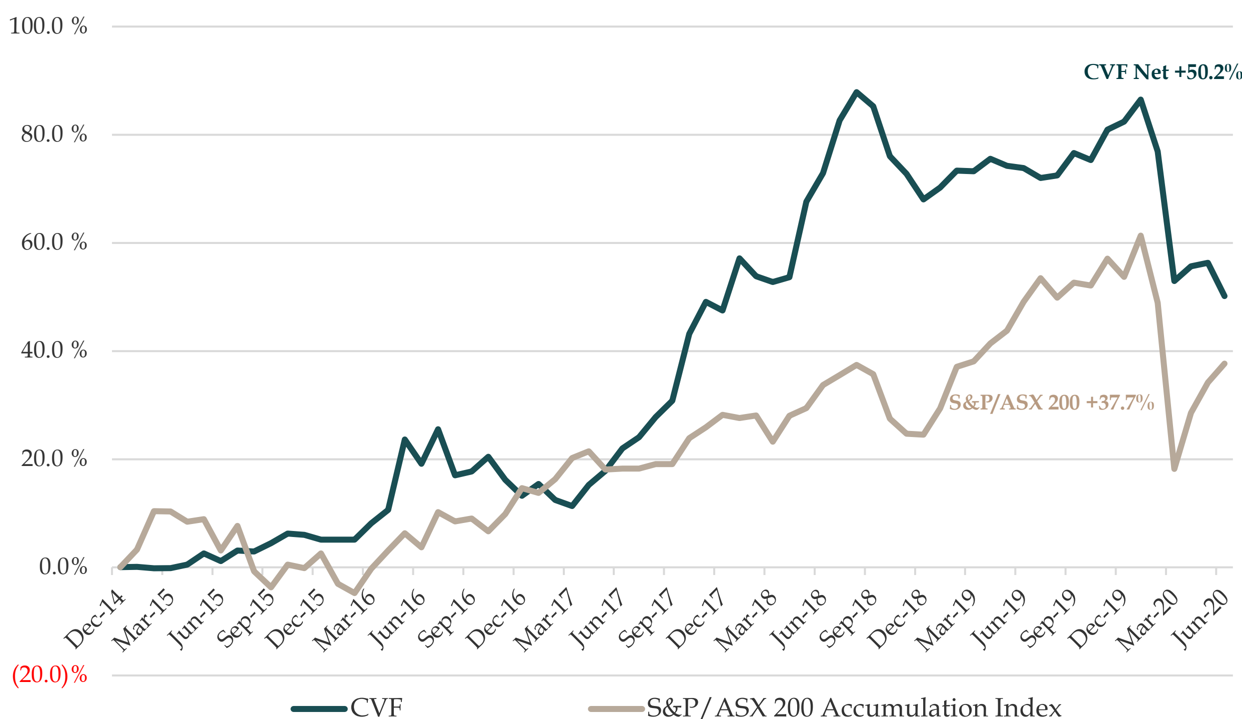
ARОWANA
CONTRARIAN VALUE FUND

Monthly Update | June 2020

Fund Performance



At 30 June 2020	1 mth	6 mths	1 yr p.a	2 yr p.a	3 yr p.a	Since IPO (5 Jan 2015) Annualised	Since IPO (5 Jan 2015) Cumulative
Arowana CVF Gross performance	(3.7)%	(16.5)%	(11.4)%	(4.9)%	11.2 %	11.0 %	77.6 %
S&P/ASX200 Accumulation Index	2.6 %	(10.4)%	(7.7)%	1.5 %	5.2 %	6.0 %	37.7 %
Gross outperformance	(6.3)%	(6.1)%	(3.7)%	(6.4)%	6.0 %	5.0 %	39.9 %
Arowana CVF Net performance*	(3.9)%	(17.7)%	(13.6)%	(6.8)%	7.2 %	7.7 %	50.2 %
S&P/ASX200 Accumulation Index	2.6 %	(10.4)%	(7.7)%	1.5 %	5.2 %	6.0 %	37.7 %
Net outperformance	(6.5)%	(7.3)%	(5.9)%	(8.3)%	2.0 %	1.7 %	12.5 %

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

Net Tangible Assets (NTA) per Share

At 30 June 2020	$
NTA pre-tax on unrealised gains	**$0.98**
NTA after tax on unrealised gains[1]	**$1.00**

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. Generally, any such tax would generate franking credits, whose value would not be lost but rather transferred to shareholders on payment of franked dividends. At the current time, this would not be the case as the fund has unrealised net losses on its holdings and these would offset tax liabilities.

Top 5 Holdings (% of Gross Portfolio Value)

Ticker		%
PSH.NA	PERSHING SQUARE HOLDINGS	9%
AENA.SA	AENA SME SA	6%
CCL.LN	CARNIVAL PLC	5%
VRL	VILLAGE ROADSHOW LIMITED	5%
DSCK.US	DISCOVERY COMMUNICATIONS	4%
Top 5 as % of Gross Portfolio		**29%**

Contrarian Value Fund Limited (ACN 602 250 644)
11/153 Walker St, North Sydney 2060

Date of announcement: 14th July 2020

Newsletter

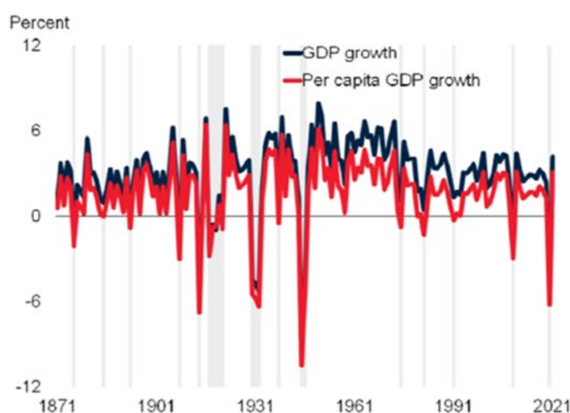
During the month of June, CVF recorded a net return of (3.9)% net of all costs and fees while the S&P/ASX200 Accumulation Index posted an increase of 2.6%. Pre-tax NTA per share stood at $0.98 as of 30 June 2020. In addition, the current franked dividend yield stands at 15.0%.

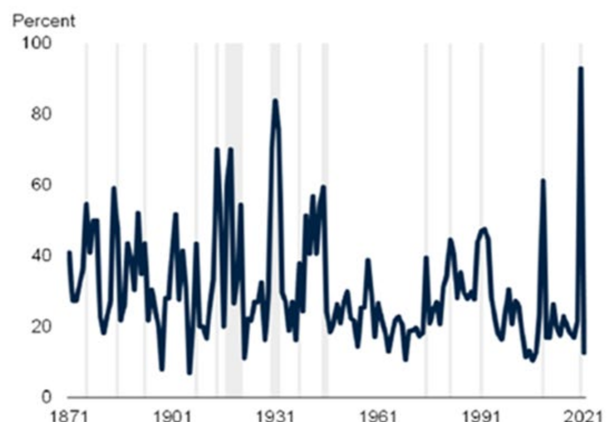
As the June quarter has come to a close the first two quarters of calendar 2020 have been a veritable roller coaster ride. During these 6 months the world witnessed the speediest 30% decline in global equity market history during the March quarter, followed up by the largest 50-day advance in market history.[1] All this amidst one of the most challenging economic, socio-political and global health backdrops the world has ever witnessed. Not only must we contain a global health crisis the likes of which we haven't seen in over 100 years, we must dig ourselves out from an unprecedented global economic shutdown, address growing social unrest due in large part to income inequality, resolve a simmering trade war between the US and China (lest we forget) and deal with the knock on effects of historic public debt levels brought on by massive stimulus measures. Although based on a read of the equity markets one would never suspect it, the US, Europe, Australia and the rest of the world are faced with the prospect that 2020 may produce one of the steepest declines in GDP in over eight decades. Below is an excerpt from the IMF's latest World Economic Outlook:

A Crisis Like No Other, An Uncertain Recovery

Global growth is projected at –4.9 percent in 2020,… The COVID-19 pandemic has had a more negative impact on activity in the first half of 2020 than anticipated, and the recovery is projected to be more gradual than previously forecast. In 2021 global growth is projected at 5.4 percent. Overall, this would leave 2021 GDP some 6½ percentage points lower than in the pre-COVID-19 projections of January 2020. The adverse impact on low-income households is particularly acute, imperiling the significant progress made in reducing extreme poverty in the world since the 1990s.[2]

The IMF is currently estimating that Developed Economies may be faced with a GDP contraction of 8% in 2020 while Emerging Economies are forecasted to decline by 3%. It is important to put this into context. According to the World Bank, the projected recession brought on by Covid-19 would be the deepest since World War II and twice that of the GFC. [3] Since 1870 there have been 14 global recessions. The Covid-19 recession is expected to be the fourth steepest since 1870 and is projected to have the greatest percentage of economies in recession at once – ever (see below).[3]





As we mentioned last month, governments around the world are employing a 'do whatever it takes' approach to putting economies back on track - at great cost. Since our last letter, global announced stimulus measures have soared from $9 trillion to an estimated $11 trillion according to the IMF. This will undoubtedly rise perhaps even without a second wave, as we see have already seen a resurgence of the virus in the US and other countries as they begin to re-open. The cost of these measures in terms of public debt and fiscal deficits are without precedent. It is expected that global public debt will reach an all-time high of 101% of GDP through 2021 and the average fiscal deficit will balloon by 10 percentage points to 14%. Our intent here is not to portray a bleak economic outlook but rather to highlight the potential severity of this downturn in absolute and historical terms and the challenges we face as we look to recover from this pandemic. In the US, which has suffered from a series of self-inflicted missteps in trying to contain the virus, the re-opening is being slowed or reversed in most states as new cases continue to rise at their highest rate since the start of the pandemic. It is unclear whether other countries will have similar results and if this will lead to further lockdowns. However, in our view, the V-shaped recovery that the markets appear to be pricing in seems highly unlikely given the challenges that likely lay ahead.

During the month, we saw a general pullback across a number of portfolio positions particularly those exposed to the travel sector as well as a strengthening Aussie dollar negatively impact our performance. Our USD cash position was the greatest detractor from performance at -1%. In addition, during the month, Carnival's (CCL) stock declined by 10%. This despite CCL releasing preliminary Q2-20 results indicating that 2021 bookings were growing in spite of substantially reduced marketing spend and that two-thirds of those bookings were new while the remaining one-third were from guests applying future cruise credits received as a result of cancelled cruises. Moreover, post month end CCL announced that it will begin limited cruises out of several ports in Germany beginning in August, much sooner than we would have anticipated. Meanwhile, AENA, our Spanish airport operator, also retrenched from a dramatic rebound off its lows amidst a backdrop showing Spain and greater Europe continuing to flatten the curve of new cases and the re-opening of cross-border European air travel. We also note that Ryanair's CEO recently stated that their first July planes taking Britons to their summer spots in Spain and Italy were more than two-thirds full. We suspected it might be difficult to keep Brits from those sunny Iberian shores.

Whilst the recent lockdowns have severely impacted the operations of almost all businesses, Discovery's (DISC) rather unique business model may put it in an advantageous position relative to many of its peers. Most media companies are struggling due to lost advertising and the closure of production studios which is depleting their content pipeline. While Discovery's Eurosport offering was impacted by the absence of sports in Europe (although European football did resume in mid-May starting with the German Bundesliga), in the US it has no sports offerings and instead has multiple channels devoted to topics that are top of mind among stay-at-home consumers: cooking and home improvement. Given the unscripted nature of their content, DISC was able to adapt quickly, producing at-home versions of their shows in weeks and in some cases days. To date they have produced over 700 hours of original content during the lockdown period, with several programs recording some of their most viewers ever. This while most of their scripted content peers face studio lockdowns that likely won't end meaningfully until late July or early August at the earliest. Management recently estimated that 62% of all the original content on TV on a recent Sunday night in the US came from DISC. While viewership will certainly drop off as normalcy returns, there will also likely be a degree of stickiness as viewing habits have developed over 3-4 months. In addition, while other networks with scripted content will be heading into a US fall season with many repeat shows, DISC has a robust pipeline of original content with which to entice both viewers and advertisers alike.

Although DISC will certainly face a difficult June quarter with a steep drop off in April advertising spend, there are early signs of encouragement. In their Q1-20 call, DISC noted that some initial cancellations of upfront advertisers had come back at higher rates and that advertising generally was coming back faster than expected. They also recently remarked that May and June advertising revenues have come in meaningfully better than April.

DISC's share price has been hampered by the threat of cord cutting and declining cable subscribers in the US as viewers switch to less costly streaming alternatives. But less costly for how long? We note that streaming alternatives have been proliferating of late with the likes of Disney, NBC and HBOMax recently joining the fray, leading some like Disney and others to remove their content from competing services like Netflix. This coupled with the rising cost of scripted content will serve to drive up the monthly bill of the average cord cutter as they not only must pay for an increasing number of services to watch their favorite shows but must also cope with rising prices driven by higher content costs. The Morning Show on Apple TV+ is reported to cost $15 million per episode and its estimated that the upcoming Marvel TV shows on Disney+ may cost $25 million per episode. [4] Also, witness recently that YouTube TV and FuboTV subscribers saw pricing increases of 30% and 10% respectively.

While DISC has experienced low/mid-single digit subscriber growth declines in the US recently, advertising revenues have still proven to be resilient and moreover we believe a recent transformative acquisition provides them a substantial runway for growth internationally. US advertising revenues have been growing in part due to DISC's ability to narrow an unjustifiable discount between ad rates and market share (at 20% of US cable viewership) and there is more ground still to be made up. Regarding their international business, DISC's acquisition of Scripps Networks in 2018 provided it with a complementary and quite valuable library of content that had scant distribution outside of the US but which could be added to their vast international distribution platform spanning over 220 countries and nearly 50 languages. These are channels like HGTV, Food Network and Travel Channel with programming content that resonates particularly at the moment and should travel quite well across borders. If these channels garner a similar level of popularity as they have in the US, DISC should reap significant rewards in the coming years.

Finally, DISC's focus on unscripted content provides it with a sizable structural advantage over its scripted peers. DISC's average cost of content production is circa $400k/hour compared to $5 million or more for its scripted peers. This has enabled DISC to generate 40+%EBITDA margins historically compared to peers in the low 20s%. We believe increased competition in the streaming space will continue to drive greater demand and higher cost for scripted content thus widening DISC's advantage. While scripted players certainly can look to get in the unscripted game DISC has been at it for 30 years and has developed a vast library of content and relatable brands which would be difficult to replicate.

We were able to add to our position in DISC during the pullback at circa 6.3x EV/EBITDA, a discount to the 7x multiple at which they traded during the lows of the GFC. Based on what private buyers have paid for similar (but far less profitable) media businesses in the past (circa 12x EV/EBITDA) we believe there is significant upside from here.

Notes:

1. https://russellinvestments.com/-/media/files/us/insights/corporate/q3-2020-global-market-outlook-full-report.pdf?la=en&hash=05B29243EC9FA0E1F177A91D56575C0036A78C29
2. https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020
3. https://www.worldbank.org/en/news/press-release/2020/06/08/covid-19-to-plunge-global-economy-into-worst-recession-since-world-war-ii

4. https://qz.com/1735700/apple-and-disney-are-creating-an-explosion-of-tv-series-budgets/

AROWANA
CONTRARIAN VALUE FUND

Monthly Update | June 2020

Fund Information

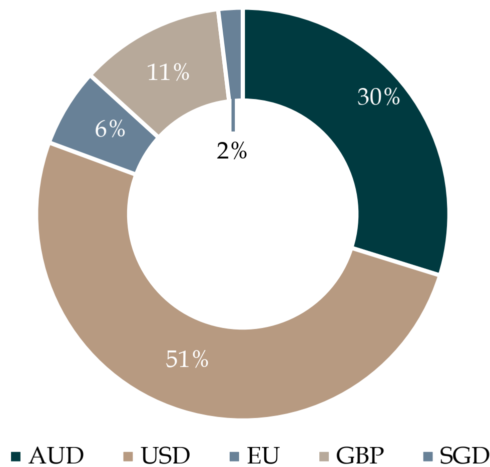
ASX ticker	CVF
Month's net performance	(3.9)%
Last price (at 30 June 2020)	$0.79
Pre-tax NTA	$0.98
Premium/(Discount) to pre-tax NTA	(19.4)%
Fund AUM	A$66.7m
Market capitalisation	A$54.4m
Shares on issue	68,953,308
Current franked dividend yield	15.0%
Franking account balance	$3.9m
Gross/Net equities exposure	51.0% / 51.0%
Cash weighting	49.0%
Geographic mandate (Equities)	Global (45% ex Aust.)
Fund Inception	5-Jan-15

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

	2015	2016	2017	2018	2019	2020
Jan	0.1%	0.0%	1.9%	6.5%	1.3%	2.2%
Feb	(0.3)%	0.0%	(2.6)%	(2.1)%	1.8%	(5.2)%
Mar	0.0%	2.9%	(1.0)%	(0.7)%	(0.1)%	(13.5)%
Apr	0.7%	2.3%	3.5%	0.6%	1.3%	1.8%
May	2.1%	11.8%	2.2%	9.1%	(0.7)%	0.4%
Jun	(1.4)%	(3.6)%	3.5%	3.2%	(0.2)%	(3.9)%
Jul	2.0%	5.3%	1.7%	5.6%	(1.1)%	
Aug	(0.2)%	(6.8)%	3.0%	2.9%	0.3%	
Sep	1.5%	0.6%	2.4%	(1.4)%	2.4%	
Oct	1.7%	2.3%	9.5%	(5.0)%	(0.7)%	
Nov	(0.2)%	(3.5)%	4.1%	(2.0)%	3.2%	
Dec	(0.9)%	(2.5)%	(1.1)%	(2.8)%	0.8%	
Total	**5.1%**	**7.7%**	**30.3%**	**13.9%**	**8.6%**	**(17.7)%**

Portfolio Information

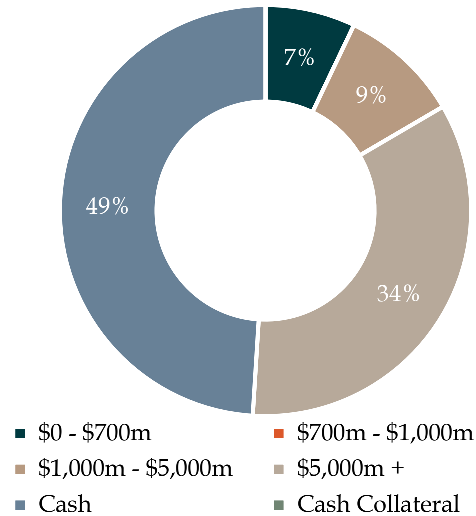
Currency Mix*



■ AUD ■ USD ■ EU ■ GBP ■ SGD

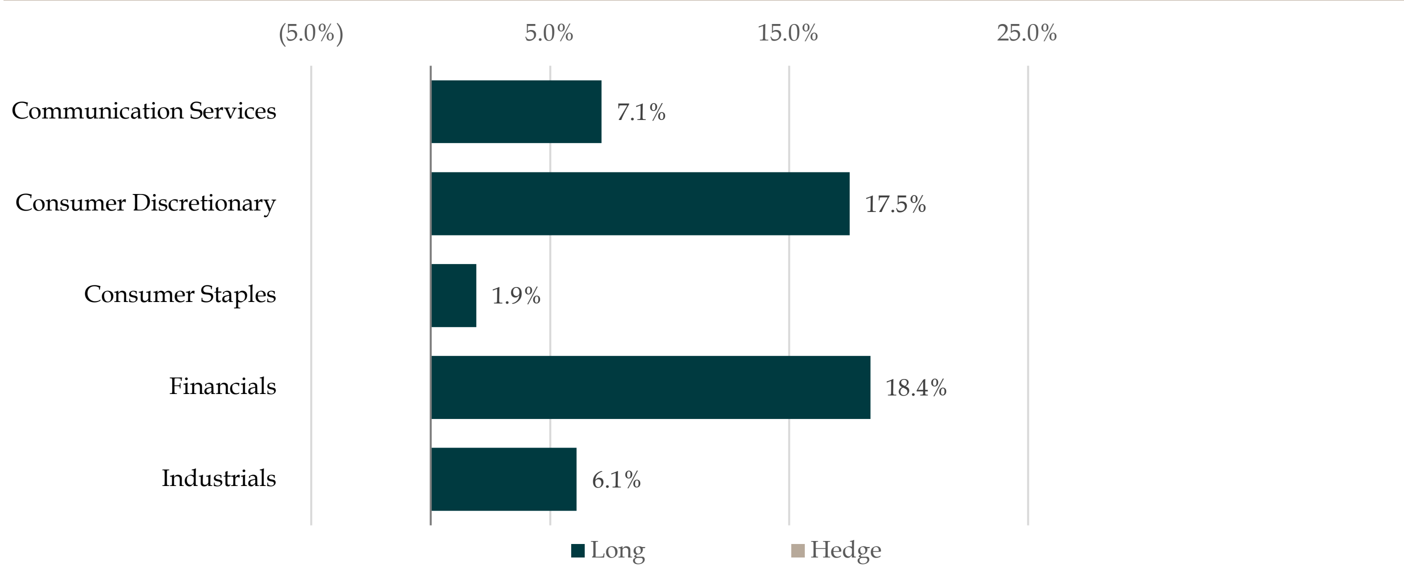
*Currency mix includes cash and equities

Market Cap Mix

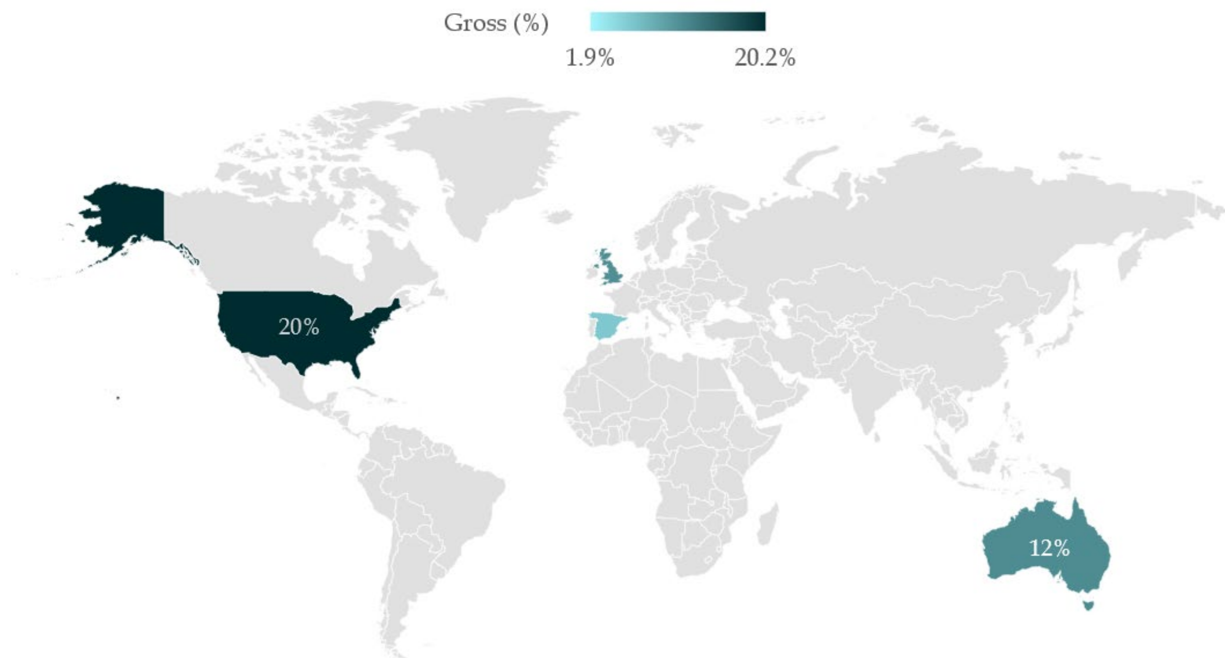


■ $0 - $700m ■ $700m - $1,000m
■ $1,000m - $5,000m ■ $5,000m +
■ Cash ■ Cash Collateral

Exposure by Sector

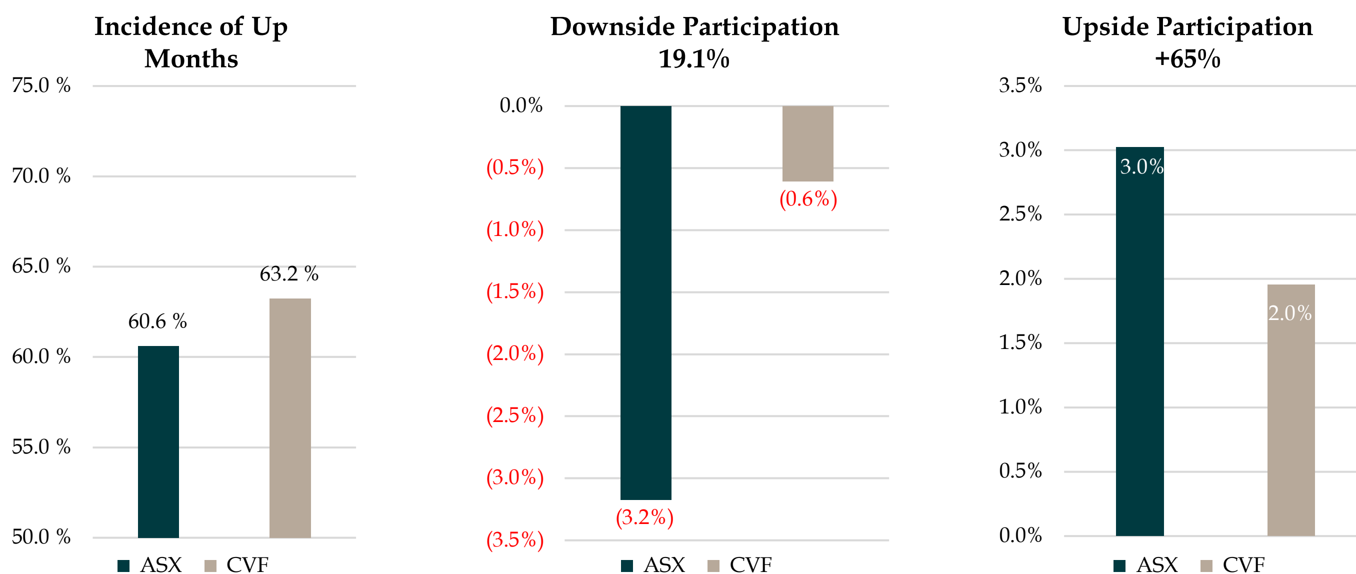


Equities Exposure by Country

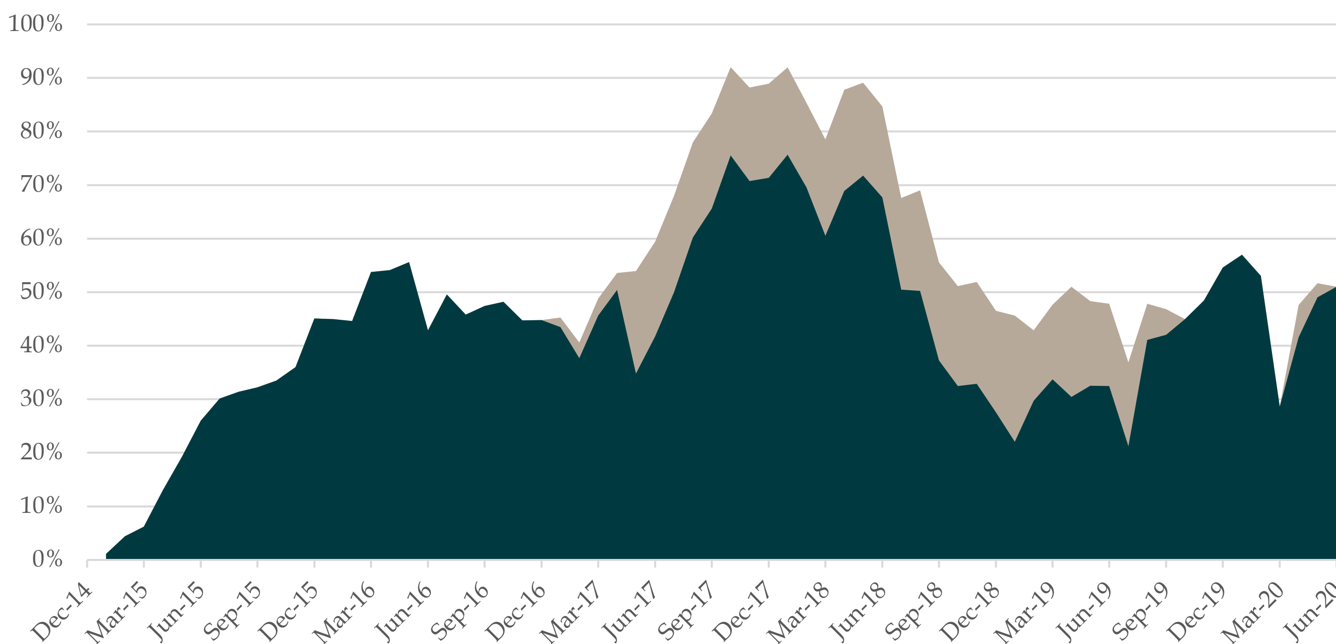


Country	Long	Hedge	Gross	Net
Australia	11.6%	-	11.6%	11.6%
United States of America	20.2%	-	20.2%	20.2%
Singapore	1.9%	-	1.9%	1.9%
United Kingdom	11.2%	-	11.2%	11.2%
Spain	6.1%	-	6.1%	6.1%
Total	**51.0%**	**-**	**51.0%**	**51.0%**

Uncorrelated Returns: More positive months and negative correlation in months when market is down



Gross & Net Portfolio Exposures – Outperformance achieved with no portfolio leverage



On behalf of the Board of Contrarian Value Fund Limited,

Laura Newell

Company Secretary

Important Information and Disclaimer

While all reasonable care has been taken in the preparation of this monthly update, neither Contrarian Value Fund Limited ("Fund") nor ACVF Management Pty Ltd ("Fund Manager") is responsible for any errors nor misstatements. To the full extent permitted by law, no representation or warranty is made, and any and all liability is disclaimed, in relation to the accuracy or completeness of any statement, opinion, forecast or information contained in this monthly update.

This monthly update has been prepared for the purposes of providing general information only and does not constitute an offer, solicitation or recommendation with respect to the purchase or sale of any securities in the Fund or in which the Fund has invested, nor does it constitute financial product or investment advice, nor take into account your investment objectives, financial situation or needs.

Past performance is not indicative of future performance. Returns can be volatile. Potential investors should seek independent advice as to the suitability of a particular investment to their investment need.