

Contrarian Value Fund

2020 Full Year Results Presentation

25th August 2020



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CVF Achievements | 12 Months to 30 June 2020

Continued Outperformance Since Inception

*CVF 50.2%¹ versus
ASX Accumulation Index 37.7%*

Cash to Shareholders

*\$0.13 cents per share² returned to
shareholders via dividends and buybacks*

Increased Income Yield

*average monthly DPS of 0.69c³ in past
12 months versus 0.33c since listing*

Upgraded Investment Process

*proprietary AI powered algorithm
identifies value catalyst stocks versus
value trap stocks*

Increased Liquidity

*average daily volume increased to 80,275
versus 25,097⁴*

Increased Cash Deployment

*cash weight of portfolio reduced to
49% (30 Jun 2020) from
67% (30 Jun 2019)*

NOTES

¹ After all fees and expenses, pre tax

² Based on number of shares on issue at 30 June 2020

³ Based on dividends declared in the 12 months to 30 June 2020

⁴ Volume traded for 12 months ended 30 June 2020 versus 12 months ended 30 June 2019

FY2020 Review | 12 Months to 30 June 2020

Financial Results

Revenue	(\$6.04m)
NPAT	(\$7.37m)
EPS	(\$0.11)
FUM	\$66.7m
Pre-tax NTA	\$0.96
NTA Discount	17.7%

Capital Management

- Bought back 2,675,000 shares
- Implemented monthly fully-franked dividends
- Declared \$0.0929 per share worth of fully-franked dividends
- Represents a return of capital of over \$9.1m (\$0.13 p/share) to shareholders
- The Board has also declared a dividend of 1.5 cents per share to be paid on 30 September 2020

Performance

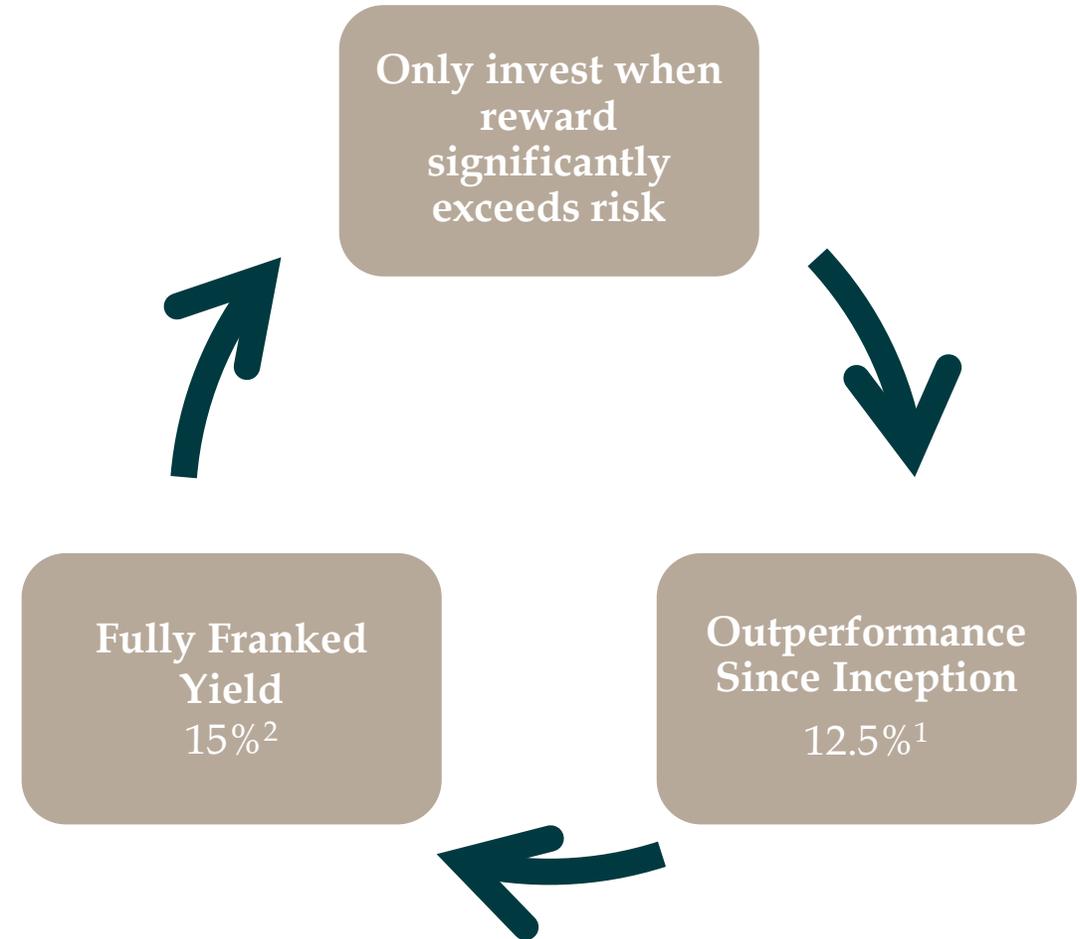
- In a year indelibly marked by a global pandemic and potentially the worst global recession since World War II, CVF declined by 13.6%, under-performing its benchmark by 5.9%; while disappointing we are excited about the prospects of the current portfolio
- CVF was hit particularly hard by exposure to travel and leisure, which collectively reduced returns by 4.4% for the year, however we believe this segment will rebound dramatically as economic activity recovers
- In addition, our portfolio hedge, established in the teeth of the downturn, detracted 1.9% from performance as markets rocketed to one of the speediest recoveries on record
- Lastly, our shift into US dollars during the crisis, made largely with a view that the USD would benefit from a flight to quality, cost us 3.5%

Strategic Review

- The intention remains to provide Shareholders with an opportunity to vote on the future direction of the Company.
- CVF awaits the outcome of an ATO ruling relating to the availability of franking credits in the event the Company is wound up.

CVF has delivered on its core investment objectives since IPO

- **Capital preservation** is paramount
- Invest **only** when reward **significantly** exceeds risk
- **Concentrate** capital in situations with best upside asymmetry to **maximise** risk adjusted returns
- **Alignment...** the Board and affiliates represent 10% of the share register
- **Grow NTA and dividends**

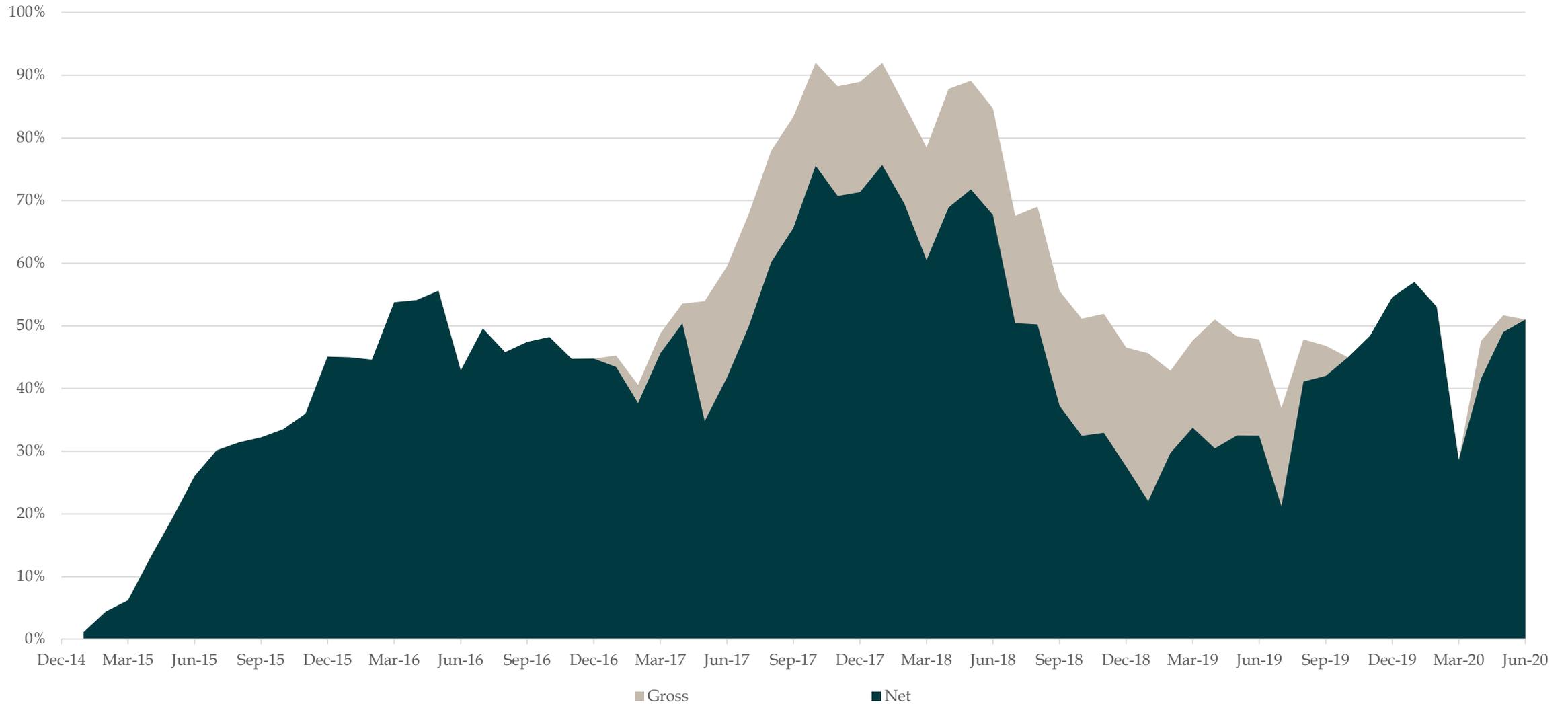


NOTES

¹ After all fees and expenses, pre-tax since inception (5 January 2015 – 30 June 2020) CVF 50.2% versus ASX200 Accum Index 37.7%

² Inclusive of all fully-franked dividends paid during FY20 based on \$0.79 CVF stock price as at 30 June 2020

CVF has closed all short / hedge book positions and maintains no portfolio leverage



Value Stock Investing: on the cusp of a resurgence?



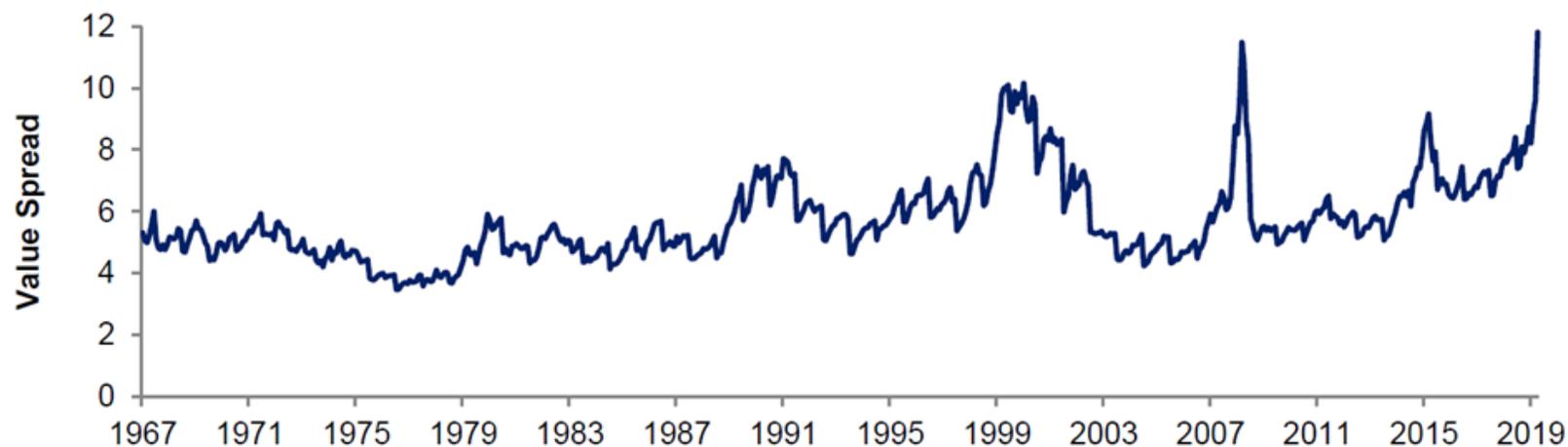
Value stock investing...perhaps the best opportunity in over a generation

By a number of measures, the dispersion between growth and value is at its widest gap in over 50 years

Figure 1

Price-to-Book Spread, Academic Style

December 31, 1967 – March 31, 2020



Source: AQR, CRSP, XPressFeed. Please see Appendix for more detail on data and assumptions. For illustrative purposes only and not representative of any portfolio that AQR currently manages. Hypothetical data has inherent limitations, some of which are disclosed in the Appendix.

- The spread between the most expensive US stocks and the cheapest on a price/book (P/B) basis is at an all-time high going back over 50 years
- **Since 1967, expensive stocks have on average been 5.4x more expensive than value stocks on a P/B basis, whilst as of Q1-20 they are almost 12x more expensive**
- Recent levels surpass those present during the period leading up to the GFC and at the peak of the Tech Bubble

SOURCE

<https://www.aqr.com/Insights/Perspectives/Is-Systematic-Value-Investing-Dead>

The current historic value discount exists on multiple metrics

Some might argue that P/B is not as relevant given the higher intangible values of today's growth companies

Various Value Spreads, Academic Style | December 31, 1967 – March 31, 2020*

Value Spread Measure	Current Percentile	(Current – Median) / (Max – Median)	Current STD Event
Price-to-Book	100%	100%	+4.5
Price-to-Sales	83%	21%	+0.7
Price-to-Earnings (trailing)	100%	100%	+4.7
Price-to-Earnings (forecast)	99%	82%	+3.9
Composite	100%	92%	+4.3

* Forecasted Price-to-Earnings starts January 31, 1976

Source: AQR, CRSP, XPressFeed. "Composite" is a combination of the four value measures in this table. Please see Appendix for more detail on data and assumptions. For illustrative purposes only and not representative of any portfolio that AQR currently manages. Hypothetical data has inherent limitations, some of which are disclosed in the Appendix.

- However, as we note above, the spread between the most expensive and cheapest stocks on a trailing P/E basis, as of Q1-20, was at the 100th percentile, registering as a +4.7 standard deviation event
- Additionally, on a forecasted P/E basis, the spread is at the 99th percentile historically and nearly +4.0 standard deviations away from the median
- Lastly, if one looks at a composite of measures including P/B, Price/Sales and P/E (both trailing and forecasted) it remains at the 100th percentile, equating to a +4.3 standard deviation event

SOURCE

<https://www.aqr.com/Insights/Perspectives/Is-Systematic-Value-Investing-Dead>

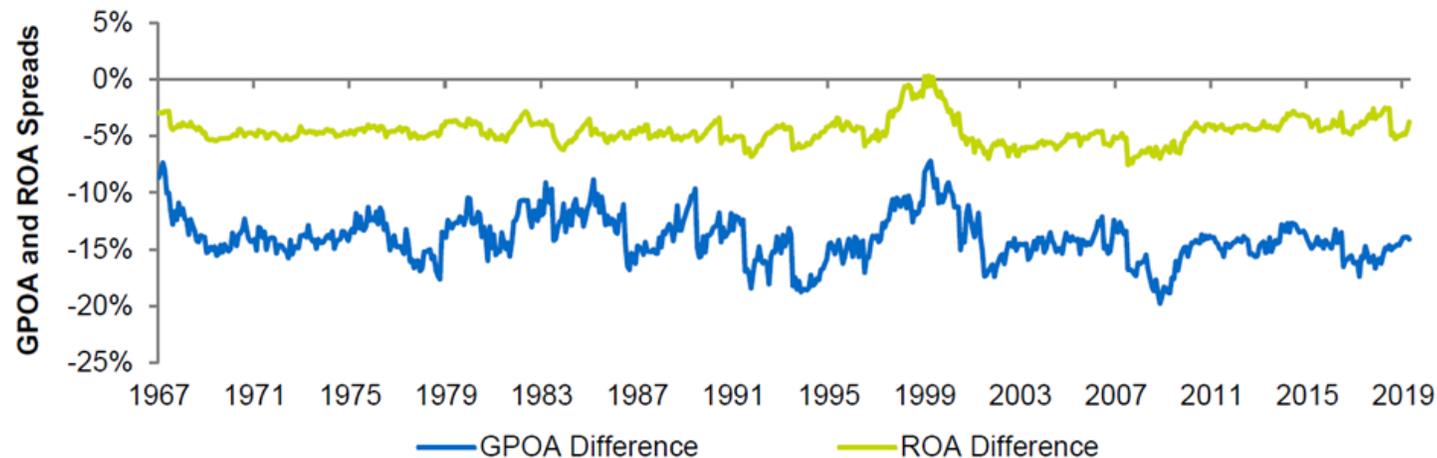
Are value stocks cheap for a reason?

On a relative basis, value stocks today are just as profitable as they have been over the last 50+ years

Figure 10

Gross Profitability and Return-on-Assets Spreads, Equal-Weighted Top 1000 Stocks, Industry-Neutral, Price-to-Book Sort

December 31, 1967 – March 31, 2020



Source: AQR, CRSP, XPressFeed. Please see Appendix for more detail on data and assumptions. For illustrative purposes only and not representative of any portfolio that AQR currently manages. Hypothetical data has inherent limitations, some of which are disclosed in the Appendix.

- The cheapest stocks today on a P/B basis have gross margins that are about 14% lower than the most expensive stocks, which is precisely the median spread seen since 1967 (see graph).
- On an ROA basis, the median spread has been (5)%, while today it is at (4)%, so cheap stocks are actually at a relatively higher ROA than they have been historically.

SOURCE

<https://www.aqr.com/Insights/Perspectives/Is-Systematic-Value-Investing-Dead>

We may be on the cusp of the greatest period of value stock out-performance since the 1940's

We have witnessed technological disruption before...and value investors subsequently reaped the rewards

- The last extended period of value stock under-performance occurred from 1926 to 1941
- This period witnessed the “Turning Point” phase of the last technological revolution marked by the widespread adoption of mass production, autos and oil which revolutionized transportation, created mass markets and transformed retailing
- The present Information Age is similarly marked by far reaching societal changes brought on by the advent of microprocessors, step changes in productivity via computers and transforming the dissemination of information via the internet
- Periods of technological revolution are often marked by 2 major phases: 1) “Installation” phase – during which technologies are being built and 2) “Deployment” phase - adoption is largely complete, technologies are refined and industries become mature
- The shift to the “Deployment” phase is typically preceded by a “Turning Point” phase characterized by extreme wealth concentration, valuation bubbles and ultimately a financial crash

Difference of Annualised Returns of S&P 500 Value over S&P 500 Growth (Top 30% minus bottom 30% for each Factor)

	Price-to-Book	Price-to-Earnings	Price-to-Sales
Jul 1926 to Dec 2018	1.06%	3.15%	3.63%
Jun 1926 to Dec 1941	-6.13%	-4.82%	2.14%
Dec 1941 to Dec 2006	4.39%	6.07%	5.12%
Jan 2007 to Dec 2018	-5.97%	-0.87%	-2.03%

- Value investing fundamentally takes advantage of an over-discounting of future cashflows followed by a subsequent re-rating based on new ‘normalized’ expectations
- As the Turning Point phase is exited such opportunities become more plentiful.
- Thus, we may be witnessing the end of the Turning Point for the Information Age which, as in the previous Technological Revolution, could presage an extended period of dramatic out-performance for value investors. **This period from 1941 to 2006 saw value out-perform growth by 4.4 - 6% per annum**

SOURCE

<https://osam.com/Commentary/value-is-dead-long-live-value>

Fund Information



Fund Summary

Name	Contrarian Value Fund (CVF)
Fund style	Global, Absolute Return
Domicile	Australia
Manager	Arowana International Limited (via ACVF Management Pty Limited)
Functional currency	Australian Dollar
Inception	Jan-15
Cumulative return since inception*	50.2%
Management fee	1%
Performance fee	20%
Benchmark	S&P/ ASX 200 Accumulation Index
Hurdle	Where index is >0, 8% hurdle rate Where index is <0, 0% hurdle rate
High watermark	Yes and indexed by hurdle rate
Auditor/Tax	PKF Brisbane/PKF Sydney
Administrator	Mainstream Group Holdings Limited
AFSL	Arowana Capital Pty Ltd License no. 307070
Website	https://arowanaco.com/arowana-cvf/
Contact	+61 2 8083 9800

NOTE

*After all fees and expenses, pre tax

AROWANA CVF

The End

