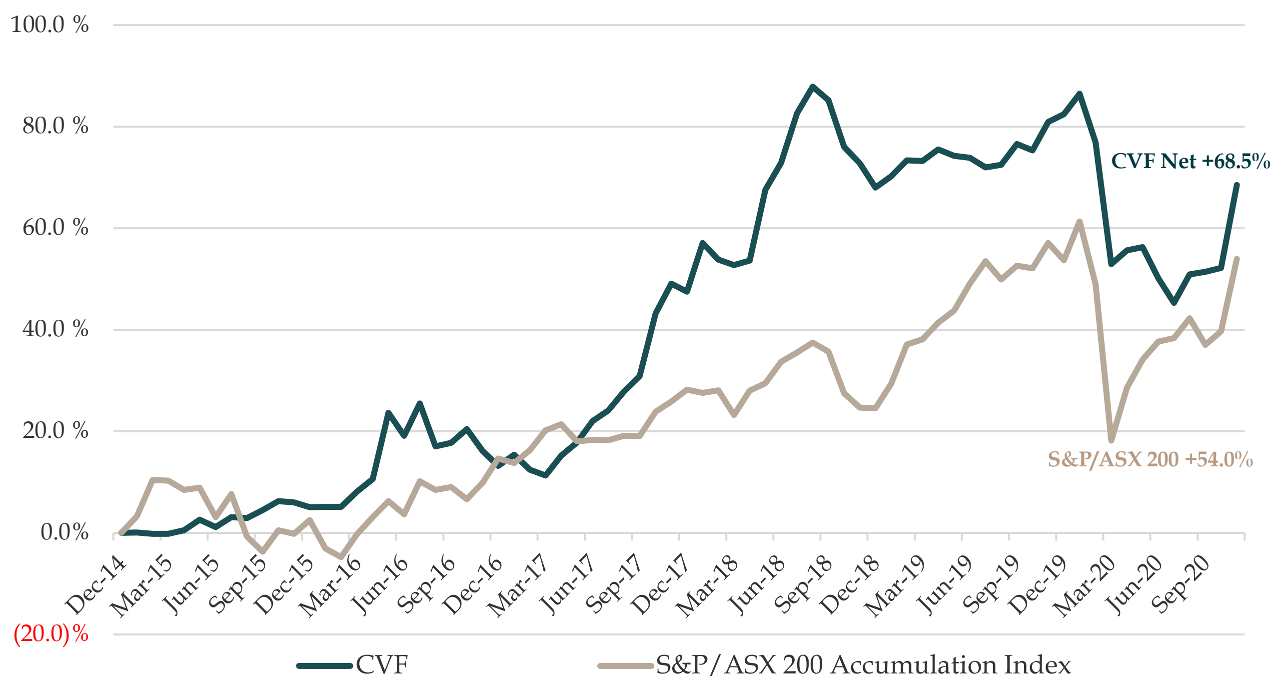
AROWANA
CONTRARIAN VALUE FUND

Monthly Update | November 2020

Fund Performance



At 30 November 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	11.0 %	9.4 %	(3.9)%	1.1 %	8.1 %	12.6 %	101.8 %
S&P/ASX200 Accumulation Index	10.2 %	14.8 %	(2.0)%	11.1 %	6.9 %	7.6 %	54.0 %
Gross outperformance	0.8 %	(5.4)%	(1.9)%	(10.0)%	1.2 %	5.0 %	47.8 %
Arowana CVF Net performance*	10.7 %	7.8 %	(6.9)%	(1.2)%	4.2 %	9.2 %	68.5 %
S&P/ASX200 Accumulation Index	10.2 %	14.8 %	(2.0)%	11.1 %	6.9 %	7.6 %	54.0 %
Net outperformance	0.5 %	(7.0)%	(4.9)%	(12.3)%	(2.7)%	1.6 %	14.5 %

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

Net Tangible Assets (NTA) per Share

At 30 November 2020	$
NTA pre-tax on unrealised gains	**1.07**
NTA after tax on unrealised gains[1]	**1.06**

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.

Top 5 Holdings (% of Gross Portfolio Value)

Ticker		%
PSH.NA	PERSHING SQUARE HOLDINGS	7%
AENA.SA	AENA SME SA	6%
VRL	VILLAGE ROADSHOW LIMITED	6%
CCL.LN	CARNIVAL PLC	6%
NEC	NINE ENTERTAINMENT CO HOLDINGS	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: 8th December 2020

Newsletter

November was a month to remember as CVF registered a return of 10.7% net of all costs and fees while the S&P/ASX200 Accumulation Index rose by 10.2%. Pre-tax NTA per share stood at $1.07 as of 30 November 2020. In addition, the current franked dividend yield stands at 7.5%.

Buoyed by the news of 3 coronavirus vaccines possibly within weeks of approval and distribution in the US and Europe, the CVF portfolio rebounded in dramatic fashion. We believe we are in the early innings of a revival as vaccines become more widely available in the coming months and the economic recovery begins to accelerate a return to normalcy. The UK has already approved the Pfizer vaccine for emergency usage, has enough doses on order to immunize 30% of its citizens and will begin vaccinations this week. Make no mistake, as we have said before, this will not be a smooth path upward as we embark on this massive logistical effort, the likes of which the world has never witnessed. However, as immunizations progress through mid-2021 and economic activity continues on its path to recovery, we believe the substantial upside potential of our portfolio will begin to be unlocked.

While Europe appears to be regaining control of the virus in this latest surge following recent measures to restrict the spread, the US is facing the highest daily hospitalization and death rates since the start of the pandemic which will likely lead to lockdown measures of varying degrees across many states. As vaccinations reach frontline healthcare workers and those at highest risk of infection this should begin to alleviate the growing strain on our health systems which should help stem the mortality rate. We have reached an inflection point in our battle with this deadly virus but the coming months will not be easy as governments grapple with this latest surge.

Global markets were positively ebullient over the news and deservedly so after what has been a long, hard covid-induced economic winter. European equity markets (x-UK), where we have found attractive opportunities over the last several months, led the pack in November with a 14.2% rise in local currency terms whilst the UK, a performance laggard YTD, rebounded by 12.7% for the month in local currency. The S&P 500 also registered a heroic rise of 11% during the month even amidst the growing threat of lockdowns. We would caution that markets have likely gotten ahead of themselves but we do believe a return to normalcy is well within our line of sight.

The portfolio experienced its second-best performing month since inception. With that, we are pleased to report that none of our equity holdings experienced a decline in November while half of our holdings had returns in excess of 20% for the month.

We did have one detractor, our USD exposure, which cost the portfolio 1.5%. While admittedly our USD cash position has proven painful to the portfolio year to date, we are still of the mindset that the call for the demise of the dollar is premature and recent declines are likely temporary.

Unsurprising to us, the largest contributor to performance was Carnival with a 54% return for the month leading to a 2.2% portfolio contribution. It was just last month that Carnival was the largest detractor to the portfolio but alas a few vaccines have proven to be just the shot in the arm it needed. The vaccine news bolstered our travel and leisure exposure to a dramatic rebound resulting in a 5.8% contribution to portfolio returns, as this sector, so severely impacted by travel and social restrictions, stands to benefit the most from a re-opening.

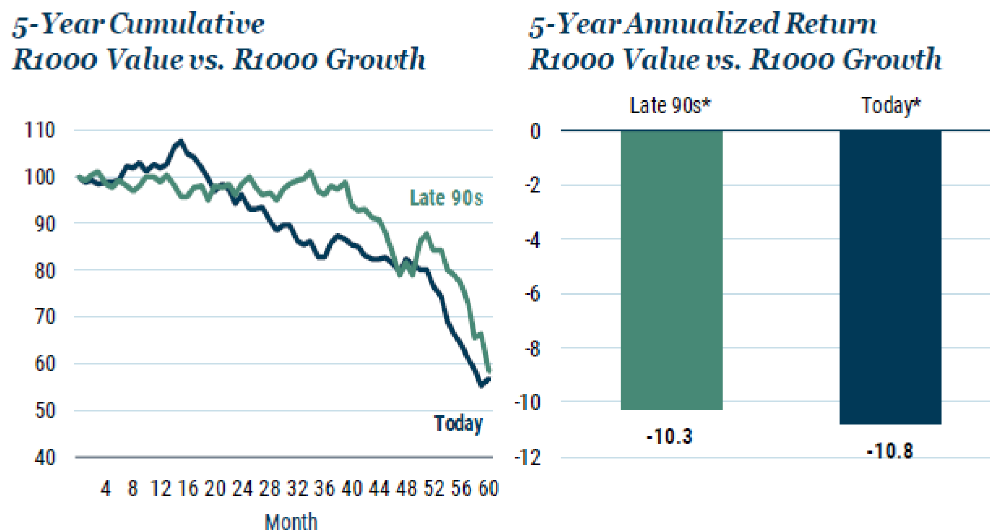
Village Roadshow (VRL) reaped a dual reward as it also saw an increased bid from its private equity suitor BGH. This in part powered a 31% gain resulting in a 1.5% contribution to performance for the month. Whilst we still believe there is substantial value being left on the table with this latest bid we are left incredulous by management's willingness to engage in what amounts to a take-under at the expense of minority shareholders. With a vaccine in hand and a clear path to normalcy now in sight, there could not be a worse time to engage in a sale of VRL. This is the definition of a motivated seller, a position we attempt to avoid at all costs and yet management has welcomed it. In our opinion, to remove such substantial upside potential from the hands of shareholders with a re-opening only months away is an irresponsible act akin to a theft. Both management and the Board should be ashamed. We are grateful however for the efforts of Chris Mittleman particularly as well as Spheria, two minority shareholders who took an active role in keeping management's feet to the fire and were perhaps the only reason we received an increased bid. Thank you.

"Active Managers Caught with Too Much Money in Growth Stocks"

The above is a headline from a recent Bloomberg article reporting that a large contingent of active managers were left behind in the 're-opening rally' this month due to their exposure to high flying, tech names. They highlighted that in November a mere 14% of large-cap core funds exceeded the Russell 1000 Index, the third-lowest rate in any month going back to 1991. We found one quote that seemed to sum it up nicely:

"It was just a couple of weeks ago that every asset manager and portfolio manager that found their way to a microphone was saying tech is the winner, Covid is an influence that is going to be compelling and long lasting," Scott Knapp, chief market strategist of CUNA Mutual Group. "Then along comes the vaccine. A lot of that groupthink means a large portion of the funds were tilted in the wrong direction as the rotation was taking place." [2]

We would opine that the 're-opening rally' could very well mark the inflection point of a value revival. In a dramatic reversal, global value stocks gained 15.1% (in USD) for the month while global growth stocks lagged with a 10.9% return. This follows on the heels of one of the starkest periods of under-performance for the value style ever witnessed. GMO, a $50+ billion value-oriented manager, recently noted that from 23 March through 31 August, the same period that not coincidentally saw CVF's worst under-performance, US value stocks under-performed US growth stocks by a 'soul-crushing' 32%. As GMO highlights, this was a 4.5 sigma event, which should occur once every 403 years. Lucky us. Most importantly, this out-performance resulted in "…one of the widest valuation spreads (between growth and value) that they've ever witnessed". This comes amidst the worst 5-year trailing performance for value v. growth since the late 90's. US value stocks have under-performed growth stocks by 10.8% annualized over the last 5 years, even worse than that of the 10.3% under-performance seen during the 5 years ending Feb 2000. However, in the period that ensued, from 1999-2006, value trounced growth for seven years in a row by a cumulative 99%! [1] While history doesn't repeat, we believe it's about to rhyme.



Value has suffered globally as well. Since the beginning of the Covid crisis in February through the end of October, the MSCI World Index, which is an index focused on global developed equity markets, declined by 4.9%, however, the MSCI World Value Index, posted a far steeper drop of 17.9% over this same period.

The path less travelled = out-sized returns

Amidst November's rotation to value, our portfolio provided an early glimpse of the sizable appreciation potential residing within. The equity portion of our portfolio registered an aggregate return of 22% for the month, more than twice that of the benchmark return, whilst all of our holdings registered a positive gain. While we must admit we did not foresee such a dramatic move, we did expect that the market would ultimately begin to recognize the intrinsic value of our holdings as we moved closer to pre-Covid levels of economic activity. Given the upside potential still remaining, we believe there is much more to come.

In our 40+ years of cumulative investing experience, we have found a truly contrarian, disciplined, deep value approach focused on those businesses that are unpopular, neglected and often mis-understood, has consistently generated excess returns over a market cycle. However, due to a confluence of events our performance advantage will likely widen in the years ahead. In a highly competitive endeavour such as active management it is not often that one finds an area of the market that is increasingly being neglected. We believe we are squarely in the sweet spot of this opportunity. As most in the value community have shifted their focus away from our contrarian, deep value approach with a growing number having closed their doors permanently, we are left with far fewer competitors for the types of opportunities that we seek. This has and will continue to allow us to uncover cashflow generating businesses run by able management that are shunned by our peers simply because they may not neatly fit their narrow definition of 'compounder' (which has developed into something akin to a cult obsession). As a result, we are able to acquire perfectly fine businesses across a range of industries including financials, industrials, energy, communications, travel and media, often at multi-year or even decade lows and/or at low to mid-single digit multiples of normalized earnings/EBITDA. This enables us to construct a portfolio with upside potential that is likely to far exceed any downside risk due to a robust margin of safety.

While many of our peers will focus their efforts exclusively on finding 'great businesses' we will instead spend our time focused on making great investments and will be ever vigilant against conflating the two. While not averse to investing in great businesses, it is increasingly rare today to find one at a price that provides a suitable return should the business encounter challenges aka a sufficient margin of safety. We are skeptical of 'insurmountable barriers to entry' and businesses with monopolistic characteristics as these invite the most intense competition as well as regulatory scrutiny. Witness a recent news article regarding increased European regulatory scrutiny of tech giants:

"The European Union plans to introduce in coming weeks ***new proposals aimed at changing behavior—and, in some cases, business models—at large online platforms****, reasserting the bloc's role as global tech cop.*

The European Commission, the bloc's executive arm, is completing regulatory plans outlining how online platforms should remove illegal content quickly and refrain from using their power to quash rivals or push their own products on their sites. ***The commission plans sanctions for violators that include fines and possible separation of assets,*** *according to people familiar with the matter.*

Under the plans, the bigger and more influential a company—based on criteria including market share and revenue—the more obligations it will shoulder*. The rules, though not targeting any specific company, are likely to apply to U.S. tech companies including Alphabet Inc.'s Google, Facebook Inc. and Amazon.com Inc., according to EU officials."* [3]

This type of scrutiny and increased regulation is unlikely to diminish as these companies gain share and look to protect their market dominance, rather quite the opposite is likely.

Lastly, we would point out that we are at a unique juncture currently whereby such an extreme valuation gap exists between growth and value that it appears indicative of a reversion to the mean for value in the near term. If we are right, these conditions have set the stage for a long runway in which to generate a level of out-performance that hasn't been seen since 2000-2006.

Therefore, we believe the question one should ask at this moment is:

"Would it be prudent to reduce exposure to growth stocks and add to value at this time?"

We believe the answer to be a resounding yes! And would add…

If one takes the path less travelled - a truly contrarian, deep value approach – we believe one has the highest likelihood of achieving out-sized returns whilst also having the greatest margin of safety against capital loss.

We hope you stay tuned.

We would like to take a moment to give special thanks to our investors both past and present who have entrusted us with a great responsibility - the stewardship of your wealth. It truly has been our privilege.

All of us at CVF wish you and your families a very healthy, happy and blessed Holiday Season.

Notes:

1) https://www.gmo.com/americas/research-library/tonight-we-leave-the-party-like-its-1999/
2) https://www.bloomberg.com/news/articles/2020-12-02/active-managers-get-caught-with-too-much-money-in-growth-stocks?sref=i9AaqAZq
3) https://www.wsj.com/articles/u-s-tech-giants-face-tighter-regulation-in-europe-11606991401?mod=searchresults_pos10&page=1

Fund Information

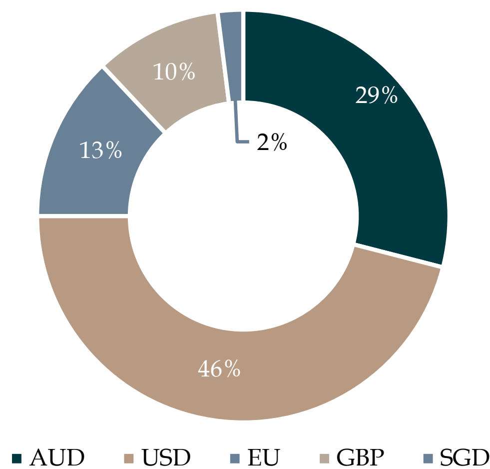
ASX ticker	CVF
Month's net performance	10.7%
Last price (at 30 November 2020)	$1.01
Pre-tax NTA	$1.07
Premium/(Discount) to pre-tax NTA	(5.6)%
Fund AUM	A$73.8m
Market capitalisation	A$70.2m
Shares on issue	69,470,935
Current franked dividend yield	7.5%
Franking account balance	$3.6m
Gross/Net equities exposure	60.9% / 60.9%
Cash weighting	39.1%
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)%	(3.3)%
Aug	(0.2)%	(6.8)%	3.0%	2.9%	0.3%	3.9%
Sep	1.5%	0.6%	2.4%	(1.4)%	2.4%	0.3%
Oct	1.7%	2.3%	9.5%	(5.0)%	(0.7)%	0.5%
Nov	(0.2)%	(3.5)%	4.1%	(2.0)%	3.2%	10.7%
Dec	(0.9)%	(2.5)%	(1.1)%	(2.8)%	0.8%	
Total	**5.1%**	**7.7%**	**30.3%**	**13.9%**	**8.6%**	**(7.6)%**

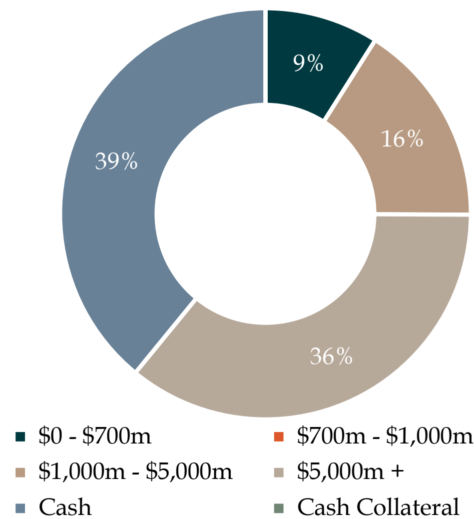
Portfolio Information

Currency Mix*

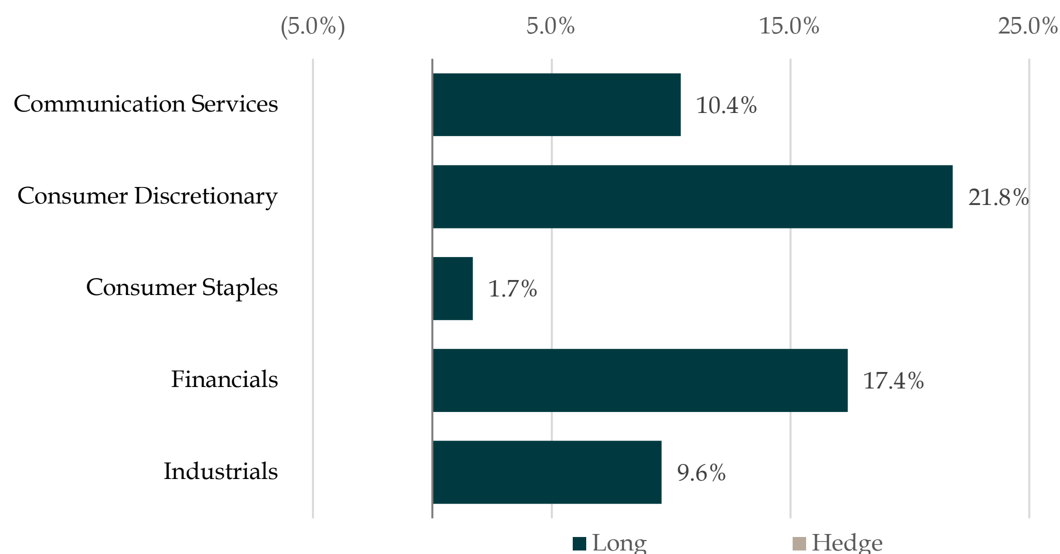


*Currency mix includes cash and equities

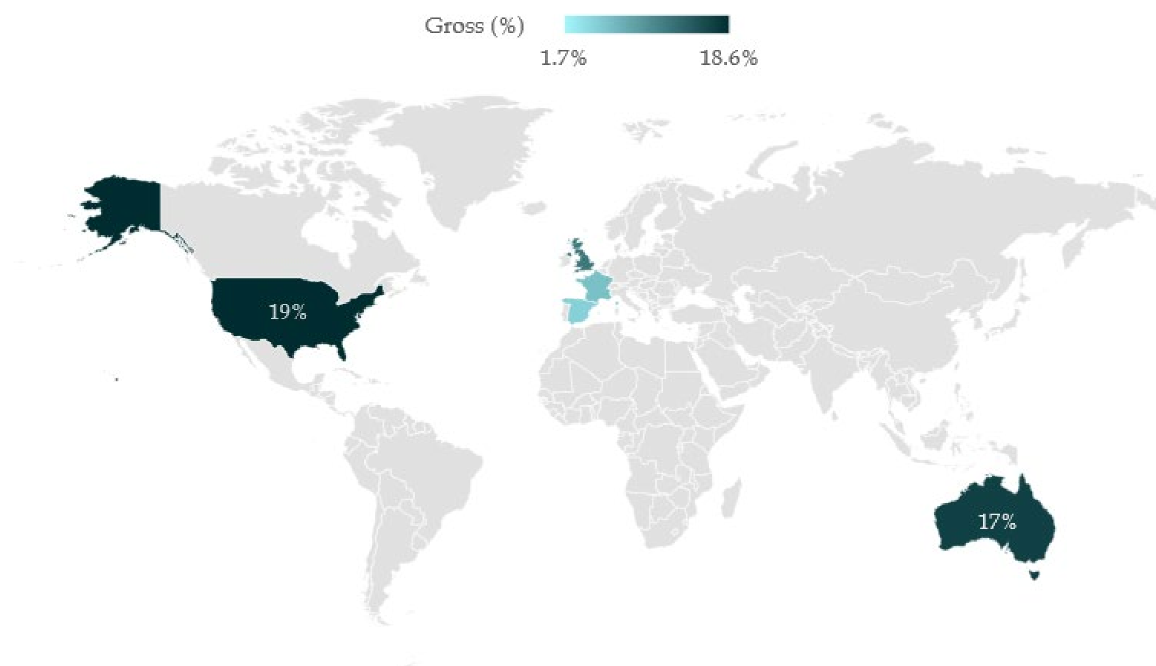
Market Cap Mix



Exposure by Sector

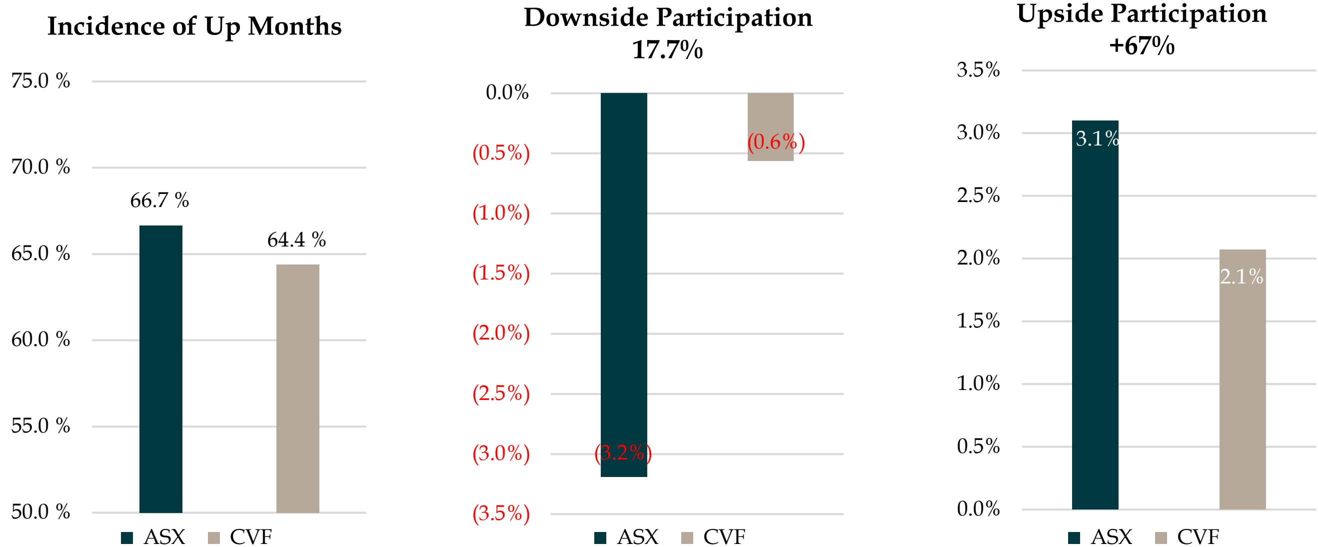


Equities Exposure by Country

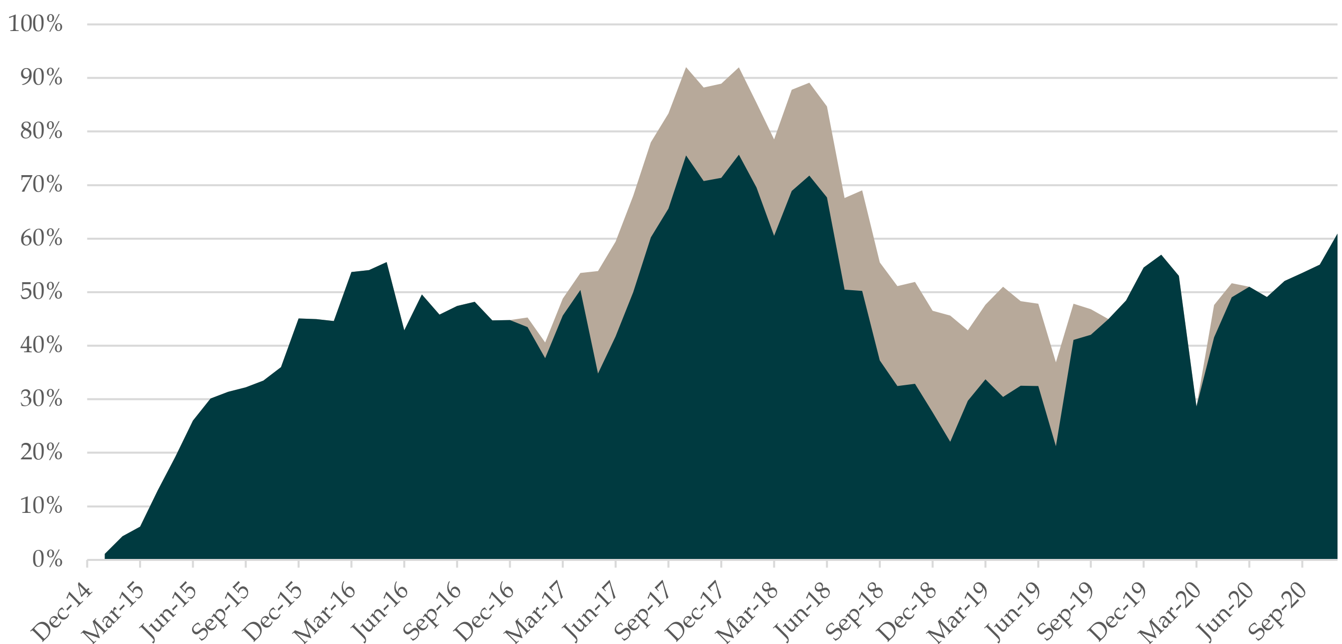


Country	Long	Hedge	Gross	Net
Australia	17.0%	-	17.0%	17.0%
United States of America	18.6%	-	18.6%	18.6%
Singapore	1.7%	-	1.7%	1.7%
United Kingdom	12.4%	-	12.4%	12.4%
France	5.0%		5.0%	5.0%
Spain	6.2%	-	6.2%	6.2%
Total	**60.9%**	**-**	**60.9%**	**60.9%**

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,

Tom McDonald
Company Secretary

Important Information and Disclaimer

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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.