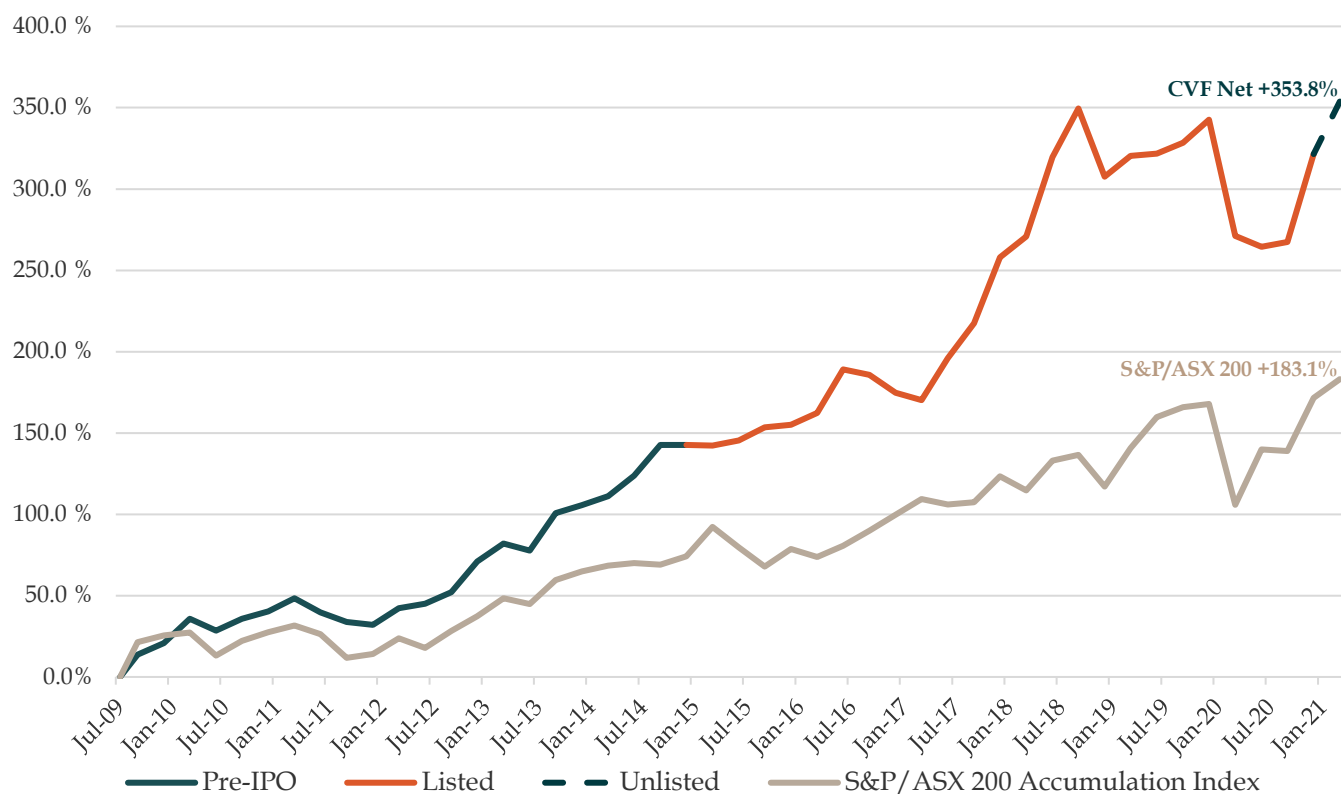


## Performance to 31 March 2021

### CVF Cumulative Net Performance vs Index - Since Inception



As at 31 March 2021	Since Fund Inception (Jul 2009)						
	3 mth	1 yr	3 yr p.a	5 yr p.a	10 yr p.a	Annualised	Cumulative
Arowana CVF Net performance*	7.7%	22.3%	7.0%	11.6%	11.8%	13.7%	353.8%
S&P/ASX200 Accumulation Index	4.3%	37.5%	9.7%	10.2%	8.0%	9.3%	183.1%
Net outperformance	<b>3.4%</b>	<b>(15.2)%</b>	<b>(2.7)%</b>	<b>1.4%</b>	<b>3.8%</b>	<b>4.4%</b>	<b>170.7%</b>

\* Net of all fees and expenses, pre-tax. Pre-IPO management fees were 0.55% of invested capital per annum, post-IPO management fees were 1% of NAV per annum. For the purpose of calculating net performance whilst unlisted, theoretical fees and expenses for the period were estimated at normalised levels.

### Quarterly Fund Performance Since Inception

#### QUARTERLY INVESTMENT PERFORMANCE (Pre-tax, net of all costs<sup>1</sup>)

	Pre-IPO <sup>2</sup>						Listed <sup>2</sup>						Unlisted <sup>2</sup>
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Q1		12.4%	5.8%	7.8%	6.5%	2.7%	(0.2)%	2.9%	(1.7)%	3.6%	3.1%	(16.2)%	7.7%
Q2		(5.4)%	(5.8)%	1.9%	(2.4)%	6.0%	1.3%	10.2%	9.6%	13.2%	0.3%	(1.8)%	
Q3	13.7%	5.7%	(4.1)%	4.8%	13.0%	8.4%	3.3%	(1.2)%	7.2%	7.2%	1.6%	0.8%	
Q4	6.3%	3.2%	(1.4)%	12.5%	2.5%	0.0%	0.6%	(3.8)%	12.7%	(9.3)%	3.3%	14.7%	
<b>Total</b>	<b>20.9%</b>	<b>16.0%</b>	<b>(5.9)%</b>	<b>29.5%</b>	<b>20.3%</b>	<b>18.0%</b>	<b>5.1%</b>	<b>7.7%</b>	<b>30.3%</b>	<b>13.9%</b>	<b>8.6%</b>	<b>(4.8)%</b>	<b>7.7%</b>

\* Quarters represent calendar year quarters

<sup>1</sup> Net of all fees and expenses, pre-tax. Pre-IPO management fees were 0.55% of invested capital per annum, post-IPO management fees were 1% of NAV per annum. For the purpose of calculating net performance whilst unlisted, theoretical fees and expenses for the period were estimated at normalised levels.

<sup>2</sup> CVF was formerly known as the Australasian Value Opportunities Fund (AVOF), which was established as an unlisted fund in 2009. In January 2015, CVF commenced trading on the ASX. In December 2020, CVF shareholders voted for the voluntary liquidation of the Company and the return of its capital. Since the liquidation we have continued to maintain an unlisted tracker portfolio which is an exact replica of the portfolio as at 30 November 2020.

## Newsletter | **The Return of Value Investing...Or Did It Really Go Away?**

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In November 2020, we penned our last full newsletter for the Company in its publicly listed structure. We contemplated in that newsletter whether the “reopening rally” that was manifesting could mark the inflection point of a “value” revival. We also posed the question whether it would be appropriate to further increase exposure to value stocks and deploy at least 50% of our significant cash holdings at the time. (Of course, this was unfortunately not possible given the Company had a vote imminent in relation to a voluntary liquidation and capital return, which was held in December 2020 and precipitated by the demands of a majority of the shareholder base).

With the benefit of hindsight, the answer was a resounding yes, as it turns out the last four months have seen a rotation into value stocks like no other. An Alliance Bernstein analyst noted that this value rotation *“is very different to any period in history. We are in a very different policy environment and possibly are at the start of a much bigger change in the inflation regime.”*<sup>1</sup> Furthermore, Barron published an article on March 19, 2021 headlined *“Value stocks continue to rise. They are becoming the new face of momentum”*<sup>2</sup>. As with many other seasoned investors, we have long maintained that the “value style” and “momentum style” are not mutually exclusive. The last four months is firm evidence of this.

This rotation 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 2020 through 31 August 2020, 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. 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%!<sup>3</sup> While history doesn’t repeat, we believe it’s starting to and will continue to rhyme.

Since the voluntary liquidation of the listed entity, we have continued to maintain an unlisted tracker portfolio which is an exact replica of the portfolio as at 30 November 2020. Since 1 December 2020, our gross performance over that four month period has been approximately 11.4%, which is more than double the 5.5% return of the S&P/ASX200 Accumulation Index. The cumulative gross return of the portfolio since listing would be approximately 124.8% representing an annualised return of 13.8%, outperforming the S&P/ASX200 Accumulation Index by 62.3% and 5.7% on an annualised basis. These returns have been achieved notwithstanding an average cash weighting of 48.4%. Risk adjusted using the average cash weighting, the annualised gross performance of the fund since listing to 31 March 2021 is approximately 28.5%.

Since CVF’s inception in July 2009, it has delivered a total cumulative net performance of 353.8%, which equates to an annualised return of 13.7%. This represents material outperformance of 4.4% per annum over the S&P ASX200 Accumulation Index’s cumulative performance of 183.1% or 9.3% annualised.

Contrarianism by definition involves taking an unpopular position which is the opposite to that of the herd or crowd. This can result in relatively long periods of underperformance, but history has shown that fundamental value investing tends to outperform over the long run (measured in minimum 5+ year time frames and ideally 10+ years). However, there are few investors in today’s world that have an investment horizon that stretch beyond 1 year let alone 5 years. Like other steadfast value investors, the CVF management team has been subject to derision, especially over the last 12 months...and being a contrarian is definitely not for those that are thin skinned. However, as is often the case, the inflection point tends to occur when there is peak “revulsion”. As our friend, Russell Napier (author of the eponymous investment classic, *Anatomy of a Bear Market*) put it succinctly in April 2020 when during a webinar for some of our co-investors *“when you go to dinner parties and tell people you are a value investor and they suddenly don’t want*

*to talk to you*" is when you want to be buying value stocks, especially in a world where value is so hard to come by. Another indicator to us was commentary in financial newspapers that talk about the death of value investing as well as value managers capitulating and changing their style to growth investing and/or just outright trading.

Going forward, in keeping with our long term investment horizon and given our return to an unlisted status, we will not be reporting results on a monthly basis – which in our view is unproductive and also promotes overly myopic thinking. We will however issue quarterly newsletter updates.

Notes:

- 1) <https://www.gmo.com/australia/research-library/tonight-we-leave-the-party-like-its-1999/>
- 2) <https://www.barrons.com/articles/value-stocks-momentum-trade-51616175771>
- 3) <https://www.morningstar.com/news/marketwatch/20210327322/value-stocks-are-so-in-favor-theyve-become-momentum-stocks>

### **Important Information and Disclaimer**

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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. Numbers may not compute exactly due to rounding.