Market Commentary

In April, the fund recorded +3.5% net performance vs the S&P/ASX200 accumulation index return of +1.0%. Cash represents 43% of portfolio value.

We are finding opportunities easier to come by in offshore markets. See below for a recount of our investment in Weight Watchers (WTW.US).

Globally, equity markets posted generally positive performance, the key outliers being the UK (Brexit) and China (tighter credit). US long-term interest rates contracted. The commodity complex generally softened. At the time of writing the RBA left rates unchanged.

Communication

During the month we met with many of our shareholders and potential investors. Our goal here is to better inform investors of our investment process and share with them some of the key insights we garner in the course of our research activities. It has been a cause of consternation for many that the Fund (AWQ) has traded at times at a deep discount to NTA and so we are now actively working to remedy the situation.

Housing

We are watching the interventions of APRA (Australian Prudential Regulatory Authority) in the local mortgage market. APRA has limited investor mortgage lending to not more than 10% growth. At month end, APRA announced a new policy requiring banks to limit interest-only lending to not more than 30% of their new lending flow. It represents a material reduction from the current level of 38% of new loans and 39% of mortgages outstanding, that interest-only mortgages represent. In the context of the wave of unit settlements that must occur over the next 12-24 months, it represents further pressure on the stock of available interest-only and investor leverage capacity.

This is significant in that the regulatory action is effectively credit rationing. The banks seem to agree because they are raising rates on investor and interest-only products; if there has to be credit rationing, why not let pricing dictate allocation of the scarce resource and profit from the situation?

Higher rates, all else being equal, also imply lower borrowing capacity. Rates are critically important. House prices are often critiqued as rising faster than wages but the missing explanatory variable in this calculus is the *change* in mortgage interest rates that has occurred over the last decade. When you do the math of nominal aggregate wages rising at mid-single digits coupled with falling mortgage interest rates and an increased share of interest-only mortgages, the resultant increase in mortgage leverage capacity is massive and supports ~12% pa house price inflation over the last decade[1]. Our contention is that historical house price rises *make sense.*

The fly in the ointment is that mortgage interest rates are now rising and aggregate nominal wages growth is extremely weak. Leverage capacity is not growing anymore.

The whole debate on whether there is or isn't a housing bubble is largely futile because it is not possible to predict with precision when or even if a bust will occur. The best we can do is monitor

[1] We use ABS quarterly wages, standard variable interest rate, a 40% of wages serviceability metric and actual share of interest-only vs principal and interest mortgage originations where available. This omits the anecdotal of lengthening mortgage tenor which is itself a powerful leverage capacity determinant and an area that APRA are also focused on

key data indicative of such an event with a view to getting out of harm's way should such a calamity transpire.

Weight Watchers (WTW.US) was our biggest contributor to performance in the month, rising over 30%. The price move is due in part to good earnings, but also to extreme investor positioning. The analysts we spoke to when we were looking at the stock were universally bearish, short interest was exceptionally high and one investor told us, "*that thing is a zero*".

If a stock price is a reflection of a market driven voting contest then the corollary might be stocks don't get cheap until they get unpopular. WTW was *really* unpopular but the data, i.e. specifically membership and a few other metrics, were showing the inklings of a turnaround from as early as 1Q-2016.

The downside case here is WTW grows again for one, maybe two years, and then flames out, resuming its entropic decline. The upside case is we are at the early stages of a change in the business model. The legacy WTW business was essentially a meetings business focused on losing weight after the excesses of Christmas…a diet version of AA's, i.e. not a lot of fun. As a result, WTW ffered declining revenue over 3 years as online apps, focused more on healthy lifestyle rather than just weight loss, ate the company's proverbial lunch.

For the last year the company has been engaged in a turnaround mission aimed at fundamentally changing the business model. The recent positive earnings results may be just an early marker on a longer journey. The questions we ask ourselves are…*what if online growth supplants meetings growth?…what if the product becomes a positive experience?…diets last months at best but shouldn't a healthy lifestyle be lifelong?.*

There are clear signs the company is now on a transformative path. Online membership grew 20% YoY in 1Q 2017. The beauty of online is that every extra dollar of revenue comes with virtually no cost…it just drops straight to the bottom line. WTW last week announced the hire of its new CEO with a successful track record in leveraging technology and consumer insights into revenue growth; the stock rose 10% on the news. This week *The Lancet*, a respected UK Medical Journal reported the results of a 2 year clinical study involving 1,267 patients which demonstrated greater efficacy in health outcomes from a longer term approach to weight management using diet and lifestyle; Weight Watchers was the commercial partner in the trial. What if clinical data drives an increase in addressable market, average membership duration and health insurance funding? Weight Watchers is after all a program that has been clinically proven to work, unlike the overwhelming majority of its competitors.

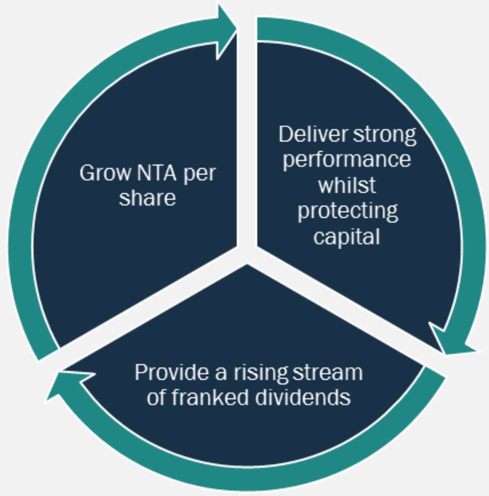
WTW trades on an extremely undemanding 14x forward earnings. What if the investor that thought it was a zero starts to think it's a growth stock?

The other big contributors during the month were our positions in Afterpay (AFY) and Silver Chef (SIV).

Investment mandate

During the month, the Company authorised the Manager to invest in the metals and mining sector (previously excluded) where identified opportunities otherwise meet the Managers investment criteria. The critical aspect to note is that the Manager will continue to employ its value based investment process regardless of sector.

AAVOF CORE OBJECTIVES



AAVOF Asset Allocation

Asset class	A$m	%**
Australian Equities	33.8	49%
AUD cash and equivalent	23.8	34%
USD cash and equivalent	6.2	9%
Australian Hybrids & Bonds	-	0%
International Equities	6.9	10%
Hedges	(1.1)	(2)%
Portfolio Value*	69.6	100%

Top 5 Holdings

Ticker		%**
SIV	Silver Chef Limited	13%
IFN	Infigen Energy	9%
WTW.USD	Weight Watchers	8%
USD	USD ETF	7%
AFY	Afterpay Holdings	6%
Top 5 as % of Gross Portfolio		43%

* *Totals may not sum due to rounding*

** *Percentage of gross portfolio value*

Net performance

At 30 April 2017	1 Mth	3 Mths	6 Mths	1 year	Since Inception (5-Jan-15)
AAVOF (AWQ) Investment Portfolio*	3.5%	(1.2)%	(5.5)%	2.6%	13.4%
S&P/ASX 200 Accumulation Index	1.0%	6.7%	13.8%	17.8%	21.4%
Out/(under)performance V Index	2.5%	(7.9)%	(19.3)%	(15.2)%	(8.0)%

** Net return after all fees, costs and company tax and before providing for estimated tax on unrealised gains.*

Net Tangible Assets (NTA) per Share

At 30 April 2017	Basic NTA per share ($)
NTA after tax and before estimated tax on unrealised gains	0.99
NTA after tax and after estimated tax on unrealised gains*	0.97

** 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*

About Arowana Australasian Value Opportunities Fund Limited (AAVOF)

AAVOF (ASX ticker: AWQ) offers investors an opportunity to gain exposure to a concentrated portfolio of securities built from a bottom up research process. Whilst the majority of the portfolio is built around Australian listed securities, AAVOF is able to invest in overseas listed securities and to hedge its portfolio.

The core objectives of the fund are to:

1. Generate superior returns over the medium to long term,
2. Provide shareholders a rising stream of dividends, and
3. Grow Net Tangible Assets per share

Ordinary Shares	
ASX ticker	**AWQ**
Last price	$0.94
Number on issue	69,366,895
Pre-tax NTA per share	$0.99
Market capitalisation	A$65.2m
Gross portfolio value	A$69.3m
Interim dividend*	$0.02/share

* Paid 30 March 2017 for the period ended 31 December 2016.