In May, the fund recorded a positive +1.5% net performance vs the S&P/ASX200 accumulation index return of negative -2.8%. Cash available to invest represents 49% of portfolio value[1]. The largest contributors, in order, were Weight Watchers International (WTW.US), Elders (ELD.AU) and Afterpay (AFY.AU). The largest detractor was our position in Silver Chef (SIV.AU).

It is worth calling out the significant changes in the portfolio.

Our position in **Infigen Energy** (IFN.AU), the fund's biggest performance contributor to date, has been completely exited. We acquired our stake in 4th quarter 2015 at an average price of ~$0.45/share. We bought the stock because risk asymmetry was positive in the extreme; a lot of shareholders had lost money, sell side coverage was universally negative, and yet revenue and earnings were poised to surge. This part of the thesis has played out with gusto.

The second leg as we envisaged it, was going to be the dividend story. Infigen has extremely strong cash generation, assisted by record high merchant electricity prices and a resurgent LGC[2] price. Whilst cashflow is currently swept to a debt syndicate, once this debt is refinanced, Infigen will be free to pay very high dividends to shareholders.

But there's a catch.

In order to term out a new debt facility, any reasonable banker will want some certainty. This means Infigen would likely be required to hedge out a portion of its merchant generation and LGC prices, and these curves are solidly in backwardation. Simply, if Infigen does refinance, revenues and earnings must fall. In this case, the dividend is the consolation prize because it is going to be a lot lower than what current earnings might support. When you run this through a model, it is decidedly possible that the answer is on the wrong side of the current share price.

The good news from our now realised investment in Infigen is that we have generated a decent franking credit balance. And it remains a fact that the case for renewables in the generation mix continues to get stronger; every year the cost of solar and wind generation equipment falls, and every year the cost and efficiency of storage technology improves. It is when, not if, fossil fuels are replaced in the electricity generation mix.

This brings us to our **hedge book**, which now comprises 10% of fund assets. Our goal is to generate alpha and protect capital in a standard market correction. Positions here are much smaller than those in our long book, reflecting the typical asymmetry of risk between the two. However like the long book, the hedge book is constructed around situations where there is a fundamental mispricing and we have a view that the market will recognise this in a reasonable timeframe.

Overall the portfolio remains underinvested, however the gap is closing. Gross exposure is increasing and after month end several new positions entered the portfolio. In a difficult market, we are spoilt for choice with the limiting factor being our analytical processing capacity.

Weight Watchers International (WTW.US) announced it was prepaying $75m of debt early via a tender offer conducted at a discount. The stock responded positively. We await the commencement of a new CEO in July who has a strong track record in similar turnaround situations.

[1] A portion of cash is sequestered as collateral against adverse market moves in the value of hedges
[2] Large-scale generation certificate

Elders (ELD.AU) reported half year results during the month which were considerably stronger than consensus forecasts. The stock remains cheap relative to its earnings prospects and we think will recommence payment of dividends in the not too distant future.

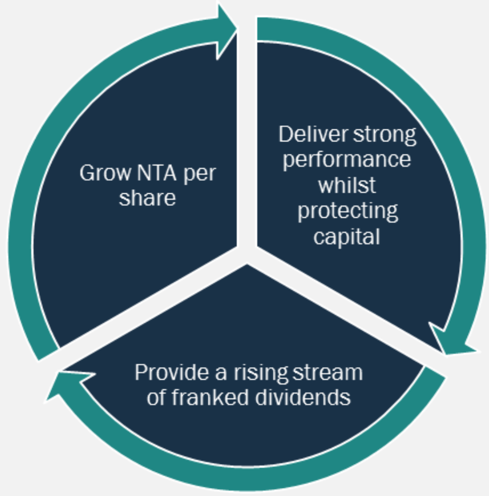
Afterpay (AFY.AU) updated the market at month end, with the surprise being the value of transactions processed had reached $1 billion on an annualised run rate basis. Members now number over 750,000. This was well ahead of the most bullish broker research estimates and a quarter ahead of what we expected. In response, the stock rose 11% over 3 days. The fascinating thing is the market remains deeply sceptical; we can infer this because the stock price reflects nothing for the Australian instore vs online opportunity, when instore is 9x larger; and reflects nothing for overseas, when the business has launched in New Zealand and we think is seeking to expand further afield.

We hosted an investor forum with **Silver Chef** (SIV.AU) in Brisbane, where participants had an opportunity to interact with the company's CEO and CFO.

The market is deeply polarised on this stock, which is par for the course when a company has issued a series of profit warnings. This is also precisely the type of situation when bargains are possible. When the marginal investor is focused on the here and now and fear reigns, opportunity is sometimes knocking. For us, the analysis points to significant upside over the next 12 months.

The interesting kernel of information emerging from the discussion was the company's Western Australian operations. WA is a state where mortgage and auto finance have been in decline for record lengths of time; in the case of mortgage finance the data set commenced in 1975. Yet Silver Chef is growing, albeit modestly, in the WA market despite the challenging macro backdrop and credit costs are not out of the ordinary. Time will tell if we're right on this one.

AAVOF CORE OBJECTIVES



AAVOF Asset Allocation

Asset class	A$m	%**
Australian Equities	28.5	40%
AUD cash and equivalent	34.8	49%
USD cash and equivalent	7.1	10%
Australian Hybrids & Bonds	-	0%
International Equities	7.6	11%
Hedges	(6.8)	(10)%
Portfolio Value*	71.2	100%

Top 5 Holdings

Ticker		%**
SIV	Silver Chef Limited	12%
WTW.US	Weight Watchers	9%
AFY	Afterpay Holdings	7%
ELD	Elders Limited	7%
USD	USD ETF	6%
Top 5 as % of Gross Portfolio		41%

* *Totals may not sum due to rounding*

** *Percentage of gross portfolio value*

Net performance

At 31 May 2017	1 Mth	3 Mths	6 Mths	1 year	Since Inception (5-Jan-15)
AAVOF (AWQ) Investment Portfolio*	1.5%	3.7%	(0.5)%	(6.7)%	15.1%
S&P/ASX 200 Accumulation Index	(2.8)%	1.5%	7.5%	11.1%	18.1%
Out/(under)performance V Index	4.3%	2.2%	(8.0)%	(17.8)%	(3.0)%

** 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 31 May 2017	Basic NTA per share ($)
NTA after tax and before estimated tax on unrealised gains	1.00
NTA after tax and after estimated tax on unrealised gains*	0.99

** 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	$0.89
Number on issue	69,366,895
Pre-tax NTA per share	$1.00
Market capitalisation	A$61.7m
Gross portfolio value	A$71.2m
Interim dividend*	$0.02/share

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