In June, the fund recorded +2.8% net performance vs the S&P/ASX200 accumulation index return of +0.2%.

The largest contributors to performance were Weight Watchers (WTW.US), Afterpay (APT.AU), a new position in an international consumer products company we are building and Silver Chef (SIV.AU).

Weight Watchers (WTW.US) from a stock price perspective is playing out much faster than we expected; a good problem to have. We've cut the position size by almost 60% during the month, taking in P&L and taking down exposure given the reduced positive asymmetry in the situation. This is purely a function of the stock rerating ~80% since we initiated the position in March; we're still bullish but there is mathematically less upside from here.

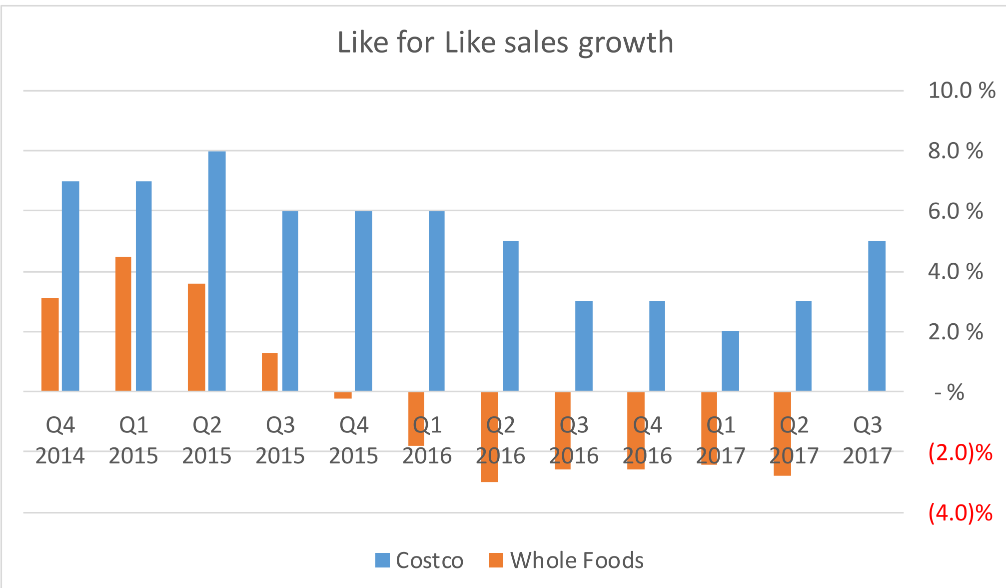
Afterpay completed its merger with Touchcorp in early July; the combined entities are now known as Afterpay Touch Group Limited with the new stock ticker of **APT.AU**. Because the Fund had shareholdings in both companies, our holding in the new Afterpay (APT.AU) has increased to a 13% position for the Fund, a situation we are extremely comfortable with.

Afterpay is due to report its full year earnings in the next month or so. Our analysis indicates that broker estimates for underlying FY17 earnings are too low by a material margin.

Further, lead indicators of Afterpay's gross merchandise sales continue to augur for strong revenue growth. The viral rate of adoption the product has experienced, which in turn deepens the moat the business model enjoys, makes us extremely bullish on potential expansion both from a vertical and geographic perspective.

An addition to the portfolio this month was **Costco Wholesale** (COST.US), which has fallen more than 15% in reaction to the news **Amazon.com** (AMZN.US) is acquiring **Whole Foods Market** (WFM.US).

In the US, Costco has been taking market share from Whole Foods for a long time; this is manifest in like for like sales (LFL) where Whole Foods has reported declines for 7 straight quarters, yet Costco continues to report positive LFL results.



Source: Company filings, AWQ analysis

Whole Foods' challenge is complexity. Costco runs less than 20% of the SKU[1]s that Whole Foods stocks, yet Costco stores are much larger (~148,000 square feet typically), implying sales velocity per SKU for Costco is significantly higher. This complexity of Whole Foods' offering, reflected in high SKU count, drives higher costs in area such as logistics, producer packaging, wastage, markdown and labour.

The Costco model involves as little human "touch" of product as possible. Costco's distribution centres heavily rely on whole pallet cross docking. Imagine a supplier's truck delivering a single product on 40 pallets to a Costco distribution centre. Now imagine 40 trucks like this from 40 different suppliers each with 40 pallets…and on the other side of the warehouse dock are 40 Costco store bound trucks being filled with 1 full pallet from each supplier truck. The Costco trucks are then dispatched to stores where whole pallets are loaded directly onto the sales floor. This is the conceptual rendering of Costco's logistics model.

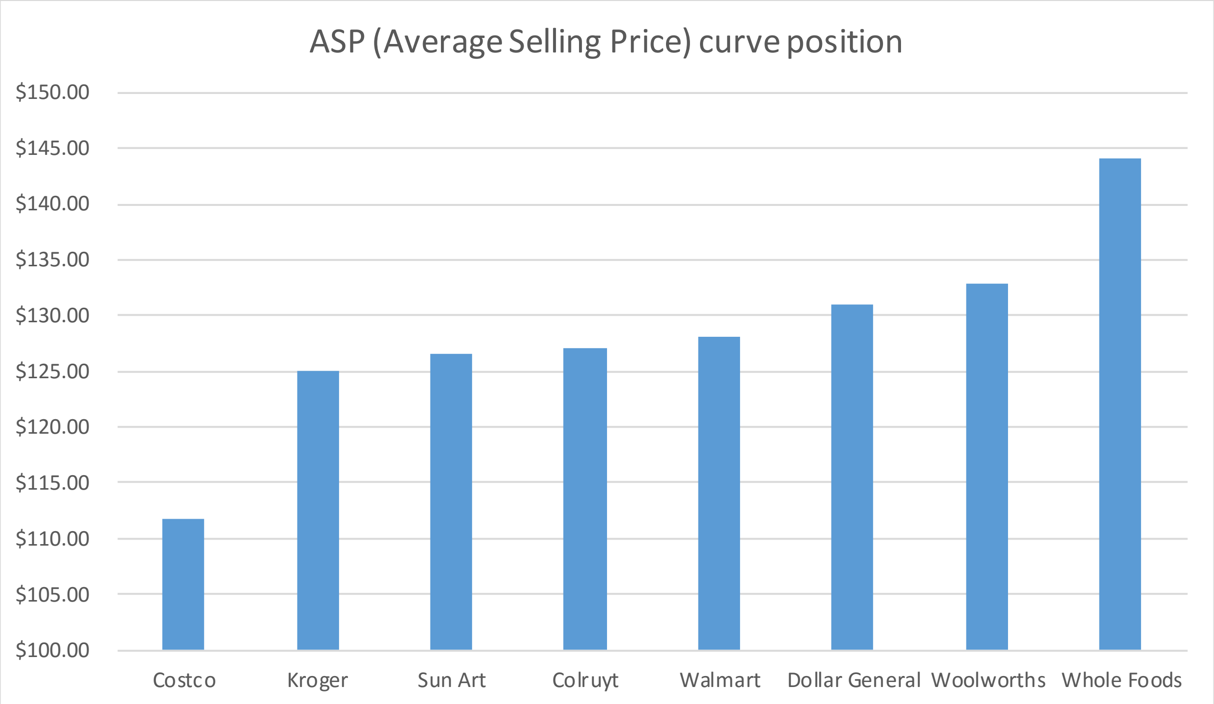
In contrast, the high SKU count for Whole Foods necessitates a lot of human contact, and breaking down of pallets before shipment to stores (which is incidentally precisely where Amazon can add a huge amount of value).

The difference in business model, which is apparent in the two company's approach to logistics, manifests in margin structure. If it costs more to offer a product, it follows that the retailer is then forced to charge more to recover those costs. Referencing the last quarterly results for both companies, Whole Foods has a gross margin ~2.5x higher than Costco yet arrives at roughly the same net income margin. What this means is that if both companies acquired a product for $100, *on average* Whole Foods' shelf price would be ~30% more expensive. Given Whole Foods is colloquially known as "*whole paycheck*" in the US, it's not really a secret, which is probably why like for like sales are down at Whole Foods and up at Costco.

We have little doubt that Amazon will be able to improve on Whole Foods' logistics efficiency (recall Amazon acquired Kiva Systems for their logistics robotics – see as an example www.youtube.com/watch?v=UtBa9yVZBJM. If you watch this YouTube video, bear in mind the lighting in the warehouse is for the benefit of the humans… the robots work just fine in the dark).

If you're thinking of who's at risk from Amazon in food retailing, it is much more likely to be the archetypal supermarket, not Costco. Just look at the chart below. If a combined Amazon / Whole Foods can deliver lower operating costs and thus lower pricing, it is pretty obvious there are a lot of potential victims standing in line before you get to Costco.

[1] Stock Keeping Units (i.e. the number of unique products)



Source: Company filings, AWQ analysis

The analysis takes a hypothetical $100 cost product, and adds cash cost of doing business and gross margin to arrive at a breakeven retail selling price

The point is that Costco has some *structural* efficiencies driven by offering format, which cannot be addressed by its competitors, including Amazon. This is why Costco's LFL sales should continue to grow into the future. Bottom line is the customers aren't dumb and know where it is cheaper to shop, which in turn drives LFL sales trends.

Let's hope the fear continues and we get a chance to build a larger position here.

Infigen (IFN.AU) issued an earnings warning during the month driven by low production. We continue to track wind and production data for this company as part of our efforts to build a large automated proprietary data set we can monetise for the benefit of our investors. We no longer have a position in the stock.

AAVOF CORE OBJECTIVES

AAVOF Asset Allocation

Asset class	A$m	%**
Australian Equities	34.6	47%
AUD cash and equivalent	30.3	41%
USD cash and equivalent	8.2	11%
Australian Hybrids & Bonds	-	0%
International Equities	7.2	10%
Hedges	(6.6)	(9)%
Portfolio Value*	73.7	100%

Top 5 Holdings

Ticker		%**
APT	Afterpay Touch Group Limited	13%
SIV	Silver Chef Limited	12%
ELD	Elders Limited	7%
USD	USD ETF	6%
WTW.US	Weight Watchers	5%
Top 5 as % of Gross Portfolio		43%

* *Totals may not sum due to rounding*

** *Percentage of gross portfolio value*

Net performance

At 30 June 2017	1 Mth	3 Mths	6 Mths	1 year	Since Inception (5-Jan-15)
AAVOF (AWQ) Investment Portfolio*	2.8%	8.0%	5.3%	(0.4)%	18.3%
S&P/ASX 200 Accumulation Index	0.2%	(1.6)%	3.2%	14.1%	18.3%
Out/(under)performance V Index	2.6%	9.6%	2.1%	(14.5)%	0.0%

** 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 June 2017	Basic NTA per share ($)
NTA after tax and before estimated tax on unrealised gains	1.03
NTA after tax and after estimated tax on unrealised gains*	1.02

** 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	$0.90
Number on issue	69,366,895
Pre-tax NTA per share	$1.03
Market capitalisation	A$62.4m
Gross portfolio value	A$73.7m
Interim dividend*	$0.02/share

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