In July, the fund recorded +2.3% net performance vs the S&P/ASX200 accumulation index return of 0.0%. Cash equated to 50% of fund assets at month end[1]. At the time of writing cash has declined to 42% of portfolio value due to a combination of additional investments being made shortly after month end and positive investment performance.

The top contributors to performance in July were Silver Chef (SIV.AU), Afterpay (APT.AU), Platinum Asset Management (PTM.AU), Emeco (EHL.AU) and Bellamy's (BAL.AU). The biggest detractors from performance during the month were foreign currency translational impacts from our international equities positions and USD cash holdings, our position in Chipotle (CMG.US) and our hedge book which cost 38bps of performance during the month.

Our position in **Bellamy's** (BAL) was referenced in last month's newsletter. Bellamy's is a branded Infant Milk Formula (**IMF**) producer. Unlike drinking milk, the category share of private label IMF in the Australian market is virtually zero. If there's one thing mothers won't scrimp on, it's the health and well-being of their babies. With this in mind, Bellamy's products are exclusively organic and produced in Australia; two attributes that resonate with mothers in China.

Bellamy's was a victim of its own success. The product sold so well in China that there were shortages. Individual agents, known as Daigou, started buying Bellamy's IMF in Australian supermarkets and shipping it to China, to be sold on internet websites such as Alibaba's T-Mall. The large scale buying of the Chinese Daigou was inherently reflexive; they were drawn in by product shortages but their market entry actually artificially exacerbated product scarcity…by building a parallel inventory overhang.

Inventory accumulation came to light when product licencing rules in China changed; price discounting and dumping ensued. Bellamy's earnings fell rapidly. There was a board spill and several large new shareholders joined the register. The company raised money to buy a Chinese compliant processing factory in Australia, only to have a Chinese regulator suspend the factory's licence.

Woe betide! The market began to value the business on trough earnings and lost sight of the strong brand cachet the business has; one prominent commentator pronounced the stock would trade at $2 a share!

Meanwhile, the end product sales are doing just fine and the product continues to resonate with mothers who are blissfully ignorant of Bellamy's corporate travails.

It may take a year or two for Bellamy's to work off excess inventory but we think the business exits its ordeal with a stronger and more sustainable business model, and one which has significantly greater control of its distribution.

We built a position in the stock on the view that the issues affecting the company are transient and do not impact the core value proposition to Bellamy's end customers. Since doing that we've been rewarded with a 40%+ return and we think there is more to come. The big question is; will Bellamy's regain pricing power once the Chinese IMF market normalises? This is where the stock could prove the value of its brand power and greatly expand its earnings potential.

[1] We have reclassified the Fund's holding of 350,000 shares in USD.AU, the Betashares US Dollar ETF, as USD cash and equivalent, given the ETF is a close proxy in substance, to US dollar cash. This was previously classified as an Australian equity, based on its listed form.

Things that haven't worked

Our starting premise is that stock position sizing in the portfolio is driven by risk asymmetry. Simply, to have a large position, one must think the upside reward is significantly greater than the downside risk.

Sometimes we buy small positions in stocks where the initial thesis appears sound but the perceived risk asymmetry is merely positive, not extremely positive.

During the month one of these small positions bit us. **Mayne Pharma** (MYX.AU) is a generic drug maker with most of its revenues sourced from the US. The stock was a market darling and the share price peaked at ~$2/share. Mayne bought a business dominated by a single compound from another generic pharma company. At around the same time, there was a wave of buyer consolidation in the US which led to Mayne's customers asking for lower prices. Price deflation (and typically the necessity of M&A) is a pernicious reality in generics. We were blindsided by the rate of price decline. Mayne issued a profit warning and the stock declined by over 25% from where we bought it to trade at $0.77 at the time of writing. Fortunately, due to our process around position sizing, our holding in Mayne is less than 1% of Fund capital.

Discount to NTA

At the time of writing, AAVOF (AWQ.AU) is trading at a modest discount from NTA. Unfortunately, this has not always been the case.

Our thinking is that a large discount to NTA impacts investor sentiment in a negative way. Simply, if a potential shareholder observes a frequently large discount, they will be reluctant to become a shareholder for fear that should they ever decide to sell, a wide discount to NTA will result in a punishingly poor financial outcome.

We have great sympathy for this concern and believe, as a management team one of our objectives is to manage the capital of the company so as to minimise the incidence and extent of any NTA discount. We will, therefore, continue to monitor this position closely and consider any steps necessary to ensure best outcomes for existing and future shareholders.

AAVOF CORE OBJECTIVES

AAVOF Asset Allocation

Asset class	A$m	%**
Australian Equities	38.8	52%
AUD cash and equivalent	27.9	37%
USD cash and equivalent	9.1	12%
Australian Hybrids & Bonds	-	0%
International Equities	5.9	8%
Hedges	(6.7)	(9)%
Portfolio Value*	75.0	100%

* *Totals may not sum due to rounding*

** *Percentage of gross portfolio value*

Top 5 Equity Holdings

Ticker		%**
APT	Afterpay Touch Group Limited	14%
SIV	Silver Chef Limited	13%
ELD	Elders Limited	6%
WTW.US	Weight Watchers	5%
BAL	Bellamy's Australia Limited	5%
Top 5 as % of Gross Portfolio		43%

AAVOF
AROWANA AUSTRALASIAN VALUE OPPORTUNITIES FUND

Net performance

At 31 July 2017	1 Mth	3 Mths	6 Mths	1 year	Since Inception (5-Jan-15)
AAVOF (AWQ) Investment Portfolio*	2.3%	6.7%	5.5%	(3.4)%	21.0%
S&P/ASX 200 Accumulation Index	0.0%	(2.6)%	4.0%	7.3%	18.3%
Out/(under)performance V Index	2.3%	9.3%	1.5%	(10.7)%	2.7%

** 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 July 2017	Basic NTA per share ($)
NTA after tax and before estimated tax on unrealised gains	1.05
NTA after tax and after estimated tax on unrealised gains*	1.03

** 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	$0.92
Number on issue	69,366,895
NTA per share*	$1.05
Market capitalisation	A$63.8m
Gross portfolio value	A$75.0m
Interim dividend**	$0.02/share

** Before estimated tax on unrealised gains*

*** Paid 30 March 2017. Final dividend expected to be declared in August 2017.*