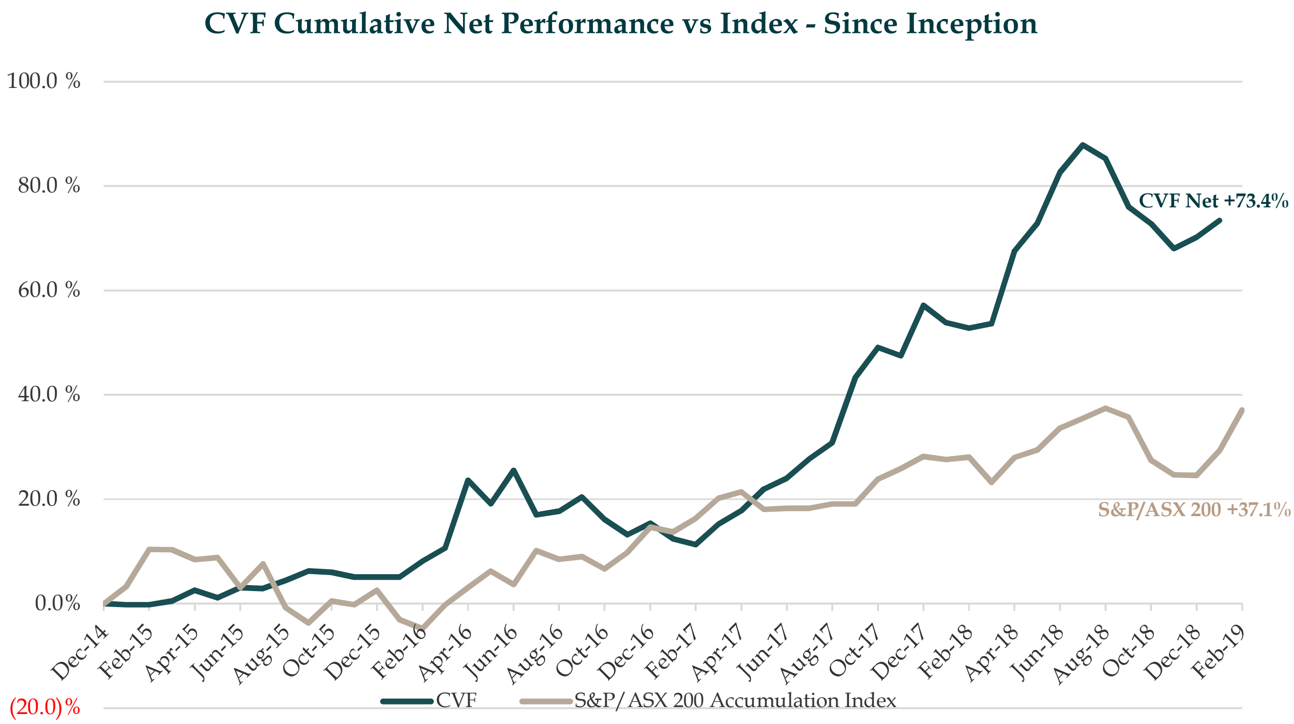
AROWANA
CONTRARIAN VALUE FUND

Monthly Update – February 2019

Fund Performance



						Since inception (5 Jan 2015)	
At 28 February 2019	1 mth	3 mths	1 yr	2 yr p.a	3 yr p.a	Annualised	Cumulative
Arowana CVF Gross performance	2.0 %	0.9 %	17.4 %	29.5 %	22.9 %	18.0 %	99.1 %
S&P/ASX200 Accumulation Index	6.0 %	9.9 %	7.1 %	8.6 %	12.9 %	7.9 %	37.1 %
Gross outperformance	(4.0)%	(9.0)%	10.3 %	20.9 %	10.0 %	10.1 %	62.0 %
Arowana CVF Net performance*	1.8 %	0.3 %	12.7 %	24.2 %	18.1 %	14.1 %	73.4 %
S&P/ASX200 Accumulation Index	6.0 %	9.9 %	7.1 %	8.6 %	12.9 %	7.9 %	37.1 %
Net outperformance	(4.2)%	(9.6)%	5.6 %	15.6 %	5.2 %	6.2 %	36.3 %

** Net of all fees and expenses, pre-tax*

Net Tangible Assets (NTA) per Share

At 28 February 2019	$
NTA pre-tax on unrealised gains	**1.21**
NTA after tax on unrealised gains[1]	**1.19**

1.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.

Top 5 Holdings (% of Gross Portfolio Value)

Ticker		%
EAF.US	GRAFTECH INTERNATIONAL LTD	6%
VRL	VILLAGE ROADSHOW LIMITED	6%
DHG	DOMAIN HOLDINGS LTD	6%
VOC	VOCUS GROUP LIMITED	4%
APT	AFTERPAY TOUCH GROUP LTD	3%
Top 5 as % of Gross Portfolio		**25%**

Monthly Newsletter

In February, the Fund recorded +1.8% performance, net of all costs and fees. The main contributors to performance over the month were *Graftech International* (EAF.US), *Afterpay Touch* (APT.AU) and *Vocus Group* (VOC.AU). The biggest detractor was *Bellamy's Australia* (BAL.AU).

NTA per share was $1.21 as at 28 February 2019, net of the $0.02 fully franked dividend per share announced on 26 February 2019. Not reflected in the NTA, is $0.06 per share worth of unused franking credits. The NTA is also net of $0.03 per share tax payable on realised gains which will generate franking credits when paid.

During the month we exited *Emeco Holdings Limited* (EHL.AU) post the earnings result with an average exit price of $2.44 or ~64% above our average cost price. Whilst we had forecasted price rises and deleveraging into the near-term base case, the timeline for both has moved further out. This increased risk substantially given demand for EHL's rental equipment is highly exposed to fluctuations in coal prices, whilst the equipment requires considerable capital expenditure to maintain and replace at the end of its life.

We also initiated a position in *Domain Holdings Group* (DHG.AU) at an initial price of $2.20 per share. DHG is part of a duopoly with *REA Group* (REA.AU) in the Australian real estate advertising industry. Nearly every house seller in Australia advertises their property on both DHG and REA as most buyer leads are sourced from these websites. The more leads a seller gets for their house, the greater the chance of getting the best price possible. Online advertising also costs only ~0.4% of the total house value on average. This low cost in return for nearly all the buyer leads provides a compelling value proposition for sellers.

The opportunity arose as recent weakness in property listing volumes caused DHG's earnings to miss expectations driving its share price ~40% lower from its high in September 2018. Low volumes and lots of media noise on the worsening property environment meant that we bought DHG on a historically low multiple of its operating earnings. Counter-intuitively though, DHG's business model (fee per listing) is largely insulated from house prices.

History shows that listing volumes are correlated with *volatility* of house prices rather than house prices itself. Recently, a sharp decline of property prices (in Sydney and Melbourne especially) has been driven by lower credit availability from more risk averse banks causing volumes to decline. However, Sydney listing volumes were also low in 2016 when house prices were *increasing* sharply. Thus, when house prices stabilise, listing volumes should revert.

What has been overlooked by the market amidst the noise on volumes is DHG's ability to raise prices on its advertising listings. During the previous half, DHG was able to **increase the effective price per property listing by ~16% year on year.** Our checks with agents and analysis of the advertising market suggests that DHG has ample more room to increase pricing over the medium term. There are very few companies that have this degree of pricing power - and fewer who can utilise this pricing power when external macro conditions are at cyclically trough levels.

DHG's share mispricing also stands out when comparing to REA. REA generates ~2.4x the traffic to DHG but is ~6.8x the valuation. This is largely driven by the difference in pricing per unit of traffic, the operating margin and the valuation multiple. In part this is because DHG has had a much shorter corporate life as a stand-alone entity than REA. Over time, we think the pricing, margins and multiple of DHG's digital business will converge with REA's driving significant earnings growth and shareholder value. The recent merger between *Nine Entertainment Co Holdings Ltd* (NEC.AU) and Fairfax Media (majority shareholder of DHG) also provides additional advertising resources to drive DHG's brand, giving the company a reasonable chance of increasing traffic share over time as well.

Ultimately, we see our investment in DHG as "time arbitrage". We are taking advantage of share price weakness driven by the short-term outlook on volumes which has little impact on DHG's long term prospects. We are acutely aware of the continued deterioration in new listing volumes in 2019 and view any short-term price weakness from here as a potential buying opportunity.

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Fund Information

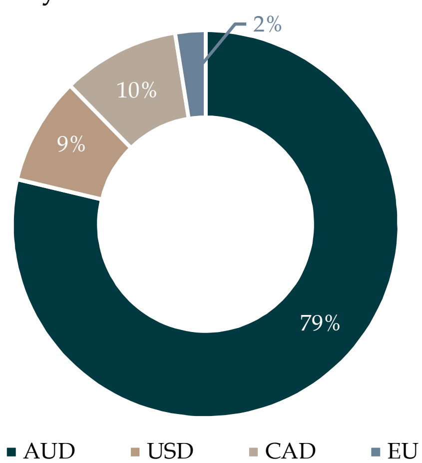
ASX ticker	CVF
Net Month's performance	1.8%
Last price (at 28 Feb 2019)	$1.02
Pre-tax NTA	$1.21
Premium/(Discount) to pre-tax NTA	(15.7)%
Fund AUM	A$88.6m
Market capitalisation	A$71.8m
Shares on issue	70,413,825
Current franked dividend yield	9.1%
Franking account balance	A$4.4m
Gross/Net equities exposure	42.9% / 29.7%
Cash weighting	70.3%
Geographic mandate (Equities)	Global (45% ex Aust)
Fund Inception	5-Jan-15

INVESTMENT PERFORMANCE (Pre-tax, net of all costs)

	2015	**2016**	**2017**	**2018**	**2019**
Jan	0.1%	0.0%	1.9%	6.5%	1.3%
Feb	(0.3)%	0.0%	(2.6)%	(2.1)%	1.8%
Mar	0.0%	2.9%	(1.0)%	(0.7)%	
Apr	0.7%	2.3%	3.5%	0.6%	
May	2.1%	11.8%	2.2%	9.1%	
Jun	(1.4)%	(3.6)%	3.5%	3.2%	
Jul	2.0%	5.3%	1.7%	5.6%	
Aug	(0.2)%	(6.8)%	3.0%	2.9%	
Sep	1.5%	0.6%	2.4%	(1.4)%	
Oct	1.7%	2.3%	9.5%	(5.0)%	
Nov	(0.2)%	(3.5)%	4.1%	(2.0)%	
Dec	(0.9)%	(2.5)%	(1.1)%	(2.8)%	
Total	**5.1%**	**7.7%**	**30.3%**	**13.9%**	**3.2%**

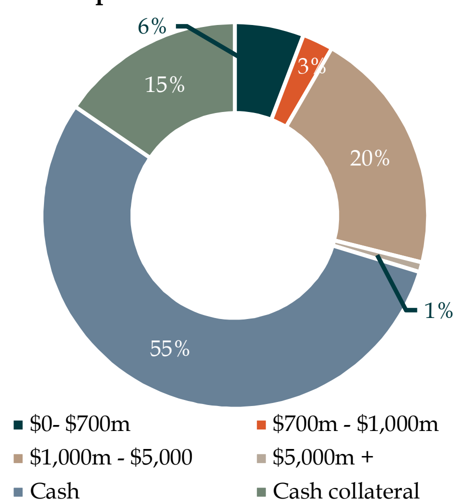
Portfolio Information

Currency Mix*

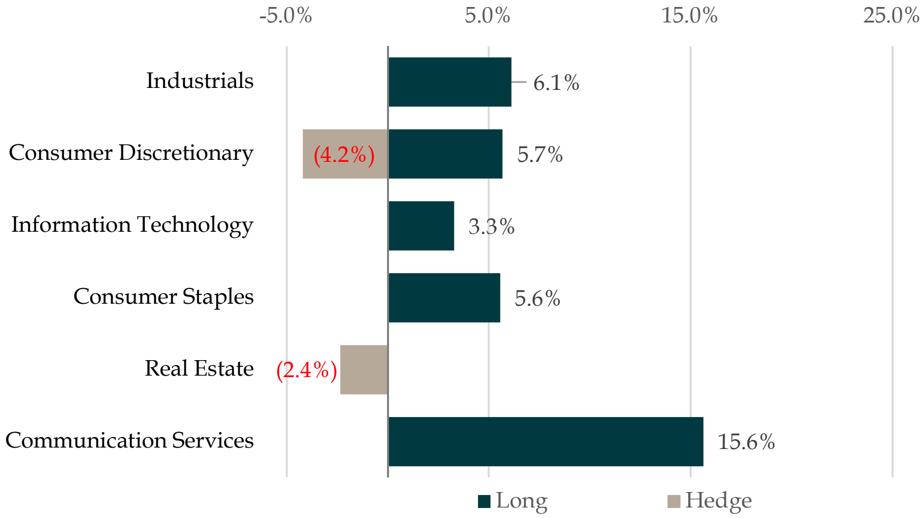


*Currency mix includes cash and equities

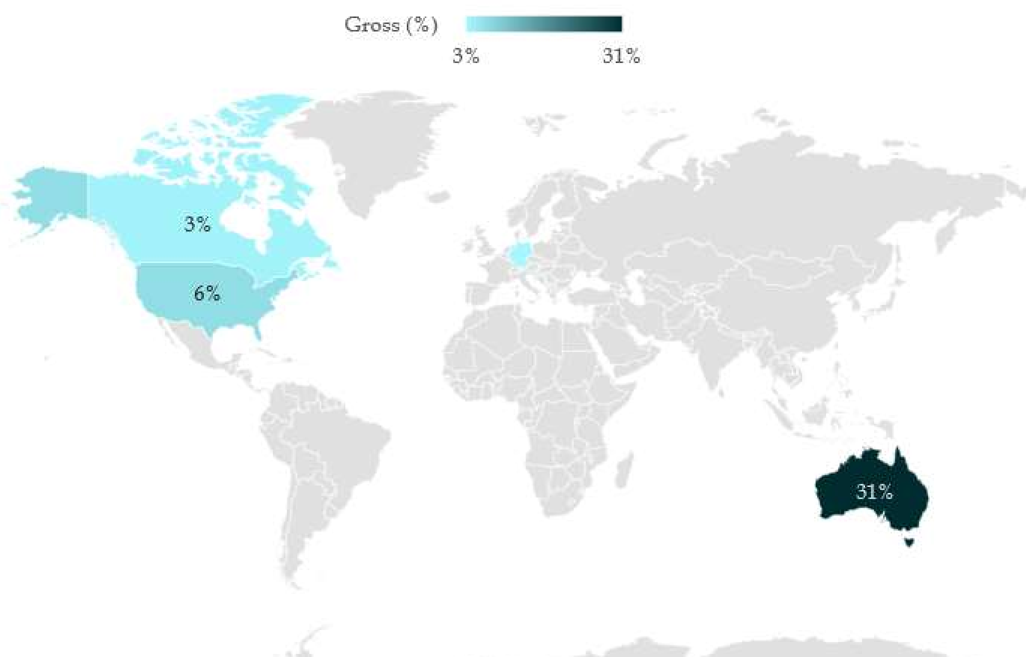
Market Cap Mix



Exposure by Sector

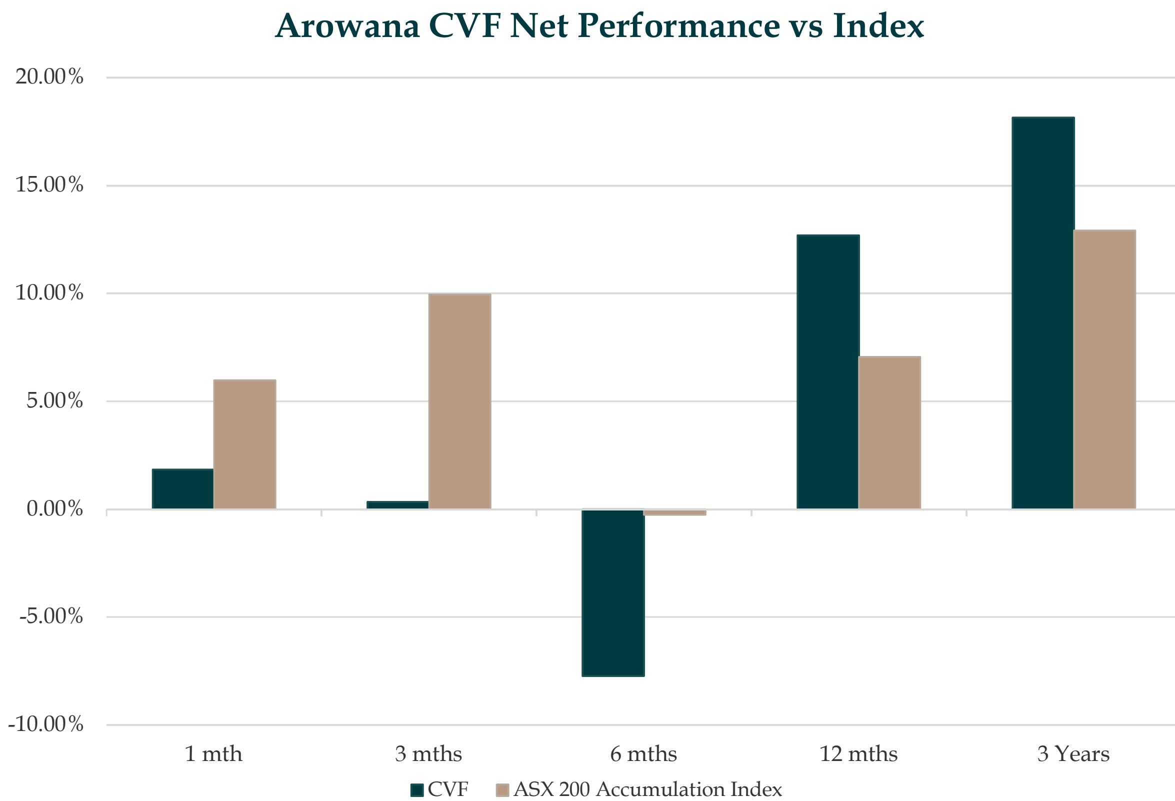


Equities Exposure by Country

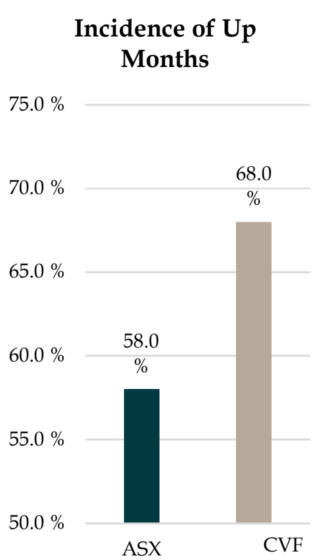


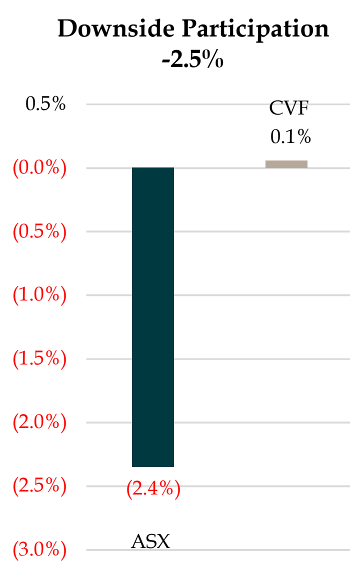
Country	Long	Hedge	Gross	Net
Australia	24.5%	(6.6%)	31.0%	17.9%
United States of America	6.1%	-	6.1%	6.1%
Canada	3.2%	-	3.2%	3.2%
Germany	2.5%	-	2.5%	2.5%
Total	**36.3%**	**(6.6%)**	**42.9%**	**29.7%**

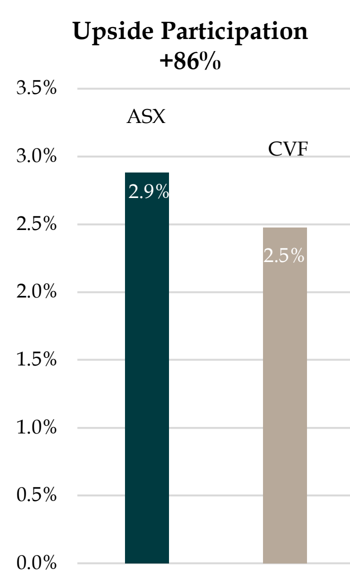
CVF long term outperformance



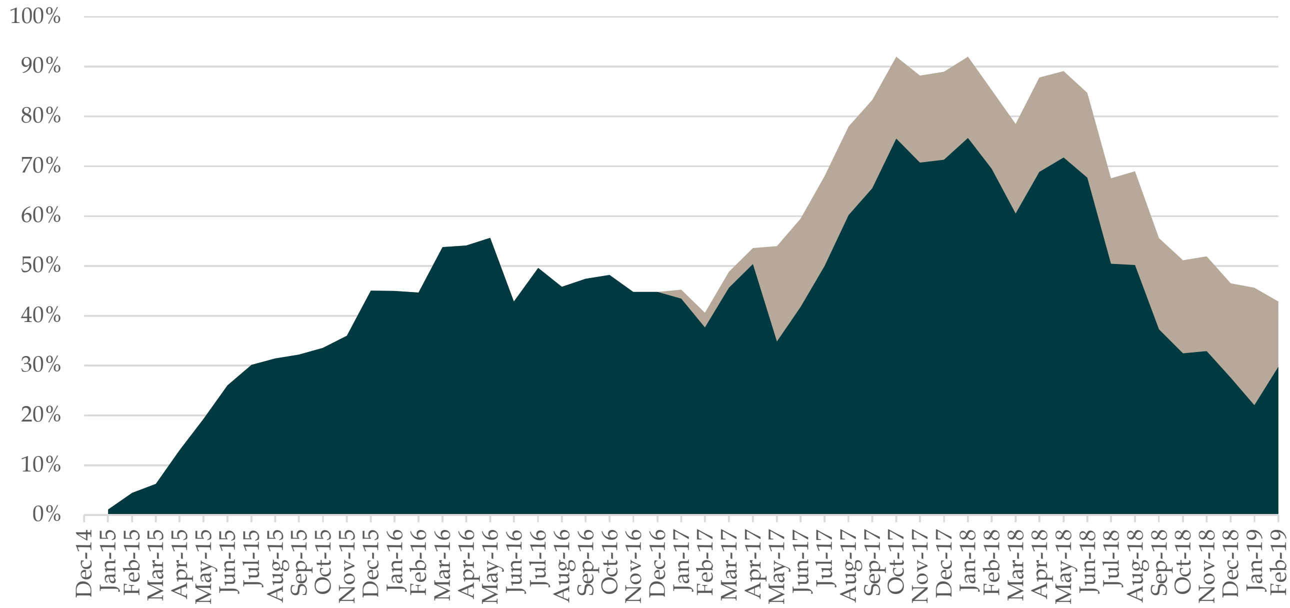
Uncorrelated Returns: More positive months and negative correlation in months when market is down







Gross & Net Portfolio Exposures – Outperformance achieved with no portfolio leverage



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