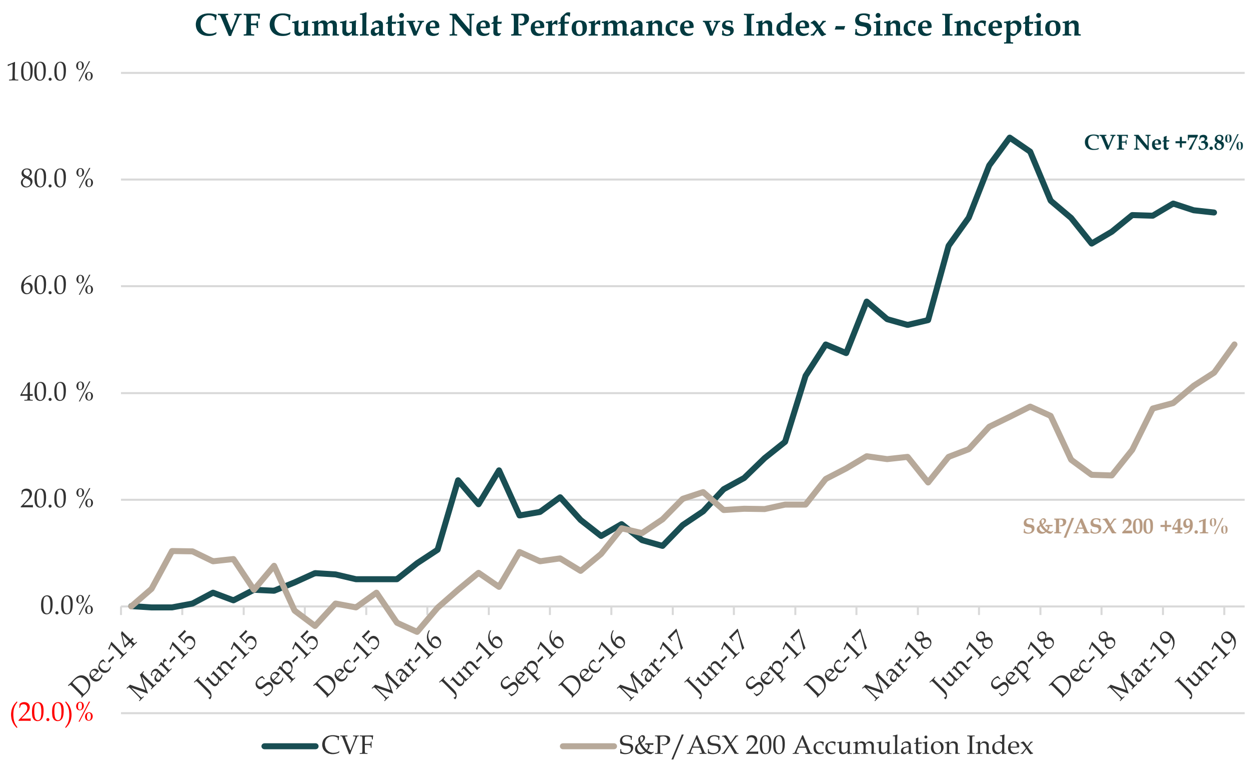
AROWANA
CONTRARIAN VALUE FUND

Monthly Update – June 2019

Fund Performance



					Since inception (5 Jan 2015)	
At 30 June 2019	**1 mth**	**1 yr**	**2 yr p.a**	**3 yr p.a**	**Annualised**	**Cumulative**
Arowana CVF Gross performance	(0.1)%	2.0 %	24.6 %	17.2 %	16.7 %	100.4 %
S&P/ASX200 Accumulation Index	3.7 %	11.5 %	12.3 %	12.9 %	9.3 %	49.1 %
Gross outperformance	(3.8)%	(9.5)%	12.3 %	4.3 %	7.4 %	51.3 %
Arowana CVF Net performance*	(0.2)%	0.6 %	19.4 %	13.4 %	13.1 %	73.8 %
S&P/ASX200 Accumulation Index	3.7 %	11.5 %	12.3 %	12.9 %	9.3 %	49.1 %
Net outperformance	(3.9)%	(10.9)%	7.1 %	0.5 %	3.8 %	24.7 %

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

Net Tangible Assets (NTA) per Share

At 30 June 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		%
TSGI.CN	STARS GROUP INC	8%
DHG	DOMAIN HOLDINGS LTD	6%
EAF.US	GRAFTECH INTERNATIONAL LTD	5%
VRL	VILLAGE ROADSHOW LIMITED	5%
APT	AFTERPAY TOUCH GROUP	5%
Top 5 as % of Gross Portfolio		**29%**

Monthly Newsletter

In June, the Fund recorded -0.2% performance, net of all costs and fees. The main contributors to performance over the month were *Graftech International* (EAF.US) and *Zooplus* (ZO1.GY). The biggest detractor was *Village Roadshow* (VRL.AU). NTA per share was $1.21 as at 30 June 2019. Not reflected in the NTA, is $0.08 per share worth of unused franking credits. The NTA is also net of $0.01 per share tax payable on realised gains which will generate franking credits when paid.

Village Roadshow (VRL.AU) had a strategy day in June which resulted in the share price dropping nearly 30% from its May 2019 high, driven by weakness in its non-core assets and high capital expenditure guidance. In these situations, we review our initial thesis and examine if it is broken, whilst also reassessing the risk/return profile after incorporating new information.

Core to our thesis is the turnaround of VRL's theme park division following the 2016 tragedy at Dreamworld (owned by *Ardent Leisure* (ALG.AU)). There is clear evidence of this playing out, with FY19's earnings set to nearly double compared to FY18's, driven largely by higher ticket prices. This confirms a key premise of our thesis – VRL's theme parks are unique assets and have pricing power.

By any valuation measure, there is large upside and a margin of safety from today's price of $2.80 per share. One of VRL's global peers, *Merlin Entertainment* (MERL.LN), was recently subject to a takeover offer at a 12x EV/EBITDA valuation. Applying the same multiple to VRL's theme park FY19 earnings and adjusting for net debt, values the theme park assets at $4 per share or 43% above VRL's current share price. The other major source of earnings for VRL – the cinema division – has its peers trading at 9x EV/EBITDA which would equate to $1.85 per share. There are also near-term catalysts on the horizon with management flagging the divestment of the company's non-core assets and a reinstatement of dividends at the upcoming results. Given our thesis has not broken and valuation remains compelling with near term catalysts on the horizon – we retained our holding in the company.

We have also recently initiated a position in *Grubhub* (GRUB.US) at an average cost of US$67. GRUB is a leading online food delivery platform in the U.S., benefitting from the restaurant industry's dramatic channel migration towards food delivery, which has a long runway ahead. GRUB has established a leading market share through its strong value proposition to customers and restaurants, whilst its unit economics are attractive and resilient due to strong network effects.

The investment opportunity arose when GRUB's share price hit a 52-week low and ~58% down from September 2018 levels, as investors grew increasingly fearful over competitive threats from Uber Eats and DoorDash. Prima facie, this appears rational given recent industry data showing GRUB is losing share within the US market in aggregate, whilst competitors continue to raise substantial funding to supercharge their growth plans. Feeding this narrative, GRUB announced profit guidance in late 2018 that was significantly lower than expected due to investments in its driver network and marketing which has put near term pressure on operating margins.

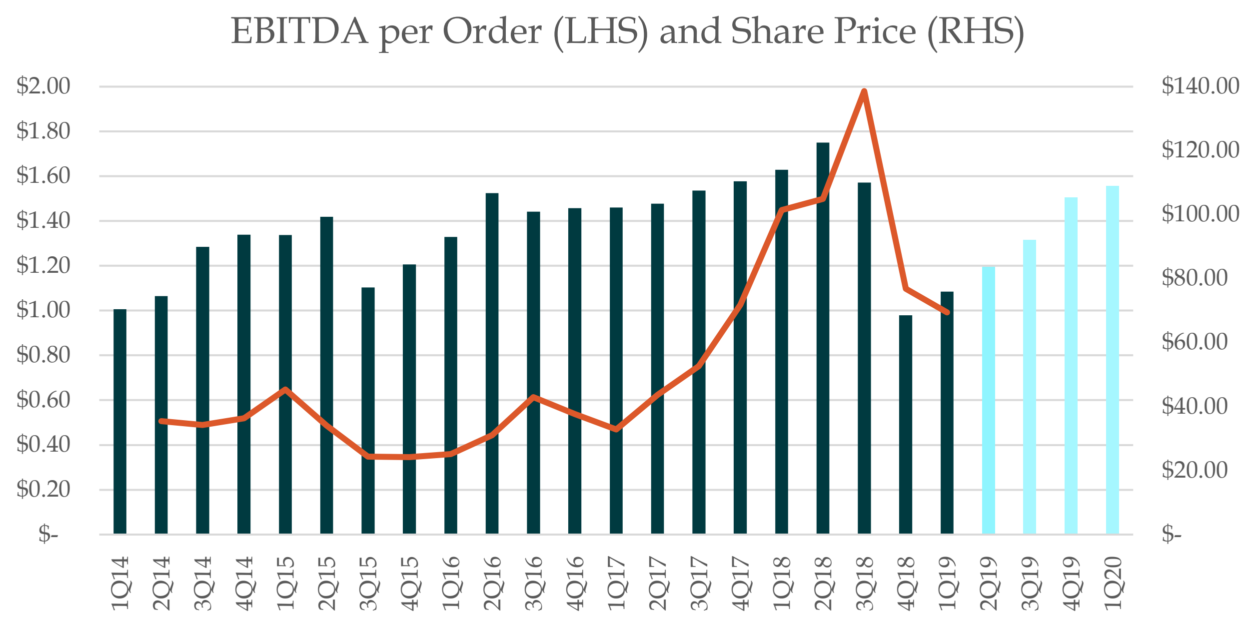
However, GRUB's aggregate market share loss is misleading. GRUB has leading and stable market positions in its core markets such as New York and Chicago, which continue to grow at healthy rates. Competitors are growing rapidly in smaller cities where GRUB have only launched just recently. Also, it is not clear how much of DoorDash's sales are from non-restaurant deliveries (i.e. from their Walmart partnership) or from non-partner restaurants where they do not generate any revenues from the merchant – both are a meaningful source of DoorDash's sales, but are markets which GRUB does not compete in.

GRUB's recent investments into marketing and their driver network have reset earnings and margin expectations. Some analysts have extrapolated and see this as evidence of competition driving down the unit economics. Rather we think the decline in unit economics, is a result of operating new markets at sub scale. As GRUB scales into these markets, assisted by its exclusive partnership with *YUM! Brands* (YUM.US), they will benefit from significant operating leverage which should drive EBITDA/order back to historical levels. This was articulated well by the CEO on the recent earnings call:

"We knew these investments would weigh on our profitability during the fourth quarter and to some degree throughout 2019, but we were confident it was the right decision for the business. Six months later, it's clear that these investments have resulted in strong growth momentum and clear operating leverage.

We expect adjusted EBITDA and EBITDA per order to increase throughout the year as we gain efficiencies in the newer delivery markets…As a result, we expect to exit the year generating EBITDA per order much closer to our third quarter 2018 rate of $1.57 than our fourth quarter '18 rate of $0.98."

GRUB is currently trading at trough valuation levels. The situation is analogous to late 2015 when the business initially launched delivery. As the company scaled up in these initial markets and profitability improved, the valuation multiple expanded. We think history will likely repeat, with 1Q19 providing early evidence that this is beginning to play out.



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Fund Information

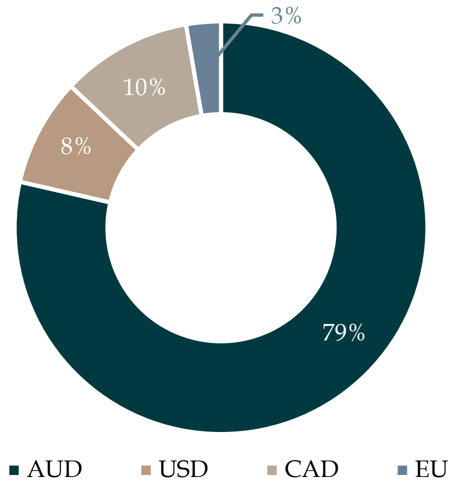
ASX ticker	CVF
Net Month's performance	(0.2)%
Last price (at 30 June 2019)	$1.01
Pre-tax NTA	$1.21
Premium/(Discount) to pre-tax NTA	(16.5)%
Fund AUM	A$85.7m
Market capitalisation	A$71.3m
Shares on issue	70,566,275
Current franked dividend yield	9.2%
Franking account balance	A$6.2m
Gross/Net equities exposure	48% / 33%
Cash weighting	67%
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)%	(0.1)%
Apr	0.7%	2.3%	3.5%	0.6%	1.3%
May	2.1%	11.8%	2.2%	9.1%	(0.7)%
Jun	(1.4)%	(3.6)%	3.5%	3.2%	(0.2)%
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%**	**3.5%**

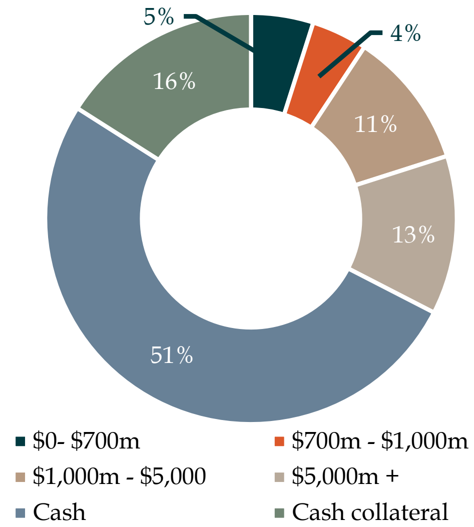
Portfolio Information

Currency Mix*

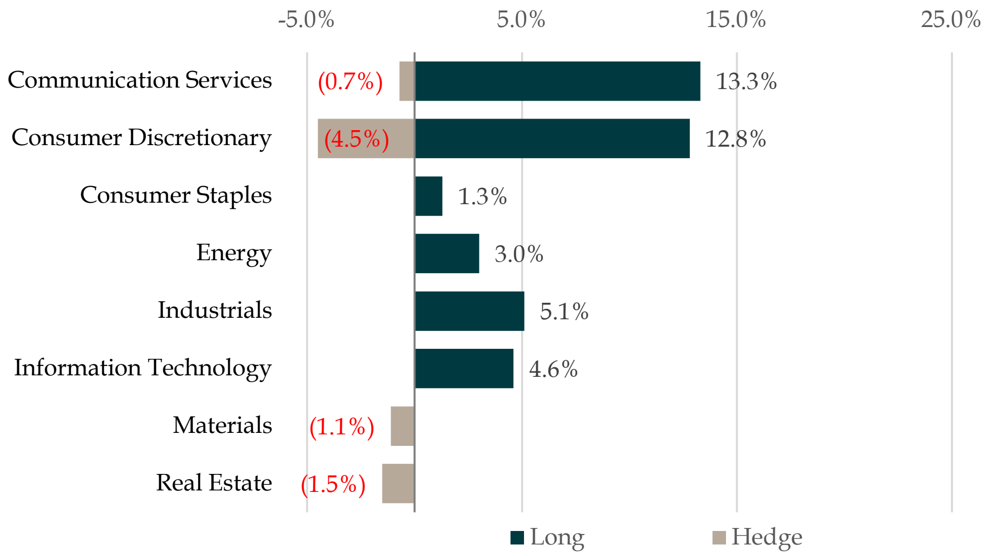


*Currency mix includes cash and equities

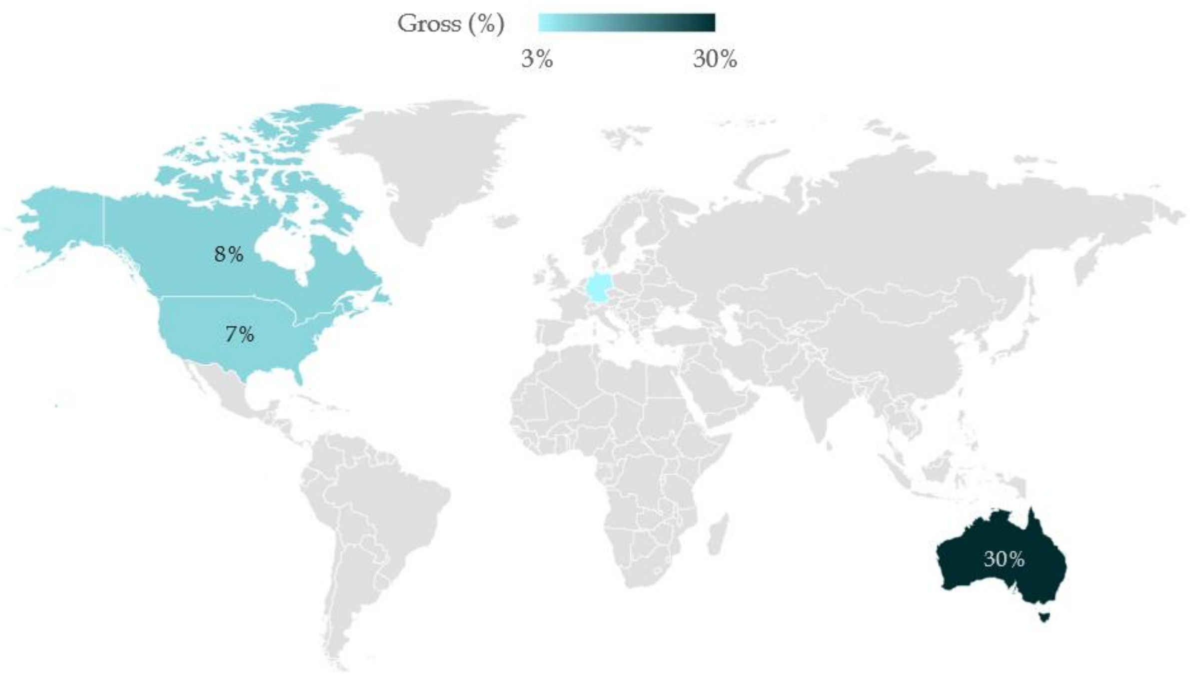
Market Cap Mix



Exposure by Sector

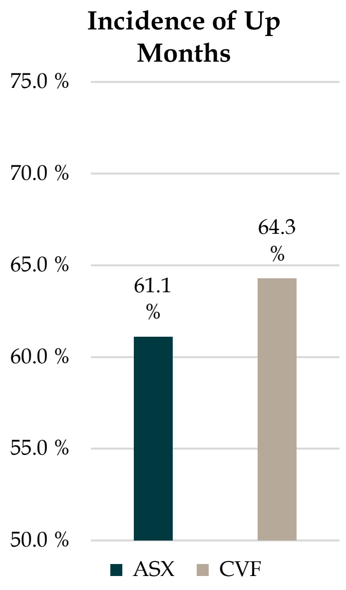


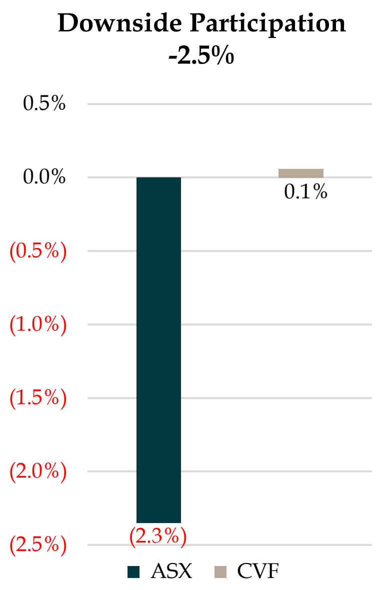
Equities Exposure by Country

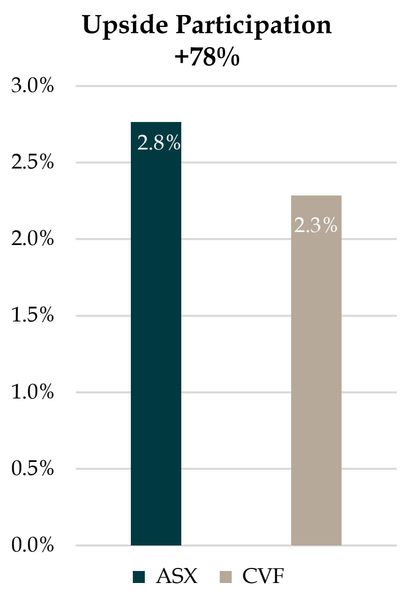


Country	Long	Hedge	Gross	Net
Australia	22.3%	(7.7%)	30.0%	14.6%
United States of America	7.2%	-	7.2%	7.2%
Canada	8.0%	-	8.0%	8.0%
Germany	2.7%	-	2.7%	2.7%
Total	**40.2%**	**(7.7%)**	**47.9%**	**32.5%**

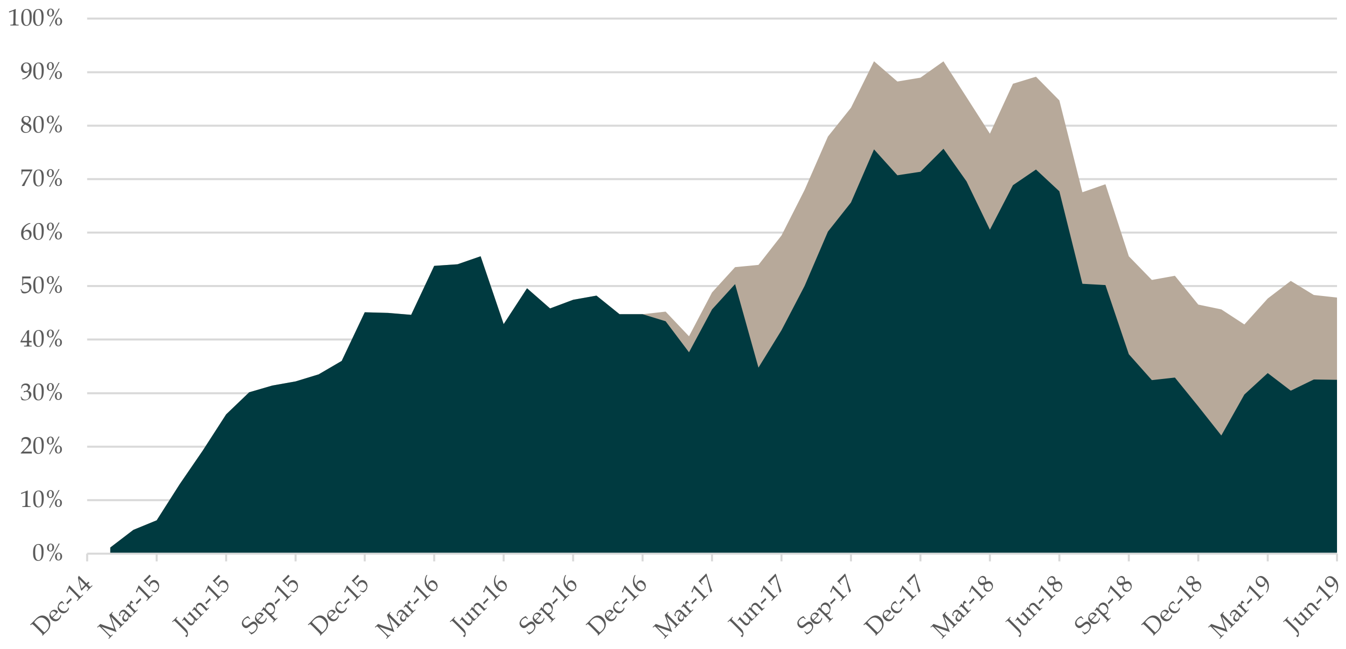
Uncorrelated Returns: More positive months and negative correlation in months when market is down







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



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