Market Commentary

In January the fund's NTA advanced 2.1% net of costs against the backdrop of negative S&P/ASX 200 Index performance.

Since inception the fund has modestly outperformed its benchmark, net of costs, despite having an average of 57% of assets in cash (our current cash holding is 50% of fund assets). From a risk management perspective, achieving better than index returns notwithstanding the performance drag of a significant cash pile positions us well. Markets are both unpredictable and humbling; we have no idea what tomorrow let along next year will bring. In that context, the fund's cash will serve as a performance cushion in adverse markets and a call option on the opportunities dislocations always bring.

2016 delivered some large political shocks, in the form of the Brexit vote in June and then the election of Donald J. Trump in November. The phenomenon of the rise of the populist is an intriguing one. Looking forwards, the electoral calendar shows more upsets may be on the way.

In March 2017, the Netherlands, Europe's sixth largest economy, will hold its general election. Geert Wilders is the leader of the Party for Freedom (PVV), which currently leads in opinion polls. Mr Wilders wishes to ban Mosques and is a strident proponent of the Netherlands exit from the European Union.

In May, France will elect its next President with the incumbent Francois Hollande bowing out of the race. The candidate of intrigue is Marine Le Pen, the leader of the far-right Front National, who is staunchly in favour of France leaving the European Union. Marine Le Pen, like Donald Trump, is an admirer of Mr Putin.

It is not inconceivable to envisage a series of political outcomes in 2017 that gradually shunt Europe away from economic union. Likewise it is possible that President Trump's "America First" agenda results in some form of trade protectionism, despite the most cursory examination of economic history showing such policies tend to result in net negative outcomes.

This is the optionality that cash brings when the opportunity set is insufficiently attractive to warrant its deployment. If there is a common theme that runs through the selection of our portfolio holdings discussed below, it is that our stakes in these businesses were acquired at times of perceived calamity. It is precisely because these businesses became unpopular and reviled that they became *very, very* cheap.

The greater the fear the bigger the potential bargain. These are exactly the kinds of situations we like to deploy the fund's precious cash into.

Portfolio Notes

During January **Herbalife** (HLF.US) filed a US$1+ billion debt offering memorandum with the US Securities and Exchange Commission. Herbalife has very strong cash generation capacity which historically was directed to shareholders via sizeable buybacks. As Bill Ackman launched his short selling campaign in 2012 and then the US Federal Trade Commission took up the cudgel in 2014, the buybacks ceased and the stock drifted. In the midst of this controversy we built a position, because our work indicated the anecdotes cited by Ackman were not representative…and the stock was cheap. This debt offering is highly significant; management indicate the majority of proceeds may be available to effect a buyback. We think the company can comfortably do a $1 billion buyback, which is equivalent to 17 million shares at today's stock price or fully *25% of the free float shares*. Here's where it gets *really* interesting…there are 24 million shares sold short. If Herbalife does announce a buyback and short sellers decide to cover, *we could see a situation where around half the effective free float is bid*!

Elders (ELD.AU) acquired an additional 10% share in the Elders Underwriting JV from QBE during the month, on the same price to earnings multiple it sold the business to QBE in 2014 when Elders was in financial distress. We think this amounts to a small but accretive acquisition struck at less than 9x P/E. Given its strong cash flow we are optimistic the company will recommence dividends in the not too distant future. Elders itself trades on a particularly undemanding P/E multiple of 10x 2018FY consensus earnings.

At month end **Infigen** (IFN.AU) reported that revenue for the quarter ended 31 December 2016 had **increased 22%** over the prior year. The Company also upgraded its EBITDA guidance, which we continue to think remains conservative. We took the opportunity to trim our very large position, but continue to think the stock price ascribes zero value for Infigen's development assets and ongoing debt reduction. Our math indicates debt reduction can drive ~10% equity value accretion over the next twelve months. In addition, Infigen appears to be on the cusp of finally developing a new project, which would result in a production capacity increase of around ten percent.

AAVOF CORE OBJECTIVES

AAVOF Asset Allocation

Asset class	A$m	%**
Australian Equities	33.2	47%
AUD cash and equivalent	31.3	44%
USD cash and equivalent	4.2	6%
Australian Hybrids & Bonds	-	0%
International Equities	2.7	4%
Hedges	(0.6)	(1)%
Portfolio Value*	70.8	100%

Top 5 Holdings

Ticker		%**
IFN	Infigen Energy	15%
SIV	Silver Chef Limited	8%
AFY	Afterpay Holdings	7%
USD	USD ETF	6%
ELD	Elders Limited	6%
Top 5 as % of Gross Portfolio		42%

* *Totals may not sum due to rounding*

** *Percentage of gross portfolio value*

Net performance

At 31 January 2017	1 Mth	3 Mths	6 Mths	1 year	Since Inception (5-Jan-15)
AAVOF (AWQ) Investment Portfolio*	2.1%	(4.4)%	(8.4)%	9.3%	14.7%
S&P/ASX 200 Accumulation Index	(0.8)%	6.6%	3.2%	17.3%	13.8%
Out/(under)performance V Index	2.9%	(11.0)%	(11.6)%	(8.0)%	0.9%

** 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 January 2017	Basic NTA per share ($)
NTA after tax and before estimated tax on unrealised gains	1.02
NTA after tax and after estimated tax on unrealised gains*	1.00

** 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	$0.950
Number on issue	69,002,079
Pre-tax NTA per share	$1.02
Market capitalisation	A$65.6m
Gross portfolio value	A$70.8m
Year-end dividend*	$0.04/share

* Paid 29 September 2016 for the period ended 30 June 2016.