SHAREHOLDER QUARTERLY REPORT
QUARTER ENDED 30 SEPTEMBER 2015

AAVOF
Arowana Australasian Value Opportunities Fund

ASX Code – shares:	**AWQ**
ASX Code – options:	AWQO
Listed:	January 2015
Share price:	$1.01
Shares on issue:	48,114,002
Market cap:	$48.6 million
Gross portfolio value as at 30 September 2015:	$48.9 million
NTA/share (pre-tax):	$1.02
Options on issue:	48,114,000
Option exercise price:	$0.98
Option expiry:	1 July 2016

All price data in A$ as at 6 November 2015

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In the third calendar quarter of 2015, AAVOF's gross portfolio performance was +3.81%. All of our stocks bar one contributed positively to performance over the quarter. Since inception (January 2015) to end October 2015, gross portfolio performance is +7.75% vs S&P/ASX 200 at -3.17% and S&P/ASX 200 Accumulation at +0.53%.

NAV per share as at end October 2015 was $1.04 pre-tax and $1.02 post-tax.

Return tables are produced at the end of this letter.

THE BIG SELL OFF

The S&P/ASX200 index returned -8.0% in 3Q 2015; with the Energy and Materials sectors being the biggest losers, posting -25.9% and -12.8% falls respectively. Only the Utilities and Industrials sectors managed to post positive returns, up +1.3% and +2.4% respectively.

China was both the cause of the sell off and the epicentre of its impact, with the Shanghai Composite Index posting -28.6% in the quarter.

Prior to the calamities of 3Q 2015, China's Shanghai Composite Index had appreciated for five consecutive quarters, posting a cumulative gain of 110.4% from March 2014 to June 2015; tidy returns by any measure.

So what drove the big run up in China's stock market? It wasn't earnings; in fact both trailing and forecast earnings per share for that market have been falling since 4Q 2014.

Our perspective is China's great bull market was spurred on by a heady cocktail of state sanctioned margin lending[1], expectations of A-share inclusion in the MSCI Indices[2] (to which many of the largest equity managers benchmark) and positive expectations of increased market liberalisation (equity and currency). Many investors bought in, reasoning that a strong equity market would lead to secondary equity issuance and the potential for a "beautiful deleveraging" of China's chronically indebted corporate sector.

As a measure of the frenzied zeal with which local investors embraced this bull market, in May 2015 fourteen million new China A-share brokerage accounts were opened by the nascent investing public; 13x the number opened just three months prior and 44x the number opened in May 2014.

1. State owned media encouraged citizens to invest in the market. China Securities Finance Corp was the government institution providing margin lending services to qualified brokerages.
2. MSCI consultation on the China A-Share Index Inclusion Roadmap began in March 2014

China stock market – New "A" share accounts

Source: China Securities Depository and Clearing Corporations; Bloomberg. Publication of this data was suspended in June 2015

The Shanghai Composite index peaked a few days after MSCI deferred A-share inclusion in their indices on 9th June 2015, and then the selloff began at pace. From 12th June to 8th July, the market fell 32.1% in 17 trading days (8th July was the day over 500 A-share listed companies announced trading suspensions, bringing the total suspended companies to over 40% of listed companies). And then it was over, or so it seemed.

On 11th August the PBOC devalued the RMB by 1.9% which caught the market unawares and triggered a fresh bout of frenzied selling. The messaging of this small devaluation by the PBOC was poor; investors were clearly spooked with huge portfolio outflows the result which in turn saw official foreign exchange reserves decline by US$94bn in August, the largest outflow on record. On 24th August 2015 the Dow Jones Index had its largest ever intraday fall, opening over 1,000 points lower before closing down 3.6%.

The official Chinese response to all of this was telling. Draconian measures ensued; like the petulant child playing backyard cricket who storms off the pitch when they don't like the score, many State Owned Enterprises simply suspended trading in their shares. Government owned companies were banned from selling shares, market participants were threatened (including one brokerage in Singapore which received a demand for the identities of anyone short selling China A50 index futures), some journalists were jailed and government agencies began buying the market to support it (thereby undoing any hope of deleveraging).

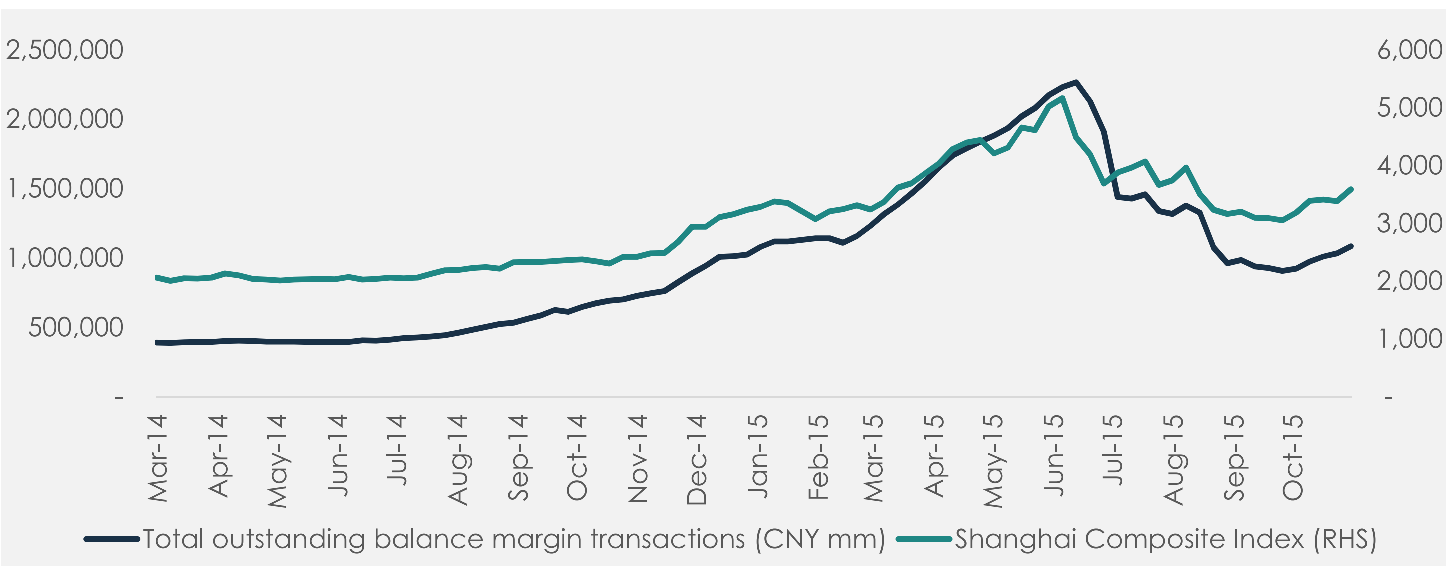
Reflecting on these events, the official response to the market sell off parallels the official stance on the economy; denial. Official GDP chugs along at ~7%, but increasingly the evidence mounts that this is fantasy. The Chinese equity market has, apart from a few small pockets of structural gain (internet, health) exceptionally weak revenue and earnings growth; this seems to us more reflective of underlying reality. Markets are discounting mechanisms, so we remain alive to the possibility of reform and rebalancing given Australia's economic leverage to China, but for now these are concepts, there is no broad based positive earnings story here.

From these events we take away a few perspectives:

1. Increasingly, the Chinese Communist Party's control is over economic statistics rather than economic outcomes
2. The expectations gap between reality and official growth is real yet somewhat unknown. We wonder how it closes
3. What happens in China matters more than ever before. On 24th August, Chinese markets inflicted the largest single intraday correction in the Dow Jones Index's history
4. Thus we consider China to be the single most important external factor to consider in our portfolio construction

We remain deeply circumspect with regards to any China linked investment thematic and frankly its often hard to escape either the primary or derivative linkages when considering many Australian and New Zealand equities.

Shanghai Composite Index vs China Margin Loan Balances



Source: China Securities Finance Corporation; Bloomberg

PORTFOLIO

We retain a high level of cash. Deployment of funds into the equity portfolio continues to be driven by the bottom up opportunity set.

We added two securities to the portfolio in the quarter, which we wrote about in the market update released on 7th September.

We bought into **API (Australian Pharmaceutical Industries; market cap $910m)** during the quarter largely for its business mix change; gross profit margins in its retail operations are a multiple of its distribution divisions gross profit margins and earnings are quite leveraged to ongoing mix shift here. API have particularly strong and we think enduring retail same store sales growth, driven by what is probably Australia's largest and oldest loyalty scheme. API is a key driver of structural change in pharmaceutical retailing, which is seeing an inexorable market share shift away from mum and dad scale networks to professionally franchised formats capable of driving a majority of sales from front of store retail activities versus back of store dispensary. Even better, the company has extremely strong cash flow which we think will lead to capital management in the near future.

What we ostensibly don't like about API is the headline valuation – 19x FY 2016 consensus EPS. However when we compare API to its nearest competitor, what emerges is API has ~3x the level of accounting depreciation (i.e. a non cash item adversely affecting reported profit and thus the P/E ratio) but also ~3x better free cash flow; API actually looks decent value on cash flow metrics and it may just be that accounting is masking API's underlying earnings power. It is this strong cash flow which is driving rapid debt reduction, which in the context of even a static enterprise value, will lead to equity accretion. Our bet is we get ongoing earnings growth and quite probably capital management within 12-18 months.

The other security we added to the portfolio during the quarter was **USD (Betashares US Dollar ETF)**. We bought this ETF for a few reasons:

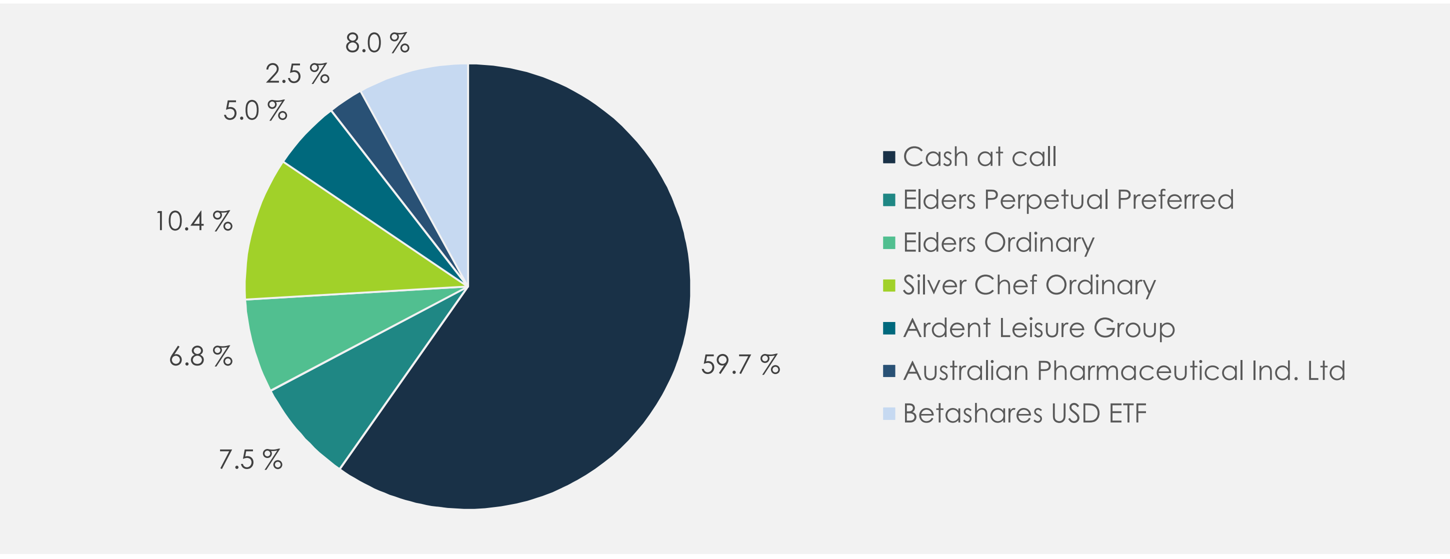
1. We remain AUD bears. We characterise this as distinct from pointing to the US Fed's much protested intention to one day… raise interest rates as a reason to be bullish USD / bearish AUD. In conceptualising the AUDUSD currency cross, we think the USD upside is overplayed and AUD / Asian currency downside is underplayed. We see a confluence of factors that should lead to a sharply lower AUD over the years ahead (widening current account deficit, ongoing commodity and investment contraction, reversal of emerging market reserve flows, extremely weak domestic conditions despite protracted monetary easing and currency depreciation; amongst others)
2. Wealth is ultimately a relative concept. It is probably an extreme analogue, but there was once a saying "to be as rich as an Argentinian", in reference to that country's bountiful commodity wealth. From our perspective, a trip to the US just got ~40% more expensive in AUD terms and we can envisage a world where the AUDUSD cross is ~0.50 without too much difficulty.
3. The ETF in question has fairly decent construction (physical replication, no leverage, well known custodian and manager). As an ASX listed security this EFT is within our investment mandate and it meets our investment criteria for the portfolio.

The USD ETF was our only position posting negative performance at end October, at -0.24%; at the time of writing the position was no longer loss making.

LOOKING AHEAD

We are buying another security which is a highly idiosyncratic stock story and represents what we think is likely compelling value and risk asymmetry. It was a name we have come across before but always passed over for one reason or another. As a former colleague used to often say, investing is like a shell game, whoever turns over the most shells wins. We look forward to sharing our rationale for this new position in much greater detail in our next newsletter.

Portfolio as at 30 September 2015



AAVOF
Arowana Australasian Value Opportunities Fund

NAV per share	Before tax	After tax
January 2015	$0.97	$0.98
February 2015	$0.97	$0.97
March 2015	$0.97	$0.97
April 2015	$0.98	$0.98
May 2015	$1.00	$0.99
June 2015	$0.98	$0.98
July 2015	$1.01	$1.00
August 2015	$1.01	$1.00
September 2015	$1.02	$1.01
October 2015	$1.04	$1.02

Monthly Returns	AAVOF[1]	S&P/ASX 200	S&P/ASX 200 Accum
January 2015	0.12%	3.28%	3.28%
February 2015	0.02%	6.09%	6.89%
March 2015	0.16%	(0.63%)	(0.06%)
April 2015	0.73%	(1.72%)	(1.70%)
May 2015	2.26%	(0.22%)	0.40%
June 2015	(1.34%)	(5.51%)	(5.30%)
July 2015	2.09%	4.40%	4.40%
August 2015	(0.04%)	(8.64%)	(7.79%)
September 2015	1.73%	(3.56%)	(2.96%)
October 2015	1.82%	4.34%	4.37%

1. Measured as gross returns on portfolio value for index comparability

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AAVOF
AROWANA AUSTRALASIAN VALUE OPPORTUNITIES FUND

Cumulative Returns - Quarterly	AAVOF[1]	S&P/ASX 200	S&P/ASX 200 Accum
March 2015	0.31%	8.88%	10.33%
June 2015	1.63%	(7.34%)	(6.55%)
September 2015	3.81%	(8.01%)	(6.58%)

1. Measured as gross returns on portfolio value for index comparability

Cumulative Returns - Since Inception	AAVOF[1]	S&P/ASX 200	S&P/ASX 200 Accum
January 2015	0.12%	3.28%	3.28%
February 2015	0.14%	9.57%	10.39%
March 2015	0.30%	8.88%	10.33%
April 2015	1.03%	7.00%	8.45%
May 2015	3.32%	6.77%	8.88%
June 2015	1.94%	0.89%	3.10%
July 2015	4.07%	5.33%	7.64%
August 2015	4.02%	(3.77)%	(0.75%)
September 2015	5.82%	(7.20)%	(3.68%)
October 2015	7.75%	(3.17%)	0.53%

1. Measured as gross returns on portfolio value for index comparability

Important Notice: Arowana Australasia Value Opportunities Fund (AAVOF) has prepared the information in this announcement. This announcement has been prepared for the purposes of providing general information only and does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of any securities in AAVOF nor does it constitute financial product or investment advice nor take into account your investment objectives, taxation situation, financial situation or needs. An investor must not act on the basis of any matter contained in this announcement in making an investment decision but must make its own assessment of AAVOF and conduct its own investigations and analysis. Past performance is not a reliable indicator of future performance.