SHAREHOLDER FUND UPDATE
PERIOD ENDED 30 APRIL 2016

AAVOF
AROWANA AUSTRALASIAN VALUE OPPORTUNITIES FUND

ASX Code – shares:	**AWQ**
ASX Code – options:	AWQO
Listed:	January 2015
Share price*:	$1.035
Shares on issue:	48,114,002
Market cap*:	$49.8 million
Gross portfolio value as at 30 April 2016:	$52.0 million
NTA/share (pre-tax):	$1.08
Options on issue:	48,114,000
Options price*:	$0.03
Option expiry:	30 June 2016
Option exercise price:	$0.98
Fully diluted NTA/share (pre-tax) (assumes 100% exercise of options at $0.98 each)	$1.03

**All price data in A$ as at 6 May 2016*

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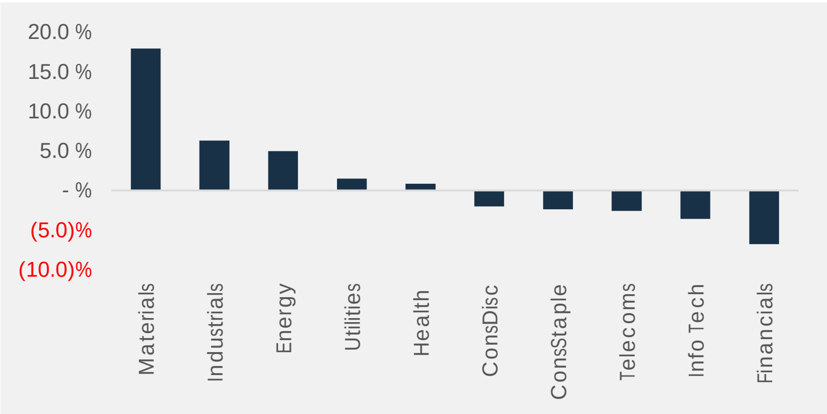
At 30 April 2016, AAVOF's calendar year to date return was +5.3%[1] vs the S&P/ASX200 Accumulation Index at +0.5%.

The S&P/ASX200 Accumulation Index return would have been negative but for the large rally in resource stocks in the first four months of the year. The resources sector, as measured by the S&P/ASX200 Materials Index, rallied ~17.9% in the year to 30 April 2016; had this not occurred the main index would have been down ~2% year to date.

The key drivers of negative index performance YTD were banks and diversified financials; financial sector stocks comprise 46% or almost half the S&P/ASX200 Index and the sector was down 6.8% YTD.

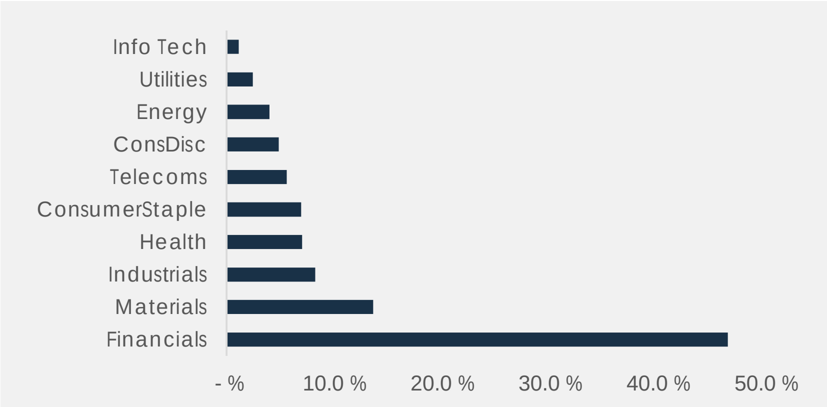
1. Net tangible asset return after all fees and other costs and before providing for estimated tax on unrealised gains

S&P/ASX 200 Accumulation Index
Sub Sector Performance Calendar Year to date (30 Apr 2016)



Source: Bloomberg

S&P/ASX 200 Index – Sector Weights



Source: Bloomberg

AAVOF's sweet spot is outside Financials and Materials; these two largest sectors of the market are ~60% of total index market cap. We are *generally* focused on the 40% of the market outside these two sectors.

To be blunt we tend to avoid commodities and banks, because we think they are structurally challenged for the next few years (more on the detailed reasons another day).

By avoiding the two largest sectors in the market, we avoid market correlation and gain greater exposure to what are ideally highly idiosyncratic single stock or industry stories that are less affected by "macro". We want to be stock pickers, not market or macro timers.

So it has been thus far in calendar 2016. A large part of our performance in the first four months of this year was due to our largest stock holding. Infigen Energy (ticker IFN.AU) has risen over 60% since we built the position in the last quarter of calendar 2015. Infigen was as close as you can get to a "*sure thing*" when we sized it to ~13% of our portfolio at cost; a colossally large position which has paid off. You seldom get opportunities like this; perhaps once, twice or if you are particularly diligent and a little bit lucky thrice a year.

When we say "*sure thing*" we don't mean that it was obvious to all that the stock had large upside; by definition had that been the case the stock would have traded at "intrinsic value" offering meagre returns at best. This is essentially why AAVOF will never buy "good companies" that everyone knows are good which are trading at rich valuations; good companies are typically not the same thing as good investments.

We use the term "*sure thing*" in the context of the eponymous essay by Malcolm Gladwell (http://gladwell.com/the-sure-thing/).

The key line for us in that essay, which recounts the tale of Ted Turner making a large bet that led to a larger fortune runs thus:

"*Williams writes that Turner was "attracted to the risk" of the deal, but it seems* ***just as plausible to say that he was attracted by the deal's lack of risk"*** (Emphasis added).

Ostensibly it *looked* risky, but analysis showed there was very little risk, and very large upside. This is the essence of positive asymmetry; low downside and large upside.

When we bought Infigen the stock had no broker research coverage, and its debt was twice the size of its market capitalisation. Infigen's bankers were enforcing a "cash sweep" where all available cashflow went to reduce debt (they still are). So, at first glance, it looked horribly risky. Most investors would never touch a company with that level of debt because *ostensibly* it indicates high risk…which is why the stock was so cheap.

This is where the creative aspect of research comes in.

Our analysis of Infigen and its industry showed that provided certain conditions held (mainly product price), the stock was literally a one way bet, a "sure thing", capable of increasing in value 3-4x over a two year period. It was cheap, trading below replacement cost, because the debt load was so heinously large. However the price Infigen received for its renewable electricity production was rising rapidly; our analysis showed prices were almost certainly likely to rise much more. Because of this, and some unique features of Infigen's debt package, there was virtually no risk of a debt covenant default. In fact the financial leverage would act as a slingshot on our equity returns.

It is important to note we passed on Infigen when it was trading at $0.25/share in early 2015; by November 2015 the stock was ~$0.45 a share which was our cost.

When we examined the stock in early 2015 at ~$0.25/share it was a very binary situation; Infigen's US assets had a peculiar financial structure where the company would not receive cashflow for a period of approximately three years from 2016. When you have a lot of debt, a sudden loss of cashflow can be fatal. But when Infigen sold these US assets for a reasonable amount of cash in late 2015 and removed the risk of a covenant trip in the process, it became a one way bet; hence why we were happy buying at $0.45/share but not $0.25/share. We are very focused on finding positive risk asymmetry situations.

A short case study of the Infigen investment starts on page 33 of the following release: www.aavof.com/shareholder-information under "*Recent ASX Announcements – 26 Feb 2016 – Interim Financial Statements including Appendix 4D.*" Infigen currently comprises ~20% of portfolio value; we monitor it very closely and believe there is still significantly more upside to the stock than downside.

ELDERS LIMITED

Elders was the first security we bought when AAVOF started back in January 2015. Initially we bought the hybrids (ticker: ELDPA.AU); then as the common stock came under pressure, we bought that (ticker: ELD.AU). To date these have been some of our better performing investments.

This story has only partly played out. When we bought Elders the company had experienced 5 years of consecutive losses, paid no dividends and was in the process of reducing a crushing debt load. A new management team were going back to basics and clearly understood cost of capital from a practical as well as theoretical perspective. Management know their industry, can execute and thus far haven't shirked the tough *operational* decisions.

However Elders is by no means a unicorn. In the very long term it may be structurally challenged. But always the question is "what is in the price". Here we think the answer is not much relative to the upside / downside asymmetry.

This story is complicated by an unusual capital structure. Elders has perpetual securities also known as hybrids. We loathe perpetuals at issue because there is no fixed convergence event (they never mature and thus tend to trade at some discount to issue price), they offer debt like returns and equity like risk (low yield, no price upside but lots of price downside) and you don't get to vote.

We bought into the hybrids when they were "busted" and trading at distressed levels; they paid no dividend and still don't because Elders stopped paying dividends in 2009. Thus far Elders has refused to pay distributions again, despite the company now being in the rudest of financial health and generating very strong returns on capital.

The catch here (and the reason we bought in) is the hybrids have but one structural protection; the "dividend stopper". Elders cannot pay a dividend on the ordinary shares again until either the distributions on the hybrids are restarted or Elders buy back all remaining hybrids. Due to the step up in payable distribution rates, we think it highly unlikely Elders wants to pay a ~10% cash yield to hybrid holders and thus the latter case, or full buy back is more likely.

We believe Elders common stock is undervalued because it pays no dividend; a large part of the investment community will simply not buy the stock until this changes. Hence our firm view is this is a rare win-win situation in the offering; if Elders was to resolve the hybrid situation and retire the issue (at face value of $100/share vs trading price of $75 currently) all parties would benefit. We remain patient holders highly supportive of management in their operational endeavours.

TOUCHCORP

We have added a position to the portfolio since 31 December 2016. Touchcorp (ticker: TCH.AU) operates a payment platform whereby a manufacturer of a non-physical delivery product can transact via retail merchants or directly with end consumers. An example might be a pre-paid phone top up.

TCH have never lost a customer. Transaction volumes continue to rise. TCH is essentially at the intersection of what many retailers term omni-channel.

This sector is complex; there are some risks to the investment and so position size is not as large as the structural underpinnings of the industry story might augur for…but always the challenge in these situations is to find the "sweet spot" in the industry that benefits disproportionately.

Touchcorp are seeking to monetise their data insights in the so called fintech space. Early in May the company Afterpay listed (ticker: AFY.AU, market capitalisation A$174m[2]). Touchcorp are the largest shareholder of Afterpay and wrote all of its code and credit algorithms. The business model is worthy of study (www.afterpay.com.au); international comparables such as Klarna have been particularly successful, in effect cherry picking banks' best credit card customers.

We have done a lot of work in this sector but the landscape is dynamic; our work continues and hopefully we will find a few more winners. We plan to write some more on this sector in future newsletters.

MARKETS & MACRO…LOWER INTEREST RATES ANYONE?

When you step back from the noise, the local takeaway is disinflation; a euphemistic turn on the increasing risk of deflation.

In May the RBA cut official rates 25bps to 1.75%; the lowest official interest rate Australia has ever seen. They did that because there are very clear indications of below target inflation (with the attendant risk of lower inflationary expectations) and a softening of employment conditions.

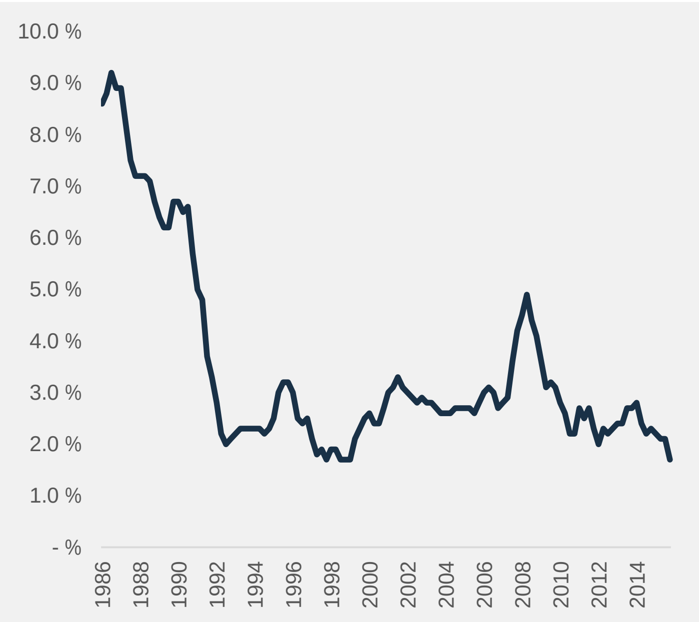
One of the RBA's preferred measures of inflation, trimmed mean CPI, hit an all-time low in March 2016. Similarly, hourly wages are now growing at the slowest pace on record.

Our view is the RBA will cut more; best case scenario at least once more but more likely much more deeply; with the real possibility rates go close to zero.

2. As at 6 May 2016

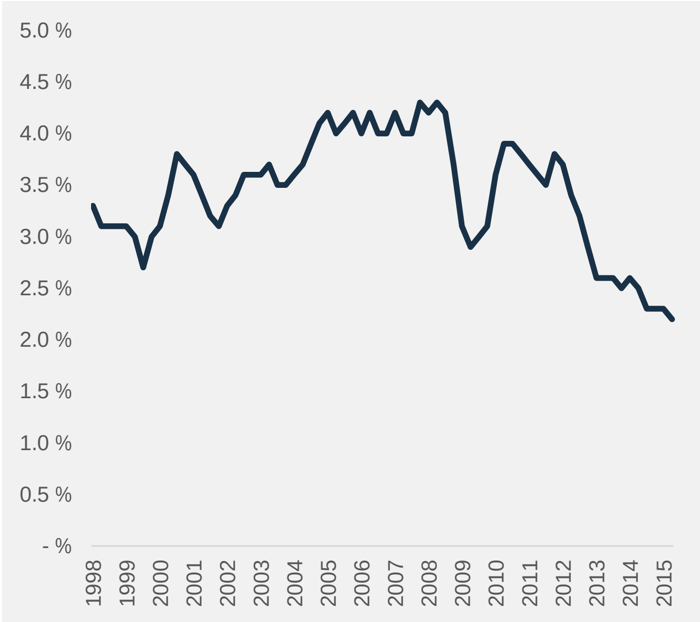
This makes for a difficult investment environment. Rates are so low many retirees will struggle to generate an income from bank deposits (the perversity is always rate cuts benefit the profligate and tax the savers). Equities are cheap in a yield context but only relative to all time low interest rates; on earnings equities as an asset class are expensive which to our mind raises risk. This is what drives our interest in nonmainstream sectors of equity markets; if we can find bargains here and generate decent returns, then our shareholders will be that much better off.

CPI Trimmed mean YoY



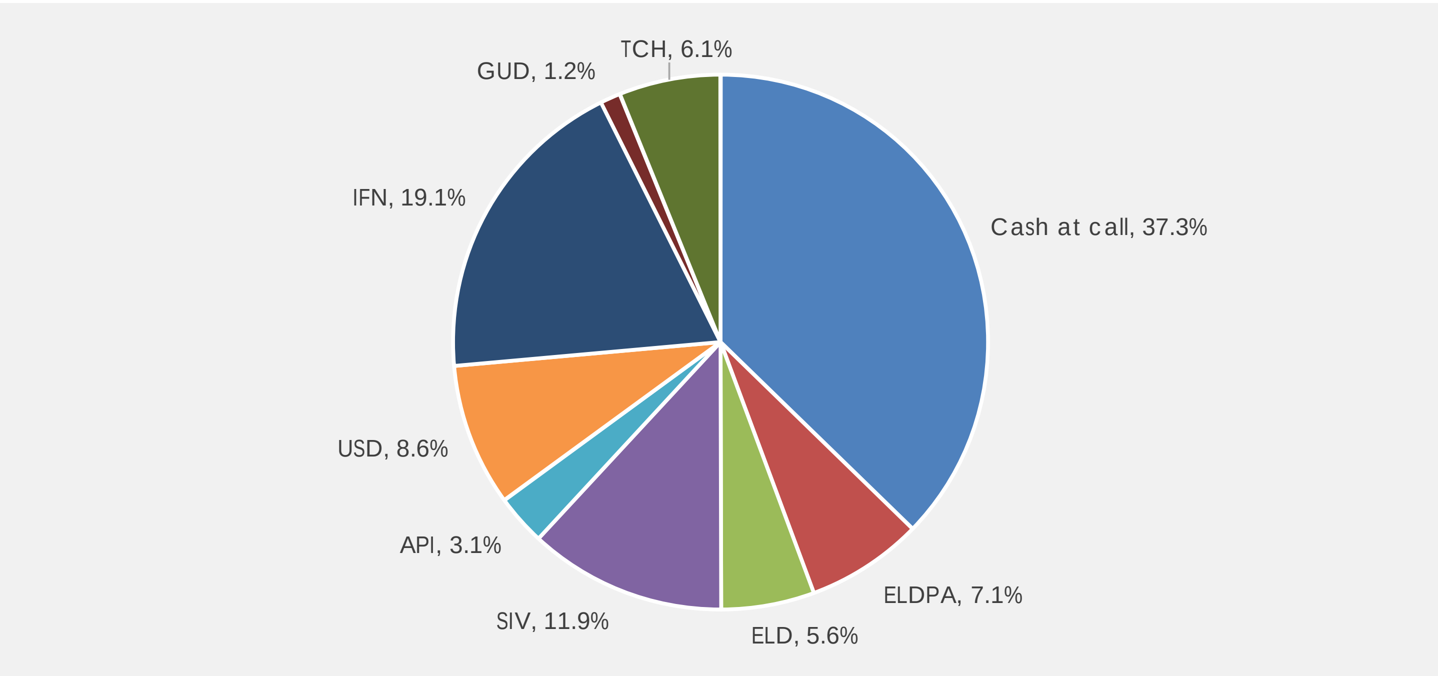
Source: Reserve Bank of Australia

Australian hourly wages – year on year change



Source: Australian Bureau of Statistics

Portfolio at Market Value ($51,853,288)



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AAVOF NTA* per share (last 12 months)	Before tax	After tax
May 2015	1.00	0.99
June 2015	0.98	0.98
July 2015	1.00	0.99
August 2015	1.00	0.99
September 2015	1.02	1.00
October 2015	1.03	1.02
November 2015	1.03	1.01
December 2015	1.02	1.01
January 2016	1.02	1.01
February 2016	1.02	1.01
March 2016	1.05	1.03
April 2016	1.08	1.04

* Net tangible assets (NTA) per share at month end, after all fees and expenses and before estimated tax on unrealised capital gains

One Month Return	AAVOF[1]	S&P/ASX 200 Accumulation Index	Out/(under) Performance
May 2015	2.06%	0.40%	1.66%
June 2015	(1.45%)	(5.30%)	3.85%
July 2015	2.02%	4.40%	(2.38%)
August 2015	(0.19%)	(7.79%)	7.61%
September 2015	1.47%	(2.96%)	4.43%
October 2015	1.69%	4.37%	(2.67%)
November 2015	(0.26%)	(0.68%)	0.43%
December 2015	(0.85%)	2.73%	(3.58%)
January 2016	0.03%	(5.48%)	5.51%
February 2016	0.03%	(1.76%)	1.79%
March 2016	2.84%	4.73%	(1.90%)
April 2016	2.29%	3.37%	(1.08%)

1. Returns are calculated on net tangible assets (NTA), after all fees and expenses and before estimated tax on unrealised capital gains, in accordance with the methodology in use for NTA monthly announcements under ASX Listing Rule 4.12

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Quarterly Returns	AAVOF[1]	S&P/ASX 200 Accumulation Index	Out/(under) Performance
March 2015	(0.23%)	10.33%	(10.56%)
June 2015	1.25%	(6.55%)	7.79%
September 2015	3.33%	(6.58%)	9.91%
December 2015	0.57%	6.48%	(5.91%)
March 2016	2.90%	(2.75%)	5.65%

Cumulative Returns – since inception (29 Dec 2014) (last 12 months)	AAVOF[1]	S&P/ASX 200 Accumulation Index	Out/(under) Performance
May 2015	2.49%	8.88%	(6.39%)
June 2015	1.00%	3.10%	(2.10%)
July 2015	3.05%	7.64%	(4.60%)
August 2015	2.85%	(0.75%)	3.60%
September 2015	4.37%	(3.68%)	8.05%
October 2015	6.14%	0.53%	5.61%
November 2015	5.86%	(0.16%)	6.02%
December 2015	4.96%	2.56%	2.40%
January 2016	4.99%	(3.06%)	8.05%
February 2016	5.02%	(4.76%)	9.79%
March 2016	8.01%	(0.26%)	8.26%
April 2016	10.48%	3.10%	7.38%

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1. Returns are calculated on net tangible assets (NTA), after all fees and expenses and before estimated tax on unrealised capital gains, in accordance with the methodology in use for NTA monthly announcements under ASX Listing Rule 4.12