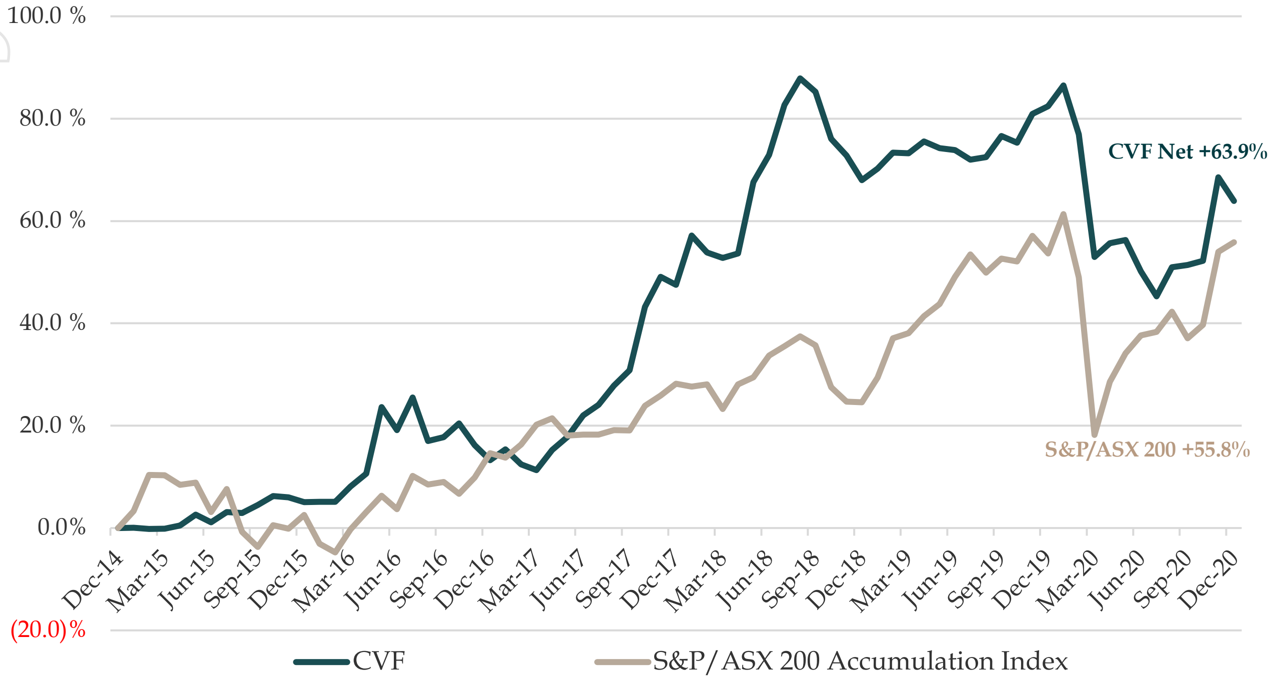
AROWANA
CONTRARIAN VALUE FUND

Monthly Update | December 2020

Fund Performance

CVF Cumulative Net Performance vs Index - Since Inception



At 31 December 2020	1 mth	6 mths	1 yr p.a	2 yr p.a	3 yr p.a	Since IPO (5 Jan 2015) Annualised	Cumulative
Arowana CVF Gross performance	(1.1)%	12.4 %	(6.2)%	1.8 %	7.5 %	12.2 %	99.7 %
S&P/ASX200 Accumulation Index	1.2 %	13.2 %	1.4 %	11.9 %	6.7 %	7.7 %	55.8 %
Gross outperformance	(2.3)%	(0.8)%	(7.6)%	(10.1)%	0.8 %	4.5 %	43.9 %
Arowana CVF Net performance*	(2.7)%	9.2 %	(10.1)%	(1.2)%	3.6 %	8.6 %	63.9 %
S&P/ASX200 Accumulation Index	1.2 %	13.2 %	1.4 %	11.9 %	6.7 %	7.7 %	55.8 %
Net outperformance	(3.9)%	(4.0)%	(11.5)%	(13.1)%	(3.1)%	0.9 %	8.1 %

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

Net Tangible Assets (NTA) per Share

At 31 December 2021	$
NTA pre-tax on unrealised gains	0.33
NTA after tax on unrealised gains[1]	0.33

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. Generally, any such tax would generate franking credits, whose value would not be lost but rather transferred to shareholders on payment of franked dividends.

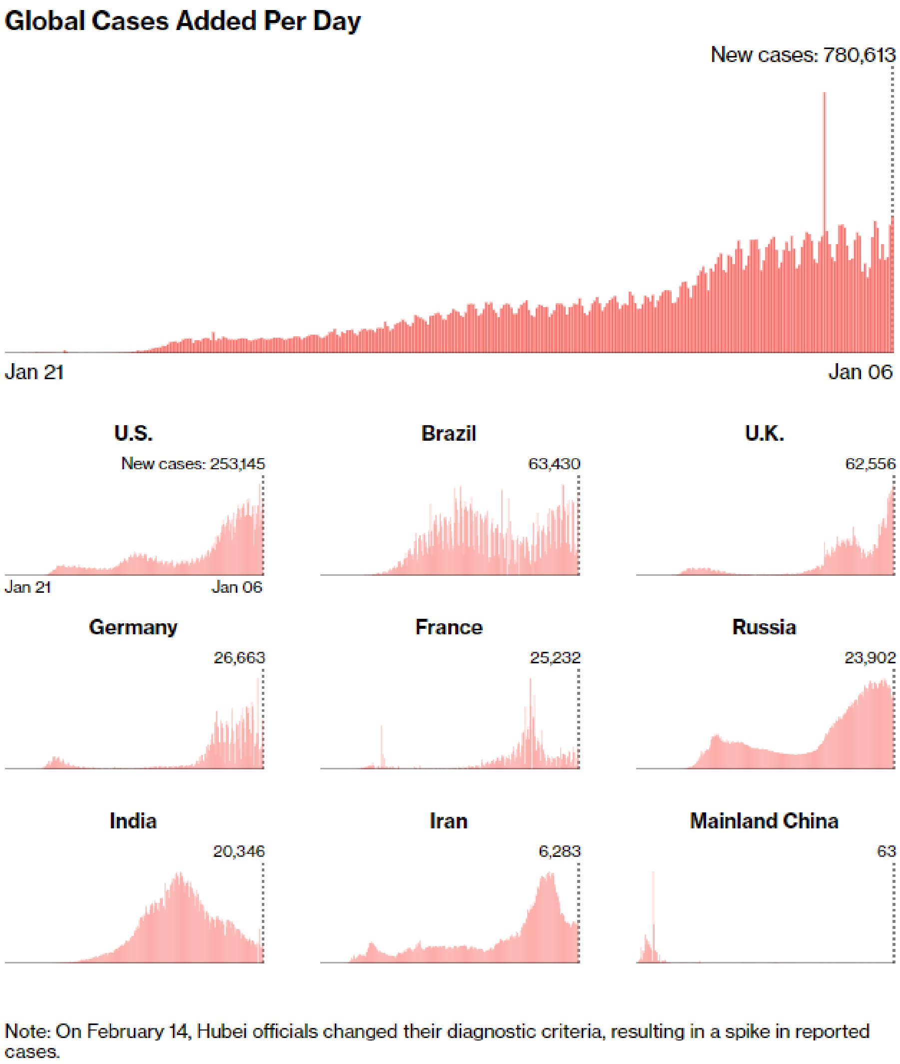
Contrarian Value Fund Limited (ACN 602 250 644)
11/153 Walker St, North Sydney 2060

Date of announcement: 19th January 2021

Newsletter

In the month of December, CVF liquidated substantially circa mid-month and registered a net return of (2.7)% net of all costs and fees while the S&P/ASX200 Accumulation Index rose by 1.2%. The net return excluding the costs associated with the liquidation was (1.2)%. NTA per share stood at $0.33 as of 31 December 2020.

As we turn the page on 2020, we reflect on a tumultuous year marked by the deadliest global pandemic in over a century. The human toll on those who have lost family members and others who have fallen severely ill is incalculable and will remain with us for quite some time. The economic toll remains unclear as the impact of lockdowns on reduced activity and lost jobs is sadly still unfolding. As the US and Europe struggle to contain the worst surge in virus cases since the start of the pandemic, there are fears that things are about to get far worse before they get better, as a variant of the virus that may be 50-70% more transmissible has been detected in Europe and the US. The US meanwhile has struggled mightily with over 358,000 deaths to date whilst averaging over 250,000 new cases per day in recent weeks along with a botched start to vaccinations.[1] It is looking increasingly likely the US will re-initiate lockdowns in many parts of the country as they gird themselves for another post-holiday surge in the days and weeks ahead. However, we are hopeful a new administration that actually follows the science will muster sufficient resources to course correct quickly.



The World Bank has estimated that it may take 2-3 years for the global economy to return to pre-pandemic levels as advanced economies thus far are recovering at a pace faster than expected whilst emerging markets have lagged as exports to developed markets and tourism has been hard hit. [2]

And yet, judging by the performance of global equity markets one would never conclude that 2020 was the worst year for the global economy since the Great Depression and that the most challenging days in this recovery lay ahead of us. The S&P 500 returned 18% in calendar 2020 (in USD) while the MSCI World Index rose by almost 17% in local currency. The NASDAQ however went on to have its best year since 2009 rising by a remarkable 43% in a year when global GDP is likely to have fallen by almost 5%. We also witnessed the great divergence between Growth and Value reach extraordinary levels with the MSCI World Growth Index rising by 34% whilst the MSCI World Value Index suffered a **decline** of .4%. Finally, Europe ex-UK rose by 2% (in local currency) and the UK, buffeted by both Brexit and the pandemic, was one of the few regions that witnessed a significant decline on the order of nearly 10%.

For this our final commentary as listed entity, we would like to take an opportunity to review the historical performance of CVF as both a listed and unlisted entity and share our thoughts on the future.

Firstly however, we will look more closely at the results of this past calendar year, where we saw significant contributions across a variety of sectors. The largest contributor to performance was Pershing Square, which rose by 60.5% for a 3.9% return contribution, this following a 58% return for the Pershing Square portfolio in 2019 which still had little impact on the average discount to NAV of 25+%. The next largest contributor was Janus Henderson Group (JHG), which registered a 112% return in USD terms and a 97% return in AUD equating to a 2.4% portfolio contribution. We were able to buy JHG early in the pandemic when it was trading for less than 4x P/E x-cash on the balance sheet and sporting a 9% dividend yield. The market came to agree with us on the absurdity of that valuation and our belief that active management could indeed survive and even thrive should asset flows into passive just decline let alone reverse.

The next largest contributor was Nine Entertainment (NEC) with a 46% rise for a 1.8% contribution. NEC has exceeded expectations regarding its transition to digital as Stan saw a $51 million improvement in FY20 EBITDA along with 36% growth at 9Now which has a 50% share of the broadcaster video on demand (BVOD) market. AENA, the Spanish airport operator, posted an 18% return for a 1.4% performance contribution. AENA benefitted greatly from the initial recovery rally as travel began to slowly re-open in Europe during the summer months and was able to sustain some of this momentum even amidst a resurgence of the virus. We were able to opportunistically buy this toll taker for air travel at circa 10x P/E on normalized earnings whilst getting AENA's substantial land holdings around Madrid and Barcelona airports, which are slated for development, effectively for free.

Unfortunately, our two largest detractors weighed heavily on portfolio performance in CY20. Last year, by far the largest detractors to performance were our USD hedge, which created a 7% drag on returns and our equity hedge which cost the portfolio 2.2%. The total drag from these "insurance" positions, we put on ultimately cost us a total of 9.2% in performance. With the benefit of hindsight, we were correct in our assessment that there would likely be a second wave of COVID-19 with more lockdowns. Our portfolio strategy was to buy severely undervalued stocks that would bounce back once there was market confidence that COVID-19 would pass but couple that with a conservative overweight cash holding in the traditionally defensive US dollar. We were however wrong on this count as the US dollar underperformed reflecting its aggressive monetary expansion policies and volatile politics in 2020.

This past year has seen the divergence between growth and value reach extreme levels. As noted above, the MSCI World Value Index under-performed its growth counterpart by over 34% in 2020! This follows out-performance of 12% by the MSCI World Growth Index in 2019. As of year-end, the MSCI World Growth Index trades at an astounding 43x trailing and nearly 33x forward earnings. The top 6 members - Apple, Amazon, Microsoft, Facebook, Alphabet and Tesla - now comprise 29% of the index with Tesla trading at a stratospheric 24.8x EV/Revenues and 174x EV/EBITDA on a trailing basis. Not to be out-done, the NASDAQ has these same stocks comprising over 40% of the index. These valuations reflect Mr Market at his most manic and are almost assuredly not sustainable while passive investors grow increasingly exposed to these lofty valuations.

While some wonder if value investing has lost its relevancy, we have seen this play before and are convinced more than ever that our contrarian style of investing is poised for a dramatic comeback. As we have said, we believe we may have witnessed the inflection point in November.

Since its IPO in January 2015, CVF has produced annualised net returns of 8.6% compared to the S&P/ASX 200 return of 7.7% for out-performance of 0.9%. Excluding costs associated with the liquidation annualised performance was 8.9%, for out-performance of 1.2%. However, we would also point out that CVF's out-performance was achieved whilst putting significantly less investor capital at risk than many of our peers. Since its inception, CVF has held on average approximately 53% of its investable assets in cash. Adjusted for this average cash holding, the outperformance is greater, with an annualised performance of 18.2%. In other words, CVF has only risked 47 cents of every investor's dollar to attain those excess returns. Pleasingly, we were able to deliver an average grossed up dividend yield of 5.7%[1] per annum over the period that CVF was listed.

As we review the history of the Australasian Value Opportunities Fund (AVOF), the unlisted predecessor to CVF, we see an even greater degree of out-performance over a similar time frame. From 1 July 2009 through 30 September 2014, AVOF produced an annualised net return of 18.4% compared to the S&P/ASX 200 return of 10.5%, beating the index by nearly 8% per annum.

As we outlined in our last commentary, this contrarian, deep value style of investing has become so terribly out of favor and has driven many of our former peers to fundamentally alter their approach or in many cases to liquidate. As we reflect on our journey to date, we have also come to the realization that a contrarian value style and being listed on a stock exchange are diametrically incompatible, especially in a heavily momentum biased market like today. A contrarian value style tends to take a number of years to pay off and does so in a non-linear manner which runs counter to the listed market's short-term focus.

That said, we are grateful to have had the opportunity to manage retail investor money in Australia and pleased that we were able to deliver a strong annualised return of 8.6% with outperformance of 0.9% despite volatile market conditions whilst maintaining an average cash weighting of 53%. We would like to thank all of our longstanding shareholders for their confidence and trust in us over the years. However, we continue to have conviction that opportunities abound for the contrarian value investor and we will be returning to our roots as an unlisted entity albeit domiciled offshore (closer to markets that offer better value) and investing money primarily for our principals and selected other family offices who have the long term investment time frame and patience that is compatible with the contrarian value style.

May you be blessed with a healthy, happy and successful 2021.

Note:

1) https://www.bloomberg.com/graphics/2020-coronavirus-cases-world-map/?srnd=coronavirus&sref=i9AaqAZq

2) https://www.wsj.com/articles/world-bank-chief-sees-slow-global-recovery-from-covid-19-slump-11607454374

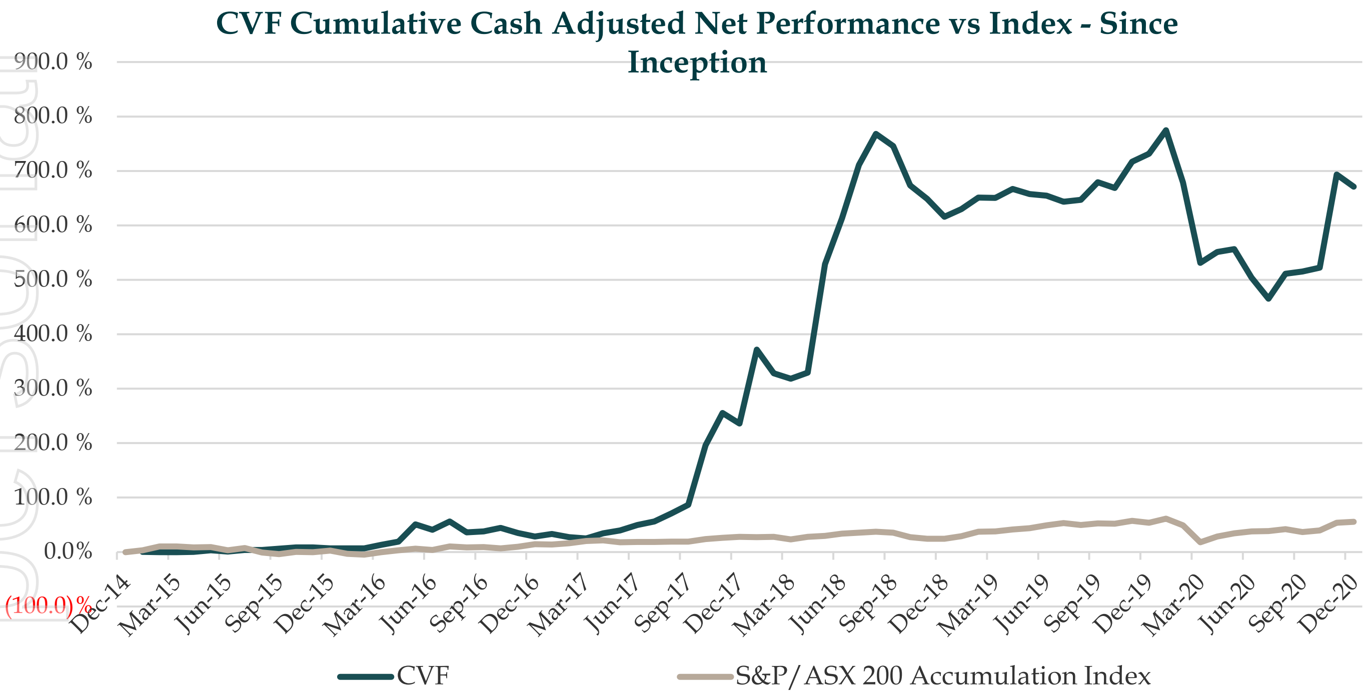
[1] Based on the closing share price on 17 December 2020 (last business day prior to initial capital return and dividend record date) of $1.06 and a cumulative dividend return of $0.4141 since inception.

Historical Fund Performance

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

	2015	2016	2017	2018	2019	2020
Jan	0.1%	0.0%	1.9%	6.5%	1.3%	2.2%
Feb	(0.3)%	0.0%	(2.6)%	(2.1)%	1.8%	(5.2)%
Mar	0.0%	2.9%	(1.0)%	(0.7)%	(0.1)%	(13.5)%
Apr	0.7%	2.3%	3.5%	0.6%	1.3%	1.8%
May	2.1%	11.8%	2.2%	9.1%	(0.7)%	0.4%
Jun	(1.4)%	(3.6)%	3.5%	3.2%	(0.2)%	(3.9)%
Jul	2.0%	5.3%	1.7%	5.6%	(1.1)%	(3.3)%
Aug	(0.2)%	(6.8)%	3.0%	2.9%	0.3%	3.9%
Sep	1.5%	0.6%	2.4%	(1.4)%	2.4%	0.3%
Oct	1.7%	2.3%	9.5%	(5.0)%	(0.7)%	0.5%
Nov	(0.2)%	(3.5)%	4.1%	(2.0)%	3.2%	10.7%
Dec	(0.9)%	(2.5)%	(1.1)%	(2.8)%	0.8%	(2.7)%
Total	**5.1%**	**7.7%**	**30.3%**	**13.9%**	**8.6%**	**(10.1)%**

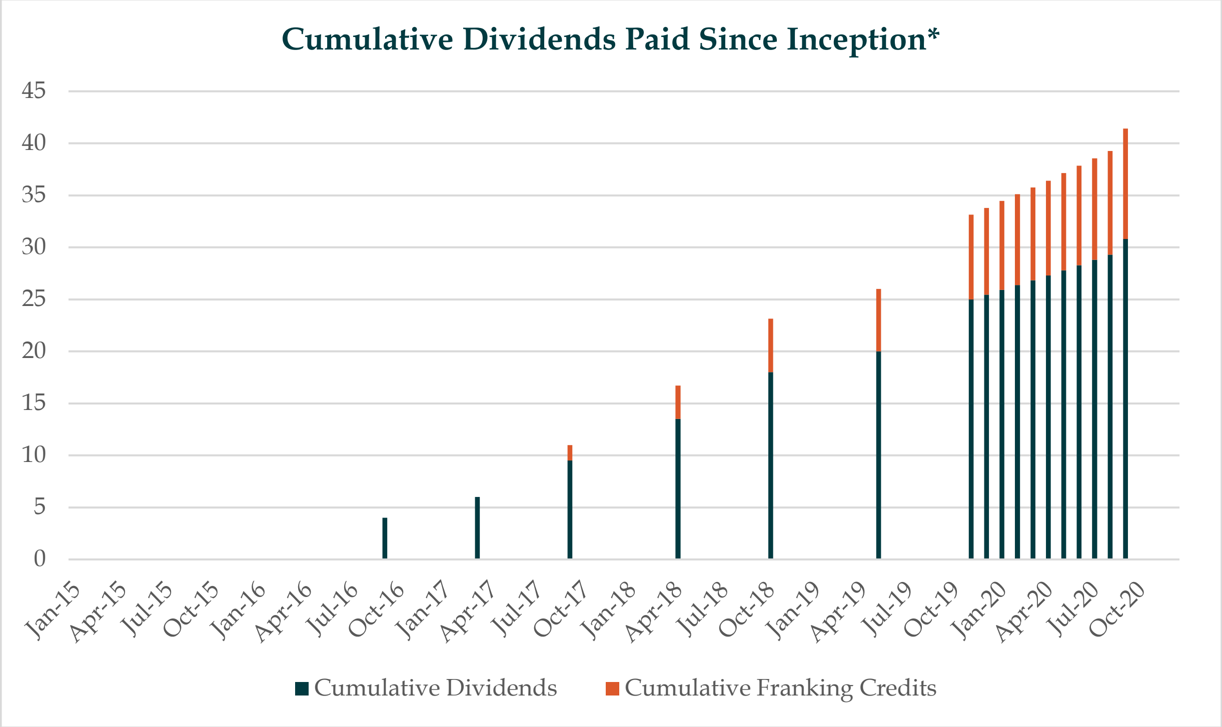
Cash adjusted net performance since inception



At 31 December 2020	1 mth	6 mths	1 yr p.a	2 yr p.a	3 yr p.a	*Since IPO (5 Jan 2015)* Annualised	Cumulative
Arowana CVF Cash Adjusted Net performance*	(2.8)%	27.7 %	(7.3)%	7.8 %	129.3 %	18.2 %	671.2 %
S&P/ASX200 Accumulation Index	1.2 %	13.2 %	1.4 %	11.9 %	6.7 %	7.7 %	55.8 %
Net outperformance	(4.0)%	14.5 %	(8.7)%	(4.1)%	122.6 %	10.5 %	615.4 %

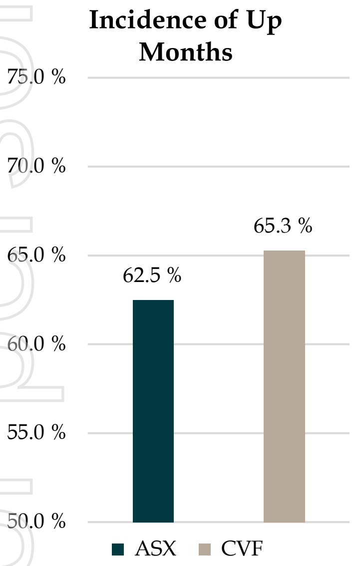
* *Net of all fees and expenses, pre-tax*

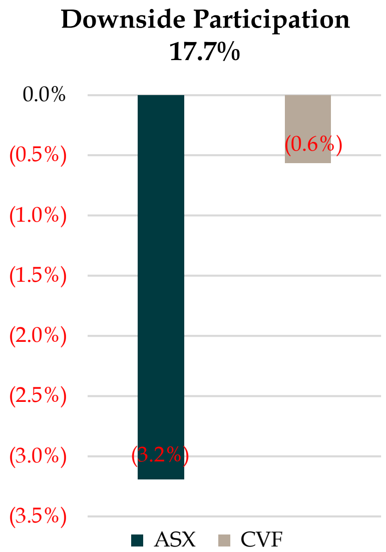
Consistent dividend yield

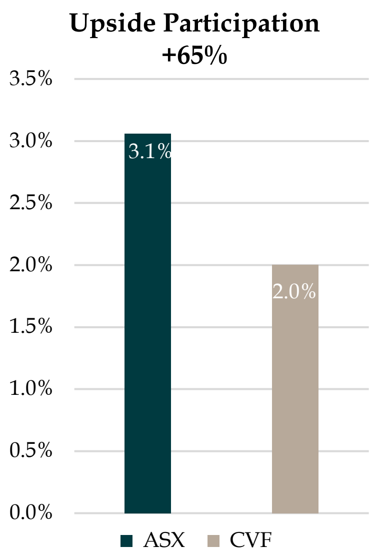


**excludes final dividend of $0.09 paid as part of the liquidation and wind up*

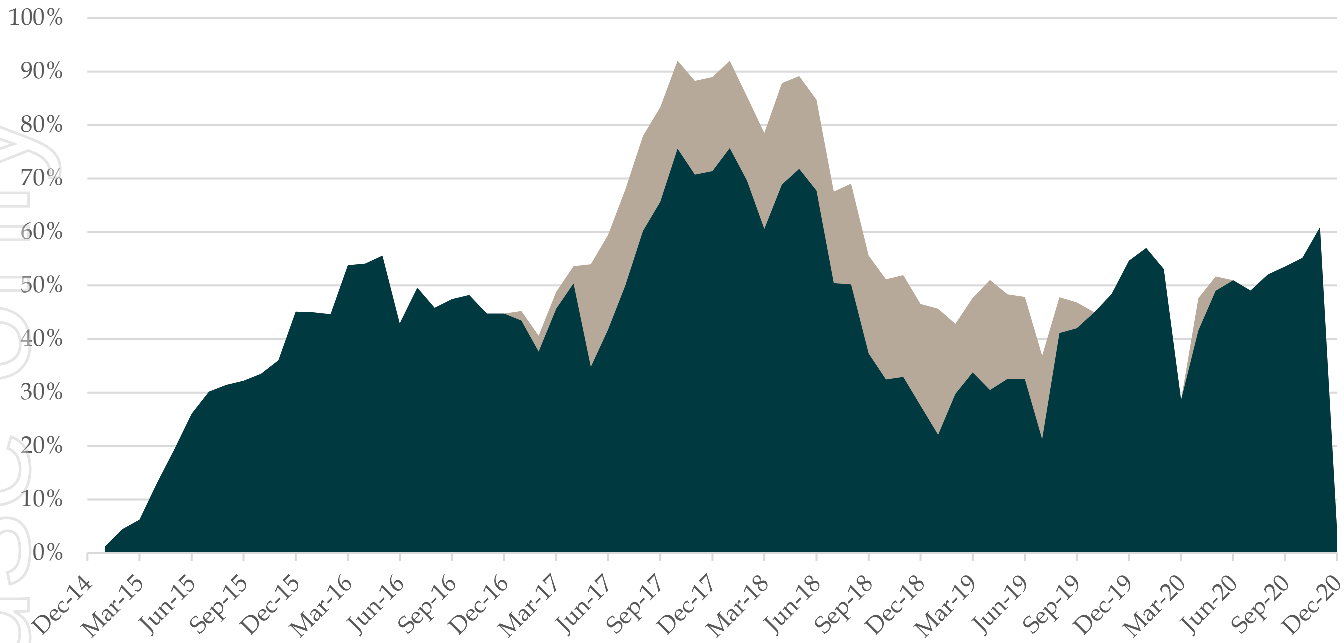
Uncorrelated Returns: More positive months and negative correlation in months when market is down



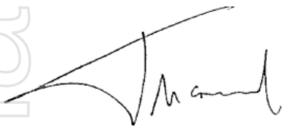




Gross & Net Portfolio Exposures – Outperformance achieved with no portfolio leverage



On behalf of the Board of Contrarian Value Fund Limited,



Tom McDonald

Company Secretary