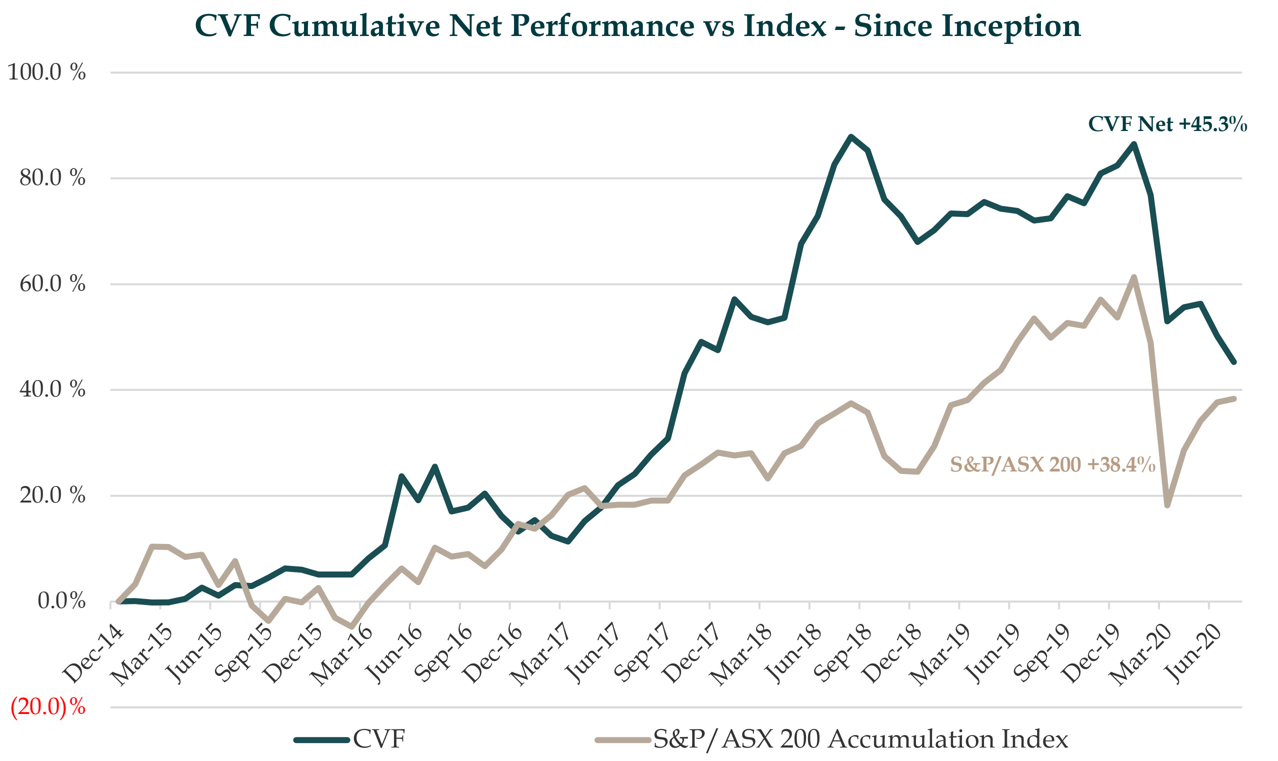
AROWANA
CONTRARIAN VALUE FUND

Monthly Update | July 2020

Fund Performance



At 31 July 2020	1 mth	6 mths	1 yr p.a	2 yr p.a	3 yr p.a	Since IPO (5 Jan 2015) Annualised	Since IPO (5 Jan 2015) Cumulative
Arowana CVF Gross performance	(3.0)%	(20.9)%	(13.2)%	(8.9)%	9.4 %	10.2 %	72.3 %
S&P/ASX200 Accumulation Index	0.5 %	(14.2)%	(9.9)%	1.0 %	5.4 %	6.0 %	38.4 %
Gross outperformance	(3.5)%	(6.7)%	(3.3)%	(9.9)%	4.0 %	4.2 %	33.9 %
Arowana CVF Net performance*	(3.3)%	(22.1)%	(15.5)%	(10.8)%	5.4 %	6.9 %	45.3 %
S&P/ASX200 Accumulation Index	0.5 %	(14.2)%	(9.9)%	1.0 %	5.4 %	6.0 %	38.4 %
Net outperformance	(3.8)%	(7.9)%	(5.6)%	(11.8)%	- %	0.9 %	6.9 %

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

Net Tangible Assets (NTA) per Share

At 31 July 2020	$
NTA pre-tax on unrealised gains	**$0.94**
NTA after tax on unrealised gains[1]	**$0.97**

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. At the current time, this would not be the case as the fund has unrealised net losses on its holdings and these would offset tax liabilities.

Top 5 Holdings (% of Gross Portfolio Value)

Ticker		%
PSH.NA	PERSHING SQUARE HOLDINGS	6%
AENA.SA	AENA SME SA	6%
VRL	VILLAGE ROADSHOW LIMITED	5%
CCL.LN	CARNIVAL PLC	4%
DSCK.US	DISCOVERY COMMUNICATIONS	4%
Top 5 as % of Gross Portfolio		**25%**

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

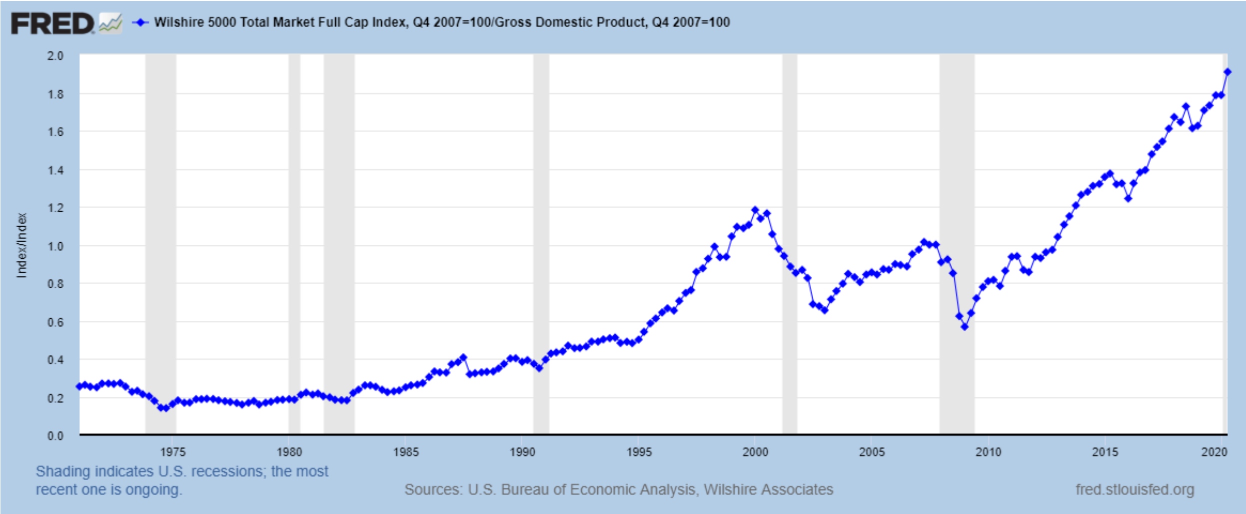
Date of announcement: 14th August 2020

Newsletter

During the month of July, CVF posted a return of (3.3)% net of all costs and fees while the S&P/ASX200 Accumulation Index posted an increase of 0.5%. Pre-tax NTA per share stood at $0.94 as of 31 July 2020. In addition, the current franked dividend yield stands at 10.7%.

During the past month global equity markets continued a historic rally from their COVID-19 induced lows. This comes amidst a global economy struggling with the re-opening of economic activity after several months of lockdowns. There has been an alarming re-emergence of the virus in many parts of the world with the US suffering a resurgence that has exceeded the initial wave of the virus in both new cases and fatalities, threatening a further slowdown in economic activity. The US has already begun rolling back its re-opening in many states as the number of new cases and deaths mount at an alarming rate. According to the New York Times, "The United States recorded more than 1.9 million new infections in July, nearly 42 percent of the more than 4.5 million cases reported nationwide since the pandemic began and more than double the number documented in any other month,…".[1] Across Europe, which had successfully sustained containment of the virus for some time, flare-ups have occurred as economies re-opened and travel restrictions eased during the month. New cases doubled in Spain over a recent weekend and are up six-fold in the past month while France has reported a doubling of new cases over the last several weeks and Germany has recently seen cases fluctuate between 600-900/day.[2,3] Also, as you are keenly aware, Australia has witnessed its own disturbing resurgence of cases, leading Victoria to recently announce a 6-week lockdown that is estimated will impact approximately 500,000 workers in the State.[4] Lastly, the month ended with the US reporting Q2 GDP estimates that revealed a staggering decline of 9.5%, the worst in modern record-keeping dating back to 1947 and perhaps the worst decline since 1875.[5] And yet the US markets continue their march upward unabated.

As we have stated before, unprecedented government stimulus has likely provided much of the fuel for the market's rapid ascent. This may lead some to wonder: have valuations become stretched as a result of the recent rally? We examine the US as they have been at the vanguard on both fronts with record stimulus measures and market performance that leads all major markets. On the stimulus front, the Federal Reserve and the US government primed the pump during the second quarter to the tune of $5 trillion in monetary and fiscal stimulus, which alone exceeded the $4.85 trillion in nominal GDP produced during the quarter.[6] Unprecedented times indeed. For a view on valuation levels we look to a metric that Warren Buffet has referred to as the best gauge of a market's attractiveness: stock market capitalization/GDP. This metric as of April stood at over 1.9x for the US, well above its all-time high (see below) experienced during the height of the Tech Bubble.[7] Moreover, this precedes the index's 26% rise from April through July. Lastly, it is worth noting the concentration of returns evident in the US markets. The S&P 500 posted a 5.6% increase during July which is itself notable but most remarkable is that nearly 40% of that performance was derived from just 4 stocks: Apple, Amazon, Facebook, and Google.[8] For further perspective, 3 of these companies, Apple, Facebook, and Google are trading at circa 32x P/E on a trailing basis, while Amazon is currently fetching a stratospheric 121x P/E.[9]



While the US equity rally continued at a heady pace, across the pond in Europe where the rally has been more muted, we were able to uncover an opportunity to invest in a global building materials supplier trading at a steep discount to fair value, that stands to benefit from secular and idiosyncratic tailwinds in a post-coronavirus recovery. Vicat SA (VCT:FP), is a French manufacturer of cement, concrete and aggregates with a footprint that spans 12 countries in both developed and emerging markets. VCT traces its roots back to the construction of its first cement plant in 1853 in southeastern France. VCT is controlled by the descendants of the founder Louis Vicat, who holds a 60% stake in the business. The firm embarked on its international expansion in 1974 with a move to the US and later expanded into emerging markets in the early 1990s with the acquisition of two cement plants in Turkey. VCT's strategy is to combine investments in developed markets that generate more stable cashflows with operations in emerging markets that offer significant growth opportunities in the longer term but in the interim can experience greater market volatility.

Today the firm has operations across 12 countries grouped into five geographic segments: France, Europe, Americas, Asia, Mediterranean and Africa. While the majority of VCT's profits are derived from developed markets today, over 70% of the firm's production capacity resides in emerging markets.

VCT has benefitted greatly from international diversification as some of their most profitable markets have been their international developed and emerging markets. VCT's most profitable segment has been Switzerland where the bulk of its European sales are derived. While mature, the Swiss cement market is dominated by 3 players, including VCT, who together control 2/3's of the cement market. However, their emerging markets operations in Asia and Africa have also recorded some of their highest margins historically. While they have enjoyed strong margins in many of the regions in which they operate, there is an opportunity for margin improvement in some regions that have been challenged of late.

Over the last three years VCT's margins have been depressed, largely due to macro and currency factors, that have impacted their European and emerging markets operations. During FY17-18 their Egyptian operations were negatively impacted by a rapid rise in the cost of electricity and fuel brought on by a devaluation of the currency. Similarly, in FY19, a recession brought on by the devaluation of the Turkish Lira in 2018 led to a continued sharp decline in economic activity and a dramatic rise in inflation resulting in sales declines and significantly reduced margins. Further, their French operations have also lagged in profitability over the last several years in part due to a flagging French economy. However, they have also faced challenges in their concrete business which they have begun to turnaround due to a revamped sales approach. This operational turnaround along with a recovery in the French economy and increased infrastructure spending could lead to higher revenue growth and margins over the next several years.

We were able to purchase VCT at a sizable discount to intrinsic value in part over fears around depressed cement demand driven by a precipitous drop in housing and infrastructure spending. In terms of valuation multiples, we purchased VCT at circa 5.3x EV/EBITDA FY19, a deep discount from its 7-year average multiple of 8.75x EV/EBITDA. Even if one assumes a significant decline in revenues and earnings in FY20 and a return to very modest topline growth with little margin improvement in FY22, VCT is trading at just under 5x EV/EBITDA. From a replacement cost perspective, we were able to buy VCT at an astonishing €71 of enterprise value per ton of capacity whereas in parts of the world where VCT operates the cost of building/acquiring cement facilities is 2.5 – 4x that level. If VCT were to merely trade at a multiple of 7x EV/EBITDA FY22, a significant discount from where it has traded historically, this would imply about 80% upside from our purchase price. In addition, it is likely at some point that they return to paying a long-time dividend which at our purchase price equated to over a 5% yield.

The headwinds that VCT has faced over the last several years are likely to abate and should result in decidedly improved margins and growth prospects going forward. In addition, VCT is well placed to benefit from secular growth in emerging markets given its current production profile. The firm would also stand to benefit from increased infrastructure spending in the US. According to the US Dept of Transportation, 65% of major roads in the US were rated 'less than good condition'. A recent report by the National Association of Manufacturing reported that US investment in infrastructure before covid-19 was only 1/3 the level it was in 1960.[10] US infrastructure has been sorely in need of repair for well over a decade and this may prove to be the catalyst to prod government action to repair roads and bridges whilst also creating a massive jobs program.

We would also note that VCT's business proved to be quite resilient during the GFC. Over the two years FY08-09, revenues were down a cumulative 11% while EBITDA declined by 22%. Thus, we expect that resiliency to serve them well in this latest downturn.

Notes:

1) https://www.nytimes.com/2020/08/01/world/coronavirus-covid-19.html
2) https://www.wsj.com/articles/the-worlds-covid-resurgence-11595978652
3) https://www.theguardian.com/world/2020/jul/31/how-the-covid-19-resurgence-is-dividing-opinion-across-europe
4) https://www.nbcnews.com/news/world/coronavirus-disaster-declared-melbourne-cases-surge-globally-n1235612
5) https://www.washingtonpost.com/business/2020/07/30/gdp-q2-coronavirus/
6) https://www.barrons.com/articles/for-the-first-time-ever-uncle-sams-aid-to-u-s-tops-quarterly-gdp-51596244795?st=yuy3lvr4t7lkoz2
7) https://fred.stlouisfed.org/graph/?g=qLC#0
8) Source: Bloomberg
9) Source: S&P Capital IQ
10) https://www.industryweek.com/the-economy/competitiveness/article/21130932/crumbling-infrastructure-is-hurting-americas-competitive-edge

Monthly Update | July 2020

Fund Information

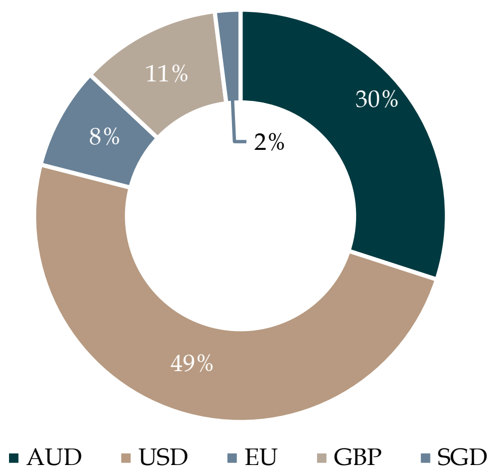
ASX ticker	CVF
Month's net performance	(3.3)%
Last price (at 31 July 2020)	$0.80
Pre-tax NTA	$0.94
Premium/(Discount) to pre-tax NTA	(14.9)%
Fund AUM	A$64.2m
Market capitalisation	A$55.1m
Shares on issue	69,049,674
Current franked dividend yield	10.7%
Franking account balance	$3.8m
Gross/Net equities exposure	49.1% / 49.1%
Cash weighting	50.9%
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	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%	
Sep	1.5%	0.6%	2.4%	(1.4)%	2.4%	
Oct	1.7%	2.3%	9.5%	(5.0)%	(0.7)%	
Nov	(0.2)%	(3.5)%	4.1%	(2.0)%	3.2%	
Dec	(0.9)%	(2.5)%	(1.1)%	(2.8)%	0.8%	
Total	**5.1%**	**7.7%**	**30.3%**	**13.9%**	**8.6%**	**(17.7)%**

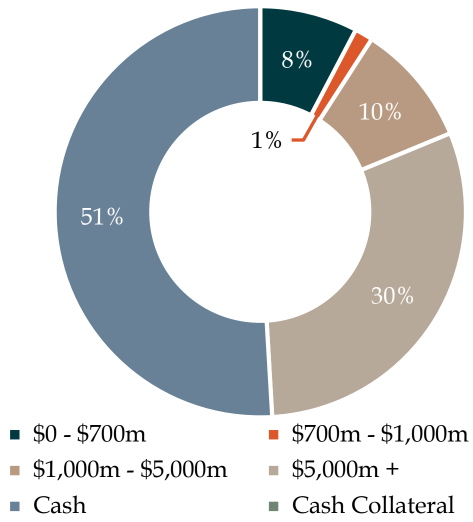
Portfolio Information

Currency Mix*

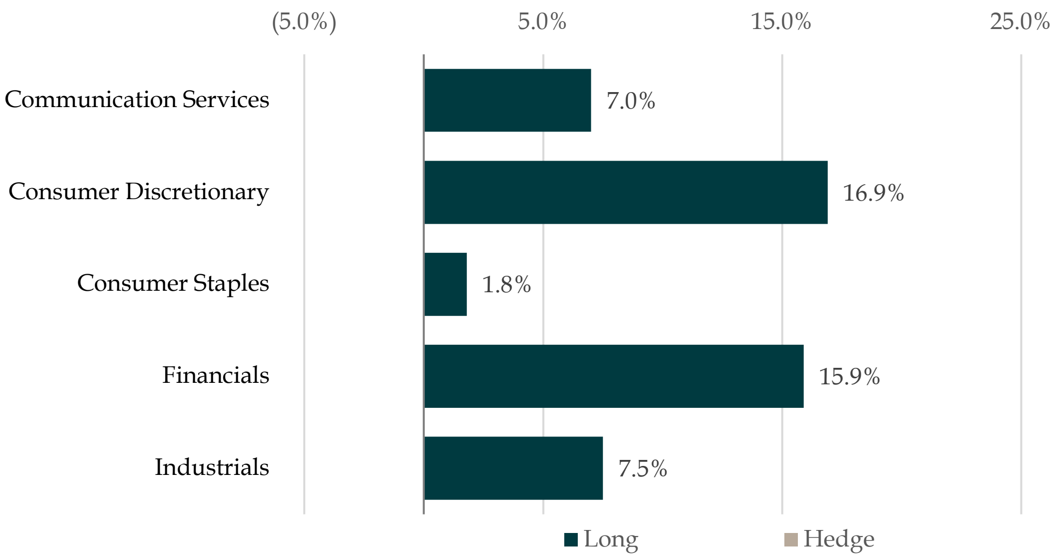


*Currency mix includes cash and equities

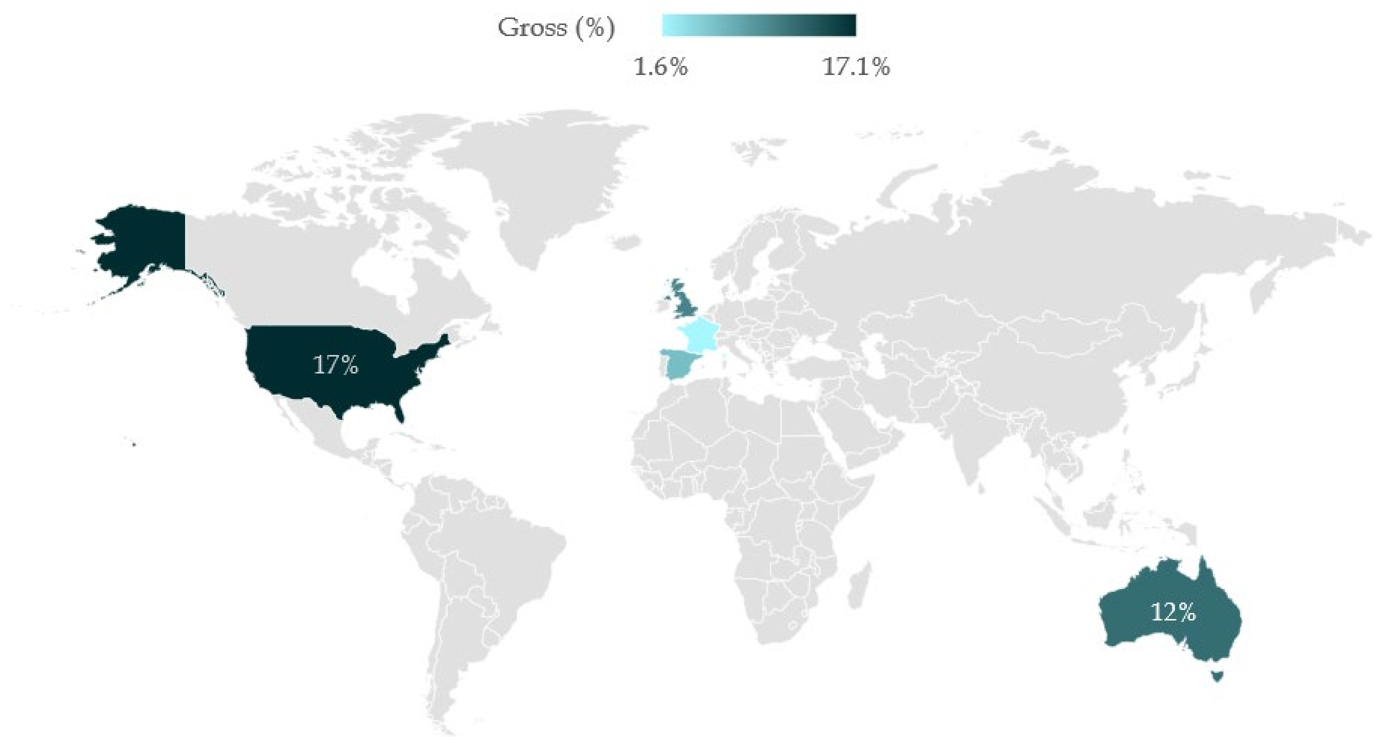
Market Cap Mix



Exposure by Sector



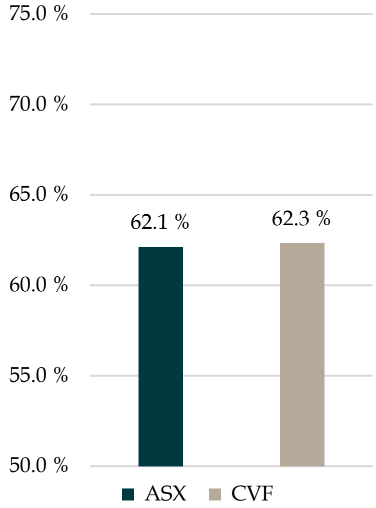
Equities Exposure by Country



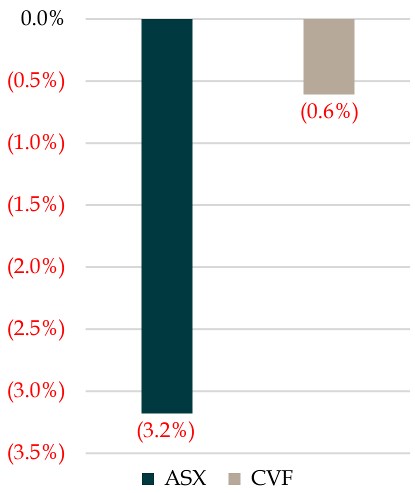
Country	Long	Hedge	Gross	Net
Australia	12.1%	-	12.1%	12.1%
United States of America	17.1%	-	17.1%	17.1%
Singapore	1.8%	-	1.8%	1.8%
United Kingdom	10.5%	-	10.5%	10.5%
France	1.6%		1.6%	1.6%
Spain	5.9%	-	5.9%	5.9%
Total	**49.1%**	**-**	**49.1%**	**49.1%**

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

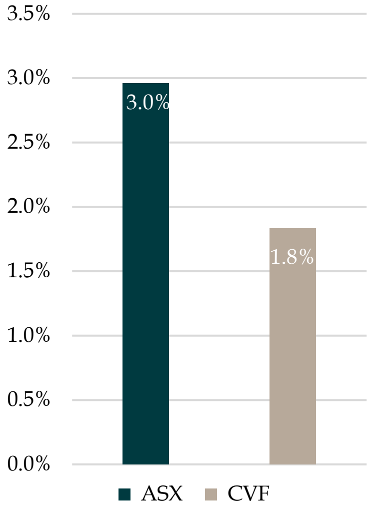
Incidence of Up Months



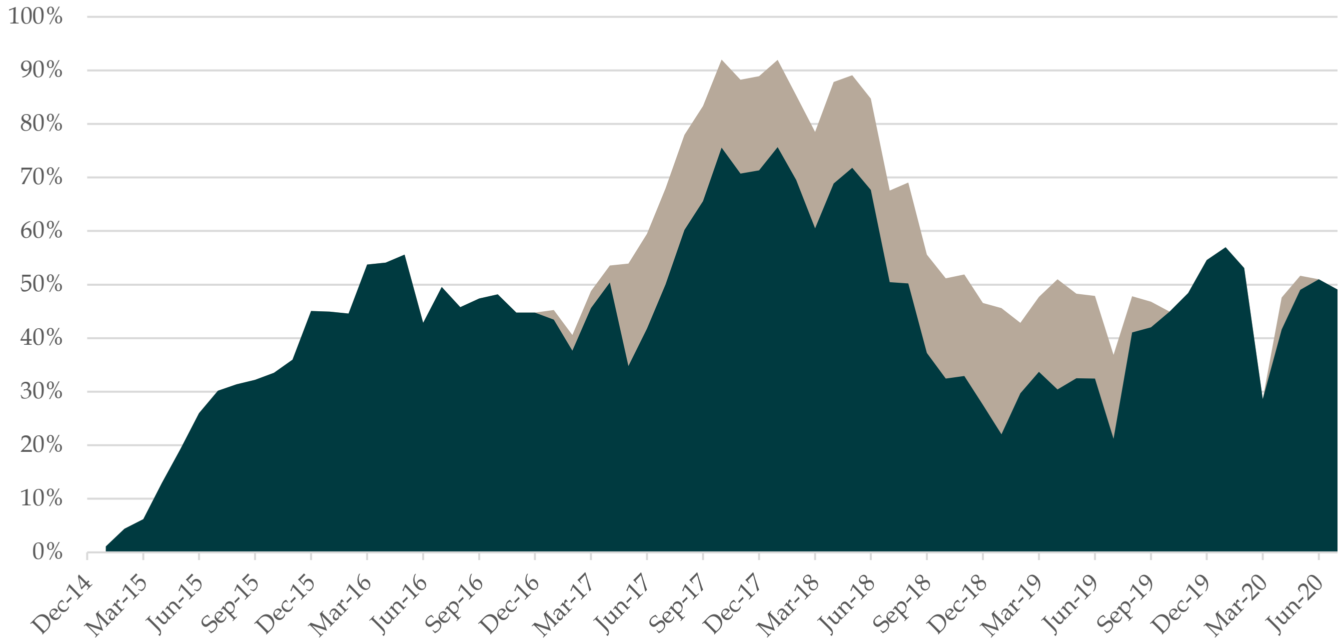
Downside Participation
19.1%



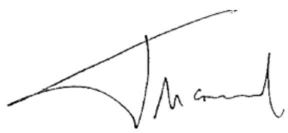
Upside Participation
+62%



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



On behalf of the Board of Contrarian Value Fund Limited,



Tom McDonald

Company Secretary

Important Information and Disclaimer

While all reasonable care has been taken in the preparation of this monthly update, neither Contrarian Value Fund Limited ("Fund") nor ACVF Management Pty Ltd ("Fund Manager") is responsible for any errors nor misstatements. To the full extent permitted by law, no representation or warranty is made, and any and all liability is disclaimed, in relation to the accuracy or completeness of any statement, opinion, forecast or information contained in this monthly update.

This monthly update has been prepared for the purposes of providing general information only and does not constitute an offer, solicitation or recommendation with respect to the purchase or sale of any securities in the Fund or in which the Fund has invested, nor does it constitute financial product or investment advice, nor take into account your investment objectives, financial situation or needs.

Past performance is not indicative of future performance. Returns can be volatile. Potential investors should seek independent advice as to the suitability of a particular investment to their investment need.