ARNOTT OPPORTUNITIES TRUST FACTSHEET
FEBRUARY 2023

ARNOTT CAPITAL EST. 1999

COMMENTARY

The fund returned negative 2.34% for the month of February 2023. Net exposure averaged 39% long, while gross averaged 116%. This brings our calendar year return to negative 2.62%, financial year return to negative 3.43% and since inception return to positive 21.13% p.a. net of fees.

The primary detractors from fund performance over the month of February were our long positions in Gold, Chinese equities and Star Entertainment. We go through these in more detail below (not only to rub our faces in our mistakes) but to provide the information that we want to know as investors.

Gold (-0.8%), as we wrote in our most recent annual investor letter, is included in the portfolio as a call option for moments in time when market participants question the hyper financialisaton of the current financial system and seek an unlevered form of collateral. It is in these moments of time gold shines – as seen through March 2023. Given this Gold will be in the portfolio for the foreseeable future with weights likely ranging from 0% - 15% as it is our core belief that spot fires will continue to emerge in the global financial system. With the knee jerk response of central banks to throw liquidity at the problem, relying on short positions in global equity indexes will unlikely prove to be a reliable hedge against this. As with Uranium we cannot reliably predict the timing of when this position will pay off but over a rolling three-year period we are of the belief it will be a material positive contributor to fund performance.

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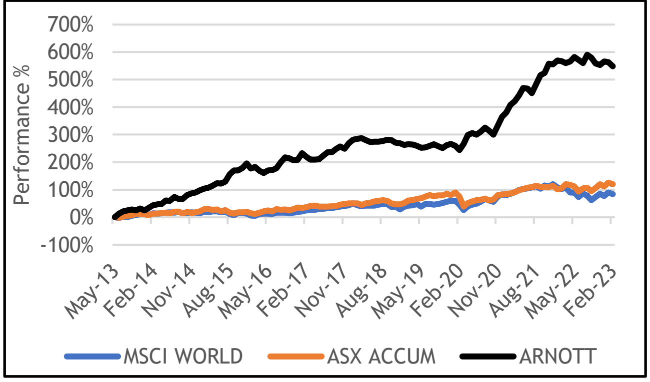
PERFORMANCE METRICS

	From May 2013	
	Arnott	MSCI
Annualised returns	21.13%	6.48%
% Positive months	62.39%	62.39%
Average monthly return	1.68%	0.62%
Avg return in MSCI up months	1.50%	3.16%
Avg return in MSCI down months	1.98%	-3.60%
Best month	13.07%	12.66%
Worst month	-6.09%	-13.47%
Largest drawdown	-11.61%	-26.39%
Longest drawdown (mths)	24	20
Sortino	4.12	0.62
Sharpe ratio	1.64	0.44

CORRELATION TO ASSETS (2013 to Current)

MSCI Index	0.05
US Government Bond Index	-0.00
US$ Gold	0.04
Bloomberg Commodities Index	-0.02
Hedge Fund L/S	0.02

CUMULATIVE FUND PERFORMANCE (2013-current)



MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
-2.34%	116%	39%

STRATEGY HISTORICAL PERFORMANCE (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2013						13.07	7.63	2.97	2.82	-2.69	5.23	-5.25	**25.00**
2014	7.61	6.56	2.43	0.77	8.87	-0.93	8.46	-3.78	0.34	7.78	3.24	1.92	**51.59**
2015	4.46	2.88	1.99	3.19	4.12	-0.52	3.44	11.47	5.23	0.00	3.67	5.72	**55.80**
2016	-6.09	2.14	-5.17	-2.83	3.30	0.40	2.69	7.49	6.29	-1.15	-2.34	0.48	**4.33**
2017	7.99	-4.01	-2.94	-0.34	0.43	4.08	4.21	-0.02	3.37	2.79	-2.32	5.51	**19.58**
2018	3.47	0.88	0.72	-1.68	-1.86	0.09	0.03	0.66	1.24	-0.18	-2.61	-0.50	**0.12**
2019	-1.66	0.53	-0.30	-1.16	-1.90	0.29	1.70	1.72	-2.10	-2.04	3.20	1.05	**-0.82**
2020	-1.90	-4.03	6.32	8.76	1.82	-1.47	2.69	3.82	-2.94	-3.32	8.59	7.22	**27.23**
2021	3.26	5.69	2.74	3.93	5.03	-0.40	-2.81	5.60	5.75	1.30	5.37	-0.24	**40.90**
2022	2.07	-0.34	-1.10	0.95	2.50	-1.68	-1.61	4.48	-1.55	-3.07	-0.77	1.87	**1.50**
2023	-0.29	-2.34											**-2.62**

2013 - 2017 Data. Bondi Capital Investments Pty Ltd (managed account). Performance net of 0 & 25 fees. Currency AUD. Fund administered by Mainstream. Fund was not audited.
2018 - Current Data. Australian Unit trust. Performance net of 0 & 25 fees. Currency AUD. Fund administered by Mainstream. Fund audited by EY.

Chinese equities (-1.3%), and the Chinese economy specifically have a powerful counter cyclical narrative to the global economy. Liquidity is being provided by the People's Bank of China, savings rates are high after a prolonged period of lock downs, economic activity is forecast to move materially higher driving earnings upgrades at an individual company level and Chinese equities are under owned. Despite this extremely attractive back drop we are reducing exposure materially to the region. We are contrarian investors by nature and follow the tried-and-true philosophy *of go where the money is not, but where the money will go*. In the new world order of de-globalisation and heightened geo-political tensions we cannot develop with conviction the belief that money will go back into this region. Until such time as we can see this, we will be refraining from allocating any meaningful amount of capital to the region. We still believe that there lies a phenomenal opportunity set in other Asian markets to invest in cheap companies with economic tailwinds and most importantly are not facing a persistent geopolitical headwind.

Star Entertainment (-1.2%), was an error. Our view was the deep discount to net tangible asset backing provided an anchor to the share price and the multiple headwinds facing the company were more than reflected in the current share price. What we failed to fully appreciate in this specific situation was the power of reflexivity. Investors' perceptions forced the share price to a level we did not foresee as possible. In the current market environment (and the environment we believe will persist for the foreseeable future) we acknowledge we need to make a tweak to our process. In the prior market cycle (2010 – 2021) we had felt the need to move quickly on these deeply discounted opportunities as capital would rush into them. In this market cycle, **we have time** and will be acting as such.

Whilst we abide by the philosophy *that you do not need to make the money back the same way you lost it,* we still hold a material position in Star Entertainment and are extremely encouraged by the prospective returns this security will bring for the portfolio in the period ahead.

Portfolio Construction in the period of heightened volatility

Our assessment of the current investing environment in public markets has led us to the conclusion that higher volatility and frequent bouts of market stress are here to stay.

For a dynamic active manager such as us, the change in market environment is welcomed, but the key is that we have to adjust. Our prescription for this changing market dynamic is to run the strategy *lighter and tighter*. Put simply volatility adjusted gross exposure will be lower, a stoic level of patience will be required for entering new positions and themes, and portfolio positions and themes which have extreme price appreciation (for longs) and price declines (for shorts) will be taken off unemotionally, as we have seen price trends showing little persistence in this current market regime.

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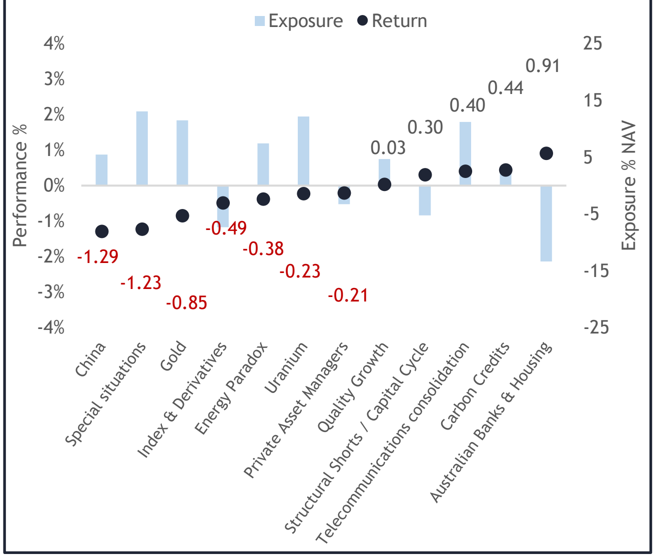
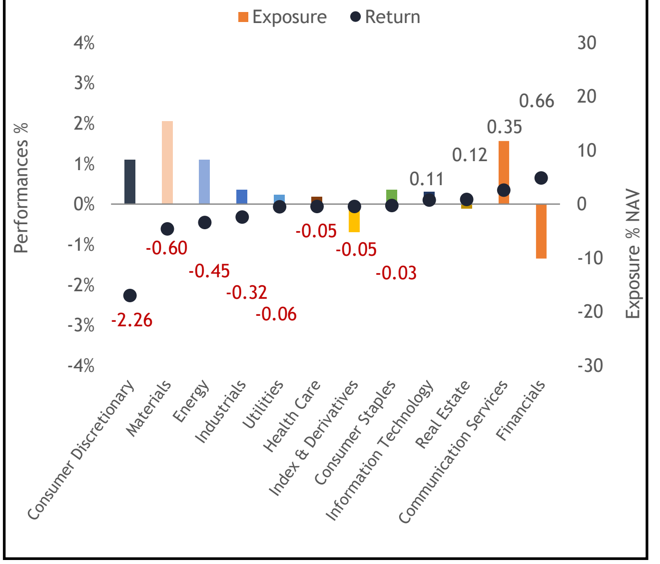
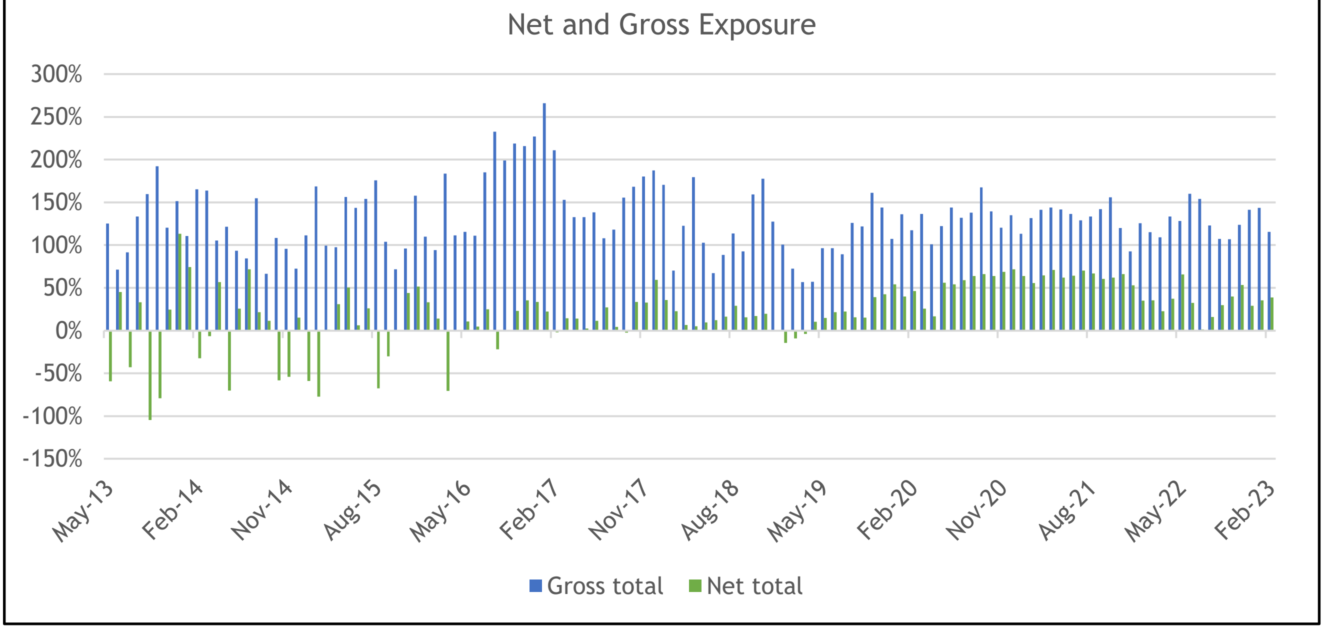
THEME RETURN & EXPOSURE



SECTOR RETURN & EXPOSURE



NET AND GROSS HISTORICAL EXPOSURE



INVESTMENT STRATEGY

The Fund adopts an absolute return strategy, focusing on thematic investment opportunities with an equity bias. We seek to achieve the investment objective through our asymmetric investment approach which includes:

1. Finding what we perceive to be good quality investments based on our analysis; and
2. Not losing money in the pursuit of realising these investments.

We strive to achieve asymmetric returns though a thematic investment process. This has four pillars.

1. Find asymmetric themes;
2. Invest in the best ideas within those themes;
3. Focus on macro drivers for risk & opportunities; and
4. Generate an asymmetric return profile.

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FUND INFORMATION

BASE CURRENCY	AUD	ARNOTT CAPITAL PTY LTD	AFSL License 233743 ABN 23086081889
STRATEGY INCEPTION	1999	CIO KENNY ARNOTT	kma@arnott.com.au
MINIMUM SUBSCRIPTIONS	AUD $100,000	CONTACT DETAILS	investor@arnott.com.au
WITHDRAWALS	Monthly	PRIME BROKER	Morgan Stanley International PLC J.P. Morgan Securities PLC
PERFORMANCE FEE	20%	FUND ADMINISTRATOR	Apex Group Ltd.
MANAGEMENT FEE	1.5%	FUND AUDITOR	Ernst and Young
SUBSCRIPTIONS	Monthly	LEGAL ADVISORS	Ernst and Young

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