

## COMMENTARY

The fund returned positive 1.03% for the month of August 2023. Net exposure averaged 40% long, while gross averaged 102%. This brings our calendar year return to positive 1.86% and since inception return to positive 20.81% p.a. net of fees.

Key positive contributors to fund performance was our long thematic position in Uranium, a long position in UBS Group AG and short positions in Korean electric vehicle supply chain names. Key detractors from fund performance consisted of all long themes, falling broadly in line with risk assets over the month.

Inspired by Howard Marks latest memo, [Fewer Losers or More Winners](#), we felt it necessary to expound upon what we see as the daily dilemma we all face as portfolio managers and custodians of capital.

How do you generate the best risk adjusted returns? Which at its core is the battle between the dual personalities - the Opportunist and the Risk Manager.

In isolation, should one or the other be in charge, it is simple. The Opportunist is solving for profit and therefore, all their decisions are centred around maximising this outcome by deploying capital into every good idea, irrespective of the drawdown risk.

The Risk Manager is solving for risk minimisation. Well, the easiest way to solve for that problem is to take no risk.

It is between these two personalities, the Opportunist, and the Risk Manager, where we spend our waking hours. How do we construct the portfolio with enough good ideas to ensure that we generate reasonable returns and risk manage those ideas, so that us and our fellow investors do not endure a material drawdown?

## PERFORMANCE METRICS

From May 2013

Annualised returns	20.81%
% Positive months	65.04%
Average monthly return	1.65%
Average return in MSCI up months	1.53%
Average return in MSCI down months	1.86%
Best month	13.07%
Worst month	-6.09%
Largest drawdown	-11.61%
Longest drawdown (mths)	24
Sortino	3.83
Sharpe ratio	1.63

## THEME RETURN & EXPOSURE (AUGUST 2023)



## CORRELATION TO ASSETS

Global Equity Markets	0.05
US\$ Gold	0.03
Bloomberg Commodities Index	-0.02
Hedge Fund L/S	0.02

## MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
1.03%	102%	40%

## 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	-1.33	0.20	-0.21	-0.95	-1.87	0.50	1.75	1.53	-1.91	-2.00	3.28	1.12	-0.04
2020	-2.03	-5.10	7.77	7.95	1.60	-1.31	3.22	4.56	-3.56	-3.90	9.33	8.24	28.38
2021	3.43	5.63	2.80	4.05	5.19	-0.48	-2.74	5.37	5.86	1.87	4.51	0.22	41.60
2022	1.61	0.17	-0.73	0.32	2.65	-1.85	-0.96	3.75	-1.79	-2.93	-0.48	2.21	1.75
2023	0.26	-2.97	-0.12	-0.77	0.99	2.39	1.12	1.03					1.86

Past performance is not necessarily an indicator of future performance.

2013 - 2017 Data. Bondi Capital Investments Pty Ltd (managed account). Performance net of 0 & 25 fees. Currency AUD. Fund administered by Apex. Fund was not audited.

2018 - 2019 Data. Australian Unit trust. Performance net of 0 & 25 fees. Currency AUD. Fund administered by Apex. Fund audited by EY.

2019 - Current Data. Arnott Opportunities Fund (Cayman). Performance net of 0 & 25 fees. Currency USD. Fund administered by Apex. Fund audited by EY.

Above data and fees apply to the Arnott Opportunities (Cayman) Fund - Main Class (Founder Class). Other classes will be subjected to different fees. For a copy of the Offering Memorandum, please contact investor relations at [investor@arnott.com.au](mailto:investor@arnott.com.au).

Unsurprisingly, we are yet to find the holy grail.

After 20 plus years of the Arnott Opportunities Strategy, the way we have sought to find equilibrium between the Risk Manager and Opportunist is to break the markets down into multiple layers.

At the top is global macroeconomic data and risks. Here, the Risk Manager spends most of their time searching for risks that are not priced. This often produces no upside profit, but more often than not keeps us out of trouble and assists us in managing entry, exit and adjustments of positions and themes in the portfolio. Asymmetric Investing has two basic attributes. Low drawdowns and reasonable returns. Our goal in following macro trends is not to be surprised by nasty events. That is how we have delivered returns with low drawdowns.

Below this top market layer is where the opportunist hunts for ideas. This is where we find our themes. One of the newest themes in the portfolio is Critical Minerals. This theme represents how we grapple with wanting to put ideas in the portfolio, whilst simultaneously holding concerns about the macroeconomic environment. Our thesis is centred on a looming supply deficit in metals and minerals critical for the energy transition. Metals and minerals, such as copper, have had a drought of capital investment in the preceding years, as miners prioritised shareholder returns over development of new and existing assets. The result - limited new mine supply for a metal which is critical for electrifying our lives and worse yet, declining supply from existing assets. The astounding fact about this theme, is copper is not the only element on the periodic table with these same characteristics of decades of underinvestment, essential in the functioning of the global economy and booming demand ahead from the energy transition.

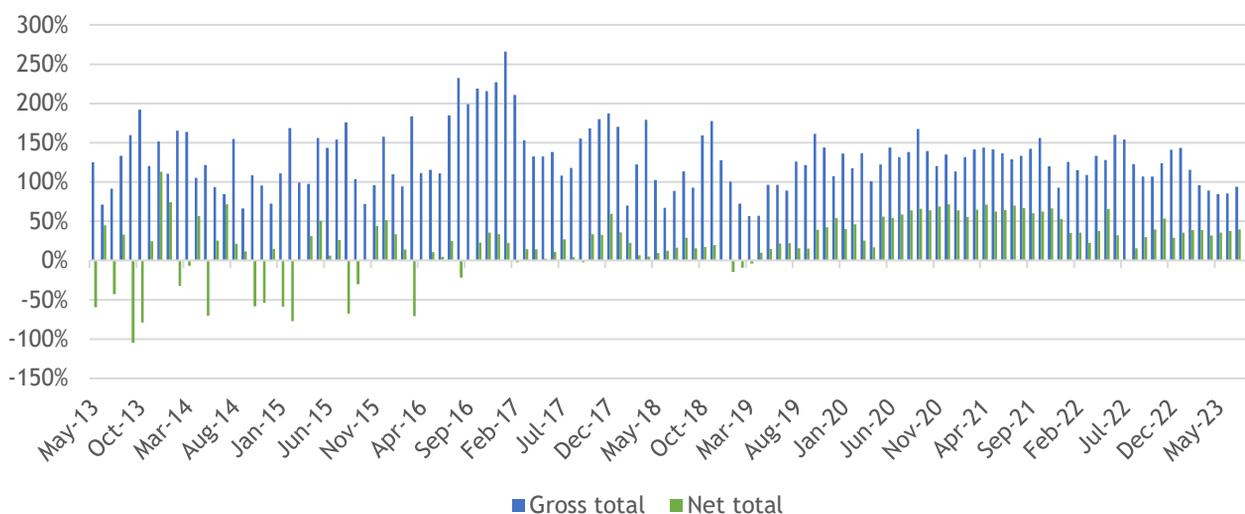
So, why have we only entered this theme now?

Since late 2021, we have been concerned about the dual headwinds of a global economy exiting a zero-interest rate world and the Chinese economy transitioning away from one led by investment to consumption. As we approach the end of 2023, these concerns are still valid, however known and largely priced by the market in the underlying equities. What we think is increasingly not priced by equity markets (and thus why we are starting to invest in this theme from the long side), is the sheer quantum of spending Governments are pouring into the energy transition via acts such as the Inflation Reduction Act ('IRA'), which is buoying demand for metals and minerals traditionally linked to the economic cycle. The large unknown, the direction of the Chinese economy is still unclear. However, with globally integrated producers such as Glencore PLC trading on double digit free cash flow yields, it is our view that equity prices are already discounting a prolonged dire economic outcome for the Chinese economy and are therefore providing enough of a margin of safety for us to commence investing in a broad basket of securities leveraged to this theme.

As Howard Marks says it is not about risk avoidance, but **risk control**.

NET AND GROSS HISTORICAL EXPOSURE

Net and Gross 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 through 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.

FUND INFORMATION

BASE CURRENCY	USD	ARNOTT CAPITAL PTY LTD	AFSL License 233743 ABN 23086081889
STRATEGY INCEPTION	1999	CONTACT DETAILS	<a href="mailto:investor@arnott.com.au">investor@arnott.com.au</a>
MINIMUM SUBSCRIPTIONS	USD \$100,000	WITHDRAWALS	Monthly
FUND ADMINISTRATOR	Apex Group Ltd.	PRIME BROKER	Morgan Stanley International PLC J.P. Morgan Securities PLC
LEGAL ADVISORS	Ernst and Young	FUND AUDITOR	Ernst and Young
FEE STRUCTURE	<b>Management Fee</b>	<b>Performance Fee</b>	<b>Subscriptions</b>
* Class A (Founder Class)	0%	25%	Closed to new investors
Class C	1.5%	20%	Monthly

\* All data displayed in this document is Founder Class data. Other classes will be subjected to different fees. For a copy of the Offering Memorandum, please contact investor relations at [investor@arnott.com.au](mailto:investor@arnott.com.au).

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