

COMMENTARY

The fund returned positive 0.99% for the month of May 2023. Net exposure averaged 35% long, while gross averaged 85%. This brings our calendar year return to negative 2.62% and since inception return to positive 20.84% p.a. net of fees.

An example of how we find themes:

We think of economies and markets in three broad layers. At the highest layer, is high level macro data. We primarily study this level of data and trends for risk management, not for alpha creation. The middle layer is where we find investment themes. The lowest layer is individual stock analysis. This is how we execute our investment themes.

The current macro environment is dominated by two narratives. Traditional economists, using their toolkit of traditional indicators, are predicting a recession in the US. Two indicators that come to mind are the yield curve and the senior loan officers survey. And yet the market seems to be ignoring these predictions. So, that begs the question of who is correct?

In answering this question, we remind ourselves that our job is to determine whether we have a variant perception to what the current market is pricing - because that is what an asymmetric investment opportunity is. In considering this, we have thought about what is different in this cycle to past cycles. There is an obvious difference. The US household has been handed a huge amount of stimulus directly into their bank accounts. And so, they have entered what may be a tougher period with a huge amount of excess savings. It is possible that this factor is causing a lag on how the consumer will react to tighter financial conditions.

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PERFORMANCE METRICS

From May 2013

Annualised returns	20.84%
% Positive months	63.33%
Average monthly return	1.66%
Average return in MSCI up months	1.53%
Average return in MSCI down months	1.87%
Best month	13.07%
Worst month	-6.09%
Largest drawdown	-11.61%
Longest drawdown (mths)	24
Sortino	3.82
Sharpe ratio	1.61

THEME RETURN & EXPOSURE (MAY 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
0.99%	85%	35%

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								-2.62

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.

This leads us to a potential thematic idea. Will the US and global consumer in the developed markets change their spending habits as they run out of excess savings? Currently we are seeing early signs of slowing consumer spending facing most developed economies, as the lagged impact of interest rate rises, and surging cost of living begin to hit household budgets. This is coming at the same time as consumers are rapidly burning through excess savings built up over 2020 and 2021. We will monitor the consumer behaviour for a potential investment opportunity on the short side.

“Data is the New Oil” theme:

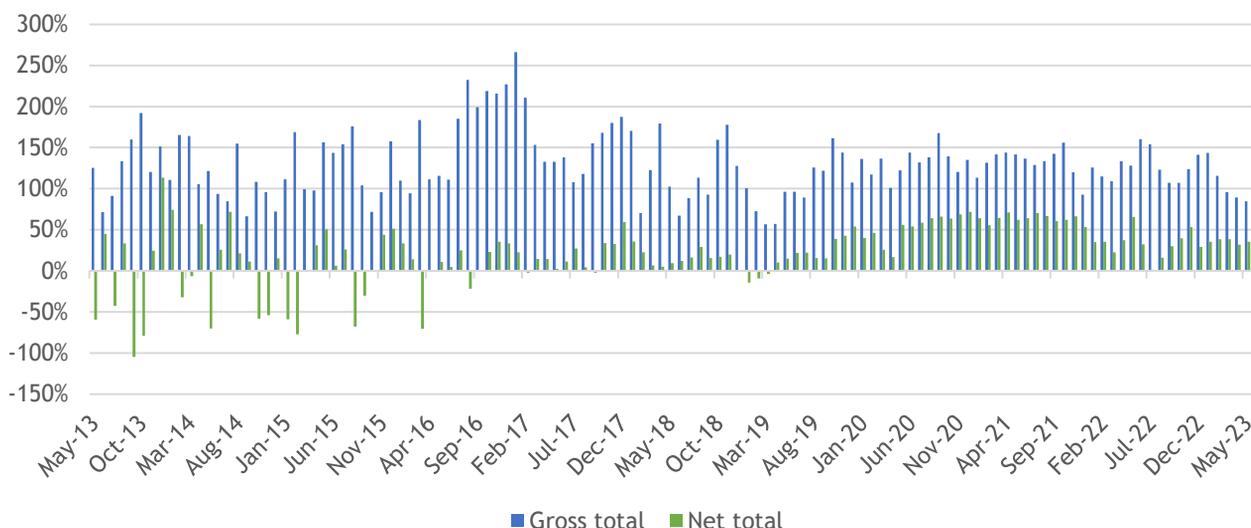
During the month the largest thematic contributor to fund performance (+75bps) was a recent addition to the portfolio, *Data is the New Oil*. It is clear to us that the demand for data will continue to grow exponentially and with demand growth in data, so too the required computing power, taking the large volume of unstructured data created every day and processing this into something that is usable. This explosion in data use and compute power will see a wide variety of winners from productivity gains, the growth of existing industries and the creation of whole new industries.

Currently we are expressing this theme via positions in South Korean memory and semiconductor equipment names based in Asia, which we see as the picks and shovels in the Artificial Intelligence (‘AI’) arms race. These companies are recovering from one of the deepest earnings downgrade cycles seen for the industry, as the demand for semiconductors collapsed through 2022 resulting in valuations trading below historical averages and an overly dire outlook for the sector as suppliers continue to work through excess inventory levels.

Looking to the future, we believe we are at the beginning of a period of extreme growth for these companies with the catalyst being the surge in demand for computing power that AI is already creating.

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	investor@arnott.com.au
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	Management Fee	Performance Fee	Subscriptions
* 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.

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