

## COMMENTARY

The fund returned positive 1.87% for the month of October 2021. Net exposure averaged 62% long, while Gross averaged 156%. This brings our Calendar Year return to positive 35.19% and since inception (2013) return to positive 24.67% p.a. net of fees.

### DECARBONISATION

Our decarbonisation exposure returned positive 1.83% for the month. Of this, our Voluntary Carbon Credit exposure contributed 1.68%. Given this is an emerging theme that we expect to be invested in for many years to come, we thought it would be useful to review our overarching thesis.

Our planet is warming, primarily in response to increased levels of carbon dioxide ('CO2') and other greenhouse gases in the atmosphere, which change the climate in numerous ways, colloquially referred to as 'climate change'. The movement to mitigate climate change is accelerating at a frightening pace as more Governments, corporations and institutions join the pledge of net zero carbon emissions by 2050 and are targeting significant reductions in carbon emissions by 2030. The task of net zero by 2050 is arguably the most monumental challenge we have ever faced.

Presently, the world emits around 51 billion tonnes of CO2 per annum. Since fossil fuels were first burnt in the mid-19th century this has been an externality which has not been priced. As the collective 'we' transition towards net zero, pricing these emissions is key to achieving our transition to a net zero carbon emission world. It appears the momentum towards net zero is now irreversible and so too the active pricing of CO2 emissions in society. **This creates an amazing set of investment opportunities.**

(Continued on next page)

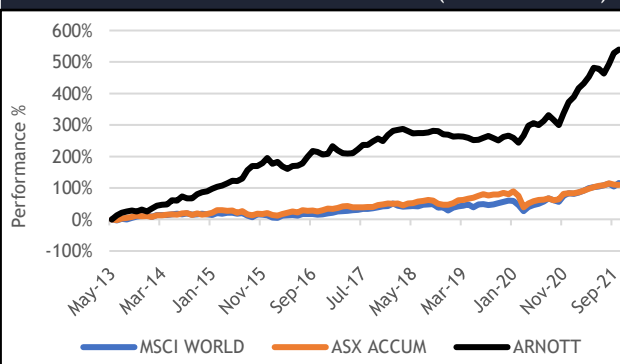
## PERFORMANCE METRICS

	From May 2013	
	Arnott	MSCI
Annualised returns	24.67%	9.56%
% Positive months	66.34%	66.34%
Average monthly return	1.93%	0.84%
Avg return in MSCI up months	1.79%	2.91%
Avg return in MSCI down months	2.20%	-3.24%
Best month	13.07%	12.66%
Worst month	-6.09%	-13.47%
Largest drawdown	-11.61%	-21.44%
Longest drawdown (mths)	24	20
Sortino	4.31	0.94
Sharpe ratio	1.82	0.70

## CORRELATION TO ASSETS (2013 to Current)

MSCI Index	0.05
US Government Bond Index	-0.09
US\$ Gold	0.02
Bloomberg Commodities Index	-0.03
Hedge Fund L/S	0.02

## CUMULATIVE FUND PERFORMANCE (2013-current)



## MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
1.87%	156%	62%

## 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			35.19

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

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

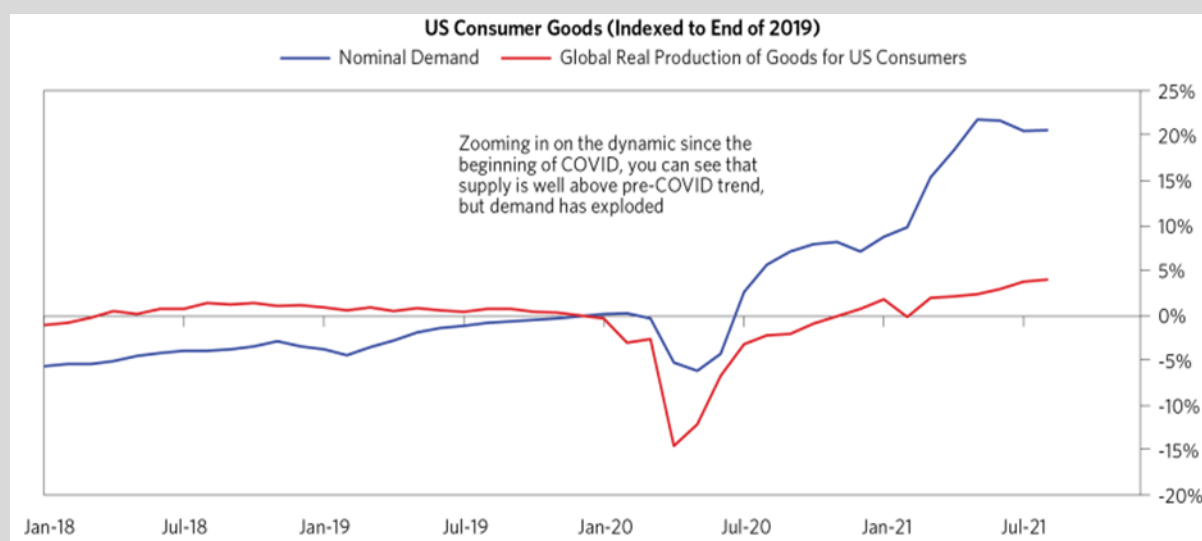
### So how are we investing within this theme?

- **Carbon credits:** the path to net zero carbon emissions by 2050 is a monumental task. In lieu of a revolutionary technology being invested within the next couple of years, carbon credits will be key in assisting consumers, companies and governments to achieve their climate objectives. Given this tidal wave of upcoming demand, we are of the belief that carbon credits on a global scale are both materially undervalued and underinvested in.
- **Picks & shovels:** in the evolution of new markets, the infrastructure providers are key beneficiaries. We are actively investing in and seeking to invest in the companies that are measuring and testing carbon emissions, developing standardisation of global carbon contracts and establishing exchanges for the trading of this new commodity. The opportunity set in front of these companies is tremendous.

This is merely the tip of the iceberg, there are many themes and investment opportunities that will be affected by price rises associated with decarbonisation.

### OUR CURRENT MACRO THOUGHTS ON THE MARKET - TOO MUCH MONEY IS CREATING TOO MUCH DEMAND

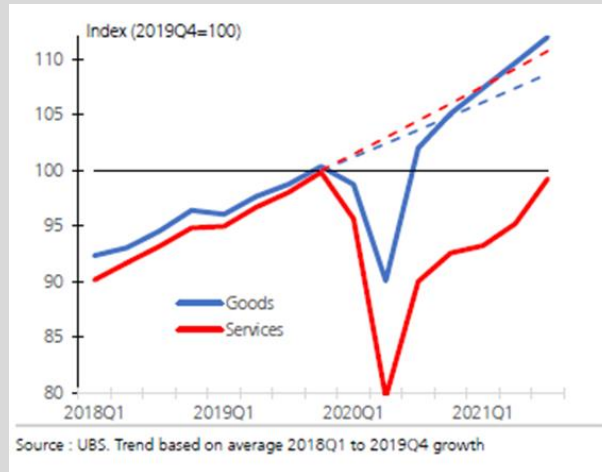
The combination of both monetary and fiscal stimulus acting today is happening in a very different environment from post GFC. In that environment, quantitative easing was offsetting deflation following the credit crunch. This time around, excluding a few specific sectors there is no credit issue. In fact, quite the opposite, most people are better off! As such the combined monetary and fiscal stimulus has handed everyone more money. That money is being spent everywhere. This is pushing up demand and pushing up prices. The Fed tells us that *“Supply and demand imbalances related to the pandemic and the reopening of the economy have contributed to sizable price increases in some sectors”*. There are some bottleneck issues in supply chains, however the real issue is that the massive amount of stimulus is creating demand for everything. In other words, the imbalance is on the demand side not the supply side. In support of this thesis, the chart below shows goods’ supply and demand. What is clear, is that goods’ supply is running on trend. On the other hand, demand of goods is running way ahead of trend.



Source - Bridgewater

(Continued on next page)

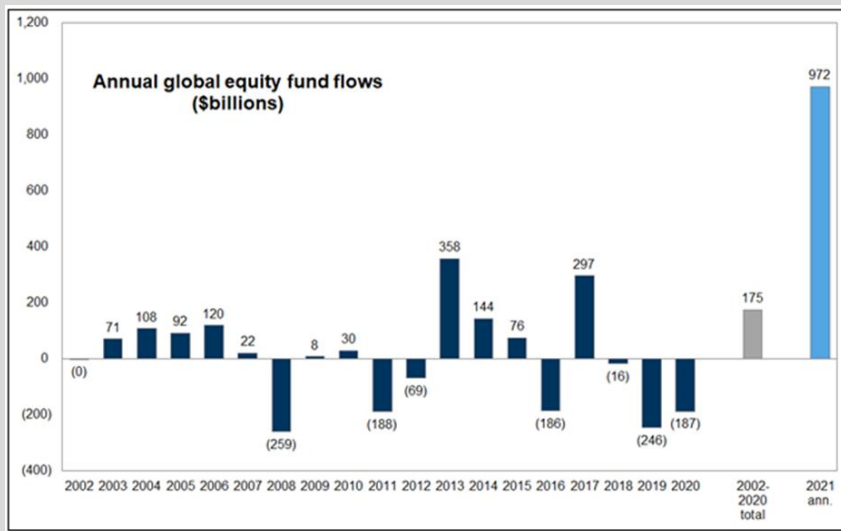
Meanwhile, services are still running behind trend due to COVID effects as per below. As the world recovers from COVID, these sectors are likely to follow the goods' demand trajectory and create more pricing pressures.



There is also excessive demand vs supply in many other areas of the economy. This is evident in raw materials, energy, manufacturing production, shipping capacity, housing, and labour. It is hard to see this demand / supply imbalance changing with the current fiscal and monetary policies in place.

*“The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.”*

While we are discussing demand, it would be remiss not to look at overall equity fund flow demand as per the chart below. The flows for 2021 to date are 5 ½ times larger than the net flows for the whole period from 2002 to 2020.



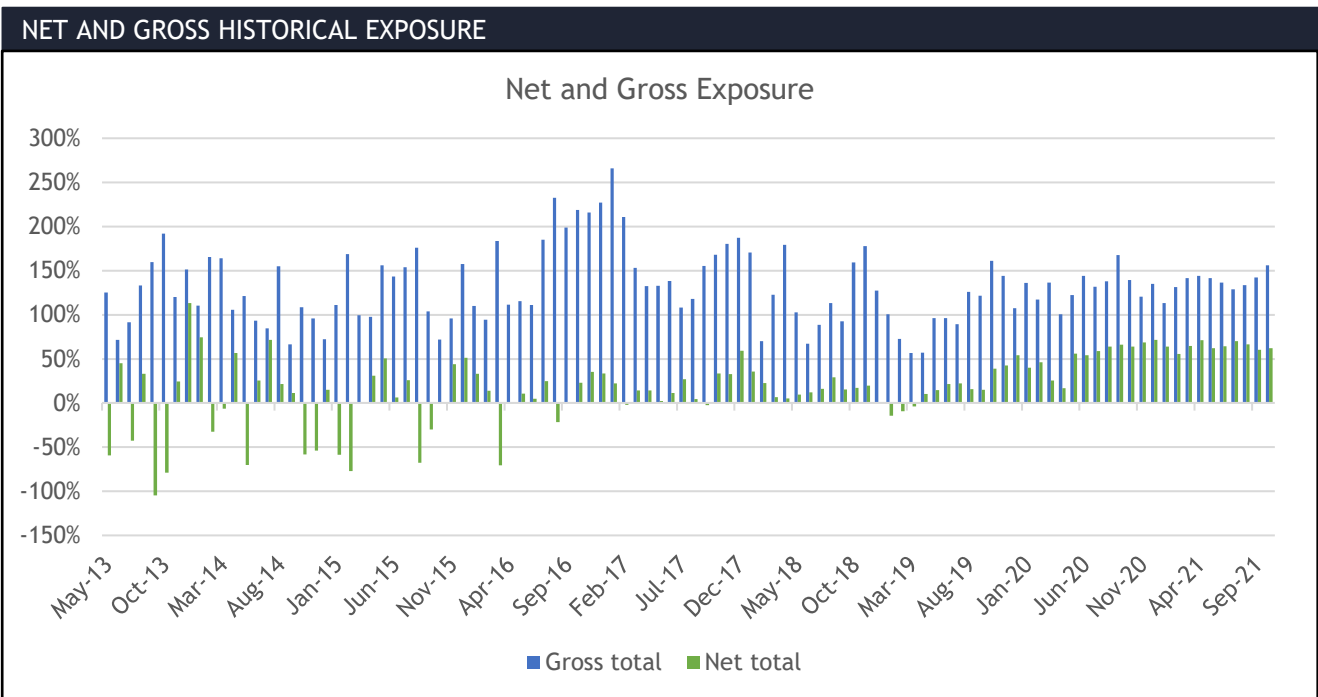
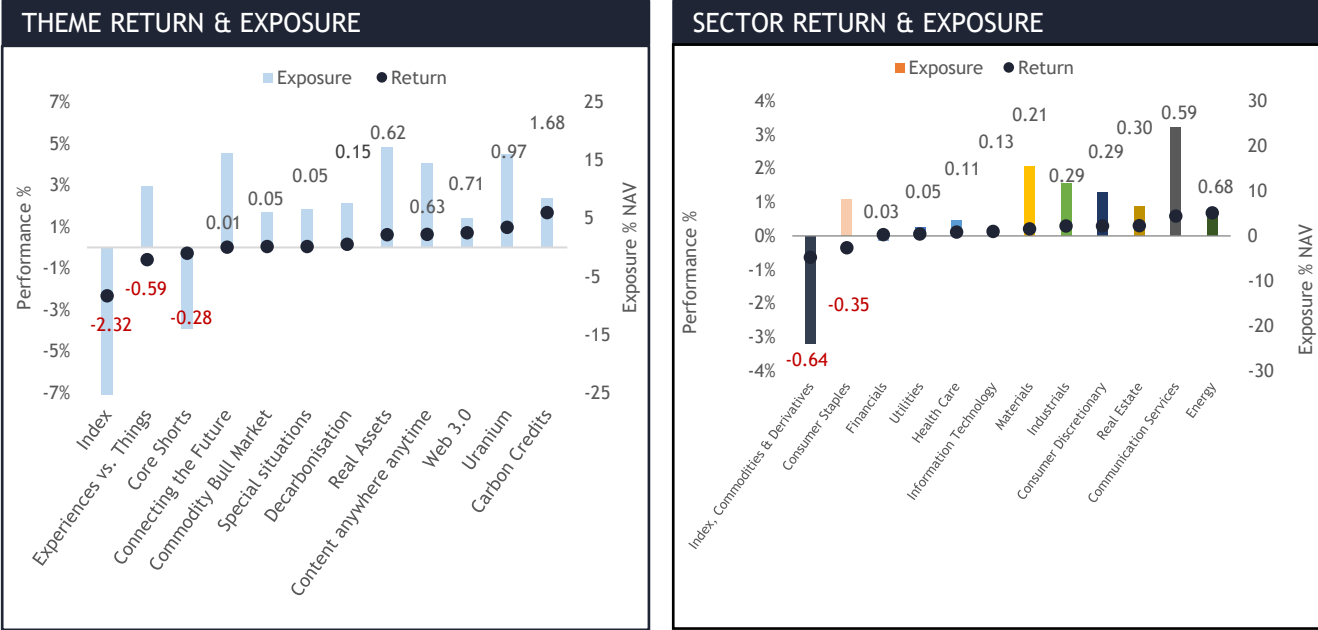
Source: Bank of America Merrill Lynch

What does all this tell us as investors? Well, while liquidity is ample, risk assets will remain bid. However, it is worth keeping an eye on this demand and price situation. If demand for everything leads to price rises which are untenable then the only tool the central banks have at their disposal to deal with the resulting inflation is to remove the very ingredient that is causing it.

As always, we will remain ever vigilant on tail risks that are low probability events but will have high impact results.

Best Regards,

Kenny Arnott and Yianni Gertos



**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	CIO KENNY ARNOTT	kma@arnott.com.au
MINIMUM SUBSCRIPTIONS	USD \$100,000	CONTACT DETAILS	<a href="mailto:investor@arnott.com.au">investor@arnott.com.au</a>
WITHDRAWALS	Monthly	PRIME BROKER	Morgan Stanley
PERFORMANCE FEE	20%	FUND ADMINISTRATOR	Apex Group Ltd.
MANAGEMENT FEE	1.5%	FUND AUDITOR	Ernst and Young
SUBSCRIPTIONS	Monthly	LEGAL ADVISORS	Ernst and Young

### Disclaimer

This document is given to only wholesale clients (as defined in the Corporations Act 2001 (Cth)) by representatives of Arnott Capital Pty Limited (AFS Licence Number 233743) (Arnott). By viewing this document, you are representing that you are a wholesale client and agree to keep this document confidential. This document is directed at persons who are sophisticated investors with sufficient professional or other experience to properly assess the nature of the matter discussed herein. This document has been prepared for general information purposes only without taking into account any potential investors' personal objectives, financial situation or needs. It should not be relied upon by the recipient in making an investment decision. This document is intended to provide a general outline only and is not intended to be a definitive statement on the subject matter. The document is not intended to be relied upon by recipients given the contingent nature of the content matter.

Forward-looking information in this document is provided as a general guide only and should not be relied upon as an indication of the future performance of any financial products (including the Arnott funds). No representation is made as to future performance or volatility of the financial products. Persons should rely solely upon their own investigations in respect of the subject matter discussed in this document. Past performance information given in this document is given for illustrative purposes only and should not be relied upon as (and is not) an indication of future performance.

No representations or warranties, express or implied, are made as to the accuracy or completeness of the information, opinions and conclusions contained in this document. In preparing these materials, Arnott has relied upon and assumed, without independent verification, the accuracy and completeness of all information available to Arnott. To the maximum extent permitted by law, neither Arnott nor its director, employees or agents accept any liability for any loss arising in relation to this document. The offer of interests in the Arnott funds will only be made in the offering document for the respective fund.

### Hong Kong

This document has not been reviewed or approved by any regulatory authority in Hong Kong. This document does not constitute an offer or invitation to the public in Hong Kong to acquire the units in the Fund. Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or have in its possession for the purposes of issue, this document or any advertisement, invitation or document relating to the units in the Fund, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong other than in relation to the units of the Fund that are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" (as such term is defined in the Securities and Futures Ordinance of Hong Kong (Cap. 571) and the subsidiary legislation made thereunder).

### Singapore

This document is being furnished to you on the basis that you are an "institutional investor" (as defined in the Securities and Futures Act (Chapter 289) of Singapore) and on a confidential basis, solely for your information. This document may not be reproduced, disclosed, or distributed to any other person in Singapore. Arnott, as the responsible entity and manager for the Fund has not taken any steps to ensure that the capital markets products referred to in this document are suitable for any particular investor, and will not treat recipients as its customers by virtue of their receiving this document. This document has not been, and will not be, registered as a prospectus with the Monetary Authority of Singapore and this document is not intended to constitute an offering, and is not regulated by any financial supervisory authority pursuant to any legislation in Singapore. The investments or services referred to in this document may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this document constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

### **United Kingdom**

This document may be distributed in the United Kingdom only to persons who: (i) have professional experience in matters relating to investments in accordance with Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (“FPO”); or (ii) to whom this document may otherwise be lawfully distributed (all such persons together being referred to as “Relevant Persons”). This document is only directed at, or available to, Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this document relates is available only to, and will be engaged in only with, Relevant Persons.

### **United States**

This document may not be distributed in the United States and does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this document have not been, and will not be, registered under the US Securities Act of 1933 and may not be offered or sold in the United States except in transactions exempt from the registration of the US Securities Act, the US Investment Company Act of 1940 and applicable US state securities laws.