2026 Interim Investor Letter

For Professional and Wholesale Investors Only.

ARNOTT CAPITAL
EST. 1999

Dear Fellow Investors,

Welcome to the 2026 Interim Investor Letter for the Arnott Opportunities Strategy[1] (the 'Strategy'). For the six months ending 30 June 2026, the Strategy generated a net return of 0.04%.[2] The Strategy's net average monthly exposure was 32% net long over the prior six months and the total average gross exposure was 149%.

This letter covers three key areas:

1. An update on performance;
2. Our current macroeconomic outlook; and
3. Some of the key emerging themes and ideas in the portfolio.

As always, we are sincerely grateful for the opportunity to manage your capital alongside our own. In that spirit, we aim to write these letters with candour, addressing the kinds of questions we would want answered if we were in your shoes. While we can't anticipate every query, we welcome your feedback and any additional questions you might have about the Strategy or the topics covered in this letter.

Please don't hesitate to reach out to us at investor@arnott.com.au

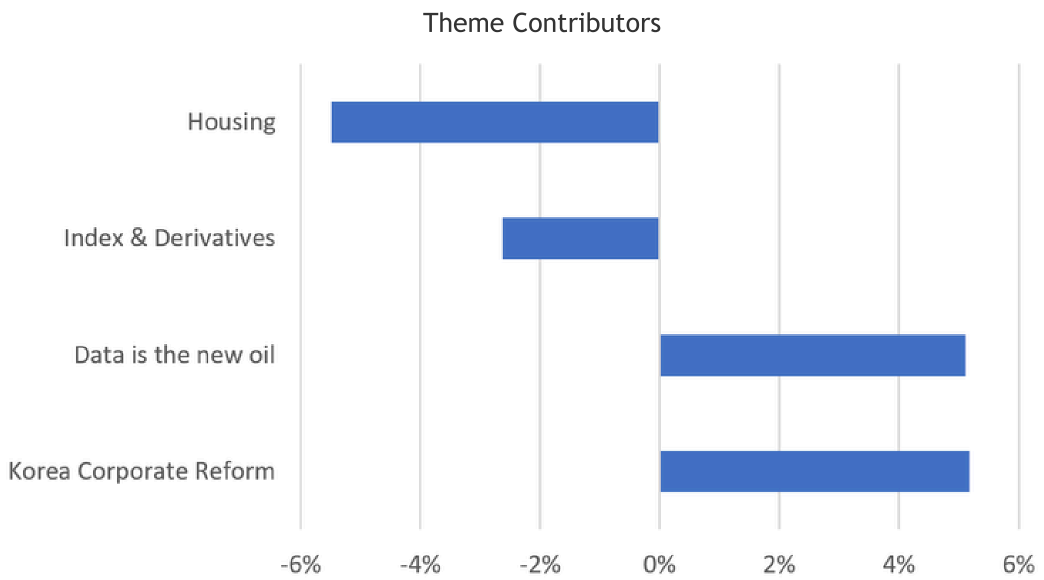
1. Unless otherwise stated, performance and fees referred to in this document relates to the Arnott Opportunities (Cayman) Fund (Founder Class) only. Other classes will be subject to different fees. Investors in Class D of the Arnott Opportunities Trust should refer to the Arnott Opportunities Trust monthly performance reports for the applicable performance and fee amounts. Strategy – refers to the period from 2013 – 2017 for Bondi Capital Investments Pty Ltd ('Managed Account'), and 2019 – current is for the Founder Class which is closed to new investors. New wholesale investors can invest into the Arnott Opportunities (Cayman) Fund – Class C. The Managed Account was externally administered by Apex, but not externally audited. The Cayman Fund is audited by EY. Performance for the whole reported period is reported net of all fees. The currency is USD. For a copy of the Information Memorandum, please contact investor relations at investor@arnott.com.au.

2. Past performance is not an indicator of future performance.

1. Performance Summary and Lessons Learnt

Discussed below are the themes that contributed or detracted more than 200 basis points (bps) during the six months ended 30 June 2026.

Figure 1. Arnott Opportunities Strategy - Key Thematic Contributors and Detractors for 6 months to 30 June 2026



Source: Arnott Capital

Data is the New Oil (+511 bps) and Korean Corporate Reform (+518 bps)

While stemming from distinct investment theses, both themes were major contributors to performance over the period. They are discussed together as Samsung Electronics and SK Hynix were the primary drivers of return across both themes. Both holdings capitalised on the same immediate earnings catalyst – an abrupt tightening in AI memory supply. However, Data is the New Oil targeted direct beneficiaries of rising memory demand, whereas Korean Corporate Reform focused on holding companies where earnings momentum was compounded by discounts to net asset value (NAV) and governance tailwinds. From a portfolio construction perspective, however, these positions were treated as one correlated risk cluster.

Over the past 12 months, AI models have evolved from increasingly capable chatbots to agents capable of performing complex, multi-step tasks. As consumption shifts from queries towards tasks, the memory required for inference has substantially increased.

As with any commodity market, when supply is limited and demand explodes, the release valve is higher prices. Samsung Electronics and SK Hynix are forecast to generate a combined US$360 billion in net profit through 2026. Putting it in perspective, this exceeds the combined 2026 net profit forecasts for Amazon, Apple, Meta and Tesla. The significance of this forecast has not only benefited these companies' share prices but also helped the broader Korean stock market narrow the underlying discounts to underlying NAV for some companies held within the Korean Corporate Reform theme.

Both themes are now positioned for the next phase of their respective trades.

Within Korean Corporate Reform, positions have been exited where the holding companies and affiliated entities returns were primarily linked to SK Hynix and Samsung Electronics, with some closing of their underlying discounts to NAV. Capital has been reallocated towards companies the Arnott Capital team believes will benefit more directly from tighter governance standards, exchange led reform and the broader domestic spillover from rising memory profits.

Within Data is the New Oil, memory exposure positions have been reduced and capital has been shifted towards underappreciated beneficiaries of AI adoption and businesses with durable exposure to rising token demand.

Housing (-549 bps)

This theme was a material detractor during the first half of 2026, with exposure principally concentrated in UK homebuilders. Following the outbreak of war in the Middle East, rising energy prices, sharply higher interest rate expectations, and a weakening economic backdrop drove the group approximately 30% lower.

Arnott Capital acknowledges the timing of the recovery was misjudged. Over the course of just 20 calendar days, UK interest rate markets moved from pricing two Bank of England rate cuts by year end to 3.5 rate hikes, a 137 bps repricing. This simultaneously weakened mortgage affordability, increased build cost pressures and placed further pressure on house prices and new home volumes. The Arnott Capital team needed to evaluate whether this shock permanently impaired the thesis or merely delayed it. At present, the team believes it is the latter. The recovery has been pushed to the right, and the pathway is less certain, although the UK housing market remains structurally undersupplied.

Following the sell-off, the homebuilders are trading at approximately 0.65 times book value, compared with midcycle valuations closer to 1.5 times. In Arnott Capital's view, those prices discount a prolonged period of weak volumes and elevated costs, while providing meaningful upside should energy risk premia normalise and interest rate expectations stabilise. The original basket has not been simply held unchanged. The exposure was reshaped to maximise exposure for the next upswing. The near term risks remain real, but the combination of depressed valuations, structural undersupply and meaningful earnings sensitivity to a future recovery continues to offer an attractive asymmetric payoff.

The thesis would be regarded as broken and not delayed if consumer credit conditions deteriorated materially, government policy shifted to a restrictive stance on housing and the volume builders balance sheet positions deteriorated meaningfully.

Index, Derivatives and Factor Hedges (-262 bps)

This theme detracted 262 bps through the first half of 2026. Protection added approximately 134 bps during March, but this only offset approximately one tenth of the overall Strategy's monthly loss. As equity markets recovered, the book detracted almost 400 bps across the other five months, including approximately 300 bps from April through June as protection was maintained or rebuilt.

The result requires an assessment against the purpose of these positions, rather than an attempt to rationalise the outcome. Broad index protection was designed to reduce general equity market beta. The principal losses in March came through specific exposures: UK interest rates, Asian energy import dependence, airline fuel costs and security level correlations that failed together.

A Japanese container shipping short expected to offset an oil shock instead detracted approximately 150 bps as the market initially treated disruption to the Strait of Hormuz as positive for freight rates.

The lesson is not to abandon protection, but to reduce it more quickly once the immediate shock has passed and to better match hedges to the risk actually carried. Positions are now assessed on an aggregated basis that share a common macroeconomic driver, stress-test environments in which oil, inflation and rates rise together and use more direct protection where a concentrated exposure warrants it.

Portfolio-Level Lessons

March was primarily a commodity shock, rather than a conventional equity market sell-off. The disruption to oil supply fed quickly into inflation and interest rate expectations, affecting UK homebuilders, Korean equities, airlines and the shipper-short themes, in different ways. This helps to explain why broad index protection provided only limited offset: the common driver was oil and rates rather than equity beta alone.

The episode reinforced that low net equity exposure does not necessarily mean low portfolio risk. Positions that appear diversified by company, geography or investment themes can still share sensitivity to the same macroeconomic variable. Broad index hedges remain useful for managing general market risk and providing liquidity during periods of stress, but they are less effective against a concentrated commodity or interest rate shock.

As a result, a modest refinement has been made to the investment process by placing greater emphasis on identifying shared commodity and macroeconomic exposures across the portfolio and stress testing scenarios in which oil, inflation and interest rates rise together. Where that exposure is material, more direct protection will also be considered. This is not a change to the investment philosophy, but a practical adjustment intended to better align the hedge with the source of the risk.

2. Macroeconomic Risks and Opportunities

As previously mentioned, when thinking about the macroeconomic environment, it is often not about the level but instead the rate of change that drives downside volatility in risk assets. Arnott Capital is monitoring some key risk indicators being monitored to gauge the rate of change, and its potential impact on markets:

Oil

The question for the second half of the year is no longer simply whether the Strait of Hormuz is open or closed. It is whether the market is moving towards a regime in which access is intermittent, volumes recover only partially, and each period of normalisation remains vulnerable to renewed disruption.

The market entered 2026 with excess supply and rising inventories. Hormuz abruptly changed that balance. The market has avoided outright shortage through emergency stock releases, higher US exports and lower demand, particularly in China. Those offsets have bought time; but by no means restored a normal physical market. Even under a constructive reopening path, official forecasts continue to show inventories being drawn through the third quarter.

We are learning now that we have neither permanent closure, nor clean reopening. But instead, an uneven normalisation in which more barrels return, but flows remain vulnerable to renewed disruption. This potentially will keep oil tight and volatile through the remainder of 2026.

Refined products may remain tighter than crude because restarting refineries, matching crude grades to available capacity, and rebuilding diesel and jet fuel inventories will take longer than restoring headline tanker traffic.

The US has become the marginal replacement supplier, but it cannot replace the Gulf. Exports rose sharply during the first phase of the disruption, tightening domestic inventories, while production growth remains modest relative to the lost Middle Eastern volumes. China has reduced imports and drawn down on inventories rather than bidding aggressively for every displaced barrel. This has contained the crude price, but part of the adjustment has occurred through weaker activity and demand.

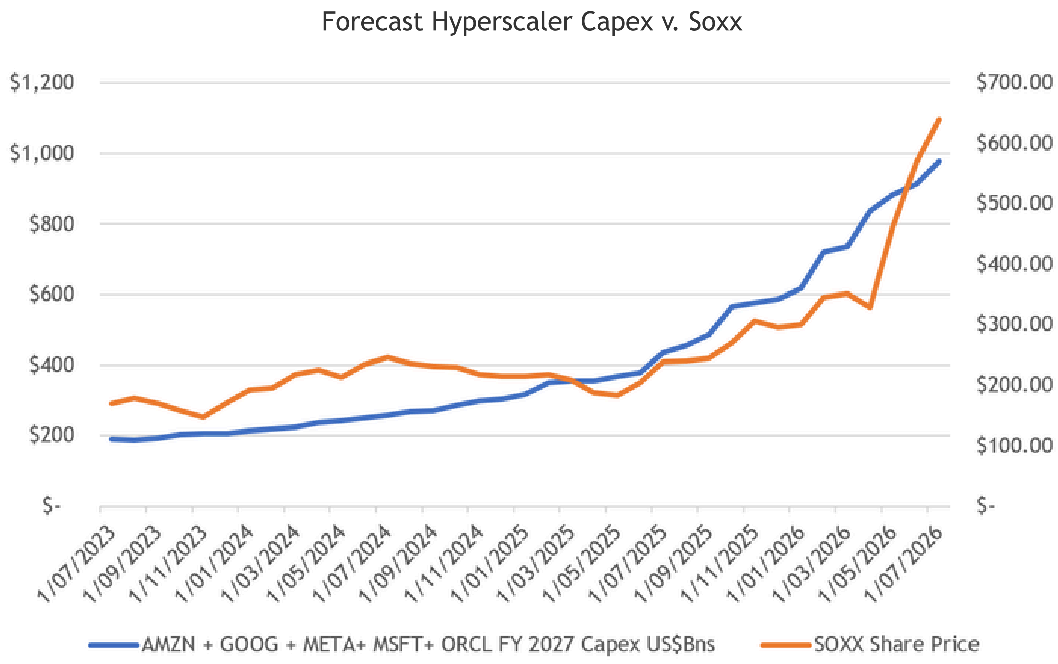
The medium term outlook is different. If Gulf production and trade flows normalise during 2027, returning OPEC supply will meet continued non-OPEC growth and demand already weakened by high prices and substitution. The market could then move quickly from deficit back into surplus. Put simply, Arnott Capital's view is tight now and potentially looser later. The near term risk is not a lack of oil in the ground; it is whether existing supply can move reliably from producer to consumer.

For markets, intermittent disruption is more consequential than a one off price spike as it creates recurring inflation risk. Each renewed interruption can lift energy prices, delay the easing of monetary policy and raise the discount rate applied to risk assets.

Artificial Intelligence ('AI')

At the beginning of the calendar year, consensus expectations for FY27 capital expenditure (capex) from Amazon (AMZN US), Alphabet (GOOG US), Meta Platforms (META US), Microsoft (MSFT US) and Oracle (ORCL US), 'The Hyperscalers' was forecast to be US$590 billion. Currently midway through the year, this figure is now set to exceed US$1 trillion and has been the core fundamental driver behind the hottest part of the market and the largest contributor to S&P earnings growth year to date – that is of course, the semiconductor sector.

Figure 2. Forecast Hyperscaler Capex v. SOXX US Index share price performance to 30 June



Source: Bloomberg, Bloomberg compiled consensus estimates

From here, the message seems clear from the 'spenders', there will be no slowing down.

> *"We will still not have enough capacity to meet all the demand we have in 2026… the demand we already have for 2028 is striking."* Andy Jassy, Amazon Q2 Earnings Call
>
> *"Our current plans are geared towards maximizing 2026 and 2027 capacity… overall industry capacity is going to remain tight for the foreseeable future."* Susan Li, Meta Q2 Earnings Call
>
> *"We continue to expect our CapEx to increase significantly in 2027… demand still outpaces that investment."* Anat Ashkenazi, Alphabet Q2 Earnings Call

Arnott Capital is still of the view hyperscaler capex is the lifeblood of the AI trade and a huge driver of equity markets. With so much of the earnings growth through 2026 solely attributed to the semiconductor sector, the team's view is that this is the key variable holding valuations and expectations of future market performance in place.

On the fringes, there are some amber flags emerging:

From Cash Flow Funded to Debt Funded

These companies are now approaching the point where they might not be able to fund their spending intentions from free cash flow alone and may likely begin to have economics dictated to them by the market as they seek access to credit.

Last August, Oracle announced a record backlog which resulted in a material widening of Credit Default Swaps spreads as debt markets began to reprice their cost of default.

In recent months, a similar repricing has begun to emerge across the other hyperscalers as capex intentions continue to accelerate. The movements are off low bases, but when dealing with the sums of money of this magnitude, shifts in the cost of capital can drive a meaningful difference in economics.

Figure 3. US Mega-Cap Tech 5Y CDS Spreads

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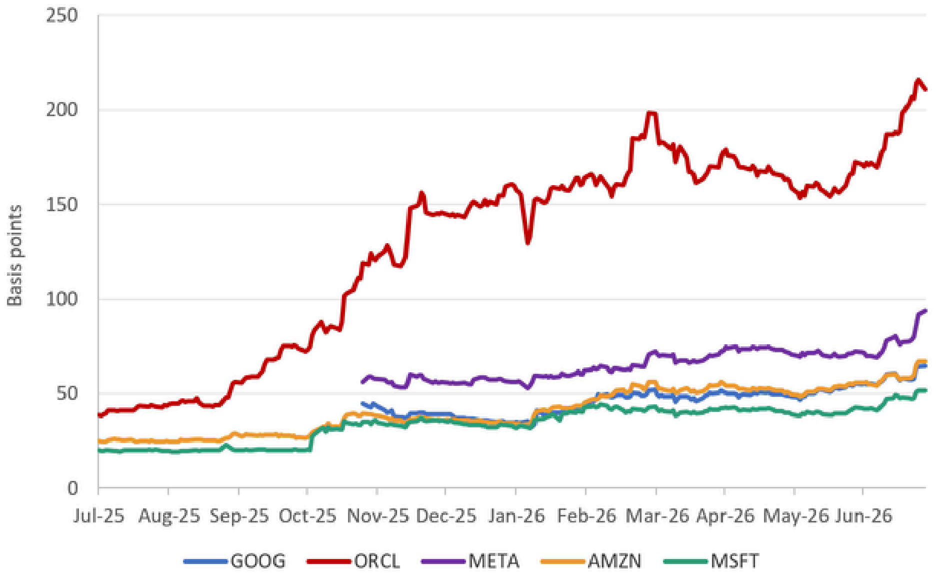


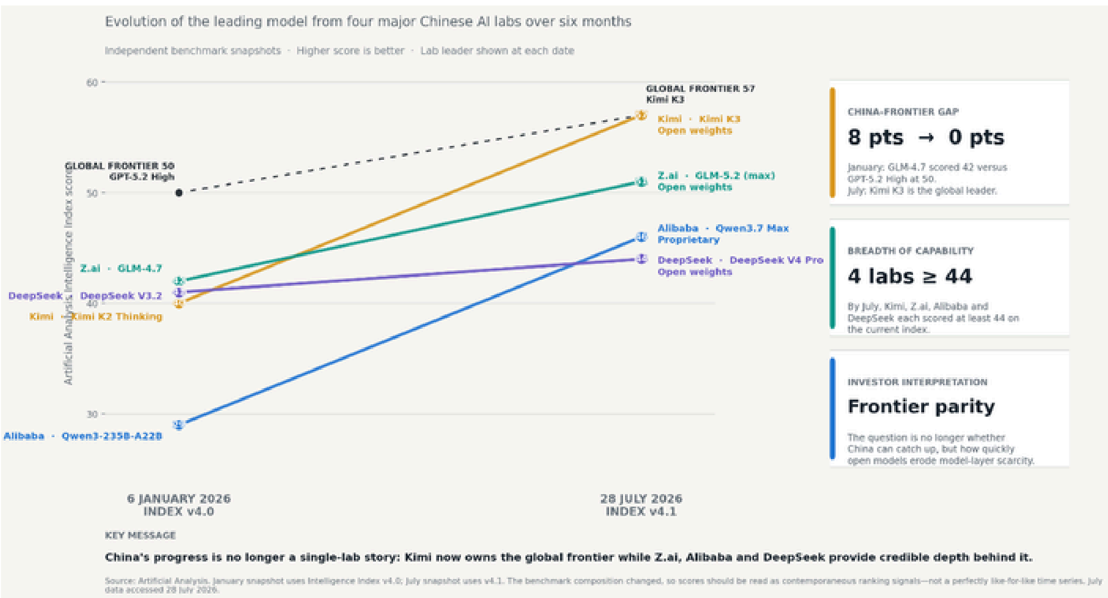
Source: Bloomberg

The Rise of China's AI Ecosystem

At the beginning of the year, Chinese AI models were in the race albeit far behind. As it stands here today, they have a model on the frontier, delivered at lower cost with export restrictions placed on them. Yes, the other side of this argument is noted, relating to distillation, smuggled Nvidia chips, but what they have delivered in short order is remarkable.

Figure 4. Illustration of the evolutions of Chinese models moving to the frontier

China Has Reached The Model Frontier



Source: Artificial Analysis, Arnott Capital

Demand for AI continues to accelerate and the spending cycle remains intact. While we are not positioned for an imminent collapse in the complex, the next phase, however, will require evidence that rising capital expenditure produces durable cash flow. With external funding becoming more important and Chinese models lowering the cost of frontier capability, greater dispersion is expected between companies rather than a simple continuation or reversal of the trade.

3. Key Emerging Themes

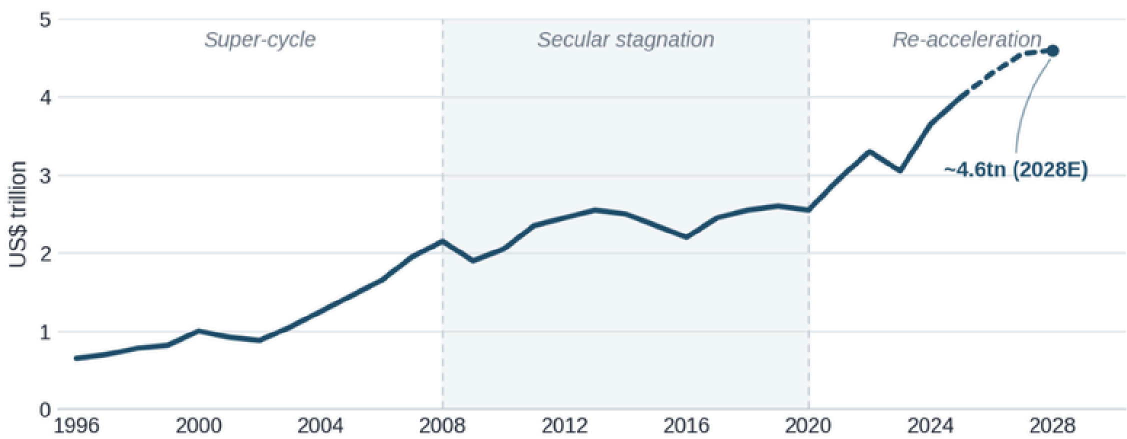
Revenge of the dinosaurs: a global capital cycle expressed through Asia-Pacific

For much of the post-GFC period, markets rewarded businesses that could grow without requiring physical capital. Software, networks and intellectual property produced high incremental returns, while miners, manufacturers, construction-material producers and industrial service businesses were treated as structurally inferior. This was not an irrational investment thesis. However, it became self-reinforcing: capital followed the highest recent returns and steadily left the industries responsible for building and maintaining the physical economy.

The consequences of that withdrawal is visible today. Global listed company capital expenditure, which had roughly tripled into 2008, flatlined near US$2.5 trillion through much of the following decade. The marginal mine, smelter and cement plants were not built. Electricity grids aged, supply chains were optimised for efficiency rather than resilience and the pool of skilled labour contracted. The surviving operators entered this decade with consolidated market positions, limited spare capacity and, in many cases, a newfound focus on returns rather than growth for its own sake.

Figure 5. Global listed-company capital expenditure

Global capex - MSCI ACWI constituents, US$ trillion



Source: FactSet, Morgan Stanley Research. 2026-28 are estimates.

That supply constraint is now colliding with a material change in demand. The theme is being referred to as Revenge of the Dinosaurs: the businesses dismissed as relics of the old economy are becoming essential to delivering the new one. The opportunity is being driven by four largely independent forces:

1. The build-out of AI compute;
2. Investment in energy security;
3. Higher defence and resilience spending; and
4. The need to replace ageing infrastructure.

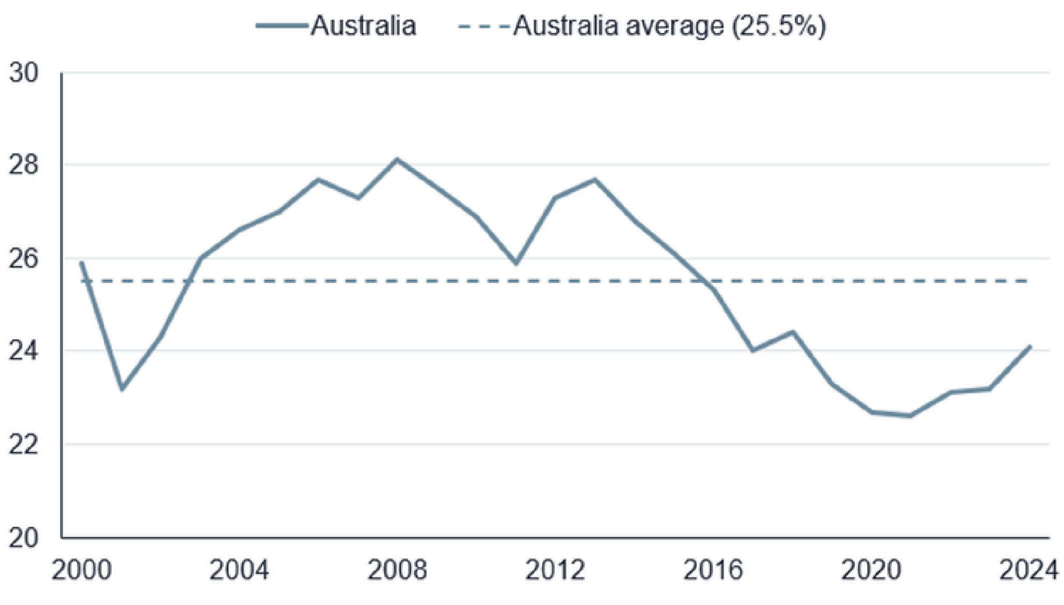
Each pulls on the same limited resources.

It is why Arnott Capital believes the appropriate lens is the capital cycle rather than the news cycle. When capital leaves an industry, supply growth slows and weaker participants exit. If demand subsequently recovers, the remaining capacity becomes more valuable. Physical supply cannot respond as quickly as software: mines require permits, transmission lines require approvals, factories require equipment and all require trained people. Until new capacity arrives, price is the principal release valve. Higher utilisation, better pricing and operating leverage can therefore drive a meaningful improvement in returns without heroic volume assumptions.

The Arnott Capital team is identifying businesses where demand has duration, supply is difficult to replicate and management remains disciplined. The most attractive opportunities are often the second-order beneficiaries: owners of scarce assets, distribution and service networks, installed bases or regulatory approvals that allow them to capture the economics of the build-out without assuming all its commodity risk.

Australia is unusually exposed to these forces through mining, infrastructure, power and defence, yet gross fixed capital formation remains below its long run share of GDP. In Arnott Capital's view, this creates a favourable starting point. The country must service rising external demand while also investing in its own energy system, transport networks and strategic resilience. The required spending is unlikely to occur in a straight line, but the direction and duration of the capital requirement are increasingly clear.

Figure 6. Australian capital expenditure as a percentage of GDP

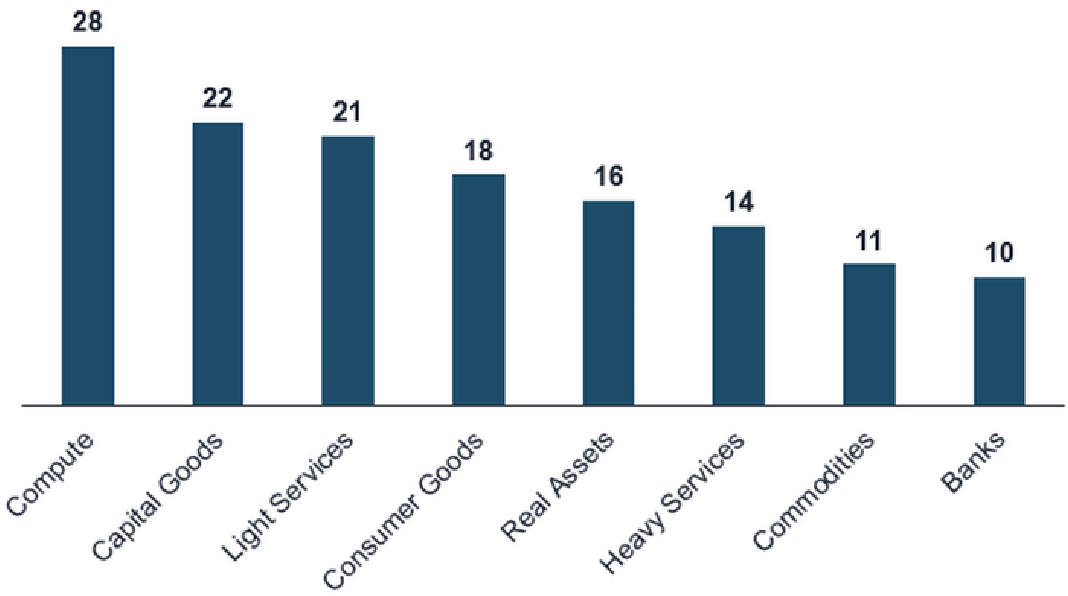


Source: World Bank and national accounts. Gross fixed capital formation, % of GDP, 2000 to 2024

The majority of the theme's current exposure sits in Asia-Pacific businesses across mining, construction, mining services and waste management. The team are not seeking indiscriminate commodities or economic beta. Instead, they favour companies with scarce assets, embedded service networks and disciplined balance sheets that can benefit from rising utilisation and pricing as the capital cycle turns.

Valuation provides a further source of asymmetry. Investors have correctly assigned premium multiples to the first-order beneficiaries of AI, but many of the businesses required to supply the physical build out continue to trade at material discounts. The valuation gap is not expected to close entirely, nor should it: these businesses are more cyclical and capital intensive. However, starting price matters. Where earnings expectations fail to capture the duration of the cycle, even a partial re-rating alongside positive earnings revisions can generate attractive returns.

Figure 7. MSCI Asia-Pacific forward P/E by economic exposure



Source: FactSet, Morgan Stanley Research. 12-month forward P/E by economic-exposure group; figures illustrative

The thesis is not that the 'Dinosaurs' have suddenly become glamorous. It is that a decade of underinvestment has created scarcity just as the world is asking the physical economy to do more.

In Closing

While the Strategy finished the first half broadly flat, the path to that result was not satisfactory. Performance in March exposed clear gaps in how physical-supply risks were aggregated and how portfolio hedges were aligned to the risks that were carried. Both the portfolio and the risk process were overhauled in response.

Looking ahead, market dispersion remains high, presenting a compelling opportunity set across AI infrastructure, corporate reform and the physical capital cycle. It is the task of the team to pursue those opportunities without repeating the errors of the first half.

Arnott Capital truly appreciates your continued trust and partnership. If there’s anything you’d like to discuss or any questions you have, please don’t hesitate to get in touch.

Yours faithfully,

Arnott Capital

Kenny Arnott Co-Chief Investment Officer	Yianni Gertos Co-Chief Investment Officer

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