

**COMMENTARY**

The fund returned positive 5.69% for the month. Net exposure averaged 56% long, while gross averaged 132%.

With the prospect of inflation rearing its head again, the back end of February saw global equity markets ‘wobble’, with the pain mostly borne by equities perceived to be infallible as they are the future. We cannot predict whether a vast majority of these names will truly dominate the world. What we can say is the price that current market participants are willing to pay and own these companies, suggests that to merely breakeven over an extended time, all the predictions of future dominance better be correct.

With this view in mind, we thought it would be pertinent to highlight how we are investing in the current environment and introduce one of our newest themes in the portfolio, ‘*the future of mobility*’. Undoubtedly, we will all be driving (or be driven in) Electric Vehicles (‘EVs’) at some time in the future. This undisputable path has resulted in the popular consensus narrative being that legacy automotive producers are doomed, as they cannot compete with the EV upstarts like Tesla. This, in our opinion, has created a very attractive investment opportunity in global equity markets via the ownership of highly cash flow generative legacy automotive manufacturers and shorting the cash burning EV companies priced as though they will be the dominate companies of the future beyond just automotive sales. (Continued on the next page).

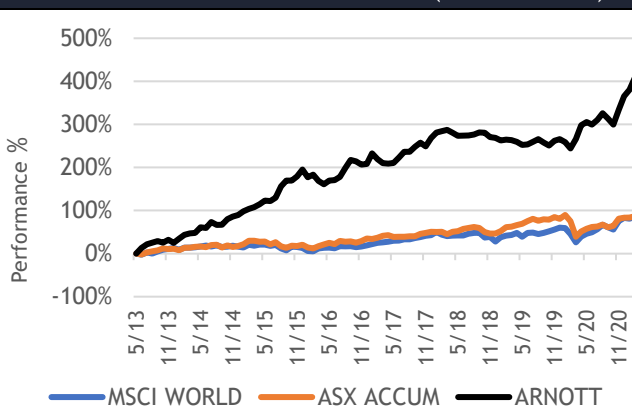
**PERFORMANCE METRICS**

	From May 2013	
	Arnett	MSCI
Annualised returns	23.33%	8.28%
% Positive months	65.59%	64.52%
Average monthly return	1.84%	0.74%
Avg return in MSCI up months	1.68%	2.92%
Avg return in MSCI down months	2.12%	-3.21%
Best month	13.07%	12.66%
Worst month	-6.09%	-13.47%
Largest drawdown	-11.61%	-21.44%
Longest drawdown (mths)	24	20
Sortino	4.27	0.80
Sharpe ratio	1.72	0.60

**CORRELATION TO ASSETS (2013 to Current)**

MSCI Index	0.06
US Government Bond Index	-0.05
US\$ Gold	0.01
Bloomberg Commodities Index	-0.06
Hedge Fund L/S	0.00

**CUMULATIVE FUND PERFORMANCE (2013-current)**



**MONTHLY SUMMARY METRICS**

NET RETURN	AV GROSS EXP	AV NET EXP
5.69%	132%	56%

**STRATEGY HISTORICAL PERFORMANCE (%)**

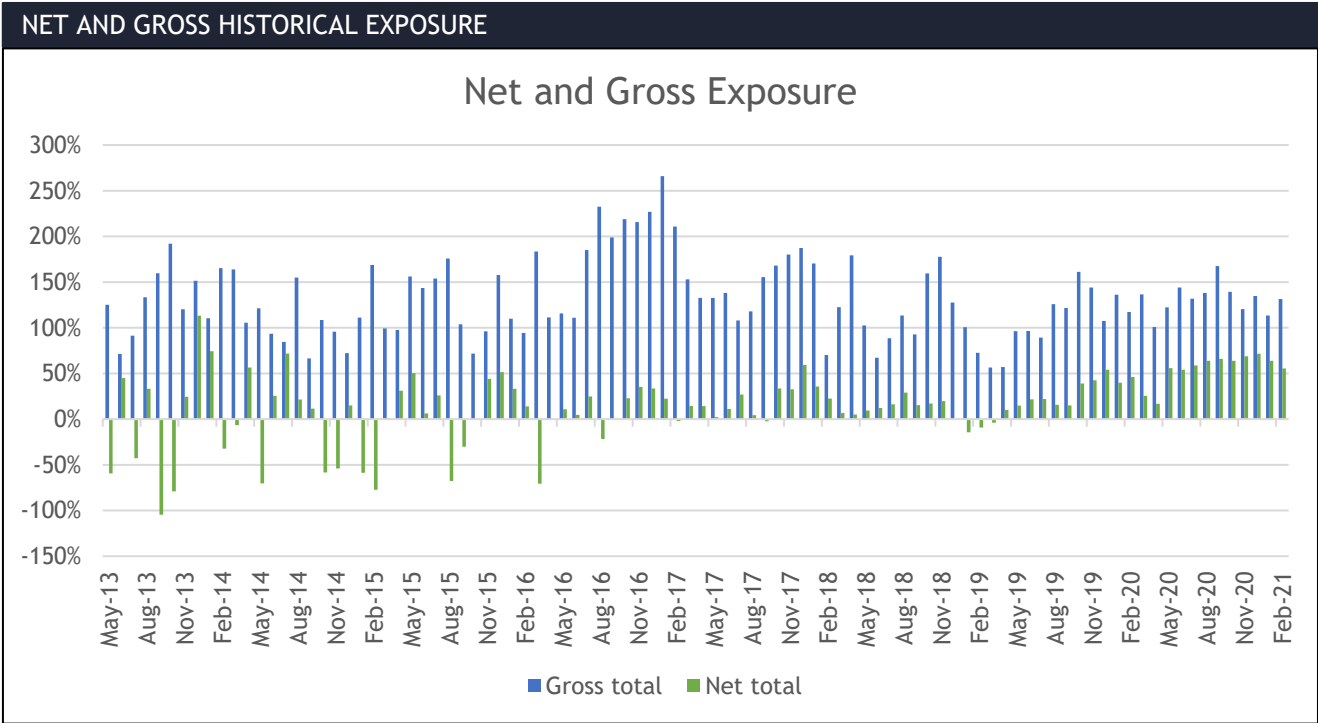
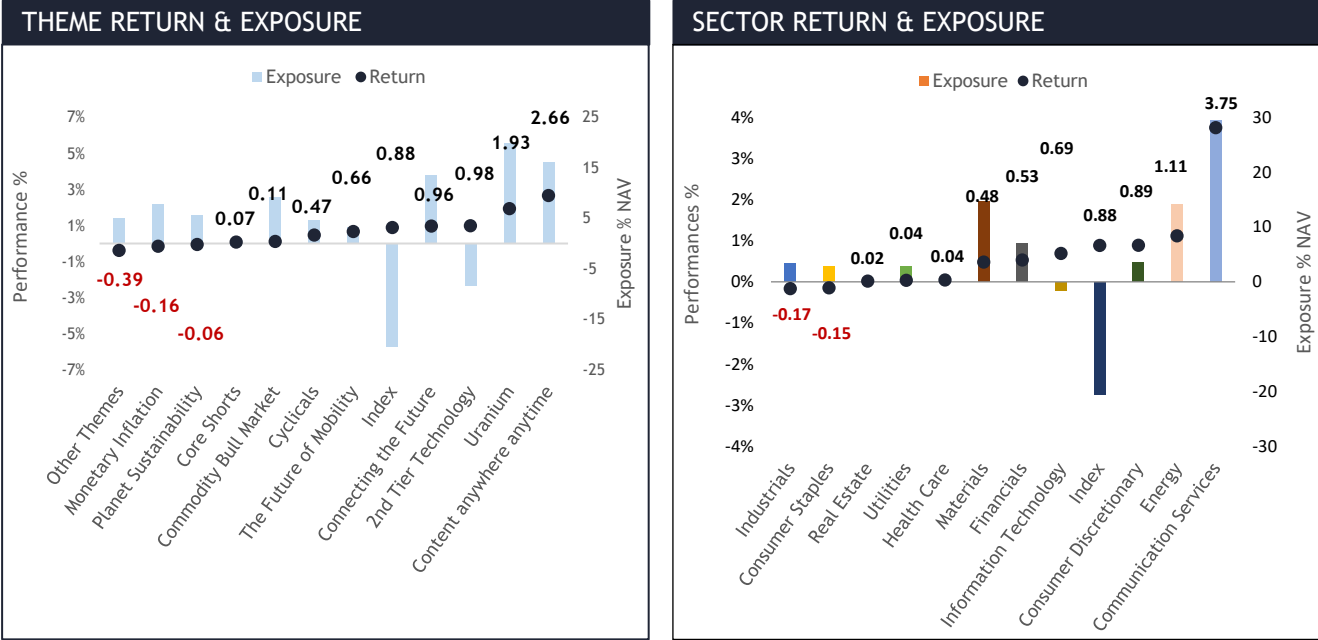
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2013						13.07	7.63	2.97	2.82	-2.69	5.23	-5.25	25.00
2014	7.61	6.56	2.43	0.77	8.87	-0.93	8.46	-3.78	0.34	7.78	3.24	1.92	51.59
2015	4.46	2.88	1.99	3.19	4.12	-0.52	3.44	11.47	5.23	0.00	3.67	5.72	55.80
2016	-6.09	2.14	-5.17	-2.83	3.30	0.40	2.69	7.49	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											9.14

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.

Within this theme we are presently long Volkswagen, the 2<sup>nd</sup> largest Auto manufacturer in the world that produces and sells cars under the following iconic brands: Volkswagen, Audi, Porsche, Bugatti and Skoda just to name a few. We acquired Volkswagen shares at less than 6x forward P/E and an Equity Free Cash Flow yield of around 14%. Sales of internal combustion engines are in decline, however this focus on Volkswagen's business is overstated. This is a business in transition to the EV future and doing a stellar job so far. Their electric vehicle sales tripled in 2020 and are set to continue showing growth again in 2021, with a forecast of one million electric vehicle deliveries. Volkswagen's ID.3 is gaining such popularity in Europe that it was the number 1 selling car in Sweden for December.

Against this position we are currently short Tesla. The stock is trading on > 160x P/E (or infinity if you calculate earnings generated from actually selling cars and an Equity Free Cash Flow yield of less than 1%. In 2020 Tesla delivered 500k Electric Vehicles and is estimated to deliver around 750k in 2021. At the end of February Tesla's market cap was US\$640bn and Volkswagens US\$112bn. One or both market capitalisations, in our view, is incorrect.

We are tremendously excited about the prospective returns from positions within this theme and more broadly the opportunities that are presenting themselves in the current environment for a long-short manager. With a hurdle rate for investment re-appearing in global markets, the very successful strategy of recent history that entailed buying growth at any price now faces powerful headwinds.



**STRATEGY SUMMARY**

**Our Investment Approach:**

1. Find asymmetric themes
2. Invest in the best stocks within those themes
3. Focus on macro drivers for risks and opportunities
4. To generate an asymmetric return profile

The strategy is global long/short equity with a variable delta bias. The portfolio will typically contain 40 to 70 positions. The fund focuses on identifying underinvested global investment themes through extensive macroeconomic research and then utilises a bottom up fundamental process to identify the highest quality securities within an investment theme to deliver Asymmetric returns for investors.

**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	<a href="mailto:investor@arnott.com.au">investor@arnott.com.au</a>
WITHDRAWALS	Monthly	PRIME BROKER	Morgan Stanley
PERFORMANCE FEE	20%	FUND ADMINISTRATOR	Mainstream
MANAGEMENT FEE	1.5%	FUND AUDITOR	Ernst and Young
SUBSCRIPTIONS	Monthly	LEGAL ADVISORS	Ernst and Young

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