

COMMENTARY

Attribution and exposures

The fund returned negative 0.40% for the month of June 2021. Net exposure average 64% long, while gross averaged 136%. This brings our Calendar Year return to positive 21.91%, our financial year return to positive 42.00% and since inception (2013) return to positive 23.95% p.a. net of fees.

Following strong performance in the calendar year to date, the portfolio was slightly negative as index hedges and equity positions within our 'energy transition' theme were drags on fund performance. This was offset by strong performance in core equity long positions, such as Telstra.

Telstra Update

In the month, a key catalyst came to fruition, with Telstra partially divesting their portfolio of telecommunication towers portfolio, enabling the market to better understand the imbedded value of Telstra's extensive asset base. At Arnett, it is our belief that this is just the beginning of Telstra's equity outperformance in the coming years, as we enter the dawn of an earnings upgrade cycle driven by the powerful secular tailwinds of industry 4.0. *For more on our Telstra investment thesis please refer to our [annual letter](#).*

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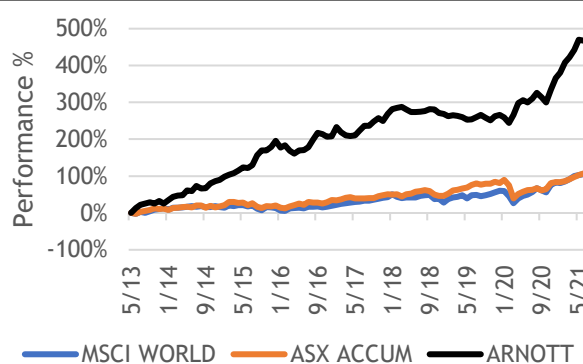
PERFORMANCE METRICS

	From May 2013	
	Arnett	MSCI
Annualised returns	23.95%	9.29%
% Positive months	65.98%	65.98%
Average monthly return	1.88%	0.82%
Avg return in MSCI up months	1.75%	2.90%
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	4.37	0.90
Sharpe ratio	1.79	0.68

CORRELATION TO ASSETS (2013 to Current)

MSCI Index	0.07
US Government Bond Index	-0.06
US\$ Gold	0.03
Bloomberg Commodities Index	-0.04
Hedge Fund L/S	0.02

CUMULATIVE FUND PERFORMANCE (2013-current)



MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
-0.40%	136%	64%

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	2.74	3.93	5.03	-0.40							21.91

Portfolio risks and opportunities

We now enter the Northern Hemisphere summer doldrums. Leading indicators have seen a short-term peak and the pull back in US 10-year bond yields may not be finished. We have seen several surprises for the long cyclical / short duration tech portfolio positioning. Labour shortages remain a problem. Vaccination rollout remains slow while a more contagious variant, Delta, has emerged.

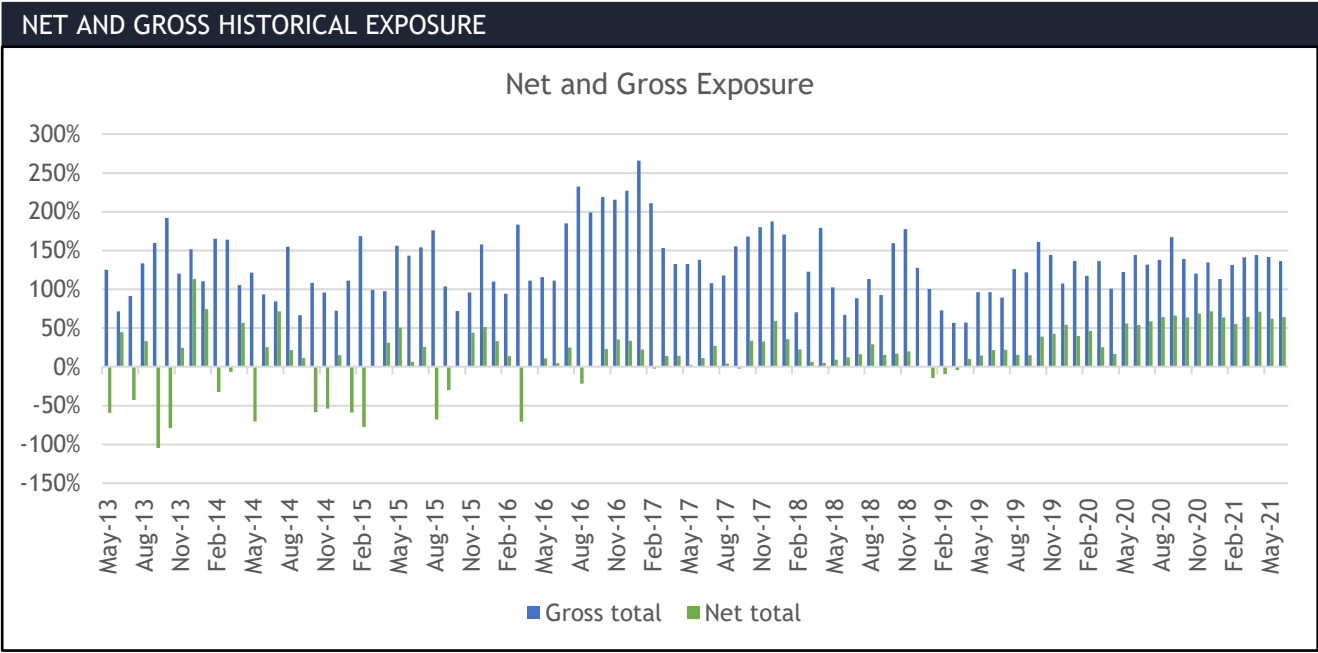
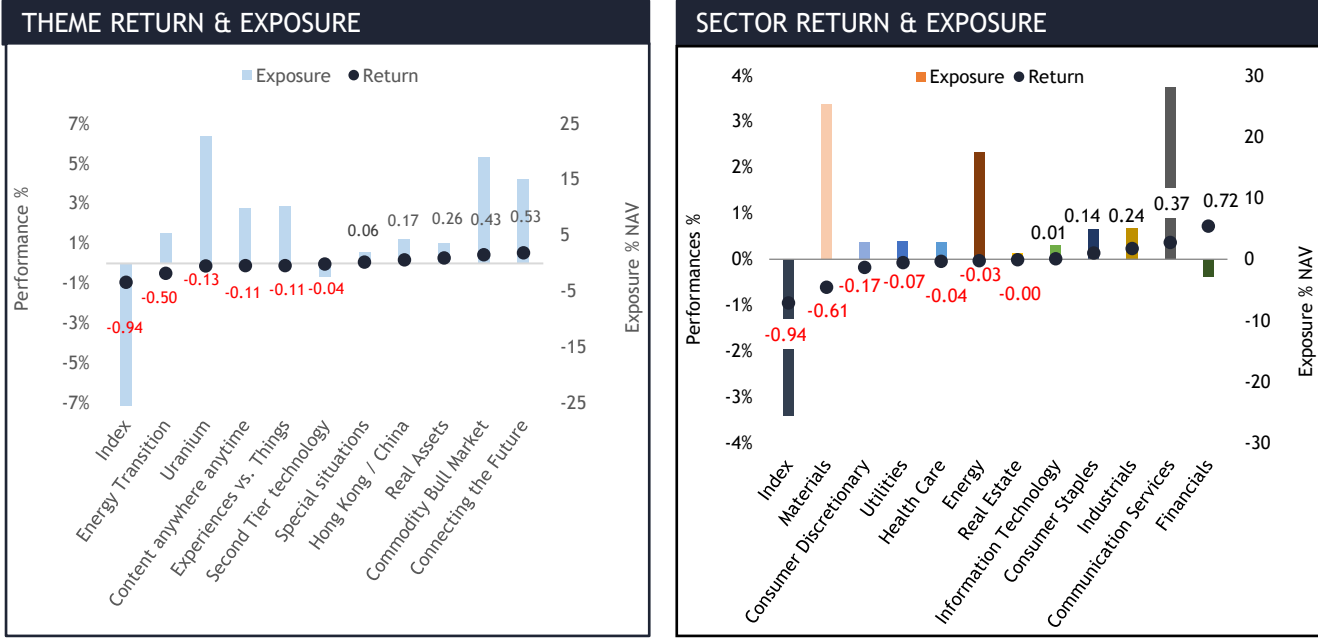
And so, the debate continues, is this a sign of transient inflation or a hiccup. We set firmly in the later camp. And as we wrote last quarter, we continue to see the highest risk / reward opportunities from the long side presenting themselves almost exclusively in the value and cyclical segment of equity market.

Moving into 2022, we see:

- 1) an extremely powerful global services re-open ready to expand,
- 2) major long term CAPEX cycles underway that did not exist in 2010-19 - namely, decarbonization and onshoring,
- 3) fiscal spending as the new dominant policy tool - for example, infrastructure in 2H, and
- 4) extremely patient monetary policy, aligned with average inflation targeting, and aimed at facilitating fiscal policy.

We see a big dislocation between what we expect 2022 and beyond looks like and what the market is currently pricing in.

But we see these opportunities as investments with horizons of longer than six months. In the meantime, tactical positioning will require a focus on short term issues.



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	investor@arnott.com.au
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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