

COMMENTARY

The fund returned positive 5.37% for the month of August 2021. Net exposure averaged 67% long, while gross average 134%. This brings our Calendar Year return to positive 25.37% and since inception (2013) return to positive 24.09% p.a. net of fees.

“Music gives a soul to the universe, wings to the mind, flight to the imagination and life to everything” - Plato

It is unquestionable that Music is an essential part of the human experience resulting in many hours of our time spent listening to it, dancing to it and creating moments around it. Despite the key prominence that music plays in our lives, it is one of the most under monetised forms of entertainment with the average cost per hour of entertainment for a music streaming subscription sitting at 10 cents per hour.

The reason being, that as the world transitioned into the internet age, the music industry was one of the big losers. With the launch of file sharing services over the internet, piracy was rampant seeing music industry revenues decline by over **50%** from 2000 - 2015 with no plug to fill the hole that piracy was taking out of the industry. However, with the emergence of music streaming, the music industry has been brought back to life with revenues growing in the mid teen percentages for the past five years as consumers begin to sign up to one of the many available music streaming services.

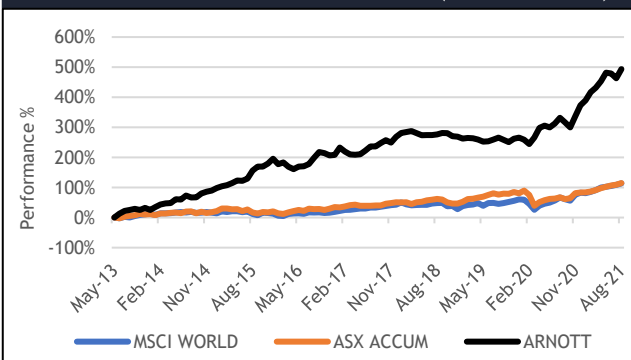
PERFORMANCE METRICS

| | From May 2013 | |
|--------------------------------|---------------|---------|
| | Arnott | MSCI |
| Annualised returns | 24.09% | 9.63% |
| % Positive months | 65.66% | 66.67% |
| Average monthly return | 1.89% | 0.84% |
| Avg return in MSCI up months | 1.79% | 2.87% |
| Avg return in MSCI down months | 2.09% | -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 | 4.21 | 0.93 |
| Sharpe ratio | 1.77 | 0.71 |

CORRELATION TO ASSETS (2013 to Current)

| | |
|-----------------------------|-------|
| MSCI Index | 0.07 |
| US Government Bond Index | -0.08 |
| US\$ Gold | 0.03 |
| Bloomberg Commodities Index | -0.05 |
| Hedge Fund L/S | 0.02 |

CUMULATIVE FUND PERFORMANCE (2013-current)



MONTHLY SUMMARY METRICS

| | | |
|------------|--------------|------------|
| NET RETURN | AV GROSS EXP | AV NET EXP |
| 5.37% | 134% | 67% |

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 | | | | | 25.37 |

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.

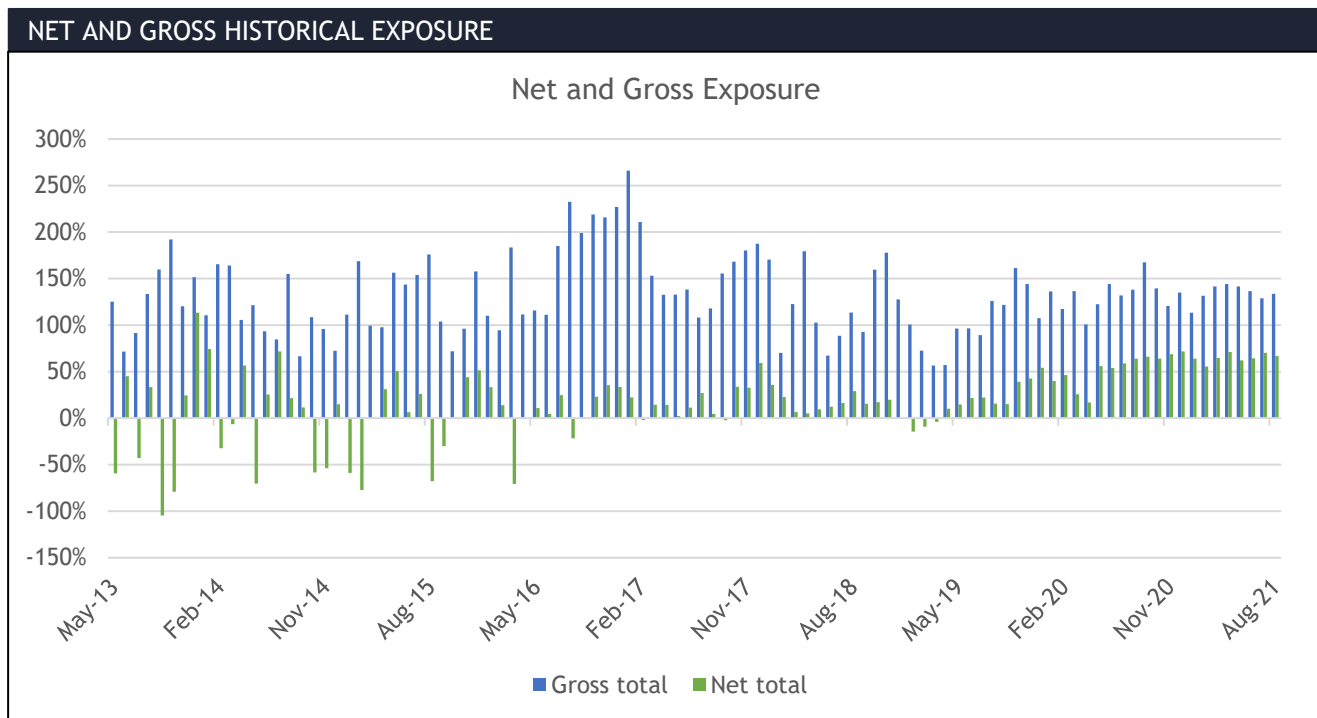
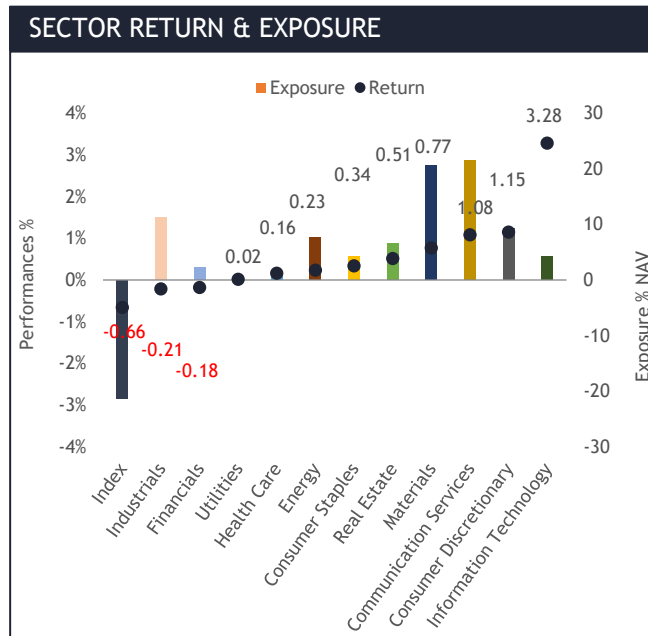
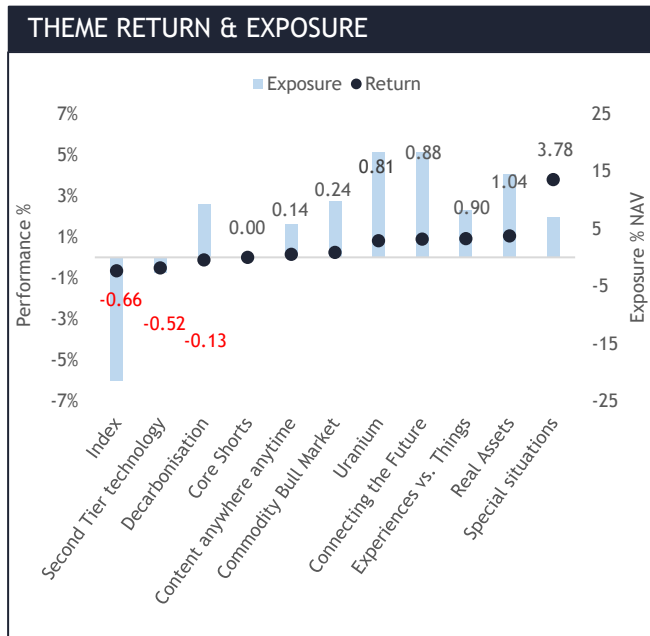
2019 - Current Data. Arnott Opportunities Fund (Cayman). Performance net of 0 & 25 fees. Currency USD. Fund administered by Mainstream. Fund audited by EY.

Whilst revenue growth from a low base has been stellar, this is truly only the beginning. Paid music streaming subscriptions are incredibly underpenetrated. Every smartphone is an available customer and we have only seen 13% of the world's smartphone users subscribe to a paid subscription service.

For music streaming the revenue opportunity is large, in its infancy, is under monetised with low levels of penetration providing for powerful tailwinds to support strong revenue growth in the coming years. It is therefore no surprise we have seen the emergence of big technology names such as Amazon, Google and Apple all launching subscription music services. Whilst music streaming platforms have a long revenue runway ahead, we believe the best investment opportunities sit with the record labels, in particular Warner Music Group which we have recently materially upweighted within the portfolio.

The top three record labels (Universal Music Group, Sony and Warner Music Group) have a circa 70% market share of all recorded music forming a cosy oligopoly in this rapidly growing industry. This confers strong and growing pricing power at the record labels as more streaming platforms vie for control of our ears. Why this moat exists is due to the immense back catalogues that these record labels have. Not only do consumers want to listen to the current hot hits of today, but they want to be able to listen to the oldies. The record labels control this intersection between the distribution platforms (Spotify, Apple music etc) and the artists. This powerful moat results in incredibly attractive economics for the record labels, with an average take rate of 70% on revenues generated by the streaming platforms.

As competition intensifies for our ears, we believe that Warner Music Group will not only benefit from the secular growth tailwinds of the music streaming industry underpinning double digit growth rates for the years ahead but will also benefit from asset appreciation in the value of their rich back catalogue of music.



INVESTMENT STRATEGY

The Arnott Opportunities Strategy is managed with the intention of delivering annual positive absolute returns, regardless of how any financial market performs. We seek to achieve this through our Asymmetric Investment Approach. In simple terms, asymmetric investing is about producing above average returns with below average drawdowns. We seek to achieve this by;

1. find good investments, and
2. not lose money in the pursuit of realising these good 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
4. To 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 | 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 |

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.