

COMMENTARY

The fund returned positive 5.86% for the month of September 2021. Net exposure averaged 60% long, while gross average 142%. This brings our Calendar Year return to positive 32.72% and since inception (2013) return to positive 24.67% p.a. net of fees.

Through the month of September, our Uranium theme was a material contributor to fund performance as the spot price of Uranium rallied over 20% to close the month at an eight year high of US\$43.00 p/lb. The primary driver of this rally, was the creation (or better put, the new management) of the Sprott Physical Uranium Trust. Since the end of August, the Sprott Physical Uranium Trust has acquired over US\$400m of Uranium. Whilst US\$400m does not sound like a significant amount, it's roughly equivalent to 8% of annual Uranium demand. This has been acquired in under 2 months, adding significant demand to a market that was already in a sizeable supply deficit.

Whilst this is a material move in a short period of time, it was the market fundamentals made a move like this possible. The Sprott Physical Uranium Trust was just the spark that lit this market alight.

As we have written about at length previously (most recently in our [2021 Interim Letter](#)), we have extremely high conviction in our Uranium theme and pleasingly we are observing headwinds that plunged this market into a 13 year bear market, now turning into tailwinds.

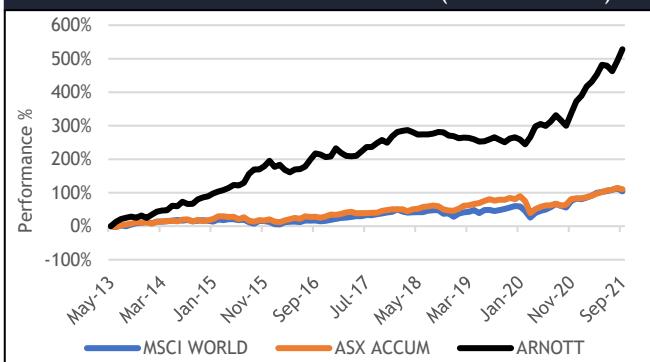
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PERFORMANCE METRICS

	From May 2013	
	Arnott	MSCI
Annualised returns	24.67%	8.95%
% Positive months	66.00%	66.00%
Average monthly return	1.93%	0.79%
Avg return in MSCI up months	1.79%	2.87%
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	0.88
Sharpe ratio	1.81	0.66

CORRELATION TO ASSETS (2013 to Current)

MSCI Index	0.06
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 5.86%	AV GROSS EXP 142%	AV NET EXP 60%

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				32.72

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.

Demand is increasing and supply is becoming increasingly scarce, as all industry capex was cut to virtually zero in the preceding decade. The only way to close the growing market deficit is to incentivise new mine development. The spot price required for this is close to US\$60.00 p/lb, markedly higher than the current spot price. Given this, we believe material upside still exists within our Uranium theme. However, risk management is central to our process and a material move as we saw early in September within any of our themes forces a rebalancing of the portfolio. Accordingly, we have reduced our weighting to this theme in the past month by rotating away from uranium miners and retaining our exposure to physical uranium proxies.

PORTFOLIO POSITIONING

At the present time it feels like there are significantly greater unknowns in the global economy than knowns. Soaring energy and power prices are creating material output gaps in global economies with regions in China & Europe materially reducing manufacturing capacity, as governments grapple with the question of how do we ensure people do not freeze to death over the coming winter? Central Banks are now questioning just how ‘transitory’ inflation is with supply chain issues persisting into the Northern Hemisphere Autumn, and given the global energy crisis, are likely to worsen. The combination of slowing global growth and a material rise in the cost of living (energy prices touch almost every aspect of our lives) does not bode well for a ‘pro-risk’ environment.

Through the month we commenced materially reducing our net exposure and are operating on the early thesis that we may have seen a ‘top’ in equity markets. We struggle to see how equity markets can rise materially from current levels given slowing global growth, rising costs of living and a reduction in liquidity driven by central banks such as New Zealand entering a raising interest rate cycle and the commencement of tapering by the Federal Reserve. We expect that average net equity exposure since April 2020 of 50% - 70% net long will be lower in this environment. As always, we are students of the market and will adjust as markets change.

CARBON CREDITS

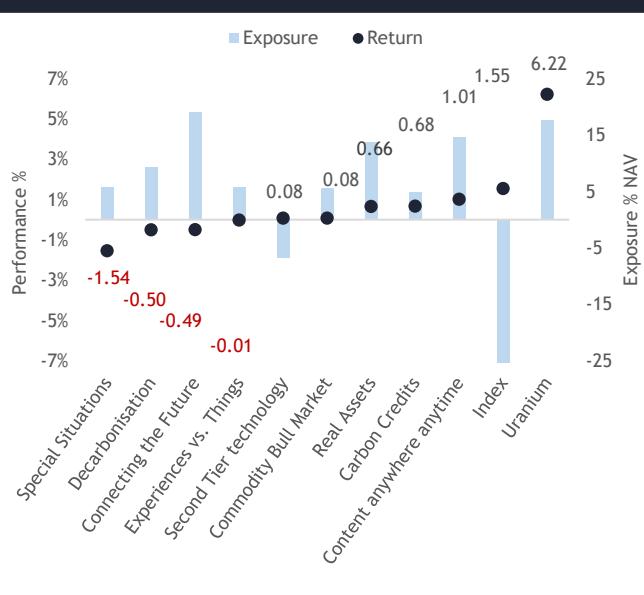
One of the defining macroeconomic trends of the next decade we believe will be the decarbonisation of energy supply chains and the global economies path to net zero carbon emissions. Through September we have commenced allocating capital to carbon credits, which we believe will be integral to the climate ambitions of Governments and Companies alike. Given the pending tidal wave of upcoming demand, we are of the belief that carbon credits on a global scale are both undervalued and underinvested in, presenting a phenomenal asymmetric investment opportunity. We are still in the process of building our exposure, so will refrain from providing any more details. However, we are happy to go into more detail with any of our existing investors.

Best Regards,

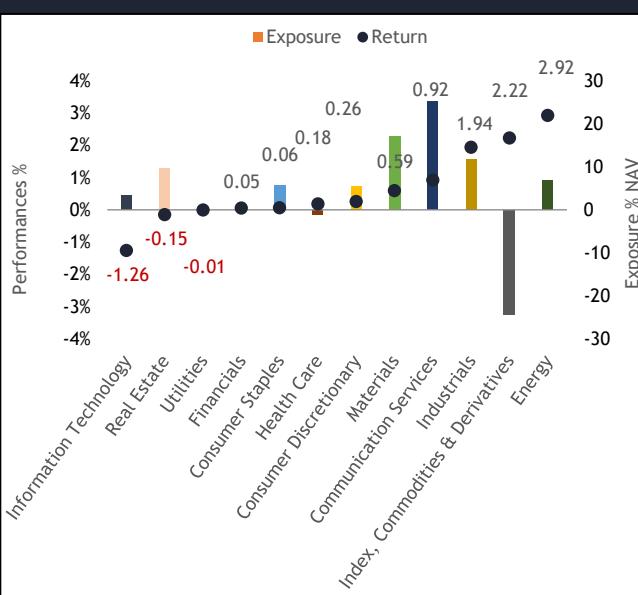
Kenny Arnott
CIO

Yianni Gertos
Portfolio Manager

THEME RETURN & EXPOSURE

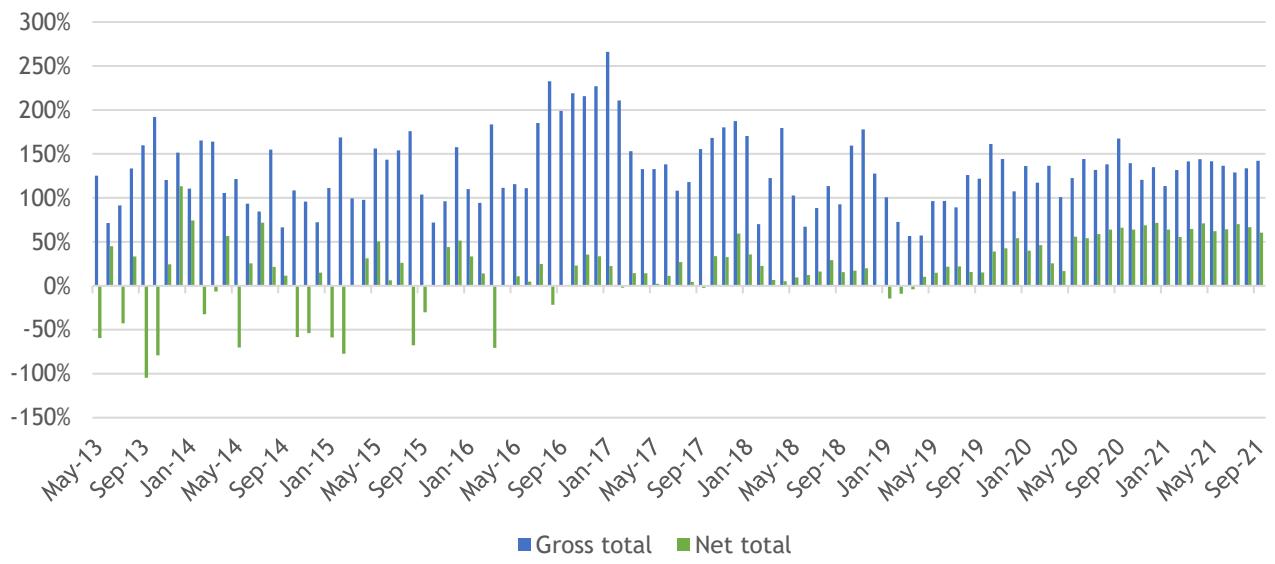


SECTOR RETURN & EXPOSURE



NET AND GROSS HISTORICAL EXPOSURE

Net and Gross Exposure



INVESTMENT STRATEGY

The Arnott Opportunities Strategy is an absolute return strategy, focussing on thematic investment opportunities with an equity bias. We seek to achieve positive average annual returns for investors through our Asymmetric Investment Approach. In simple terms, asymmetric investing is about producing above average returns with below average drawdowns. In order to achieve this we aim to;

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

We strive to achieve asymmetric returns though 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

ARNOTT OPPORTUNITIES (CAYMAN) FUND FACTSHEET

SEPTEMBER 2021

ARNOTT
C A P I T A L
—EST. 1999—

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

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