ARNOTT OPPORTUNITIES TRUST FACTSHEET
OCTOBER 2021

COMMENTARY

The fund returned positive 1.30% for the month of October 2021. Net exposure averaged 62% long, while Gross averaged 156%. This brings our Calendar Year return to positive 34.04% and since inception (2013) return to positive 24.30% p.a. net of fees.

DECARBONISATION

Our decarbonisation exposure returned positive 1.83% for the month. Of this, our Voluntary Carbon Credit exposure contributed 1.68%. Given this is an emerging theme that we expect to be invested in for many years to come, we thought it would be useful to review our overarching thesis.

Our planet is warming, primarily in response to increased levels of carbon dioxide ('CO_2') and other greenhouse gases in the atmosphere, which change the climate in numerous ways, colloquially referred to as 'climate change'. The movement to mitigate climate change is accelerating at a frightening pace as more Governments, corporations and institutions join the pledge of net zero carbon emissions by 2050 and are targeting significant reductions in carbon emissions by 2030. The task of net zero by 2050 is arguably the most monumental challenge we have ever faced.

Presently, the world emits around 51 billion tonnes of CO_2 per annum. Since fossil fuels were first burnt in the mid-19th century this has been an externality which has not been priced. As the collective 'we' transition towards net zero, pricing these emissions is key to achieving our transition to a net zero carbon emission world. It appears the momentum towards net zero is now irreversible and so too the active pricing of CO_2 emissions in society. **This creates an amazing set of investment opportunities.**

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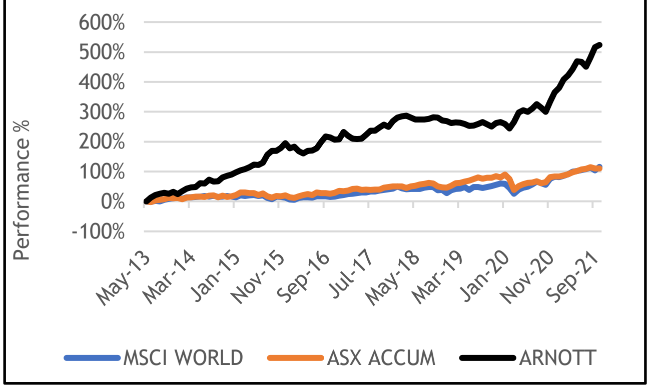
PERFORMANCE METRICS

	Arnott (From May 2013)	MSCI (From May 2013)
Annualised returns	24.30%	9.56%
% Positive months	66.34%	66.34%
Average monthly return	1.90%	0.84%
Avg return in MSCI up months	1.74%	2.91%
Avg return in MSCI down months	2.22%	-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	4.49	0.94
Sharpe ratio	1.82	0.70

CORRELATION TO ASSETS (2013 to Current)

MSCI Index	0.05
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	AV GROSS EXP	AV NET EXP
1.30%	156%	62%

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	-2.81	5.60	5.75	1.30			**34.04**

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.

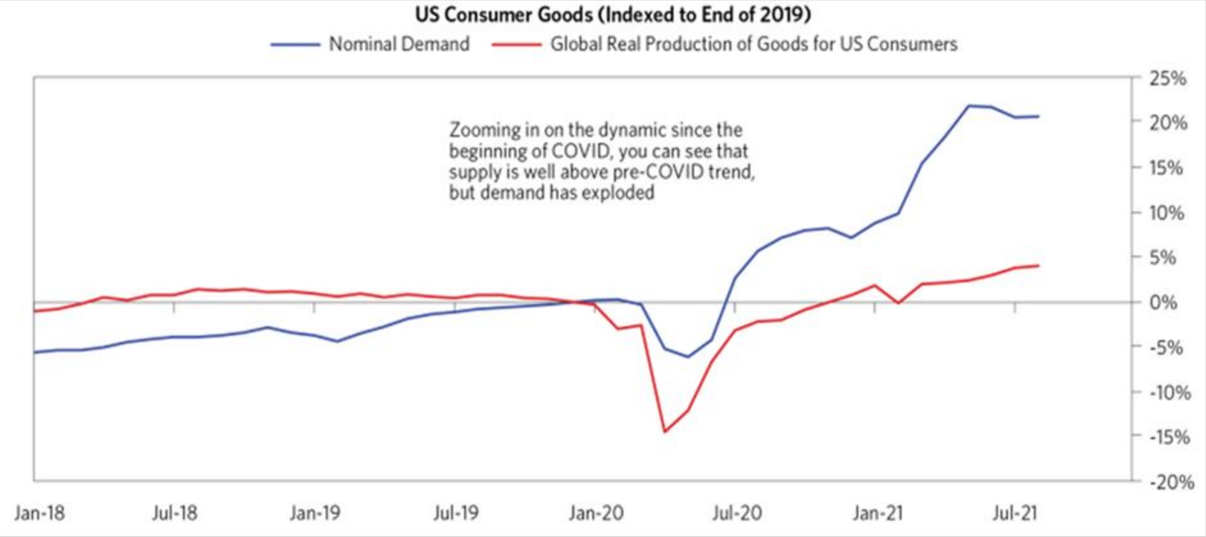
So how are we investing within this theme?

- **Carbon credits:** the path to net zero carbon emissions by 2050 is a monumental task. In lieu of a revolutionary technology being invested within the next couple of years, carbon credits will be key in assisting consumers, companies and governments to achieve their climate objectives. Given this tidal wave of upcoming demand, we are of the belief that carbon credits on a global scale are both materially undervalued and underinvested in.
- **Picks & shovels:** in the evolution of new markets, the infrastructure providers are key beneficiaries. We are actively investing in and seeking to invest in the companies that are measuring and testing carbon emissions, developing standardisation of global carbon contracts and establishing exchanges for the trading of this new commodity. The opportunity set in front of these companies is tremendous.

This is merely the tip of the iceberg, there are many themes and investment opportunities that will be affected by price rises associated with decarbonisation.

OUR CURRENT MACRO THOUGHTS ON THE MARKET – TOO MUCH MONEY IS CREATING TOO MUCH DEMAND

The combination of both monetary and fiscal stimulus acting today is happening in a very different environment from post GFC. In that environment, quantitative easing was offsetting deflation following the credit crunch. This time around, excluding a few specific sectors there is no credit issue. In fact, quite the opposite, most people are better off! As such the combined monetary and fiscal stimulus has handed everyone more money. That money is being spent everywhere. This is pushing up demand and pushing up prices. The Fed tells us that “Supply and demand imbalances related to the pandemic and the reopening of the economy have contributed to sizable price increases in some sectors”. There are some bottleneck issues in supply chains, however the real issue is that the massive amount of stimulus is creating demand for everything. In other words, the imbalance is on the demand side not the supply side. In support of this thesis, the chart below shows goods’ supply and demand. What is clear, is that goods’ supply is running on trend. On the other hand, demand of goods is running way ahead of trend.



Source – Bridgewater
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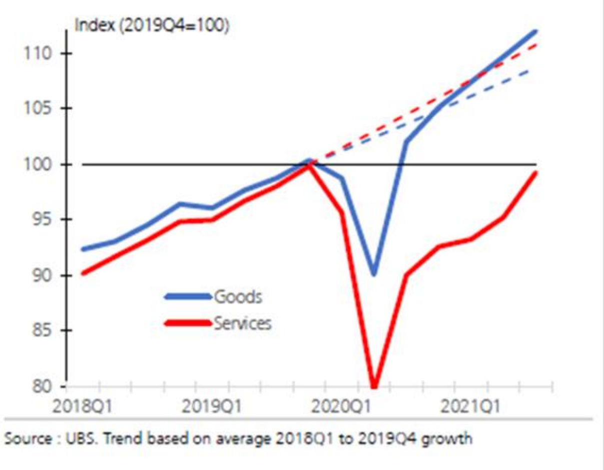
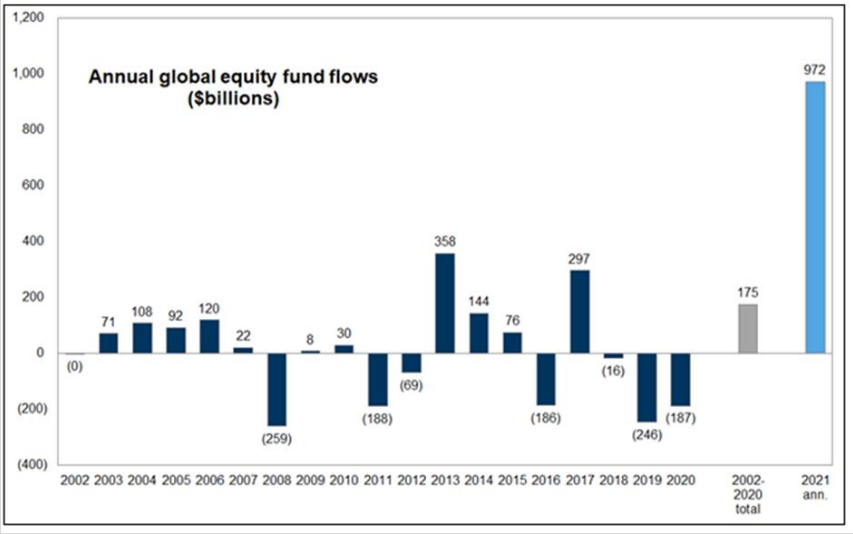
Meanwhile, services are still running behind trend due to COVID effects as per below. As the world recovers from COVID, these sectors are likely to follow the goods' demand trajectory and create more pricing pressures.



There is also excessive demand vs supply in many other areas of the economy. This is evident in raw materials, energy, manufacturing production, shipping capacity, housing, and labour. It is hard to see this demand / supply imbalance changing with the current fiscal and monetary policies in place.

"The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals."

While we are discussing demand, it would be remiss not to look at overall equity fund flow demand as per the chart below. The flows for 2021 to date are 5 ½ times larger than the net flows for the whole period from 2002 to 2020.



Source: Bank of America Merrill Lynch

What does all this tell us as investors? Well, while liquidity is ample, risk assets will remain bid. However, it is worth keeping an eye on this demand and price situation. If demand for everything leads to price rises which are untenable then the only tool the central banks have at their disposal to deal with the resulting inflation is to remove the very ingredient that is causing it.

As always, we will remain ever vigilant on tail risks that are low probability events but will have high impact results.

Best Regards,

Kenny Arnott and Yianni Gertos

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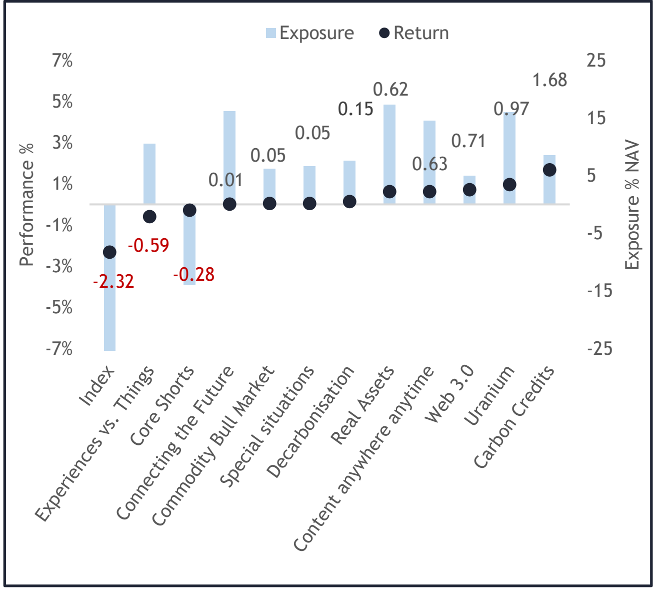
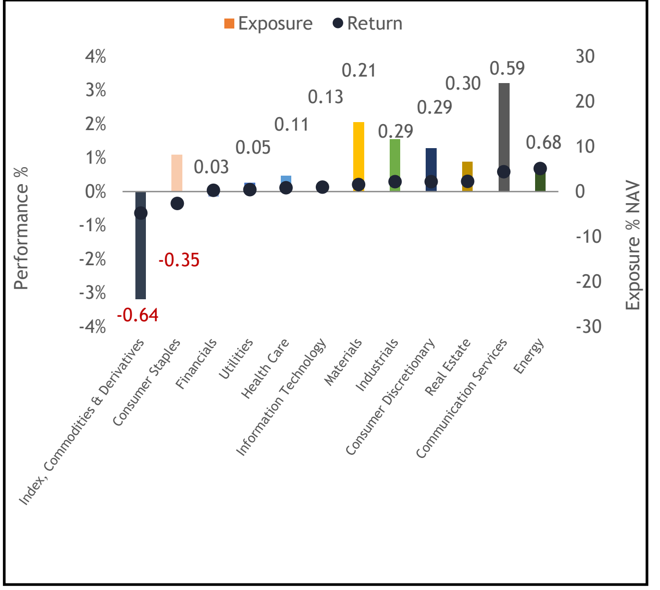
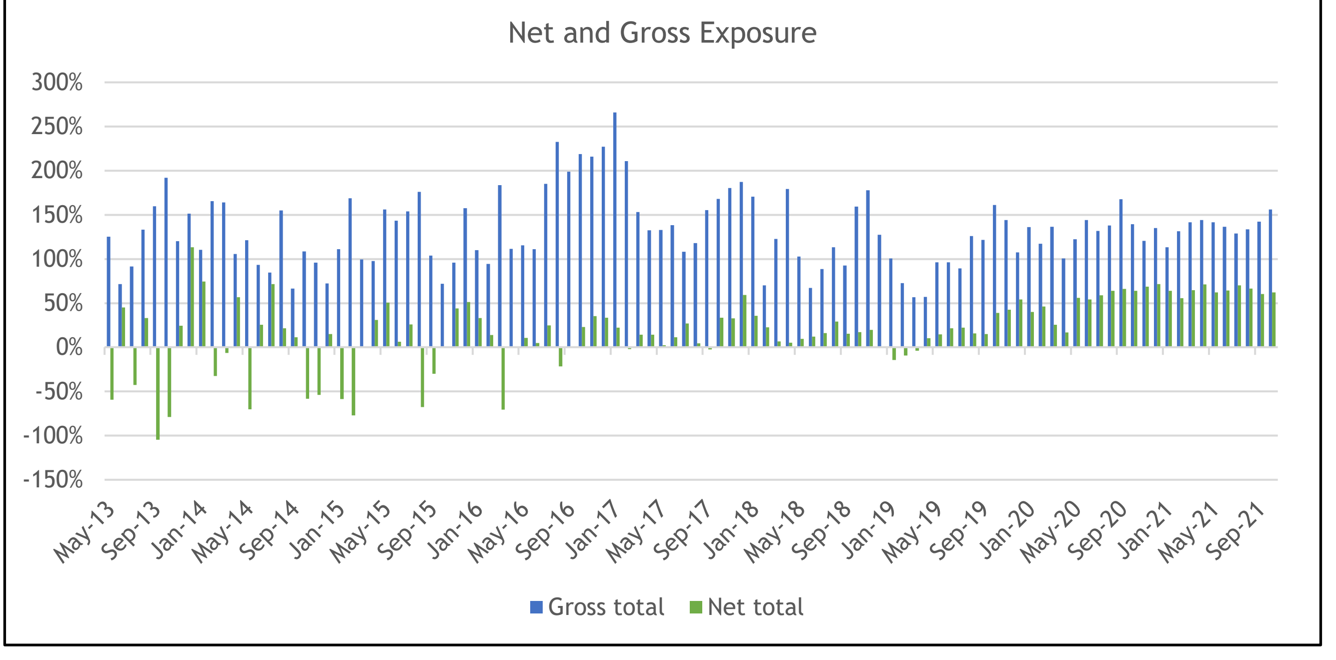
THEME RETURN & EXPOSURE



SECTOR RETURN & EXPOSURE



NET AND GROSS HISTORICAL EXPOSURE



INVESTMENT STRATEGY

The Fund adopts an absolute return strategy, focusing on thematic investment opportunities with an equity bias. We seek to achieve the investment objective through our asymmetric investment approach which includes:

1. Finding what we perceive to be good quality investments based on our analysis; and
2. Not losing money in the pursuit of realising these 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; and
4. Generate an asymmetric return profile.

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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	Apex Group Ltd.
MANAGEMENT FEE	1.5%	FUND AUDITOR	Ernst and Young
SUBSCRIPTIONS	Monthly	LEGAL ADVISORS	Ernst and Young

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