

COMMENTARY

The fund returned positive 2.07% for the month of January 2022. Net exposure averaged 35% long, while gross averaged 126%. This brings our Calendar Year return to positive 2.07% and since inception (2013) return to positive 24.53% p.a. net of fees.

We have been writing since September 2021 about uncertainties building in the markets. Since December, those uncertainties have become front and centre as the Fed has indicated they will begin raising rates. While there is extreme focus on what the Fed is doing on interest rates this year, we would argue that most participants are focused on this micro and less predictable outcome by the Fed. To us, the critical point is that liquidity is being withdrawn from the financial system. That is a significant shift from the market environment that has existed for over a decade. This is why we believe good investment opportunities in the next five years are likely to be very different from the opportunities we have seen in the last five years.

So, where will these opportunities come from? Well, the removal of liquidity is taking place across the developed world in a synchronised fashion. This is true of almost every country except China, who is actually injecting capital at a time when the rest of the developed world is removing it. Hence, from a top down perspective, we are more positive on China relative to the US.

We also are expecting that earnings will become far more important than they have been. Ultimately, wealth is not asset valuation, it is the cash flows that come from those assets. With the Fed now fighting inflation, the so called "Fed Put" is likely to be significantly lower than it has been in the past, which will force investors' minds and time on earnings. This will create some exciting opportunities to invest in both the long and the short side based on real earnings!

A key theme we are invested in on the short side is our Demand Bubble theme. Here, we have many companies expecting the recent earnings growth to continue. We believe some of this earnings growth is closely linked to monetary and fiscal liquidity injection. As that liquidity wanes, due to central banks and governments' removal of it, so too will the earnings estimates of these companies.

We began making significant changes in the portfolio in January on a net basis. Our net risk has been reduced from around 70% to around 20%. Of this we have 13% in voluntary carbon credits and 8% in Uranium. So, excluding these two themes, we are basically running slightly net short exposure to equity markets. These sectors will not be immune to a drawdown in a significant risk off event, but they are less correlated with equity markets in general. Given our positioning, the greatest risk we are concerned about, is that our bearish thesis is incorrect. We will remain diligently on the lookout for indications we are wrong.

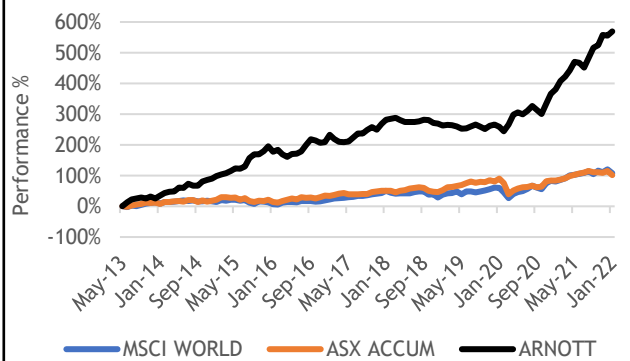
PERFORMANCE METRICS

	From May 2013	
	Arnott	MSCI
Annualised returns	24.53%	8.81%
% Positive months	66.35%	65.38%
Average monthly return	1.91%	0.78%
Avg return in MSCI up months	1.71%	2.93%
Avg return in MSCI down months	2.31%	-3.27%
Best month	13.07%	12.66%
Worst month	-6.09%	-13.47%
Largest drawdown	-11.61%	-21.44%
Longest drawdown (mths)	24	20
Sortino	4.50	0.88
Sharpe ratio	1.86	0.65

CORRELATION TO ASSETS (2013 to Current)

MSCI Index	0.05
US Government Bond Index	-0.08
US\$ Gold	0.02
Bloomberg Commodities Index	-0.04
Hedge Fund L/S	-0.00

CUMULATIVE FUND PERFORMANCE (2013-current)



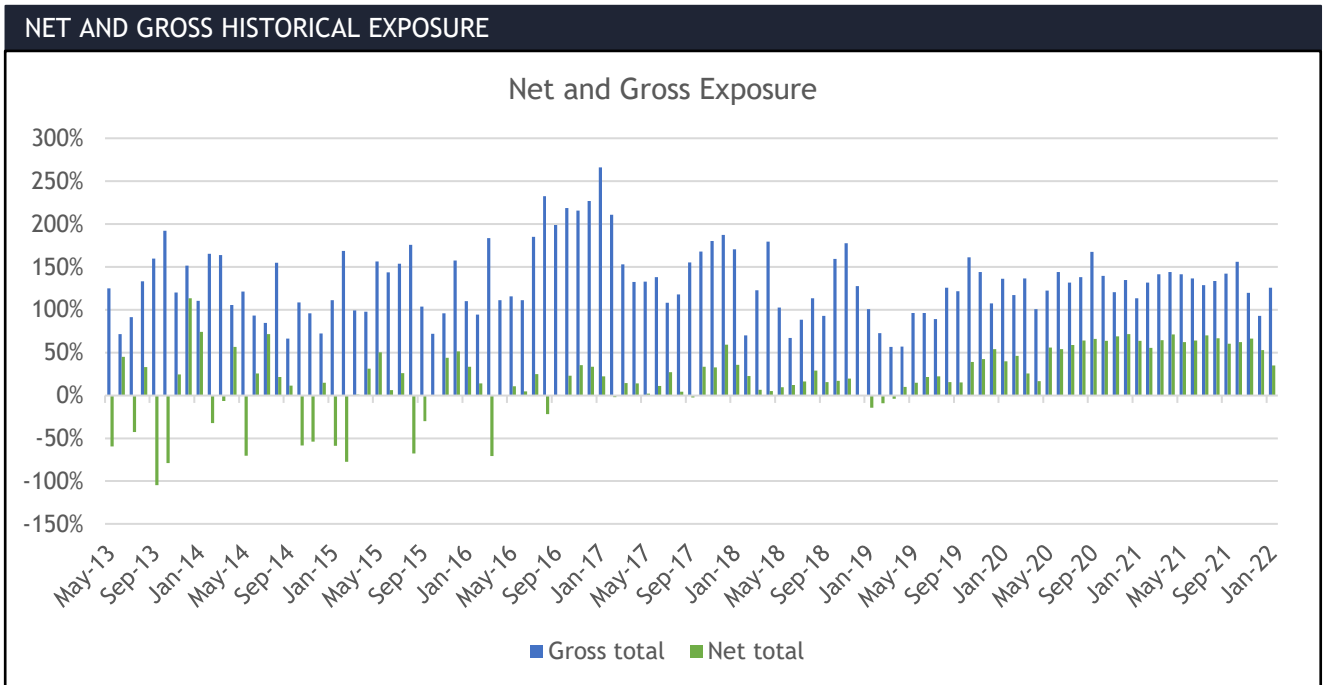
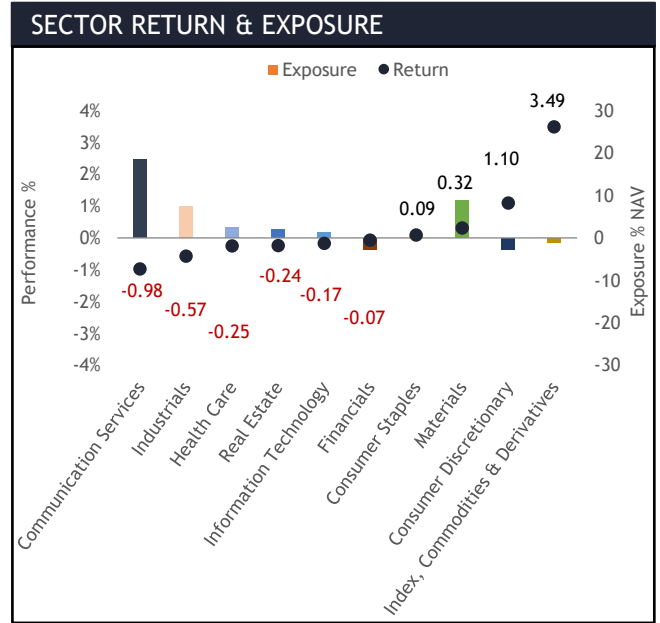
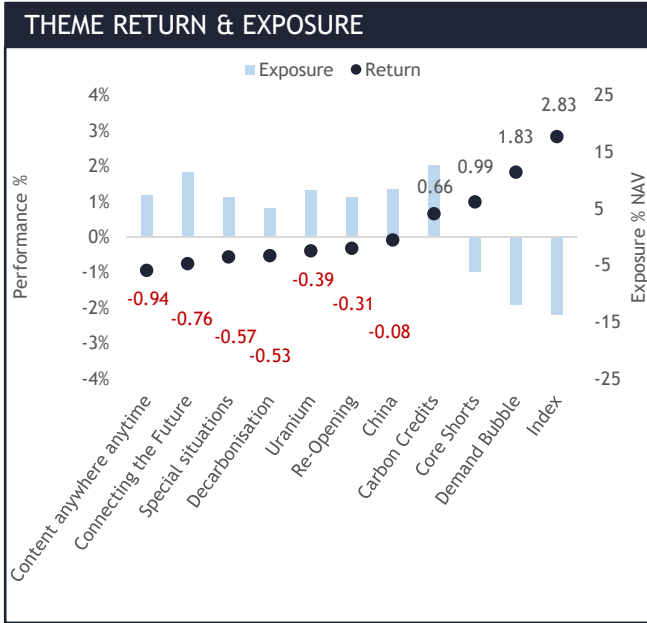
MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
2.07%	126%	35%

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	5.37	-0.24	40.90
2022	2.07												2.07

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.



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 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; and
4. Generate an asymmetric return profile.

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 International PLC J.P. Morgan Securities PLC
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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