

### COMMENTARY

The fund returned positive 2.50% for the month of May 2022. Net exposure averaged 66% long, while gross averaged 128%. This brings our Calendar Year Return to positive 4.10%, Financial Year Return to positive 20.32% and since inception return to positive 23.79% p.a. net of fees.

Over May risk assets continued their choppy decline in prices as market participants continue to navigate the dual headwinds of a slowing economy and 40-year high inflation levels. It is our base case that asset prices will continue their decline over the rest of the year and possibly into 2023.

The fundamental driver of our view is the simple premise that the last time the year-on-year rate of CPI was greater than 8% the fed funds rate was over 10% as the then chairman of the Federal Reserve Board, Paul Volcker, sought to break the back of inflation.

With the current fed funds rate at 1.75%, CPI running over 8% and the US unemployment rate at 3.8%, interest rates need to rise materially from here to tame the level of inflation. The commencement of quantitative tightening coupled with the anticipation of a precipitous rise in interest rates is draining liquidity from global markets at an accelerating pace. **This is not a supportive backdrop for risk assets.**

Whilst we have a negative outlook for overall asset prices, we continue to find extremely attractive investment opportunities in parts of the global economy that have been starved of capital for decades as developed market investors preferred to allocate the marginal dollar to capital light software businesses and outsource the industrial parts of the economy to developing nations.

Once such area is oil refining, which is set to undergo a golden age of super profits, as the old adage of higher prices cure higher prices is not applicable in an ESG conscious world. It takes a couple of billion dollars and approximately 7-10 years to build an oil refinery. In a world where we are trying to phase out the use of diesel and pivot to 100% renewable energy, we cannot see who would step in to tie up capital in the development of an asset that we are being told everyday will be obsolete within most of our lifetimes. Given the persistent and continued lack of investment and increased demand over the coming decade, we cannot see how the historically high prices will correct.

The Fund is currently long the only two domestic refining companies in Australia being Viva Energy and Ampol limited and forms part of our energy paradox theme.

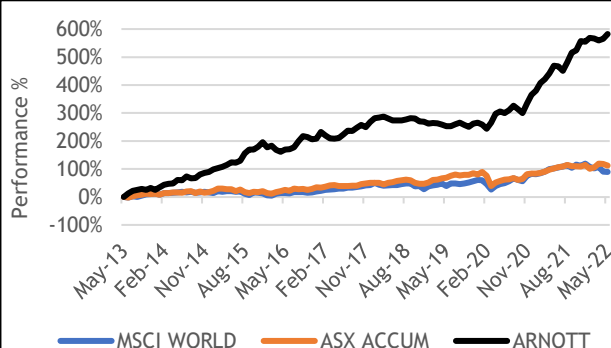
### PERFORMANCE METRICS

	From May 2013	
	Arnott	MSCI
Annualised returns	23.79%	7.37%
% Positive months	65.74%	63.89%
Average monthly return	1.86%	0.67%
Avg return in MSCI up months	1.67%	2.92%
Avg return in MSCI down months	2.21%	-3.31%
Best month	13.07%	12.66%
Worst month	-6.09%	-13.47%
Largest drawdown	-11.61%	-21.44%
Longest drawdown (mths)	24	20
Sortino	4.39	0.73
Sharpe ratio	1.83	0.53

### CORRELATION TO ASSETS (2013 to Current)

MSCI Index	0.06
US Government Bond Index	-0.04
US\$ Gold	0.01
Bloomberg Commodities Index	-0.06
Hedge Fund L/S	-0.00

### CUMULATIVE FUND PERFORMANCE (2013-current)



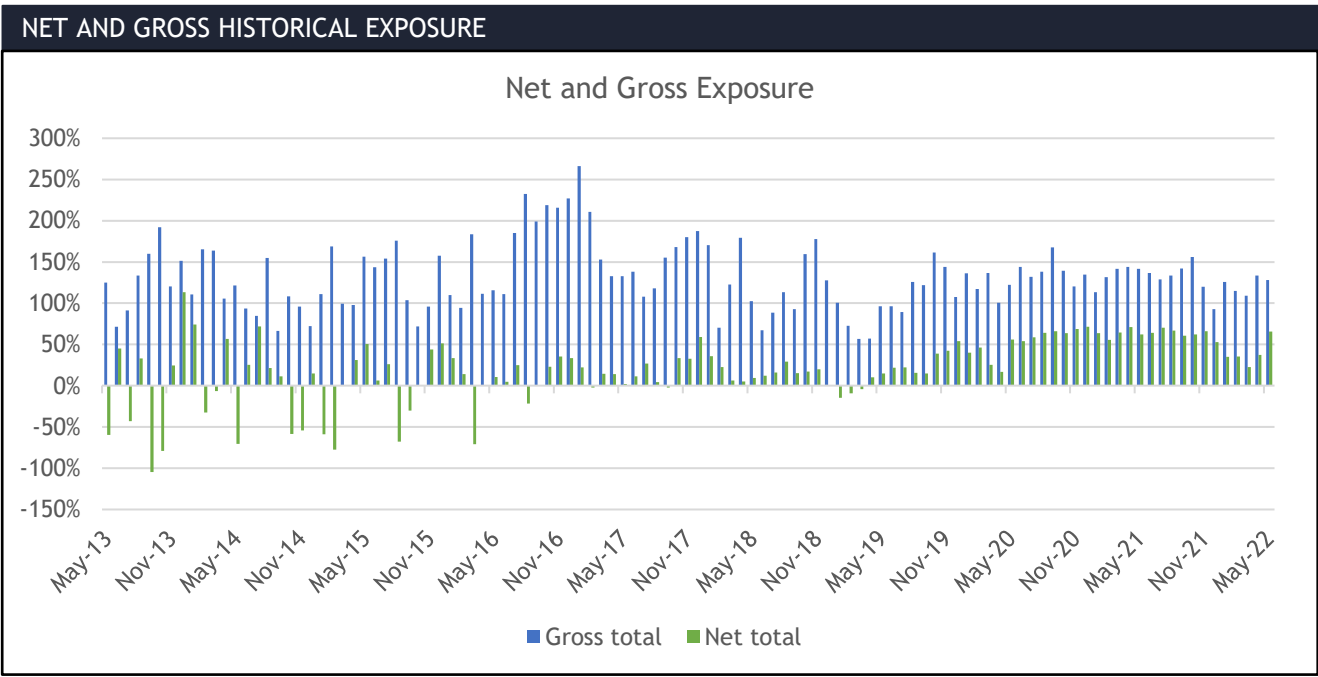
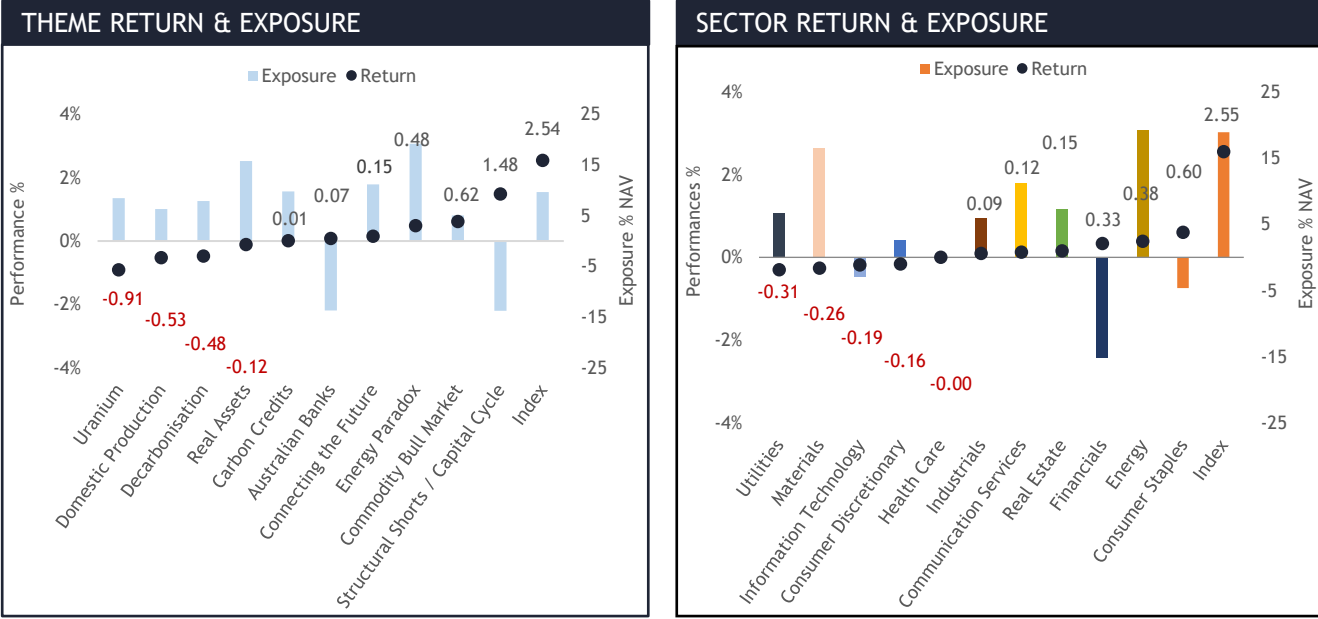
### MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
2.50%	128%	66%

### 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	-0.34	-1.10	0.95	2.50								4.10

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	<a href="mailto:investor@arnott.com.au">investor@arnott.com.au</a>
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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