Dear Fellow Investors,

As material investors in the Arnott Opportunities Strategy[1] ('Strategy'), we, the staff at Arnott Capital, want to share with you, our fellow investors, our thoughts, and reflections on our job as portfolio managers and guardians of investor capital.

In this letter, we will cover the following topics:

1) Performance summary over the last 12 months and lessons we have learnt

2) Macro risks and opportunities for the portfolio

3) Current portfolio positioning and outlook

1) PERFORMANCE SUMMARY THE LAST 12 MONTHS AS WELL AS LESSONS WE HAVE LEARNT

For the 12 months ended 30 June 2022, the Strategy generated a net return of positive 18.22%. The Strategy's net average monthly exposure over this period was 51% long and average gross exposure was 129%. This takes our average annual return to positive 23.58% p.a. since inception.

Pleasingly, our returns over the past 12 months were delivered despite a material drawdown in risk assets. Over the same period global equity markets (as measured by the MSCI World Index) returned negative **15.61%.**

Whilst the Strategy will not always be able to outperform equity markets, we believe curating a portfolio of investment themes with different opportunities and macroeconomic drivers, places the Strategy in a strong position to withstand a material sharp drawdown in risk assets. Since 2013 there have been three instances where the MSCI World Index has contracted by greater than 10% over a quarter. In all instances the Strategy has materially outperformed.

Figure 1. Strategy performance in MSCI World down quarters in excess of 10%

[1] We run one strategy across two funds. For simplicity and consistency all performance references in this letter will be for the Arnott Opportunities (Cayman) Fund Ltd.

The table below lists the most significant thematic contributors and detractors to the Strategy's performance over the 12 months to 30 June 2022.

Table 1. Contributors and detractors over the 12 months to 30 June 2022

TOP CONTRIBUTORS AND DETRACTORS FOR PERIOD	CONTRIBUTION / (DETRACTION)
URANIUM	7.04%
INDEX HEDGES	6.55%
DEMAND BUBBLE	2.70%
DOMESTIC PRODUCTION	-1.72%
CHINA	-1.89%

NB: The cut off point for contributors was greater than 2.50% and detractors greater than 1%

Uranium contributed +7.04% to performance over the twelve-month period to 30 June 2022. If, four years ago, when we first began investing in the Uranium thematic at prices in the US$20 p/lb range, you had of told us that within a 4-month period the following events would transpire:

- The potential for sanctions to be levied on Russian sourced enriched Uranium in retaliation to a war in continental Europe;
- Due to energy security concerns the Prime Minister of Japan ordered at least 9 nuclear reactors to be restarted by the fall of 2022;
- The European Union voting for Nuclear Energy to remain in the taxonomy of sustainable sources of energy, classifying nuclear energy as an "environmentally sustainable economic activity"; and
- No new Uranium supply having come to market in the present year.

Our best guess would have been spot Uranium prices trading well north of the marginal cost to produce Uranium of US$50 p/lb. However, as we write, with the material risk off mood sweeping markets, spot Uranium is trading at around US$46 p/lb.

With demand increasing, supply remaining tight and the potential for sanctions to tighten the market further, we believe we are in the early innings of the Uranium bull market with prices set to move materially higher from here.

Index hedges contributed +6.55% to performance over the twelve-month period to 30 June 2022. As we wrote in our 2021 Annual Investor Letter, we believed that our Index Hedge book would be a material contributor to fund performance as the end of the grinding bull market, commencing in late March 2020, would bring about a period of higher volatility and wider trading ranges, allowing us to generate returns from dynamically adjusting our net portfolio exposure to the markets gyrations.

As discussed in further detail later in this letter, we believe that this environment will persist into the second half of 2022.

Demand Bubble contributed 2.70% to performance over the twelve-month period to 30 June 2022. For the first 3 months of this calendar year, it felt as though we were fighting a losing battle with the 'resilient consumer' clearly displayed in earnings and economic data. Then as the Fed commenced aggressively raising rates, the basket of securities we were short saw precipitous price declines as the market narrative pivoted from a booming 2022 to calls for a recession.

Through the period we materially reduced our exposure to this theme as the price declines preceded the core parts of our thesis playing out, which for us made some of the positions within this basket of shorts more symmetrical in nature, rather than Asymmetric as they were at the beginning of 2021. We still hold a few positions within this theme where there have been minimal prices declines, however current portfolio exposure is less than 5% short to this theme.

Domestic Production detracted -1.72% from performance over the twelve-month period to 30 June 2022. We are of the view that investing in the next decade will be very different from that in the preceding (discussed in more detail later in this letter). The industrial rise of China has coincided with the industrial decline of many developed economies' domestic production in industries ranging from cement, steel, aluminium smelting, chemical refining, plasterboard production, just to name a few. Rightfully so, capital moved to higher returning sectors of the market such as technology while developed econoies industrial production facilities that were shut down, were not replaced with new efficient facilities, as the returns could never be justified by investors.

As ‘just in time’ is replaced with ‘just in case’ and supply chains continue to be stretched, domestic production will increase in importance, with decades of under investment in a variety of domestic manufacturing industries driving higher for longer prices as demand outstrips supply.

This basket of securities was not immune to the sell off in markets experienced in 2022 and has been a material detractor over the period. As concerns over a global growth slowdown weigh on this basket of securities. We have materially reduced risk and are waiting for a more stable outlook for global growth before re-entering this theme. Whilst we are incredibly positive on this investment thematic long term, the old adage of *“if you are early, you are wrong”* is at the forefront of our minds right now. Whilst we have reduced risk, we are spending a significant amount of time finding an increasing number of securities set to benefit from decades of underinvestment.

China detracted -1.89% from performance over the twelve-month period to 30 June 2022. Our investment thesis for long China at the beginning of calendar year 2022 was simple and predicated on the view that liquidity drives markets. China had been tightening financial conditions since the end of 2020. As we turned the corner into 2022 it appeared as though economic data was bottoming, fiscal and monetary stimulus was coming, and China would act as a perfect balanced long for investors moving away from tightening financial conditions in developed market economies.

The emergence of a Covid outbreak in combination with the country’s persistent Covid zero policies resulted in us exiting this theme, as our initial thesis, in the face of persistent and prolonged lockdowns, was no longer valid. Until we can see the country move past the Covid pandemic we struggle to be constructive on risk in the region, despite a clear policy easing path outlined by the Government.

Whilst it is instructive to review our performance over shorter time frames, it is important to not lose sight of our objective which is to deliver annual positive absolute returns over the long term, irrespective of any financial market performance.

When looking at our performance over multiple durations as per Table 2 below, this is what we have delivered.

Table 2. Annualised performance of the Arnott Opportunities Strategy verse other asset classes

Asset Class	1 YEAR	3 YEAR	5 YEAR	7 YEAR
Arnott Opportunities Strategy	18.22%	24.41%	16.22%	17.45%
MSCI World Index	-15.61%	5.35%	5.85%	5.63%
Bloomberg Hedge Fund Index	-11.54%	4.72%	4.13%	3.50%
Bloomberg Commodities Index	23.81%	13.69%	7.22%	1.89%
US Treasury Bond Index	-8.90%	-0.88%	0.74%	1.06%

2) MACRO RISKS AND OPPORTUNITIES FOR THE PORTFOLIO

“Only the paranoid survive”

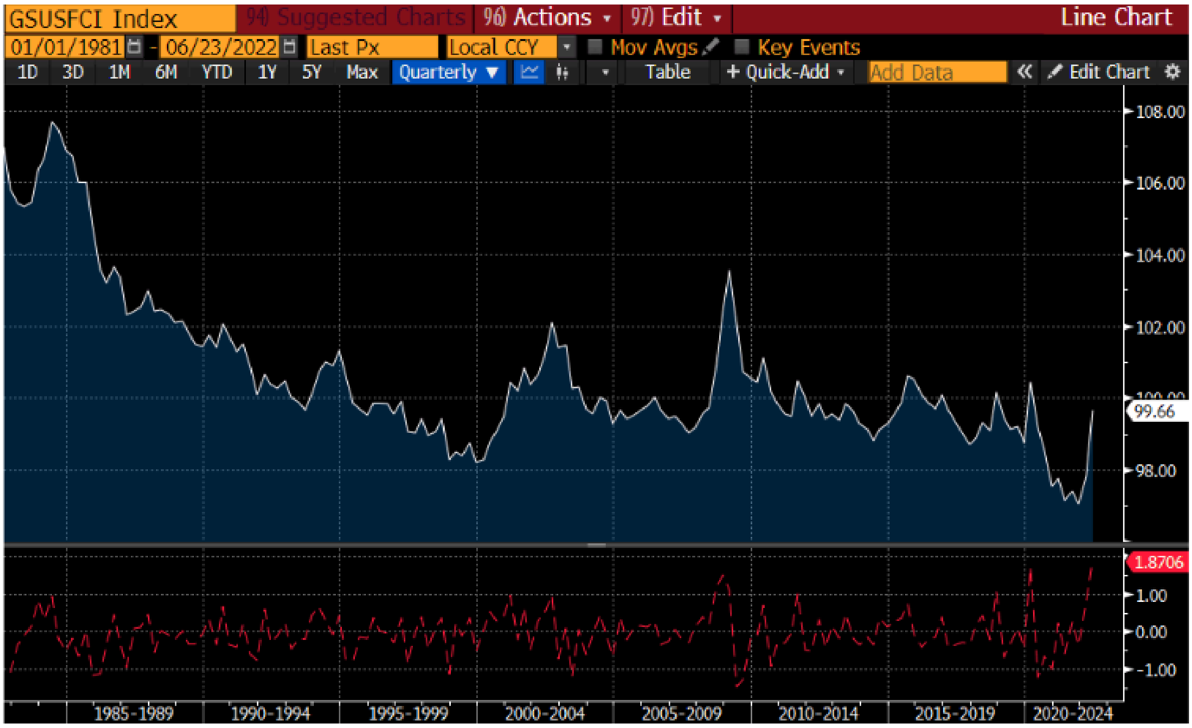
Andrew S. Grove

2021 feels like a lifetime ago. As we turned the corner into 2022 most market participants were poised for another positive year for risk assets, buoyed by strong economic growth, strong consumer balance sheets and ultra-accommodative interest rates. Fast forward to July 2022 and we have seen:

- The Fed Funds rate rise by 250bps; a pace of tightening unseen since the 1970’s and early 1980’s;
- A war breaking out on continental Europe, bringing into question global energy supply chains;
- Year on Year inflation growth in the United States in excess of 7%; and
- Persistent rolling lockdowns effectively shutting down the second largest economy on the globe.

This cocktail has led to the fastest tightening of financial conditions in recent history, driving a material repricing of risk assets over the first 6 months of 2022.

Figure 2. Financial Conditions and quarterly rate of change



Source: Goldman Sachs Investment Research

So, what does the Macroeconomic picture look like from here?

Before commenting on the current Macroeconomic landscape, it would be remiss of us not to mention how quickly the macroeconomic variables are moving and that we are approaching the current environment with a sense of humbleness and an open mind. So, by the time you are reading this, our views and subsequent portfolio positioning may have already adjusted.

In recent history the two key variables that have arrested the decline in risk assets were:

1.) The injection of liquidity by central banks; or
2.) An acceleration in global growth.

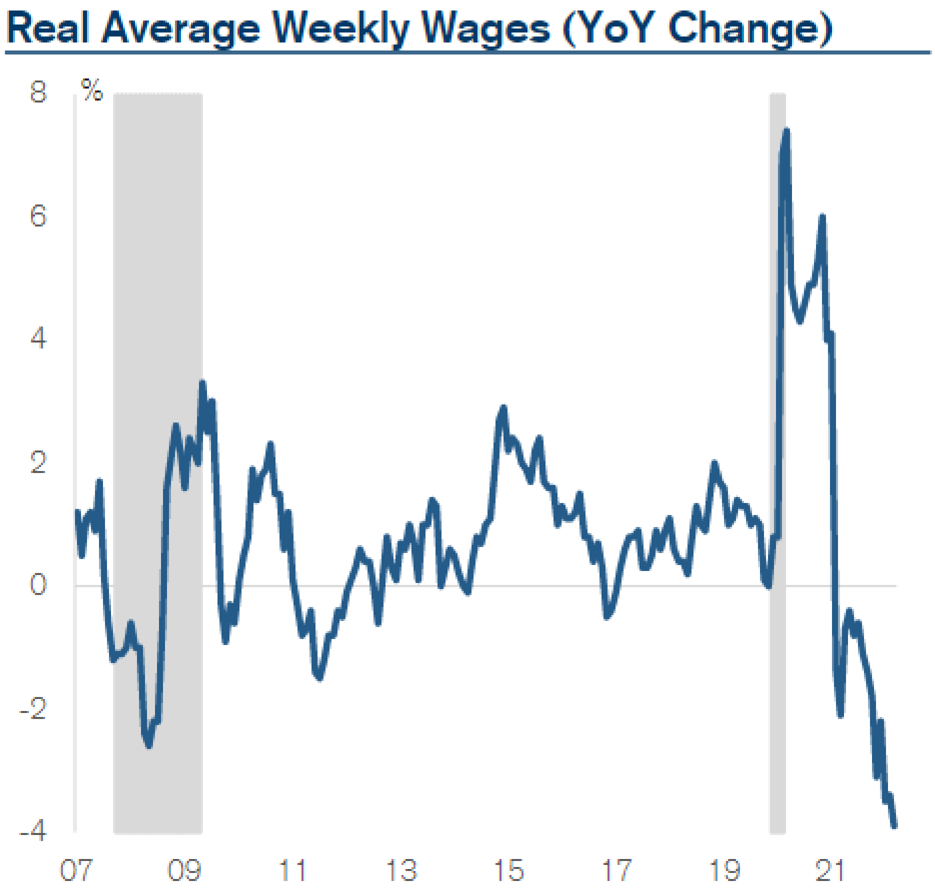
<u>Neither of these appear likely to arrest the decline in risk assets</u>.

The Fed and global liquidity

The Federal Reserve Board has made it clear; they are seeking to tame inflation before it becomes entrenched. Demand and asset prices come second to this mission here and now. With current year on year CPI at 9.1% and the Fed Funds rate at 2.50%, we struggle to see how this hiking cycle will end anytime soon. Historically in any period of episodic inflation (as measured by CPI) exceeding 5%, the Fed Funds rate has had to exceed the level of inflation to reduce it.

At a 2.5% Fed Funds rate, 1.5 months into their quantitative tightening program and real wages that are consistently trending deeper into the red, the “fed pivot” is nowhere in sight.

Figure 3. US Real Average Weekly Wages



Source: Credit Suisse

We primarily focus our thoughts on the Fed, however it is worth bearing in mind that two extremely large economic blocs are running with negative or zero interest rate policies. The ECB's policy rate is still 0.00% and the Bank of Japan's policy rate is -0.10%. If inflation is not reigned in, then at some point both blocs will finally cede to inflationary pressures and aggressively commence raising rates. What interests us the most is what happens when the global anchor point of duration for the past 20 years, is no longer the anchor? Or, more specifically, if Japan's BOJ relents on its policy of maintaining low interest rates, what are the implications for other treasury markets and indeed all bond markets?

The Economy / Global growth

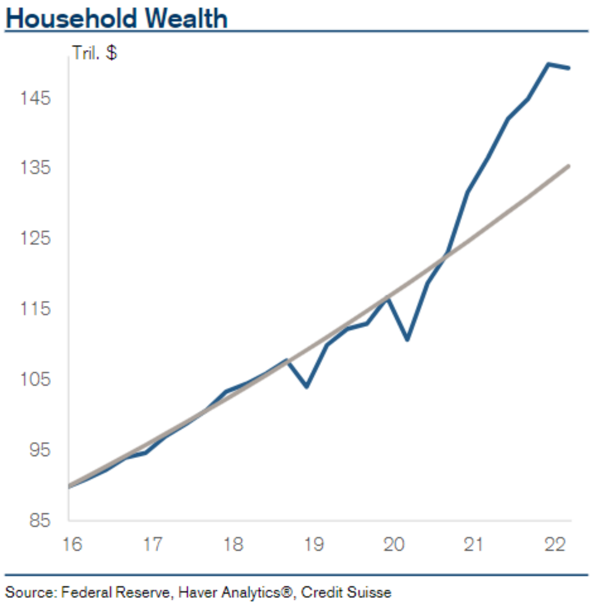
Presently, the facts confronting market participants are as follows:

- Present consumer sentiment is lower than in the depths of the Great Financial Crisis (according to the University of Michigan sentiment survey);
- Real wage growth is negative;
- The Fed is persisting with their hiking cycle, driving the US Dollar higher and placing stress on Emerging Market borrowers already grappling with sky high energy prices;
- Europe is discussing energy rationing over the winter months, effectively shutting down one of the largest global economic blocs, and the global economy faces the prospect of energy being *'weaponised'*; and
- The *'Covid Zero'* policy of China is resulting in an unpredictable level of production / demand from one of the core cogs in the global economy.

With this backdrop it is hard to be constructive on the global economy.

Despite this, a collapse in global growth for any meaningful length of time is difficult to foresee. We are entering this global growth slowdown with incredibly low unemployment levels and household wealth nearly 30% higher than before the pandemic.

Figure 4. US Household Wealth



These factors will somewhat cushion the fall in economic growth but by no means will they arrest the decline.

The economy is slowing and with more economic risks being thrown into this already loaded cocktail, the likelihood of the year-on-year rate of change in economic growth accelerating, is very slim.

Our view for the second half of 2022 is very similar to our view at the beginning of the year. Risk assets will be challenged, and volatility of underlying asset classes will be elevated.

We are by no means wedded to this as our core view. We believe the need *to be nimble in this environment is not a luxury but is a function of survival*.

3) CURRENT PORTFOLIO POSITIONING AND OUTLOOK

There are times to increase risk in the portfolio and seek to deliver very strong returns and there are times to dial down risk and aim to preserve capital. Given the current environment we are firmly of the view this is the time to preserve capital.

We remain invested in our highest conviction themes across Carbon Credits, Connecting the Future, Decarbonisation, Energy Paradox, Real Assets & Uranium but with a reduced gross exposure level. Against our long themes we have short exposures spread across equities and equity index futures and options. The result is low and episodically negative net portfolio exposure.

Whilst we are concerned about the near-term pricing of risk assets, please do not confuse this with a persistently pessimistic mindset. It is our deep fundamental view that investing over the next decade will be very different from the preceding one, driven by a sustainable long lasting capital investment cycle underpinned by powerful structural tailwinds.

- **Deglobalisation:** Covid was the catalyst that has been accelerated with the outbreak of war on continental Europe. The nearshoring of critical supply chains for large multinational organisations and Governments, in an era of heightened geopolitical tensions, has gone from an afterthought to a must. This will unwind decades of offshoring and rewire global supply chains.

- **Decarbonisation and energy security:** The imperative to decarbonise energy supply chains is not only driven by the pathway to net zero carbon emissions but drives resilience in energy supply chains. The urgency to invest in lower carbon intensive energy sources has never been higher.

- **Social goods and job creation:** Fiscal austerity has now been replaced with *'Modern Monetary Theory'* as society has embraced Government spending as long as money is spent on the social need. We are only at the beginning of this inflection in Governments' willingness to spend.

Calling inflection points in market investment regimes is clearly easier in hindsight and we may well be wrong in our call and revert to the low interest rate, low growth environment which has persisted in recent history.

However it is our view that both the pandemic of 2020 and the outbreak of war on continental Europe in 2022 have catalysed a shift in the financial environment. Financial markets are now set to structurally pivot away from the low interest rate, low growth and low volatility environment that we have experienced in recent history, creating a plethora of opportunities for global unconstrained investors.

IN CLOSING

Thank you for your support throughout the past 12 months and entrusting us with your capital. As we move into the second half of 2022, we are more confident than ever in our Asymmetric Investing approach and are tremendously excited for the opportunities that lie ahead.

Yours faithfully,

Kenny Arnott,
Chief Investment Officer

Yianni Gertos,
Co-Chief Investment Officer

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.