

COMMENTARY

The fund returned negative 2.93% for the month of October 2022. Net exposure averaged 40% long, while gross averaged 107%. This brings our Calendar Year Return to positive 0.04% and since inception return to positive 22.39% p.a. net of fees.

The Risk Manager and the Opportunist

We have two clear investment objectives that require two different skill sets. Our first and foremost objective is to preserve capital. To achieve this, the risk manager must be in control of the portfolio. Our second objective is to achieve reasonable returns. To do this, the opportunist must be in control. It is easy to manage risk - by not taking any risk. And it is easy to make a lot of money - by simply having little regard for risk. The challenge of an asymmetric investor is to combine the two in just the right doses. This is no easy task.

For the majority of 2022, the environment has been tricky, to say the least. In October, we saw another potentially calamitous risk event arrive and pass. This time it was the Bank of England, who had to temporarily resume their Quantitative Easing program to buy long dated UK government bonds, to prevent a liquidity crisis. This issue may not be limited to the Gilts market. Liquidity in the treasury market - a crucial measure of how well it is trading - is at a level that has only been worse in March 2020 and during 2008. As markets remain in a fragile state, we remain alert to risks.

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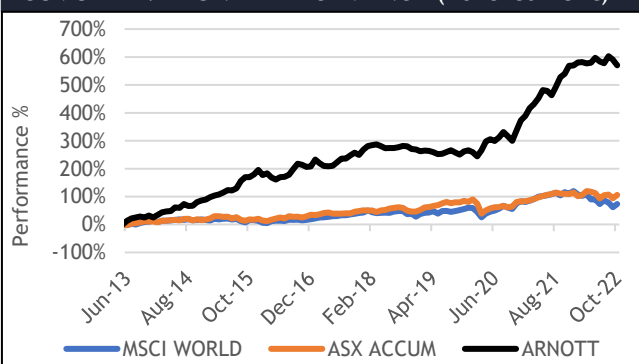
PERFORMANCE METRICS

	From May 2013	
	Arnott	MSCI
Annualised returns	22.39%	6.00%
% Positive months	65.49%	62.83%
Average monthly return	1.77%	0.58%
Avg return in MSCI up months	1.63%	3.05%
Avg return in MSCI down months	2.00%	-3.61%
Best month	13.07%	12.66%
Worst month	-6.09%	-13.47%
Largest drawdown	-11.61%	-26.39%
Longest drawdown (mths)	24	20
Sortino	4.10	0.56
Sharpe ratio	1.70	0.41

CORRELATION TO ASSETS (2013 to Current)

MSCI Index	0.06
US Government Bond Index	-0.01
US\$ Gold	0.04
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
-2.93%	107%	40%

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	1.87	4.51	0.22	41.60
2022	1.61	0.17	-0.73	0.32	2.65	-1.85	-0.96	3.75	-1.79	-2.93			0.04

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 - 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.

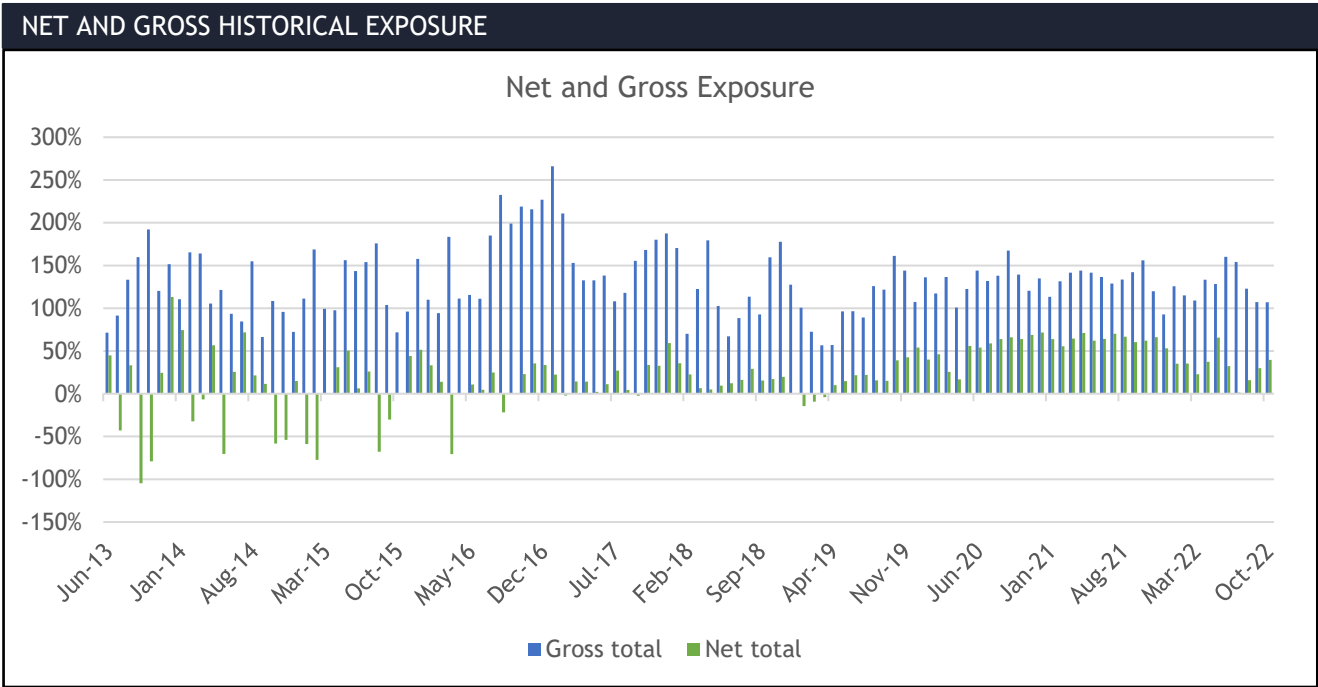
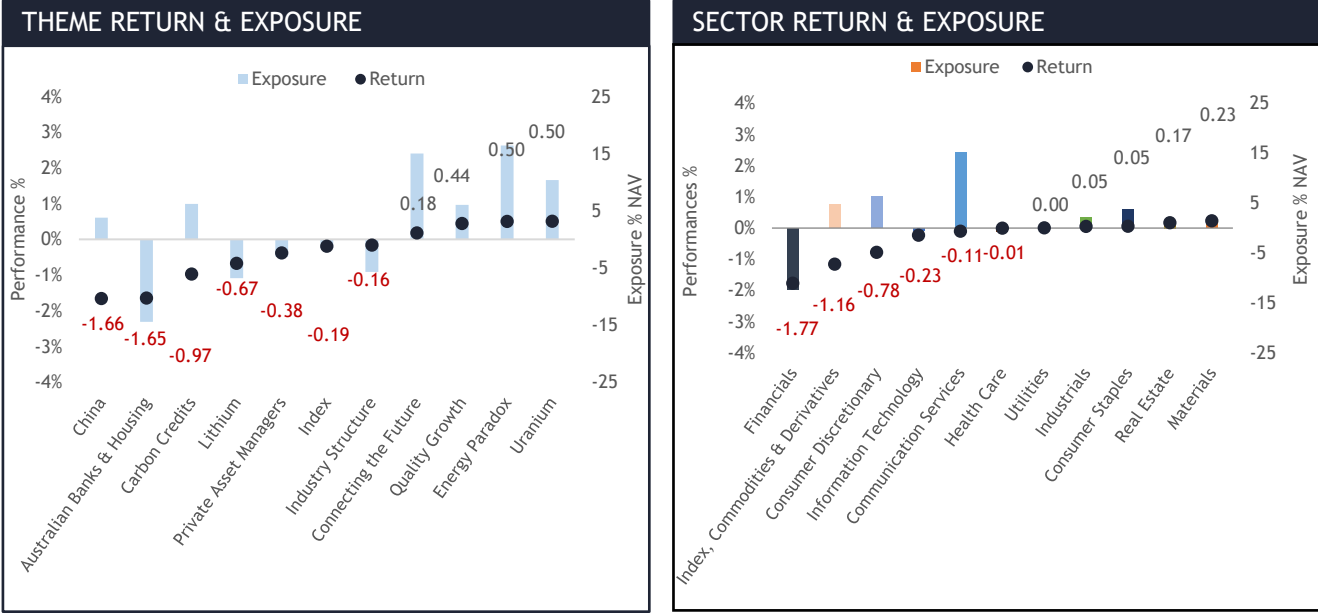
Below the Hood - we see many interesting opportunities

Below the hood of the portfolio however, we are more optimistic about opportunities. As we enter a period of normalising interest rates, the debt binge that has supported much of the growth in asset prices over the past decade, is unlikely to be unwound without further declines in asset prices. A 20% fall year to date in the S&P 500, 15% in global government bonds, and 7% in Sydney house prices do not feel far enough, in comparison to how fast global interest rates have risen and the excesses that have built up in the system over the decades. This brings with it a raft of short thematic opportunities.

Furthermore, we are now entering the second stage of the bear market - earnings fall. This will play out over 2023 and will bring many interesting opportunities with it. It is likely that this earnings fall takes place at a time that coincides with the consumer savings being absorbed and higher interest rates starting to take effect. This is a very interesting development to watch.

On the long side, we are focused heavily on special situations. These opportunities are exceptionally appealing in a difficult market, as they don't rely on beta. We do not typically do traditional risk arbitrage, as these investments have negative asymmetry. Meaning you make little on most deals but lose a lot on the one that goes wrong. Instead, we are focused on more nuanced opportunities.

In the short term it is very possible, even probable that headline inflation comes down. All else being equal, this will likely support risk assets into year end. However, this does not change our view that on a one-year investment horizon, high asset prices and falling earnings will bring some interesting themes to invest in on the short side.



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	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 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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