

COMMENTARY

The fund returned negative 0.77% for the month of November 2022. Net exposure averaged 53% long, while gross averaged 124%. This brings our Calendar Year Return to negative 0.37%, Financial Year Return to negative 2.66% and since inception return to positive 21.84% p.a. net of fees.

In his latest memo, Howard Marks says (paraphrased), *“In his 53 years in the investment world he remembers only two real sea changes and that we are in the midst of a third. Inflation and interest rates are higher today than they’ve been for 40 and 13 years, respectively. Interest rates in the next several years will more likely average 2-4%, rather than 0-2%. This will bring a new investor mentality. This is a very different environment to what we have all come to know over the last 40 years. The last 40 years of interest rates declining has provided a tailwind in so many ways to the investment world. It is likely a significant portion of performance has come from declining interest rates and not investment skill”.*

When we invest, we think about a base case outcome. We make investment decisions according to that base case. However, we always assume we may be wrong with that base case and consider other outcomes. Despite these outcomes being less likely, they often have outside effects, both positive and negative if, they play out.

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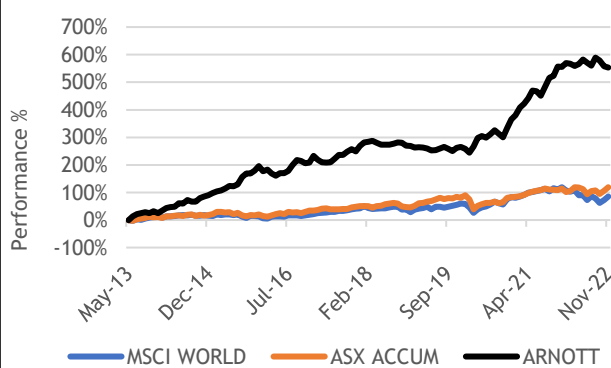
PERFORMANCE METRICS

	From May 2013	
	Arnott	MSCI
Annualised returns	21.84%	6.68%
% Positive months	63.16%	63.16%
Average monthly return	1.73%	0.63%
Avg return in MSCI up months	1.52%	3.10%
Avg return in MSCI down months	2.08%	-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	4.23	0.62
Sharpe ratio	1.68	0.45

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	0.03

CUMULATIVE FUND PERFORMANCE (2013-current)



MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
-0.77%	124%	53%

STRATEGY HISTORICAL PERFORMANCE (%)

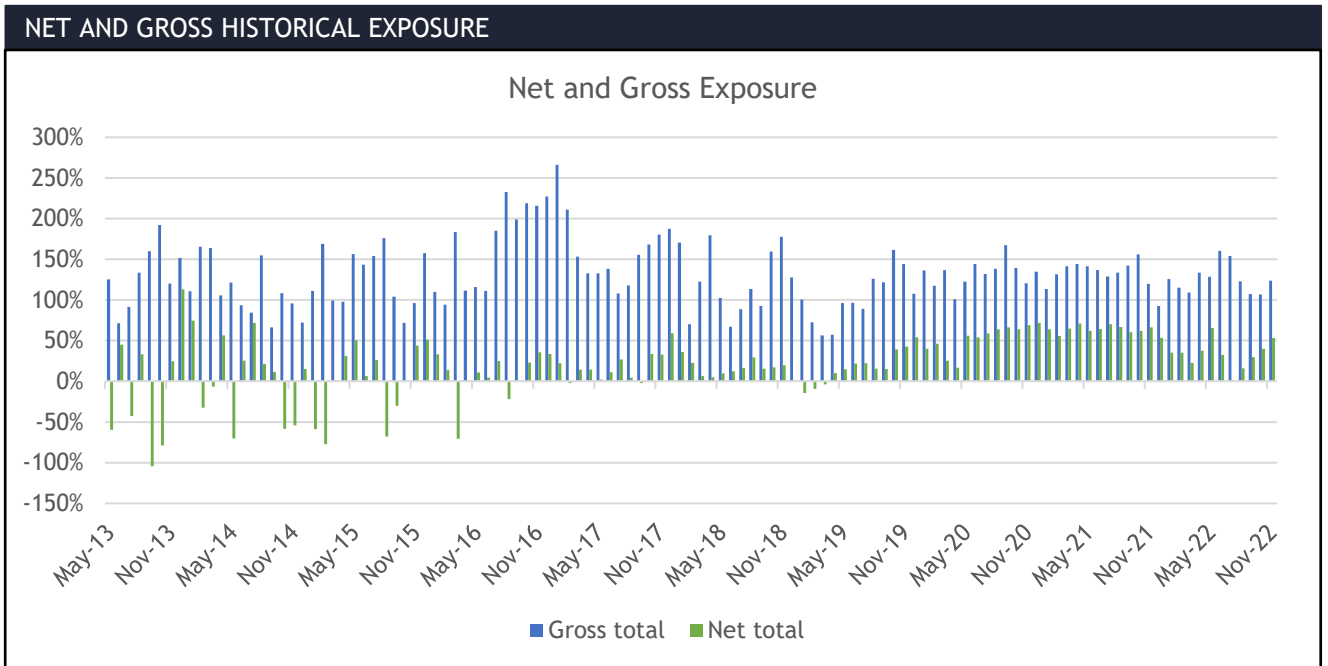
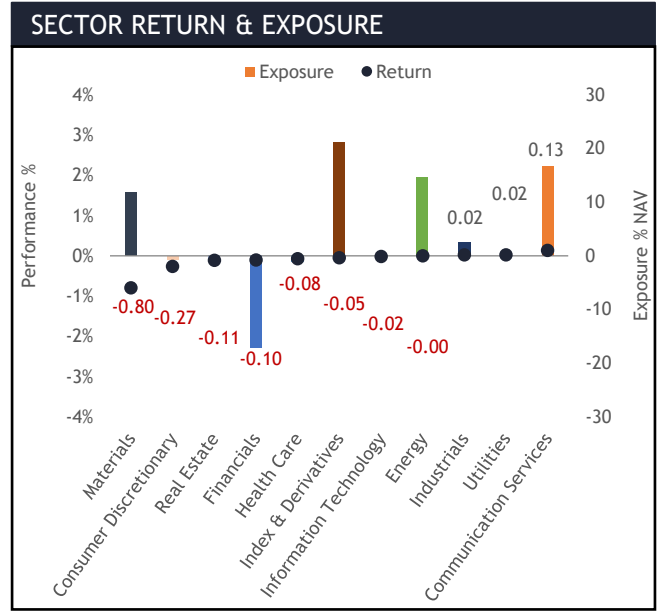
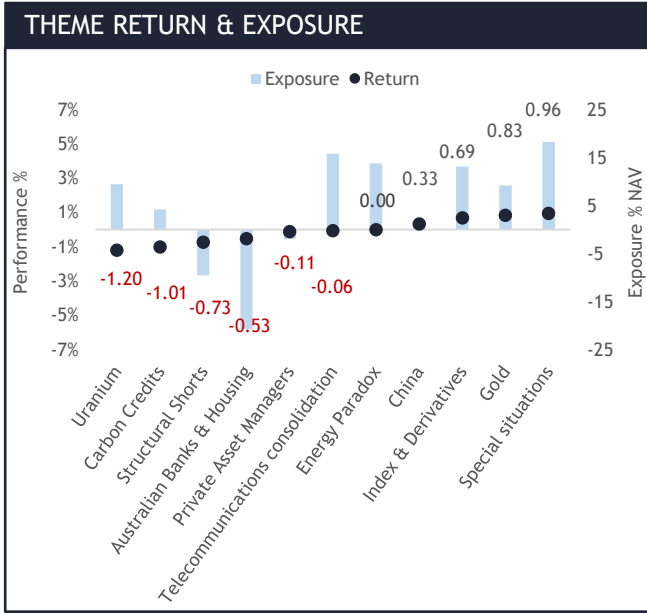
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2013						13.07	7.63	2.97	2.82	-2.69	5.23	-5.25	25.00
2014	7.61	6.56	2.43	0.77	8.87	-0.93	8.46	-3.78	0.34	7.78	3.24	1.92	51.59
2015	4.46	2.88	1.99	3.19	4.12	-0.52	3.44	11.47	5.23	0.00	3.67	5.72	55.80
2016	-6.09	2.14	-5.17	-2.83	3.30	0.40	2.69	7.49	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	-1.68	-1.61	4.48	-1.55	-3.07	-0.77		-0.37

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.

We believe Marks is right and our base case is that rates will likely average 2-4% over the next several years. This new interest rate regime will likely affect every asset class. Again referencing Marks' memo, it seems reasonable to us that the recent data will not be overly useful, as a reference point for determining value, in a world where interest rates are no longer falling, and indeed are significantly above what we have all been used to. However, it will take time for investors to adjust to this new world. Slowly we will get used to assessing businesses and make decisions on borrowing money at new, higher rates. The ramifications for this will be far reaching. Zombie companies will no longer continue to be funded. Starts ups will find it harder to get capital. Asset prices will no longer have the tailwind of lower rates. Consumer trends will change as household wealth does not increase at the same rate that they are used to. This will bring very different opportunities to the last period.

Of course we could be wrong on this. So, let's consider the other two broad options. There are many who believe that rates cannot go much higher - even believing they will fall soon. The arguments are sound. They are largely based around the fact that debt levels are too high to sustain higher rates. Should this outcome eventuate, then the status quo of the last few decades will prevail. While the chances of this seem low, we will however monitor data, the central banks and the policy makers response. The third outcome is that rates go higher. Whilst we do not know for sure, we would not want to be investing on the assumption that rates cannot go higher. Looking at history, as a guide, in the periods when we were in a rate hiking cycle and had periods of high inflation, we see there were five periods since 1967 when this setup occurred. During the past four periods (we are in the fifth now), rates went up between 6 and 16% during the rating hike cycle. Again, we will monitor data, the central banks and the policy makers response.

We wish everyone a Merry Christmas and Happy New Year. We look forward to working with you in 2023.



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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