

COMMENTARY

The fund returned negative 0.75% for the month of April 2023. Net exposure averaged 32% long, while gross averaged 89%. This brings our calendar year return to negative 3.70%, financial year return to negative 4.50% and since inception return to positive 20.60% p.a. net of fees.

The current macroeconomic environment is unusually difficult to predict with multiple tailwinds and headwinds for risk assets on the horizon.

On the positive side: the interest rate hiking cycle in developed economies looks to be near the summit; Europe has shown immense resiliency in the face of an energy crisis; China has re-opened their economy moving on from Covid-19 induced lockdowns; consumers remain in good shape with high levels of excess savings and an incredibly tight global jobs market; and globally, investors are quite downbeat.

Countering this, the headwinds facing risk assets, as we see it are: lead economic indicators globally are slowing; the US consumer is now starting to burn through excess savings built up through the pandemic; and financial conditions are tight with the lagged impacts of interest rate rises making their way through the global economy.

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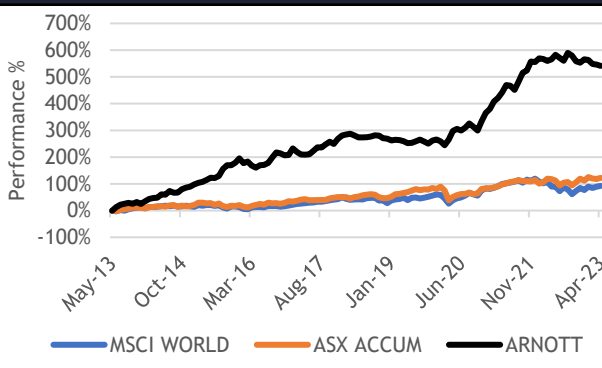
PERFORMANCE METRICS

	From May 2013	
	Arnott	MSCI
Annualised returns	20.60%	6.84%
% Positive months	61.34%	63.03%
Average monthly return	1.64%	0.64%
Avg return in MSCI up months	1.44%	3.13%
Avg return in MSCI down months	1.98%	-3.60%
Best month	13.07%	12.66%
Worst month	-6.09%	-13.47%
Largest drawdown	-11.61%	-26.39%
Longest drawdown (mths)	24	20
Sortino	4.03	0.65
Sharpe ratio	1.61	0.47

CORRELATION TO ASSETS (2013 to Current)

MSCI Index	0.05
US Government Bond Index	-0.01
US\$ Gold	0.03
Bloomberg Commodities Index	-0.02
Hedge Fund L/S	0.02

CUMULATIVE FUND PERFORMANCE (2013-current)



MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
-0.75	89%	32%

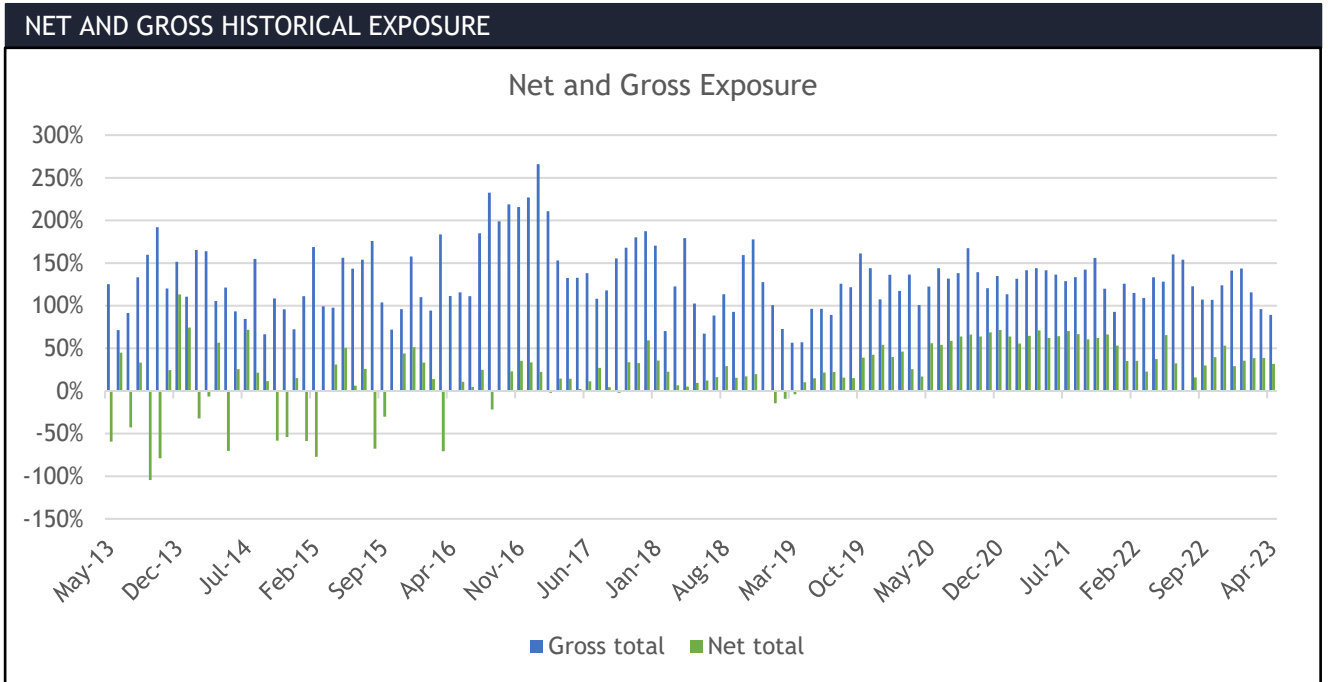
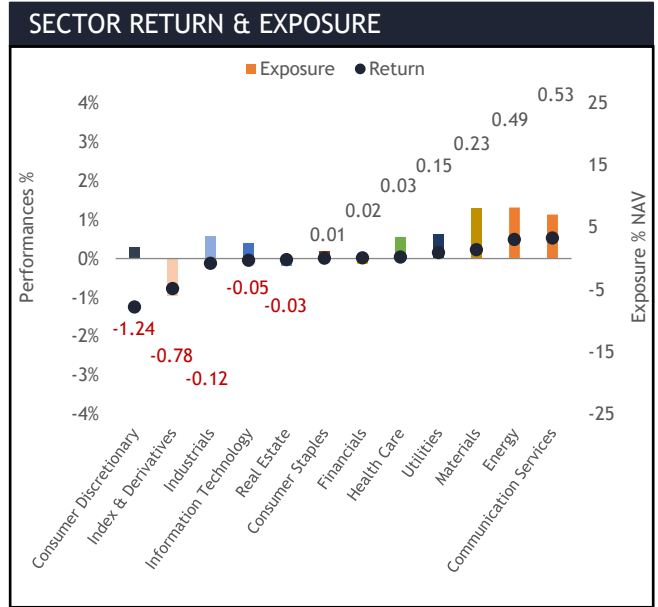
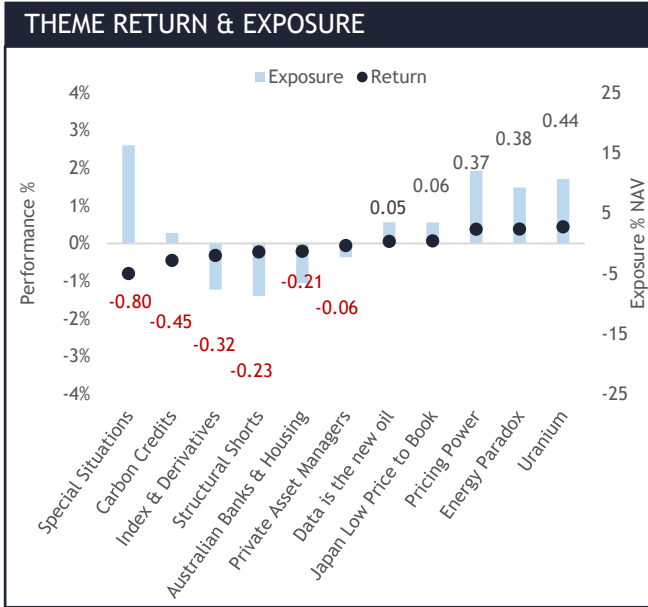
STRATEGY HISTORICAL PERFORMANCE (%)

	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	1.87	1.50
2023	-0.29	-2.34	-0.36	-0.75									-3.70

What is not a balanced argument now is the volume of left tail events that could transpire. To put it succinctly there are more ‘black swans’ walking around in plain sight now, than one can remember in recent financial history.

It is clear to us that we have no edge on the current macroeconomic environment in the short term (next 1-3 months) and are going to stick with the playbook of ‘light and tight’, as per our February factsheet. The portfolio will be concentrated on our best ideas with low overall gross exposure to provide us the flexibility for when the ‘fat pitch’ does emerge.

What is becoming clearer is the trajectory over the medium term (6-18 months). Our conviction is growing as the juggernaut of the global economy, the US consumer, is facing an incredibly difficult period ahead. There is a confluence of factors that we believe are coming to a head through the end of 2023 and early 2024 that will drive a material slowdown in US consumer spending as: excess savings built up over Covid-19 are burnt through by the end of 2023; the lagged impacts of interest rates rises begin to bite; tightening lending standards constrict credit creation; and stubbornly higher consumer inflation levels prove to be a thorn in the side of household budgets.



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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