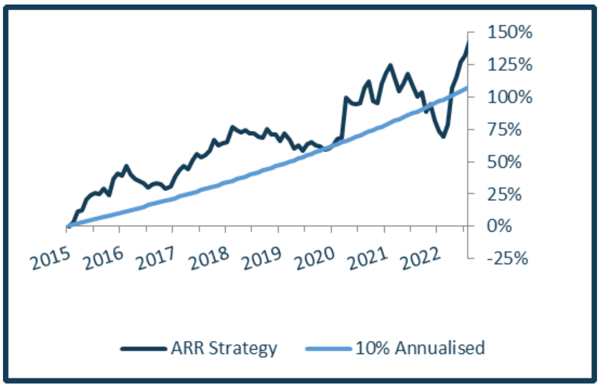
ARR Global L/S Equity Strategy

Investor Letter, Second Quarter 2022

Dear Friends and Investment Partners,

I hope you are well!

ARR Investment Partners generated a net return of 12.1% in Q2 of 2022. The cumulative net return since inception in 2015 is 142.6% in USD, representing an annualised return of 12.4%.



The chart above shows our net cumulative performance since 2015, and our performance target of net annualised returns of 10% (or 107.6% cumulative net return since 2015).

Our vision is very clear: over the long run, we want to deliver annualised net returns greater than 10%. This is with the ingrained idea that if you have invested USD 1 million, it would be worth approximately USD 2 million in 7 years, USD 3.8 million in 14 years and USD 8.1 million in 22 years, effectively doubling the investment every 7 years.

Whether it is quality of research, decision-making or risk management, we will obviously aim to perform to the best of our abilities, however, there is also a facet which you, as an investor, can control – and that is your investment horizon and how you react in a drawdown. Do you see volatility as a temporary opportunity to increase your investment/allocation, or do you divest?

Given our negative performance last year, those two investors who increased their allocation during this period have made significant returns. Unfortunately, only a very small number have used this opportunity. What I have noticed is that the investors with a long-term investment horizon usually see greater returns compared to those with short term investment horizons. The investment reality is that there are market phases in which an investment approach works better than others, and those in which it underperforms. If you are a performance chaser, you are often too late. It's likely that in 2021, no one, including myself, thought I would generate 16% in March 2022 despite a war starting and the markets crashing. And one should never forget that even the best hedge fund managers, like George Soros, also incurred temporary losses of 20% or more before generating incredible returns afterwards.

Money-Weighted vs Time-Weighted Return

When judging a fund manager, it is important to adequately assess their performance. Existing investors often evaluate this by looking at money-weighted returns instead of time-weighted returns. Money-weighted returns account for investor's cash flows into the portfolio, while time-weighted returns do not. To explain the difference, I would like to use a scenario – an investor has initially allocated USD 100,000 to fund manager A, and the fund manager has generated a 100% return at the end of the first year, with the investor's allocation now valued at USD 200,000. So, the investor decides to further allocate USD 1 million, with the total allocation now being worth USD 1.2 million. The next year, the fund manager A incurs a -10% loss and therefore, although the fund manager has generated cumulative net returns of 80% over the last two years, the investor has lost USD 20,000 (1.2mn*0.9=1.08mn).

The time weighted return is 80%, whereas the money weighted return is -1.8%. Had the investor given USD 100k and 1 million to fund manager B, who generated 1% in year 1 and 1% in year two, the money weighted return would be higher than the one of fund manager A. But whom would you prefer to give your money, a fund manager who generates 80% over two years or one who generates 2%. For me, it is clear that time weighted returns are the best way to judge the quality of a fund manager.

It is important to keep in mind that the fund manager cannot control when you, the investor, allocates capital and its overall amount. My recommendations in terms of allocations are the following: in general, when the fund performance is down, the right attitude is to see this development as an investment opportunity – as some of my investors did last year and consequently had outstanding returns over the last 12 months. Alternatively, increasing allocation when you expect a market correction might make sense as making money in bear markets is our core strength. Lastly, other investors have another sensible process – they allocate via cost averaging by allocating in regular monthly intervals.

Annual Performance – Interactive Brokers

I would like to formally address the returns report generated by Interactive Brokers at the end of the year. In the managed account, the performance fees are usually deducted in the second week of the next calendar year. This deduction is not excluded in the InteractiveBrokers performance report and therefore creates the impression of worse performance. This is especially true in the year which follows a very strong year – as felt by some of our investors in 2021 - where our performance fee for 2020 was several percentage points given our strong return then. While the performance delivered for the year 2021 was disappointing, many investors thought that the performance was worse based on the automatically generated report by Interactive Brokers. It is important to keep this performance fee deduction in mind when looking at the returns on the managed account in Interactive Brokers.

Current Longer Term Opportunities

We believe that there are certain rebound opportunities in the market where companies with good fundamentals are priced cheaply as the result of the Russo-Ukrainian conflict panic selloffs, with many forced sellers due to fund liquidations etc. These include Austrian and Kazakhstani banks, such as Raiffeisen Bank, Kaspi.kv, and Halyk Bank, that have sold off by more than 60% in Q2 because of their proximity, or partial exposure, to the Russian economy. However, those companies have been performing far better than expected. Bank Halyk experienced good sales growth last quarter, beating the EPS estimates by 29.2%. Raiffeisen Bank saw its YoY net income profit increase by 220.7%. The reality is that many Russians transfer their money to Raiffeisenbank from Russian state banks as those are sanctioned. This mismatch between perceived risk and reality offers a great risk reward opportunity. Given the residual political risks however, we have limited our exposure to this investment theme.

Inflation Reduction Act – Macro Driver

The Inflation Reduction Act of 2022 (IRA) was signed into law by President Joe Biden on August 16, 2022. This Act was a result of the negotiations of the Build Back Better Act, which had been comprehensively reduced because of opposition. The act raises USD 737 billion and authorises USD 369 billion in spending on energy and climate change, USD 300 billion in deficit reduction, and the remaining on healthcare and tax reforms. It extends the Investment Tax Credit by 10 years, offers rebate programs for home energy efficiency spending/retrofits and provides tax credits for electric vehicle (EV) spending and continued production of green power generation/storage products. Many renewable energy companies are bound to positively benefit from this long-term sector trend. Polysilicon manufacturers, who's success is closely tied to the success of the global solar market, will experience greater demand for their polysilicon, as photovoltaic (PV) product manufacturing ramps up.

As the Act allows for consumer and manufacturing tax credits for home energy, renewable energy and storage, (around $49 billion), as well as rejuvenating the Energy

Supply chain (around USD 55 billion), solar panel and micro-inverter installers, will experience demand tailwinds as well.

With the act allocating approximately USD 31 billion to EV's, alongside production tax credits, demand for Lithium will be increased, and we have several companies in the lithium mining sector on our watchlist. The IRA will encourage longer term adoption of EVs, creating a positive long-term outlook for the sector.

As always, thank you for your trust in my team and me!

Best, Christian

Net Monthly Returns Since Inception

(%)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	CS L/S Equity	ARR Cumulative
2015	3.3	7.9	1.0	7.0	2.7	1.8	-0.7	3.1	-3.4	9.7	3.2	-1.0	39.5	3.6	39.5
2016	5.4	-4.6	-2.4	-1.3	-1.5	-2.1	1.7	0.3	-0.5	-2.2	0.7	6.0	-0.9	-3.4	38.3
2017	3.7	2.4	-1.7	4.6	3.2	-1.7	1.2	2.0	5.7	-2.6	0.8	0.5	19.2	13.4	64.8
2018	7.1	-1.4	-0.8	0.8	-1.5	0.3	-1.5	-0.5	3.8	-2.5	0.4	-3.3	0.5	4.6	65.7
2019	3.6	-3.0	-3.8	1.7	-3.0	3.6	0.7	-1.5	-0.3	-1.9	0.9	1.4	-2.0	12.2	62.4
2020	3.2	0.5	18.3	-2.2	-0.5	0.7	5.8	2.5	-7.0	1.1	8.0	3.9	34.6	7.8	118.6
2021	2.4	-4.3	-4.5	2.5	3.8	-4.6	-3.6	1.5	-7.2	3.1	-6.7	-4.6	-20.7	8.4	73.3
2022	-2.5	5.7	16.0	4.0	5.3	2.4							34.0	-8.2	132.2

Source: InteractiveBrokers, Credit Suisse, time-weighted performance of first managed account in USD, net of fees; unaudited; as of 30.06.2022.

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