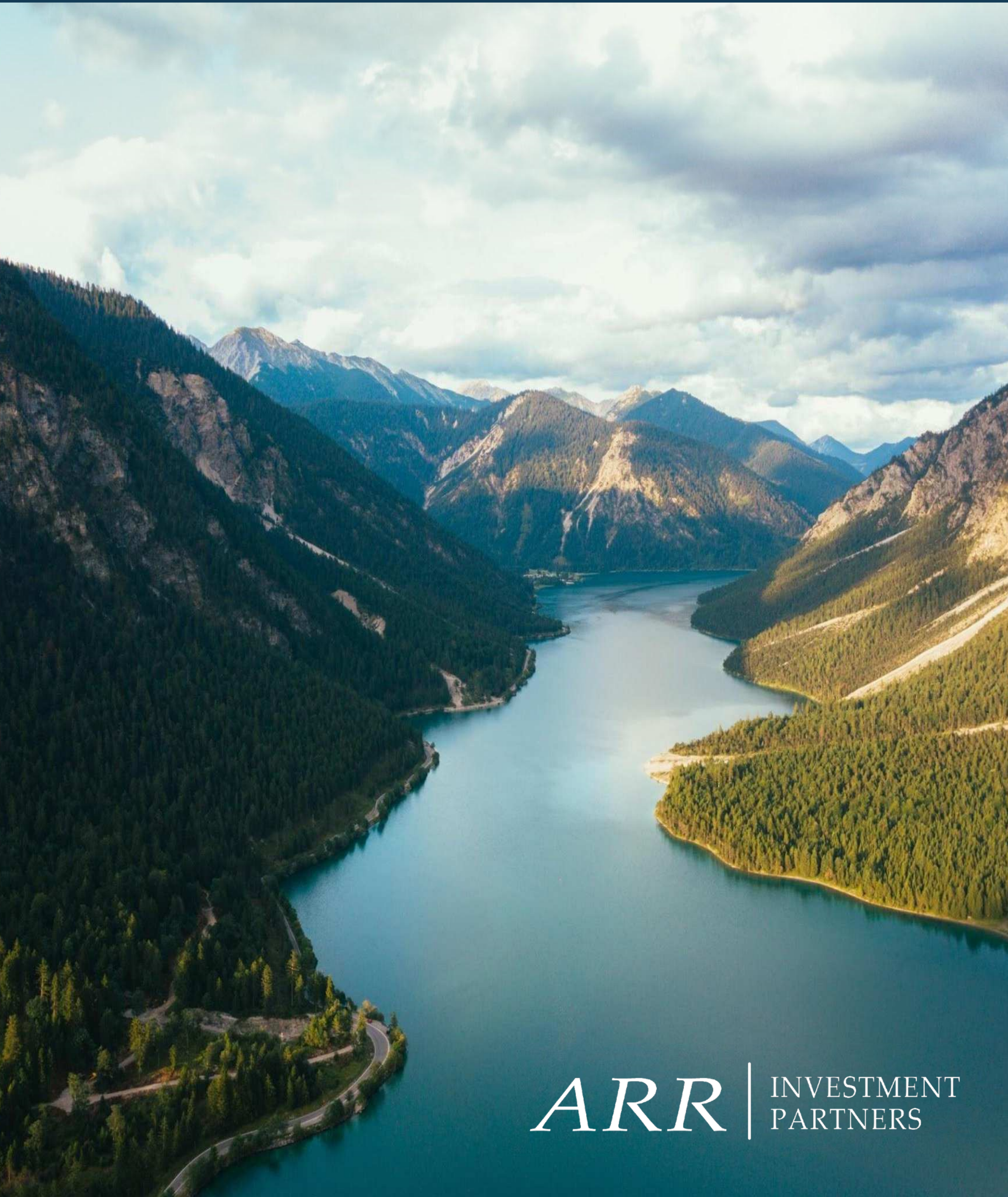
ARR Global L/S Equity Strategy

Investor Letter, Third Quarter 2023



ARR INVESTMENT PARTNERS

Dear Valued Friends and Investment Partners,

We hope this message finds you in good health and good spirits.

We had a muted Q3 2023 performance with a net return of 0.4%. Our year-to-date USD net return increased to 8%, bringing us close to our annual target return of at least 10%. Since our inception, we've achieved a remarkable total net return of 174.8%, with an annualized net return of 12.2%. In comparison, the average return of long-short equity hedge funds, represented by the Credit Suisse L/S Equity HF index, has only reached 43.5% since 2015.

During the quarter, the market volatility remained at subdued levels and the main US market indices ended the quarter little changed comparing to its beginning.

Highlights of the top performers in our portfolio:

1. Long uranium producer: We are long one uranium producer with the lowest cash costs globally, and the stock rallied significantly on the back of strong uranium prices. During the quarter, uranium prices have reached their highest values since 2011, driven both by a wider trend of rising energy prices and specific factors in the uranium market, such as steady demand from utilities worldwide coupled with supply constraints.

2. Futures trading. We used futures to reduce our risks and hedge our portfolio in anticipation of a market correction in August and September. Following our negative performance in 2021, we have reassessed the role of futures in making broad market calls and for exposure and risk management purposes. Since last year futures positions have been a significant contributor to our performance.

3. Short Apple: We were short this FAANG stock as we considered the risk reward on the short side as very attractive given demand risks in China, a disappointing presentation of new products, generally lacklustre growth prospects and therefore unjustified high valuation.

4. Short Marathon Digital: We were short this crypto miner as we consider its business model to be fundamentally flawed. Its costs to mine a bitcoin have been consistently higher than the bitcoin market price, in Q2 2023 this difference exceeded for example more than 10,000 USD. Additionally, the company's business model lacks any economies of scale due to the ever-increasing hash rate. Management continues to fund those loss-making operations via share issuance, diluting its shareholders. Additionally, Marathon is facing headwinds from rising energy prices, regulatory scrutiny, and upcoming bitcoin halving in April 2024. This will halve the number of bitcoins mined by the company from one day to another while costs stay the same. Currently Marathon needs a Bitcoin price of 30-40k USD to profitably mine BTC. After halving the break-even price increases to at least 60-80k USD and we doubt that those BTC prices will be achieved by April 2024 given the current high interest environment.

In our ongoing pursuit of transparency and continuous improvement, we would also like to share some valuable insights gained from investments that didn't perform as expected:

1. Long semiconductor producers: During the quarter, our performance was dragged down by several semiconductor names that we invested in as an exposure to the AI boom which we think is only in the beginning. We consider the correction in these names to be temporary and we think that the growth in stocks offering exposure to AI will continue after taking a breather last quarter. As it is often the case with emerging fast-growing technologies, it is impossible to predict the exact trajectory of their adoption. Nevertheless, we consider the names benefitting from AI adoption to offer an attractive risk-return profile.

2. Long ecommerce companies: We were long in selected ecommerce names from various regions as their businesses are growing strongly, earnings expectations exhibit positive momentum, and their valuation is attractive after the broader sell-off that happened in 2022. The underperformance of these stocks during the quarter was caused by the market sell-off in August rather than any company-specific factors. We continue to be optimistic towards those US and Asian ecommerce companies, given their strong growth dynamics.

Market outlook: we stick to structural growth amid rising interest rates

Our general market outlook is the result of our expectations of interest rates staying at an elevated level or going even higher. We see several factors contributing to this trend, including rising US budget deficit, quantitative tightening, and the need to refinance almost a third of all US government debt outstanding within the next 12 months. As such, we see continued pressure on those sectors and companies that are highly leveraged and will have to refinance at the prevailing much higher rates. Such interest rate sensitive sectors include real estate, financials, utilities as well as some tech names that are loss making and do not have a clear and quick path to profitability. At the same time, we continue to stick to the names that should benefit from strong structural long-term trends, such as AI, as we see them growing despite cyclical headwinds.

Business development

We are happy to announce that our strategy was shortlisted for two HFM European Performance Awards 2023: Global equity under $500m and Global equity long-term performance (5 years). We are grateful to you for your trust and confidence in our expertise, which allowed us to reach this milestone.

I would also like to share with you that we are going to attend the iConnections conference that will kick off in the end of January 2024 in Miami. Should you attend the event as well, this would be a great opportunity to meet in person.

We maintain our commitment to excellence and aim at achieving outstanding returns in the long run.

Should you have any questions or require further insight, please do not hesitate to reach out to me. I look forward to a future marked by mutual success and prosperity. Thank you for your continued trust and support in my team and me.

Best regards,

Christian

Net Monthly Returns Since Inception

(%)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	ARR Cumulative	CS L/S Equity 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	39.5	3.6
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	38.3	0.0
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	64.8	13.4
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	65.7	8.2
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	62.4	21.3
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	118.6	30.9
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	73.3	41.8
2022	-2.5	5.7	16.0	4.0	5.3	2.4	4.5	8.4	1.4	-3.1	-1.4	-0.2	46.9	154.5	33.4
2023	4.7	-4.2	6.0	-1.0	2.2	0.0	-0.2	0.4	0.2				8.0	174.8	43.5

Source: InteractiveBrokers, Credit Suisse, time-weighted performance of first managed account in USD, net of fees; unaudited; as of 30.09.2023. CS L/S Equity Index is reported with a one-month delay.

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