ARR Global L/S Equity Strategy

Investor Letter, Fourth Quarter 2023

ARR INVESTMENT PARTNERS

Dear Valued Friends and Investment Partners,

I hope that this message finds you in good health and spirits.

I am glad to announce that we had a strong start into 2024, after strong performance in 2023. In 2023 our net annual return reached 24.5% compared to 20.1% return of MSCI All-Country World Index. This followed 46.8% net return that we had earned in 2022 which was our best year so far. I am proud to say that we were among the few investors that performed well both in the bear market of 2022 and in what turned out to be a bull market in 2023. This performance was enabled by our flexible approach combining bottom-up analysis with top-down risk management. Moreover, it proves that we have learned the right lessons from the past years. We have earned approximately 60% of our return from stocks and the remaining 40% from futures which we began to use more extensively after 2021, making our approach more liquid and more scalable.

In 2023 we had a good start in Q1 with the most significant highlight being that we took the opportunity to profitably short Credit Suisse. After a successful Q1, performance was muted for the next two quarters as we were mainly concerned with capital preservation, particularly as the markets were experiencing a downturn from August to October. When the markets switched to the bull mode at the end of October, we managed to profit from the rally that lasted till the end of the year, posting a decent 15% net return in Q4.

As part of our continuous improvement process, we would like to begin by discussing some investments that did not perform as anticipated.

Lessons learned from losses:

1. Shorting crypto miners: This trade was a major loss maker on a one-year perspective as we incurred a significant loss in Q1, although in Q3 the same trade positively contributed to our returns. Our idea behind shorting crypto miners was the unsustainability of their business model with the cost to mine a bitcoin being above its market price, and the ever-increasing hash rate. This idea worked well in Q4 2022 when cryptocurrencies were falling, but this trend reversed sharply as soon as 2023 began, with bitcoin gaining 71% and crypto miners' shares rallying even more in Q1, triggering our stop losses. It turned out to be that the bitcoin price surge in Q1 was only the beginning of its rally as for the full year the bitcoin price increased 2.5 times fuelled by regulatory developments around crypto ETFs and, later, a market-wide bull run. The bitcoin price rally made our short thesis invalid when the bitcoin price approached 40k USD, making many crypto miners profitable. Not surprisingly, the shares of crypto miners soared even more than the bitcoin price, once again underscoring the importance of stop losses as a risk management tool to mitigate our losses in case our fundamental view is wrong.

2. Shorting coal miners: We entered this trade as we were expecting coal prices to decline, which in turn should have negatively affected the results of coal producers. Historically, coal prices have been highly correlated with natural gas prices as these commodities are partially interchangeable in electricity generation. The natural gas price has been in a downtrend since the middle of 2022 and reached levels lower than those seen before the beginning of the Russian-Ukrainian war. While coal price was also in the downtrend, its decline was less pronounced in coal miners' results than we anticipated, and the shares of most coal miners were resilient to their deteriorating results. In hindsight the shares of coal producers were likely already pricing in the normalisation of coal prices when the latter reached their heights in 2022, hence the share price reaction to declining coal prices was muted. The only coal producer that we profitably shorted was facing additional country-specific headwinds. In retrospect, we should have taken a more concentrated position in the name that was already facing challenges regardless of the price of its underlying commodity.

Best performing positions:

1. Long and short positions in financials: Our expertise in the financial sector was yielding positive results throughout the year. During the whole year, we were long a few Kazakh banks as they were still recovering from the share prices collapse that happened in 2022 after the invasion of Ukraine. Their valuation was and continues to be too low considering their EPS growth rates. As for short positions, we managed to profit from negative developments around Credit Suisse in Q1 as we proactively increased our short position in anticipation of a bank run. Another successful trade was shorting certain US regional banks in Q2 as they faced several structural challenges such as deposit outflows to larger institutions, declining net interest margin due to rising funding costs, and substantial exposure to real estate. We identified these challenges early on and made a profit as it took time for the market to fully price them in. Later, we timely closed our short positions in the US banks and opened long positions in select names from the space in Q4. This allowed us to benefit from their strong rally as structural challenges were easing making US banks fit into our rebound investment pattern. In Q4 we also made a decent profit from being long a European bank where we also identified a rebound pattern.

2. Long ImmunoGen: We made the largest profit in this single stock last year. The company's shares surged at the end of November when AbbVie announced plans to acquire the company with almost 100% premium to its market price at that time. We were already long ImmunoGen as with revenue growth expectations above 40% p.a. in 2024-2025, the name perfectly fitted in our dynamic profit growth pattern.

3. Long uranium producer: We were profitably long a uranium producer with the lowest cash costs globally as an exposure to the rising uranium price. The latter was steadily increasing throughout the year to reach levels last seen in 2007. The main drivers behind its growth were strong demand from utilities worldwide, supply constraints, and a longer-term trend of re-emerging interest towards uranium driven by decarbonisation goals and volatile prices of fossil fuels.

4. Long semiconductor stocks: We made a decent profit from being long a few names from the sector which fitted into our dynamic profit growth investment pattern. Their growth was additionally fuelled by the development of generative AI tools which also made their business models less cyclical. We also benefitted from being long other Big Tech names, particularly in Q4, as we considered them to also benefit from the AI boom.

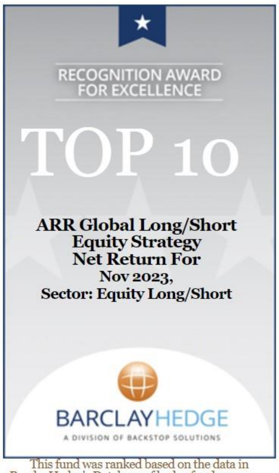
5. Short palladium ETF: Palladium underperformed all major commodities last year. The rationale for shorting palladium was our assumption that with the proliferation of electric vehicles, the demand for palladium would go down as it is mainly used in catalytic converters of internal combustion engine vehicles. As a result, the palladium market will shift from a deficit in 2023 to a surplus already in 2024 that will be exacerbated by increasing supply.

6. Long gold miners ETF: We opened this position as we had a high conviction bullish view on gold. This view at the time the position was opened was based on the hard-to-ignore probability of a recession and uncertainties surrounding monetary policy. This trade built up on our expertise in investing in gold which had previously allowed us to earn significant returns back in 2020.

Business development

I am happy to inform you that we successfully attended the iConnections conference in Miami at the end of January and several new investors, among others a 4bn USD London based multi manager hedge fund, entrusted us with their money. As we are competing with multi billion investment companies and there is a lot of room for improvement in terms of investment infrastructure, info sources etc. every investor referral is highly welcome.

I am excited to announce that our strong performance in Q4 allowed us to be featured in BarclayHedge's Monthly performance rankings where we were placed on the 7th place among equity long/short strategies for November's performance.



This fund was ranked based on the data in BarclayHedge's Database of hedge fund managers

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	-20.5	**73.9**	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	46.8	**155.2**	33.4
2023	4.7	-4.2	6.0	-1.0	2.2	0.0	-0.2	0.4	0.2	-0.7	9.8	5.4	24.5	**217.6**	47.0

Source: InteractiveBrokers, Credit Suisse, time-weighted performance of first managed account in USD, net of fees; verified by Spicer Jeffries accountancy; as of 31.12.2023. CS L/S Equity Index is reported with a one-month delay.

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