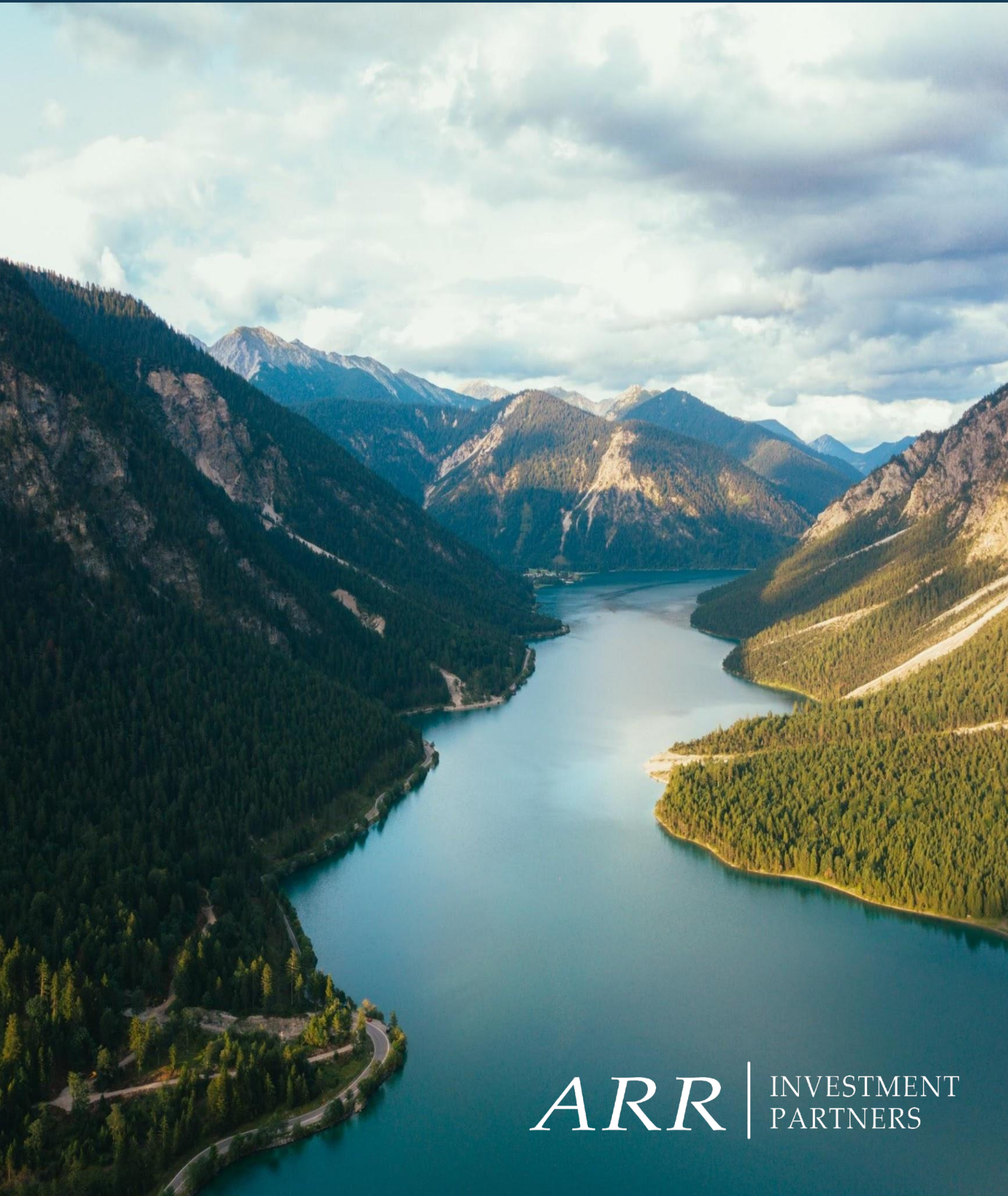
ARR Global L/S Equity Strategy

Investor Letter, First Quarter 2023



Dear Friends and Investment Partners,

I hope you are well!

We are pleased to report a good Q1 2023 performance, posting a net return of 6.3%, which bodes well for our goal of achieving an average annual return of 10%. Our total net return since inception now stands at an impressive 170.6%, with an annualized net return of 12.8%. This underlines the importance of having a long-term investment horizon, and why we will continue to invest in our infrastructure and improve our processes, especially as I am one of our biggest investors.

The past quarter was eventful, with rapid and dramatic events unfolding. We normally perform best in those kinds of environments and were able to capitalize on several major opportunities. We learned valuable lessons from our past investments during the quarter.

Lessons learned from losses:

Our least successful trade during the quarter was shorting crypto miners. This trade goes back to last year when it was a major contributor to Q4 performance as cryptocurrencies were falling, but the trend reversed as soon as 2023 began, with Bitcoin rallying by 71% in Q1. We continue to view Marathon Digital and Riot as structural losers, as their costs to mine Bitcoin significantly exceed the current Bitcoin market price, even after its rally. Furthermore, the upcoming Bitcoin halving in Q2 2024 is expected to reduce their revenue by 50% overnight, while their costs continue to increase. As the share prices of these companies were pushed up by rising crypto prices our stop losses were triggered and we covered our short positions. Although we still believe that crypto miners are one of the best shorting opportunities, we prefer to wait for a better entry price given their high volatility and correlation with the unpredictable Bitcoin price. It is crucial that we maintain a small position size to mitigate the risks associated with this trade.

Continuing on the major loss generators, stop losses were triggered in our short positions in aluminium and coal producers. Our decision to open these positions was based on the significant decline in the prices of both commodities from their unsustainable bubble levels in 2022, which we believed was not fully reflected in the share prices of their producers. Although coal prices more than halved in Q1 and came close to their pre-2022 price range following a similar trend in natural gas prices. Aluminium prices traded sideways in Q1 but overall, they are in decline compared to their highs reached at the beginning of 2022. In hindsight, our thesis was correct, but the timing was not right. While stop losses can be frustrating, they are the best protection against significant short squeezes. When we decide on risk management measures, we do not only consider short-term impacts, but also the avoidance of significant risks such as short squeezes, which can materialize in the long term. Our lesson learned from this experience is not to change our stop loss policy but to find better entry prices.

Best performing positions:

In Q1, our most profitable trade involved shorting Credit Suisse. We understood that negative developments surrounding the bank and especially the decision of the Saudi National Bank to stop further assistance were not immediately reflected in the share price. Our anticipation of a potential bank run allowed us to capitalize on the subsequent share price drop when we increased our short position. This trade clearly represents our investment strategy, which focuses on dramatic events with highly predictable outcomes. Usually, events like this are not immediately priced in, which gives ample profit opportunities to those who are quick enough to properly interpret and react to them.

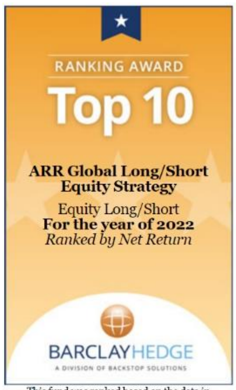
Additionally, we capitalized on the semiconductor sector, which continues to exhibit strong fundamentals and growth prospects, particularly with the emergence of generative AI tools such as ChatGPT allowing for less cyclicality. We are long in several semiconductor companies with strong growth potential. As a result, we remain bullish on this sector and continue to see attractive profit opportunities there.

Recently, we made a purchase of several gold miners, reflecting our high conviction bullish view on gold, driven by the material possibility of a recession and uncertainties surrounding monetary policy. Our previous significant long position on gold miners was back in 2020, where we managed to secure a substantial profit from our bullish view on gold. Additionally, we are long certain Kazakh banks, which we view as rebound stories. We find these names fundamentally cheap, with Halyk Bank, for instance, trading at less than 3x forward P/E multiple, which, in our view, is not justified. Hence, we see an attractive risk/return opportunity in the sector. Furthermore, we have taken a long position on certain renewable energy stocks. We believe their profit growth is not fully priced-in, and they will benefit from a strong demand for a multi-year period.

We are currently short one gas producer as the gas price has been in a downtrend since last August in both the EU and the USA, losing more than a third alone and almost half the price in Q1, respectively. We believe there was an unsustainable increase in gas prices last year after the war began. However, it did not last long due to a high amount of gas storage, mild winter weather, and intensifying recession fears. We think the sharp drop in gas prices is not fully reflected in the share prices of gas producers, resulting in an attractive risk/reward opportunity in shorting their stocks. Furthermore, we are short certain coal miners as coal prices have similar dynamics to those of gas.

We have recently implemented another high-conviction trade involving shorting lithium miners. Lithium carbonate prices have declined by almost two-thirds from their peak in November 2022, which we view as a normalization after a massive hype last year. When Elon Musk said in August last year that mining lithium is basically minting money, it became clear that we had reached unsustainable levels. The reason behind this is that robust lithium supply is met with weak demand, raising concerns about a possible oversupply this year. The major factor affecting demand for lithium was the end of subsidies for electric vehicles in China, the largest market for electric vehicles in the world, which came into effect this year. We believe that the relative stability of the shares of lithium miners presents a good opportunity in terms of risk/reward to short them, particularly those selling the bulk of their products at spot prices. We see this as a short-term opportunity while we do not have any long-term high-conviction view of these companies or lithium prices due to an abundance of uncertain factors affecting both. I am pleased to remind you that we made a good profit last year by going long on lithium companies on the back of increasing lithium prices and these companies leveraging their expansion programs, which underlines our flexibility in seizing what we consider to be attractive market opportunities.

I am also proud to announce that we were ranked as one of the Top 10 strategies globally in the BarclayHedge 2022 Ranking in the category Equity Long/Short.



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

This year will definitely be very eventful and bring many surprises. We obviously cannot predict the future but can focus on the best risk reward opportunities and capitalise on dramatic events where information is not immediately reflected in the share prices. I look forward to the remainder of the year and I am quite happy that we have a very flexible mandate which allows us to profit both from bull and bear markets.

As always, thank you for your trust in my team and me! Without your support and long term investment commitment, achieving top results would not have been possible.

Best,

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										6.3	170.6	36.8

Source: InteractiveBrokers, Credit Suisse, time-weighted performance of first managed account in USD, net of fees; unaudited; as of 31.03.2023. CS L/S Equity Index is reported with a one-month delay.

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