



24 August 2022

ARC Funds Limited 2022 Annual Report

Chairman's Review

The Financial Results

The company recorded an after-tax loss of \$612,433 for the full year to June 30, 2022. This was a result of the operating costs of a listed public company along with the expenses incurred in a series of corporate transactions of approximately \$65,000 and the establishment year losses of our initial investment affiliates of approximately \$58,000. These results are not surprising as the company is in development stage and continues to support our investment affiliates. We remain focussed on containing our operating costs and this is evident in our results. The company's cash levels at balance date were \$2.4 million and we have no debt.

Appointment of Harley Grosser as Managing Director

The board appointed Mr Harley Grosser, as a Non-Independent Director in early July of 2021.

We then completed the development and refinement of the new strategic direction and plan for the company, designed to grow the investment management operations of the company to create value for our shareholders.

The New Strategy also resulted in the appointment of Harley as the new Managing Director of the Company, a role he commenced in late July. As noted in the ASX announcement at the time, the board believes Harley brings extensive knowledge and skills in capital markets, financial analysis, valuation, investor relations, and the building and operating of an investment management business. These skills have been developed over the past 12 years and are ideally suited to the role.

In September of 2021, I transitioned from the role of Executive Chairman to Non- Executive Chairman as the executive duties of the company now rest with Harley our Managing Director.

The New Strategic Direction

"To build a listed boutique funds management platform and investment company by investing in, supporting and partnering with the best fund managers across a range of asset classes and investment strategies."

Following shareholder approval and in recognition of our new strategic direction and focus the company name was changed to ARC Funds Limited at the AGM in 2021.

The past year has yielded growth in the operations of your company as we pursue our new strategic direction. However, this has corresponded with a challenging investment environment as markets, including equity and bond markets have experienced significant dislocations. This has also resulted in significant hurdles for fund managers.

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The inevitable “great unwinding” of the past 10-year period of cheap debt and credit coupled with extraordinary central bank monetary stimulus will have profound changes to the performance of assets, investment markets and fund managers in the coming years. We believe this will create great opportunities for the skills of active stock picking managers, as company fundamentals and sustainable valuations will outlast the momentum and liquidity driven markets we have witnessed. We also believe as interest rates normalise, that returns from fixed interest products will again become sought after by investors as a balance of risk and a tilt to income in portfolios.

We continue to believe a significant opportunity exists in the marketplace to execute on this strategy in identifying and partnering with emerging, existing talent, and supporting them to grow and succeed. The positive fundamentals of this business model are compelling, as it is highly scalable, capital light and can leverage existing and innovative technologies to contain operating costs and potentially facilitate growth in FUM.

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Managing Director's Letter

We have made substantial progress towards the new Company Vision we put to shareholders twelve months ago, with the establishment of Merewether Capital, the partnership with Magnum Funds and the proposed launch of our own LIC fund-of-funds, ARC Emerging Managers.

Business Update

Our partnership with Merewether Capital, and the launch of the Merewether Capital Inception Fund, continues to be a prime example of the type of partnerships we are seeking to establish.

Despite the difficult equity market conditions, and the negative performance of the fund since launch, the year has reinforced both our confidence in the manager and the value that ARC offers as a partner.

Markets will go through difficult cycles. They present the best managers with an opportunity to make compelling investments and emerge stronger on the other side. Merewether now has that opportunity and ARC's involvement allows the manager to focus entirely on what matters most during such cycles, which is executing the investment strategy.

Our confidence in Merewether has not waived and we expect our Merewether investment to prove highly rewarding over time to ARC shareholders, Merewether fund investors and to our partner at Merewether, Luke Winchester.

Following our partnership with Magnum in November 2021 we have experienced delays to the launch of the Magnum Fixed Income Active ETF. First, in the launch process as we worked with service providers, and second by decision of our partner (Magnum's investment manager) in response to the dislocation of fixed income markets at the time.

In hindsight the delays have been fortuitous, as launching the product into the most difficult fixed income market in decades may have proved unwise. However, we also see opportunity in such an environment. We continue to work with our partner on the best path forward, including a potential restructure, the details of which we will inform the market as and when required.

Most exciting was our proposed launch of ARC Emerging Managers in May 2022. This product is intended to be a Listed Investment Company (LIC) investing in a portfolio of the funds managed by the best boutique investment talent in Australia and globally.

There is currently nothing else in the market like it and we believe that a successful launch would 1) continue to build out ARC Funds' brand as a partner-of-choice in boutique funds management and 2) add meaningful internal distribution capability to our business.

We are repurposing the listed vehicle ASX:LAN to become the ARC Emerging Managers LIC. This deal brought with it both David Prescott, a successful founder of a large boutique funds management

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firm, and Daniel Sims, a highly talented investor with an excellent network of boutique managers, as well up to \$6m of tax losses that on current advice may be utilisable against ARC's new strategy.

It is a product that we have built from the ground up as a vehicle we ourselves would want to invest in. We are now working to meet ASX's timeline for the launch of this LIC and will keep shareholders and the market informed. Should our shareholders have interest in this product, please reach out. I intend to invest personally.

Outlook

We remain completely focused on building ARC Funds to become the partner-of-choice in boutique funds management. We continue to engage with talented prospective managers and remain optimistic about establishing several new partnerships over the next twelve months.

As most of our shareholders will be aware, market conditions shifted dramatically halfway through FY22 as investors responded to rising inflationary and geopolitical risks. While this does not sway us from our long-term vision, it would be remiss not to adjust our short-term strategy accordingly, to take advantage of opportunities the current market is presenting.

In this environment, shareholders should expect us to be more aggressive, not less so, in taking advantage of such opportunities as they present. We think this is both an excellent time to invest with new managers, as well as for ARC Funds to consider new strategies whereby we may be the majority shareholder.

I feel privileged to be the MD of our company and in a position to pursue the opportunities we have in front of us. This is not a short-term vision measured in months, rather in years, but with patience, discipline and partnering with the best people, I have no doubt we will build a platform for the long term growth of ARC.

Harley Grosser
Managing Director
August 24, 2022

ENDS.

By order of the Board of Directors.

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