

RG240 ANNUAL UPDATE

Arco Absolute Return Fund (“AARF”)

Background

AARF (the “Fund”) is classified as a hedge fund in accordance with the Australian Securities and Investments Commission Regulatory Guide 240 Hedge Funds: Improving Disclosure. The classification is based on the fact that the Fund exhibits 2 or more of the following characteristics of a hedge fund, as defined in the Guide:

- Aims to generate returns that are not highly correlated to published indexes
- Charges a performance fee • Uses leverage
- Uses derivatives
- Uses short selling

Accordingly ARCO Investment Management Pty Ltd (“ARCO”) the Investment Manager of the Fund, is required to provide investors with further information regarding the Fund, which is contained in this report. The information provided is as at 30 June 2018.

The Fund’s core strategy is to construct a portfolio of listed equity securities that are, in ARCO’s view, priced at levels that do not adequately reflect their underlying values, and to hedge the Fund’s ‘long’ portfolio against adverse market price movements through selling short equity securities that are priced well above underlying values, and by using financial derivatives.

Investments will predominantly be in equity securities, trading on either an Australian or New Zealand stock exchange, but may include cash and cash equivalent instruments, fixed interest instruments, derivatives (including exchange traded and over the counter derivatives, but limited to futures, options and warrants) and foreign exchange contracts. The Fund may also invest in new issues to be floated on these exchanges, provided ARCO considers the investment to be of sufficient liquidity. The Fund will not invest in unlisted investments, unless the investment is a pending listing or is as a result of a corporate action.

The majority of the Fund’s investments will be held in Australian securities and priced in Australian Dollars.

Asset Allocation and Liquidity Profile

Asset Type	Allocation	Liquidity
Australian listed equities	30.15%	1-7days
Exchange Traded Derivatives	(0.52%)	1 day
Cash equivalent investments	70.37%	1 day

Using 30 days average volumes, 99.4% of the Portfolio can be liquidated within 1 days, 100% of the portfolio can be liquidated within 7 days

Maturity Profile of Fund Liabilities

Liability Type	Weighting	Maturity
Leverage facility with Prime Brokers	0%	On Call

Leverage Ratio

The Fund is exposed to leverage through the use of short selling strategies, cash borrowings and derivatives. As at 30 June 2018 the Fund's exposure was:

Asset Type	Allocation
Long Exposure	68.19%
Short Exposure	(38.04%)
Cash	70.37%
Gross Exposure	141.97%
Net Exposure	(5.59%)

Derivative Counterparties

The derivative counterparty to the Fund is UBS AG, Australia Branch

Changes to Key Service Providers

There have been no changes to key service providers for the Fund since its inception on 31st October 2018.

Distribution Information

The Fund distributed 2.245 cents per unit for Financial Year ending 30 June 2018.

Annual Investment Returns

The Fund delivered a return of 2.88% (net of fees and charges) for the period 31st October 2017 to 30th June 2018.