

**COMMENTARY**

**EXPOSURES AND ATTRIBUTION**

Exposures continued to increase during the month as more trading opportunities arose. During the month, gross exposure varied between 98% and 145%. Net exposure varied between 16% and 55% long. In our Media consolidation theme, we have held positions in Fairfax, Seven West Media and some outdoor media businesses. Changing legislation has opened up the industry to consolidation and we have been watching the space for some time. Nine's bid for Fairfax during August was a large contributor to performance. Seven West Media had an upgrade at their result which also produced a nice return. A few names in our Roll up theme produced upgrades at results which also provided positive performance. Our large position in Jupiter's Mines dragged on performance following a placement which has left an overhang on the stock. We will remain patient on this one. During the busy reporting season, the portfolio performed ok. Our prepositioning in media and other themes paid off and we avoided some of the extreme moves on both the long and the short side.

**PORTFOLIO OPPORTUNITIES AND RISKS**

There has been more trading activity in the portfolio in August. These opportunities typically have a duration of less than a month. During August most of these trades were associated with company results. Aside from this trading, the core long and short themes have not changed significantly from July. Long themes are in value and higher risk growth opportunities in mining and software sectors. Shorts are concentrated in companies which are at risk of credit issues due to households being highly leveraged. The second key short exposure is high valuation names. This is an area we are doing more work on. Some of the industrial valuations are at extreme levels and with a large retracement in commodity names associated with risk off globally, the valuation gap looks large.

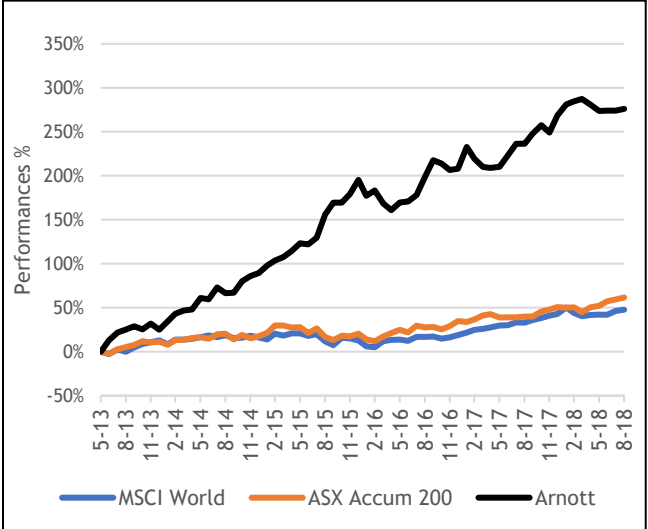
**MACRO WATCH**

The key macro trends we are watching are tariffs, US inflation and 2019 S&P500 earnings estimates. Most signs point to rising inflation and slowing growth in the second half of 2018, after cycling high growth rates for the first half. At this stage it all looks orderly, but it is worth watching. Accelerated inflation would not be welcome by the markets. The mid 1960s had several similarities to now and is the only real example of how things may play out under this scenario.

**PERFORMANCE METRICS**

	From May 2013
Annualised returns	28.69%
% Positive months	69.84%
Average monthly return	2.20%
Avg +ve monthly return	4.15%
Avg -ve monthly return	-2.31%
Best month	13.07%
Worst month	-6.09%
Largest drawdown	-11.61%
Longest drawdown (mths)	7
Up Capture ratio	42.8%
Down Capture ratio	-247.4%
Sortino	4.06
Sharpe ratio	1.88

**CUMULATIVE FUND PERFORMANCE (2013-current)**



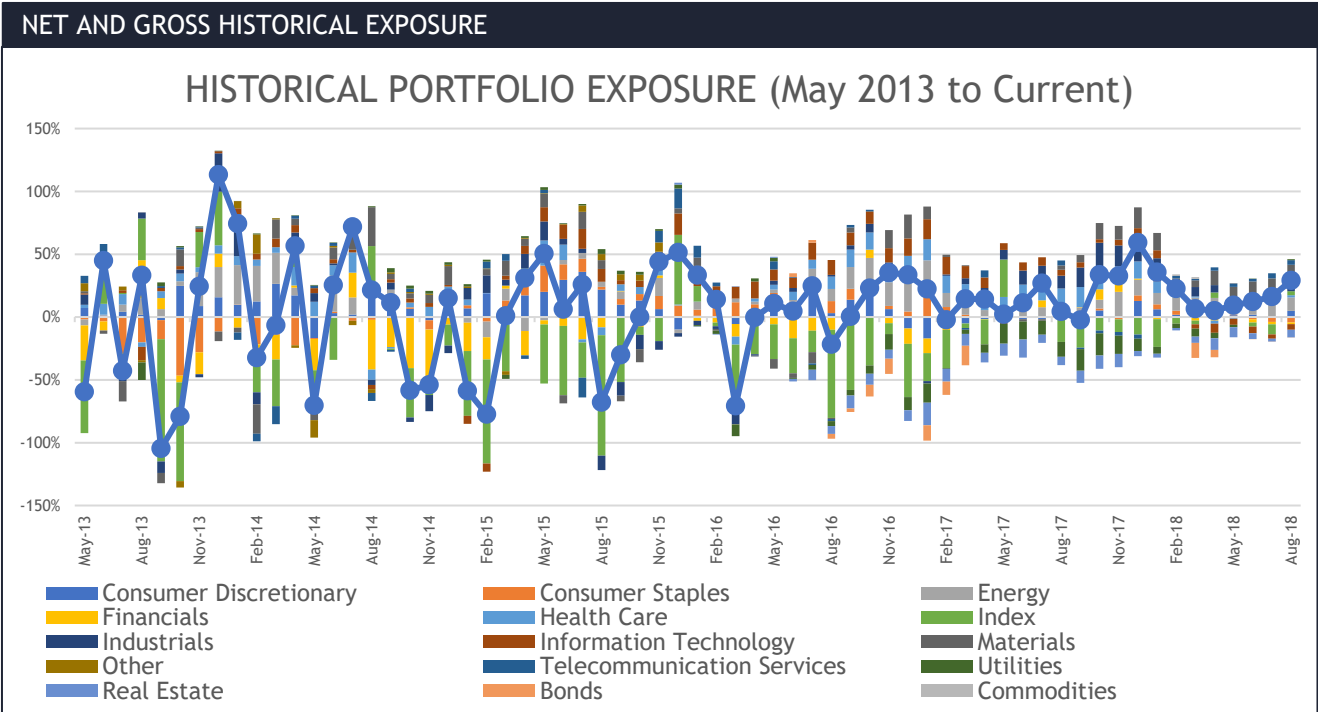
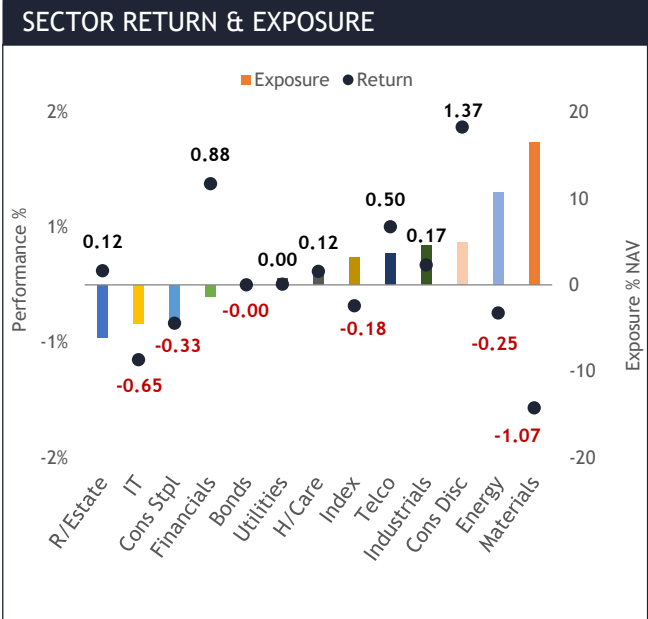
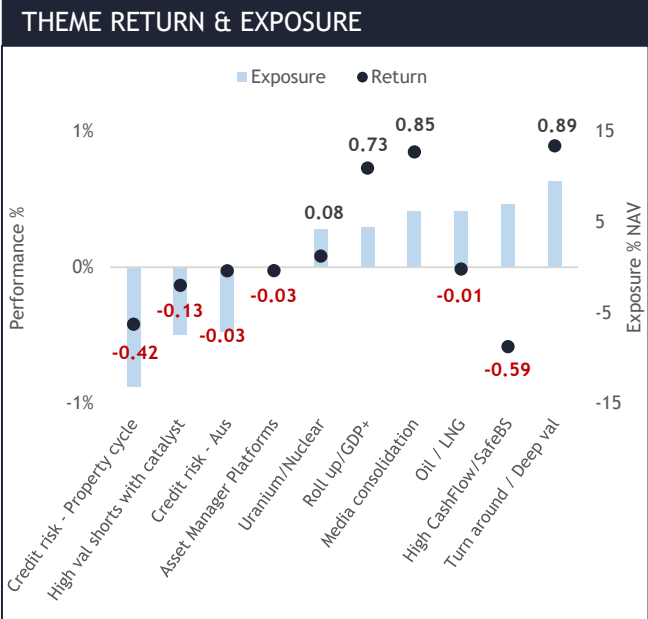
**MONTHLY SUMMARY METRICS**

NET RETURN	AV GROSS EXP	AV NET EXP
0.66%	113.45%	29.10%

**STRATEGY HISTORICAL PERFORMANCE (%)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
<b>2013</b>						13.07	7.63	2.97	2.82	-2.69	5.23	-5.25	25.00
<b>2014</b>	7.61	6.56	2.43	0.77	8.87	-0.93	8.46	-3.78	0.34	7.78	3.24	1.92	51.59
<b>2015</b>	4.46	2.88	1.99	3.19	4.12	-0.52	3.44	11.47	5.23	0.00	3.67	5.72	55.80
<b>2016</b>	-6.09	2.14	-5.17	-2.83	3.30	0.40	2.69	7.49	6.29	-1.15	-2.34	0.48	4.33
<b>2017</b>	7.99	-4.01	-2.94	-0.34	0.43	4.08	4.21	-0.02	3.37	2.79	-2.32	5.51	19.58
<b>2018</b>	3.47	0.88	0.72	-1.68	-1.86	0.09	0.03	0.66					2.23

2013 - 2017 Data. Bondi Capital Investments Pty Ltd (managed account). Performance net of 0 & 25 fees. Currency AUD. Fund administered by Mainstream. Fund was not audited.  
2018 - Current Data. Australian Unit trust. Performance net of 0 & 25 fees. Currency AUD. Fund administered by Mainstream. Fund audited by EY.



### STRATEGY SUMMARY

The investment process involves three stages:

1. Themes are identified as investment opportunities
2. Valuation screens are run to find stock opportunities within the theme
3. Market dynamics are assessed to determine entry timing

The strategy is long / short equity with a variable delta bias. The universe is global equities with a focus on Australia. The portfolio will typically contain 40 to 70 position. Global futures and options are also actively traded from time to time.

The strategy aims to identify trends and opportunities using value investing principles and capture price oscillations around the underlying trend using trading skills.

FUND INFORMATION			
BASE CURRENCY	AUD	ARNOTT CAPITAL PTY LTD	AFSL License 233743 ABN 23086081889
STRATEGY INCEPTION	1999	CIO KENNY ARNOTT	kma@arnott.com.au
MINIMUM SUBSCRIPTIONS	AUD \$100,000	CONTACT DETAILS	<a href="mailto:investor@arnott.com.au">investor@arnott.com.au</a>
WITHDRAWALS	Monthly	PRIME BROKER	Morgan Stanley
PERFORMANCE FEE	25%	FUND ADMINISTRATOR	Mainstream
MANAGEMENT FEE	0%	FUND AUDITOR	Ernst and Young
SUBSCRIPTIONS	Monthly	LEGAL ADVISORS	Norton Rose Fulbright

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