

COMMENTARY

EXPOSURES AND ATTRIBUTION

The bulk of positive performance was from longs in Roll up / GDP+ including a short in Bingo which we are running as a spread against long Cleanaway. The losses were in Uranium and high cashflow / safe balance sheet themes.

PORTFOLIO OPPORTUNITIES AND RISKS

The portfolio is positioned defensively and with high liquidity, primarily consisting of large cap stocks. Outside of the Uranium theme which has around 5% in small caps, the portfolio is only long 7% small caps.

Our base case is that 2019 will be a choppy range bound market. That's why we have reduced illiquid names from the portfolio and will focus on lower margin trading opportunities in large caps. In addition to this, when we deem the odds are in our favour we will spend option premium on global equity indices to take advantage of possible downside moves. At these market levels we are running net exposure at short 10%.

Our core shorts remain mainly in two themes. Credit risk in Australia and High Valuation names with catalysts. It is likely we will trade both these themes more actively as valuations have come down.

MACRO WATCH

We are currently focused on US earnings season and the Australian half year reporting season. We continue to monitor credit markets which show little stress so far, although there are pockets of pain.

GOOD READING

Top down

<https://www.amazon.com/Big-Debt-Crises-Ray-Dalio-ebook/dp/B07GLBHM48>

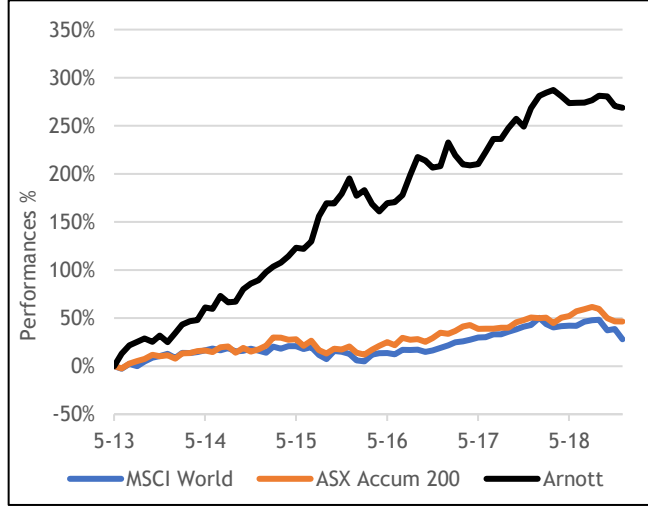
Bottom up

<https://www.amazon.com.au/Ready-Fire-Aim-Mainfreight-Story-ebook/dp/B00DBP4HUU>

PERFORMANCE METRICS

	From May 2013
Annualised returns	26.33%
% Positive months	68.66%
Average monthly return	2.04%
Avg +ve monthly return	4.00%
Avg -ve monthly return	-2.25%
Best month	13.07%
Worst month	-6.09%
Largest drawdown	-11.61%
Longest drawdown (mths)	9
Up Capture ratio	43.0%
Down Capture ratio	-212.0%
Sortino	3.89
Sharpe ratio	1.77

CUMULATIVE FUND PERFORMANCE (2013-current)



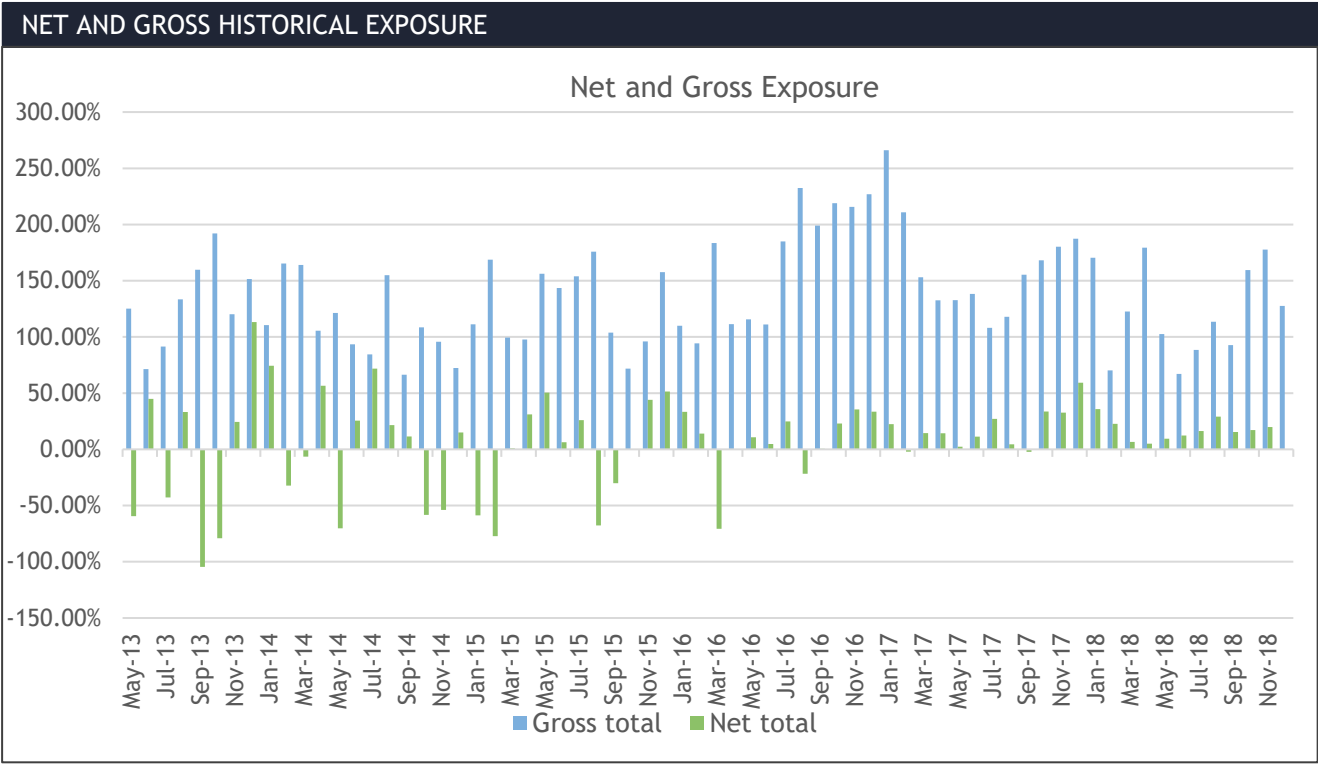
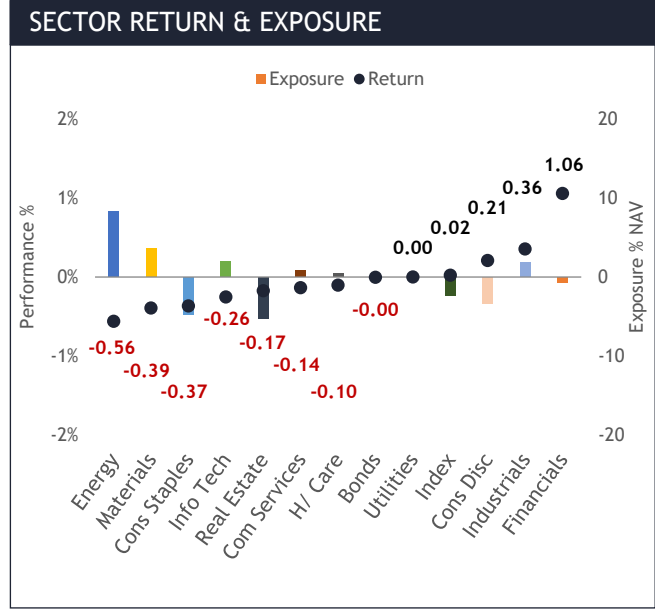
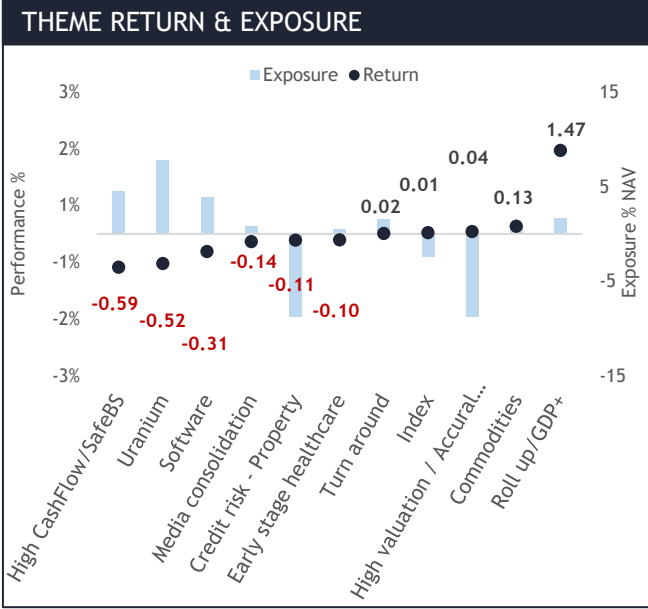
MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
-0.50%	127.61%	0.09%

STRATEGY HISTORICAL PERFORMANCE (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2013						13.07	7.63	2.97	2.82	-2.69	5.23	-5.25	25.00
2014	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
2015	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
2016	-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
2017	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
2018	3.47	0.88	0.72	-1.68	-1.86	0.09	0.03	0.66	1.24	-0.18	-2.61	-0.50	0.12

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	investor@arnott.com.au
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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