

**COMMENTARY**

The fund returned positive 1.05% for the month. Net exposure averaged 54% long, while gross averaged 107%.

**2020 Outlook**

Our base case for 2020 is that cyclicals continue to perform well and lower rate beneficiary names do not. Under this scenario, there are likely to be more mean reversion opportunities and less momentum in the overall market.

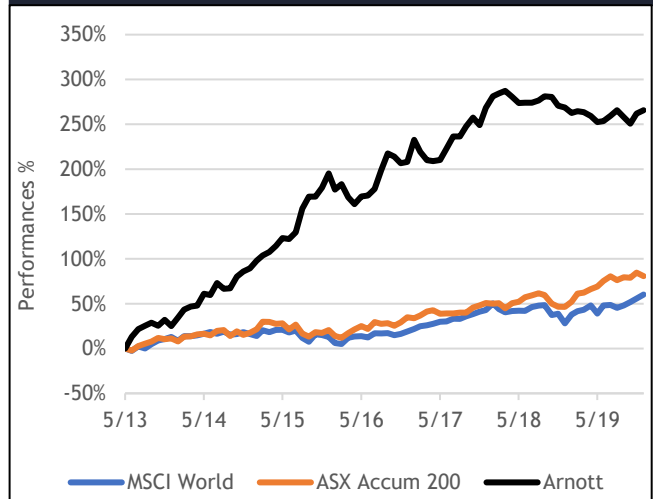
To take advantage of this, we are positioned long and looking for more exposure in turn around situations and cyclicals that will benefit from an uptick in global growth. We have 23% exposure to growth names. However, these names are growth at a reasonable price, not unreasonable. NextDC is a new addition to this theme. NextDC has very positive asymmetry over the next two years. In the Hybrid Multi Cloud, they are operating in a duopoly structure, are generating high returns on their built assets and have a great growth profile. On the short side we have trading shorts in overpriced companies under our WeWork theme and Bond proxies. Both these groups have been major beneficiaries of risk-free rate expectations coming down. These companies typically have very lofty valuations and very high growth expectations.

There are two outlier low probability environments we do not think are base case but are worth monitoring. First, that inflation accelerates and second that growth collapses. It could be argued that under either of these outlier scenario's gold would out-perform. We generally don't own gold on the basis that if markets are going down, we will just short, but we are now looking at it as an interesting option play on both tail risk scenarios.

**PERFORMANCE METRICS**

	From May 2013
Annualised returns	21.77%
% Positive months	65.82%
Average monthly return	1.72%
Avg +ve monthly return	3.70%
Avg -ve monthly return	-2.09%
Best month	13.07%
Worst month	-6.09%
Largest drawdown	-11.61%
Longest drawdown (mths)	21
Up Capture ratio	28.6%
Down Capture ratio	-204.7%
Sortino	3.61
Sharpe ratio	1.57

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



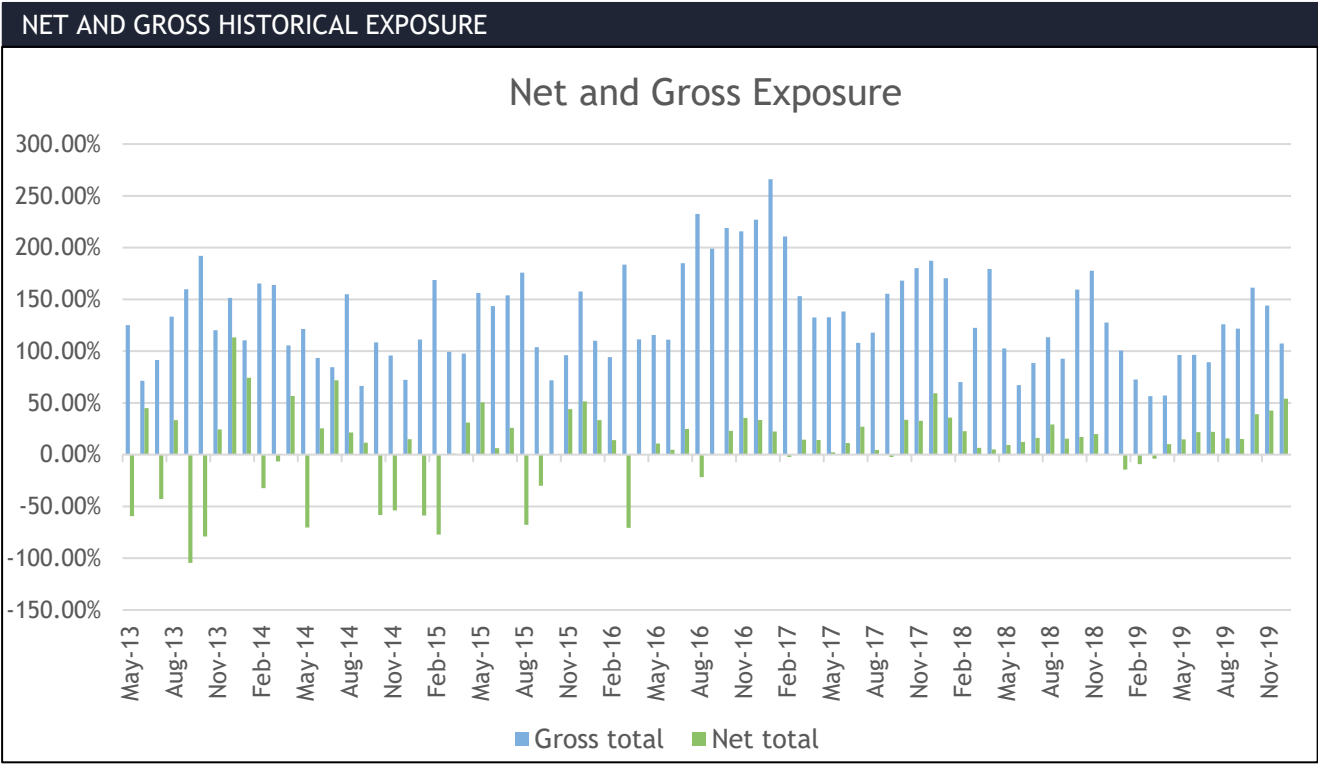
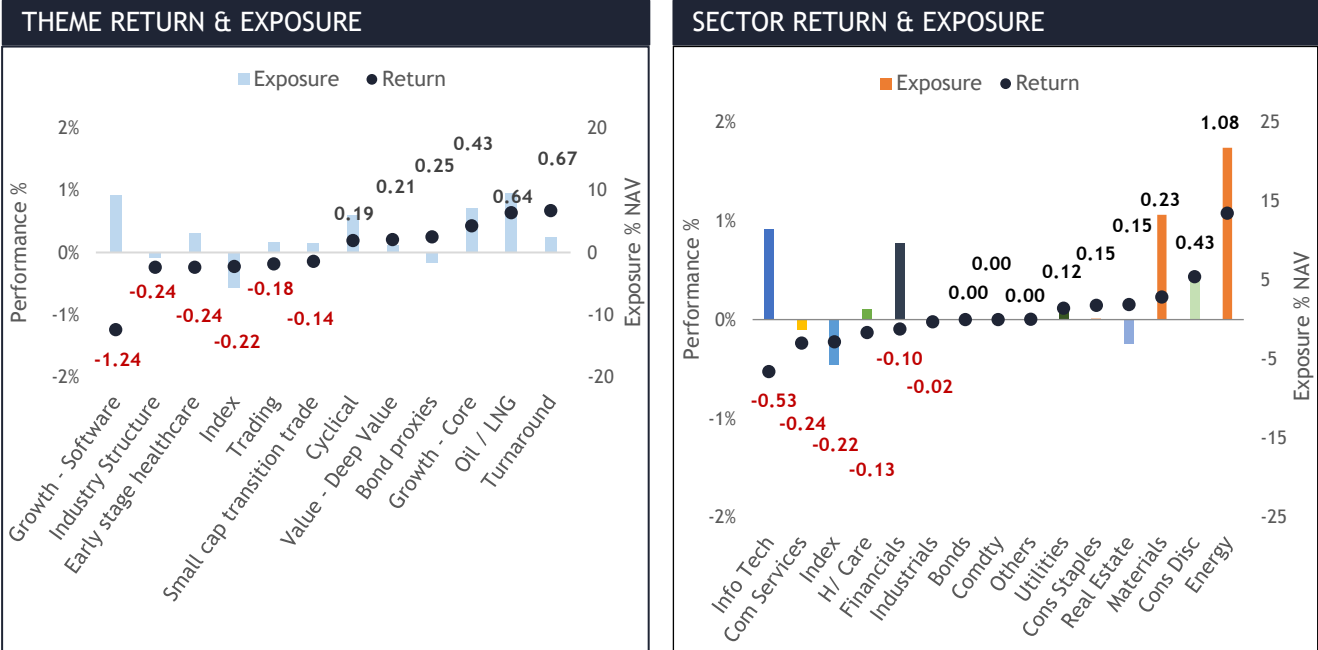
**MONTHLY SUMMARY METRICS**

NET RETURN	AV GROSS EXP	AV NET EXP
1.05%	107.44%	54.11%

**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
2019	-1.66	0.53	-0.30	-1.16	-1.90	0.29	1.70	1.72	-2.10	-2.04	3.20	1.05	-0.82

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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