

COMMENTARY

EXPOSURES AND ATTRIBUTION

We remained short in January in credit risk themes and high valuation names. Most of these names rallied strongly in January. On the other side our longs in Uranium went down.

PORTFOLIO OPPORTUNITIES AND RISKS

The portfolio continues to be positioned defensively and with high liquidity, primarily consisting of large cap stocks. We remain around 10% net short at these market levels. Shorts remain mainly in credit risk in Australia and High Valuation names with catalysts. Net and gross exposure is lower as we go into reporting season.

MACRO WATCH

We see three possible market environments for 2019

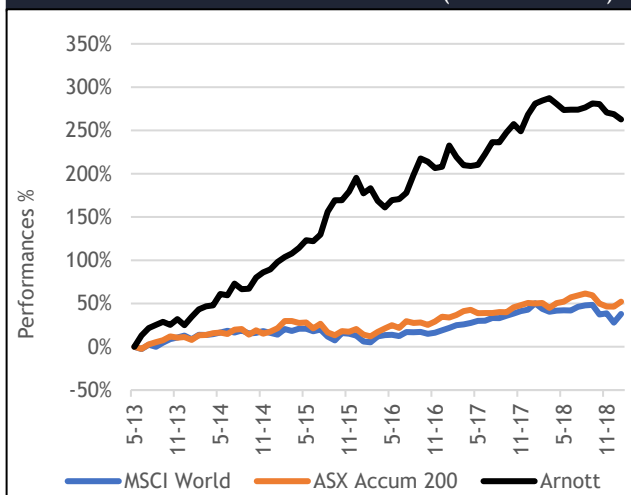
1. Bull case - earnings upgrades
2. Bear case - Fed reduces support or a reduction in pension flows
3. Range trading market where low rates and pension flows support market. This will be interrupted with concerns about growth causing market drawdowns.

The third environment is our high probability case at this stage for the US market. However, in Australia we think the risks are skewed more to the downside.

PERFORMANCE METRICS

	From May 2013
Annualised returns	25.53%
% Positive months	67.65%
Average monthly return	1.99%
Avg +ve monthly return	4.00%
Avg -ve monthly return	-2.22%
Best month	13.07%
Worst month	-6.09%
Largest drawdown	-11.61%
Longest drawdown (mths)	10
Up Capture ratio	39.1%
Down Capture ratio	-212.0%
Sortino	3.87
Sharpe ratio	1.72

CUMULATIVE FUND PERFORMANCE (2013-current)



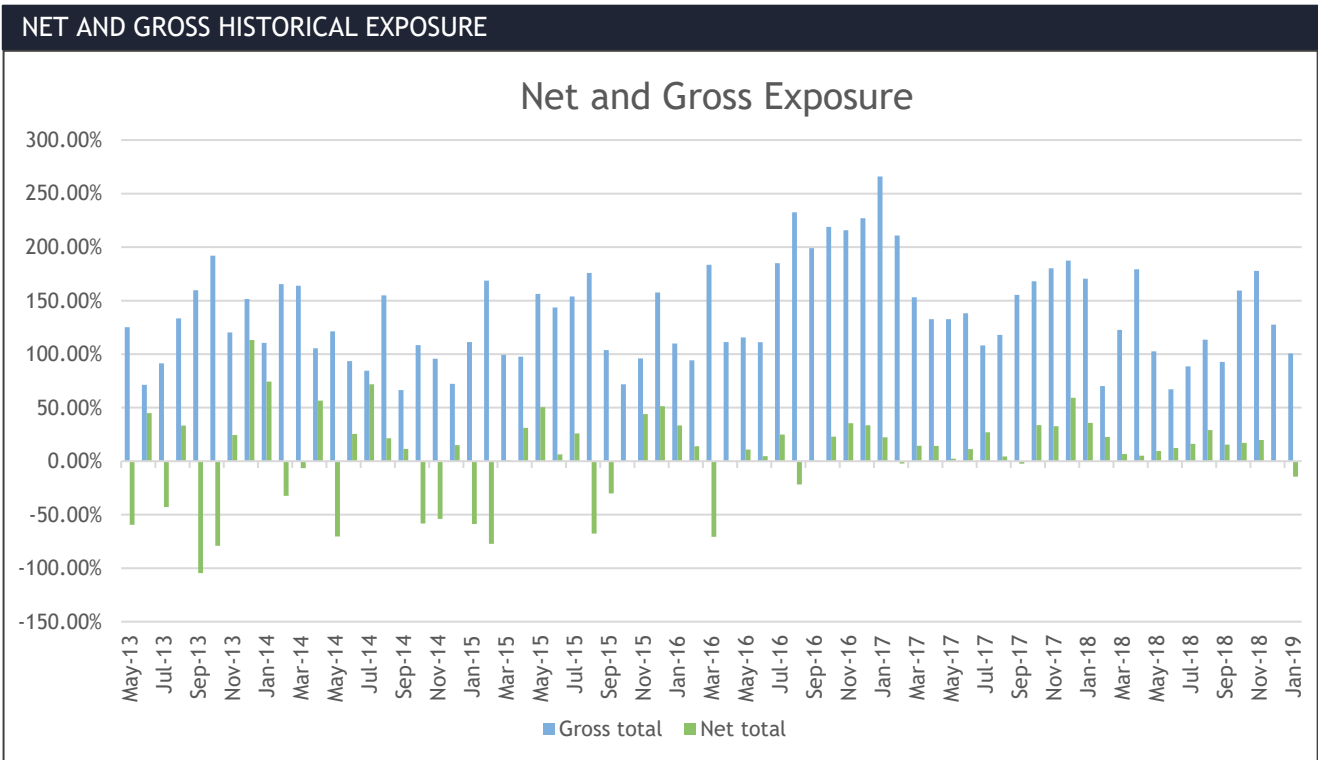
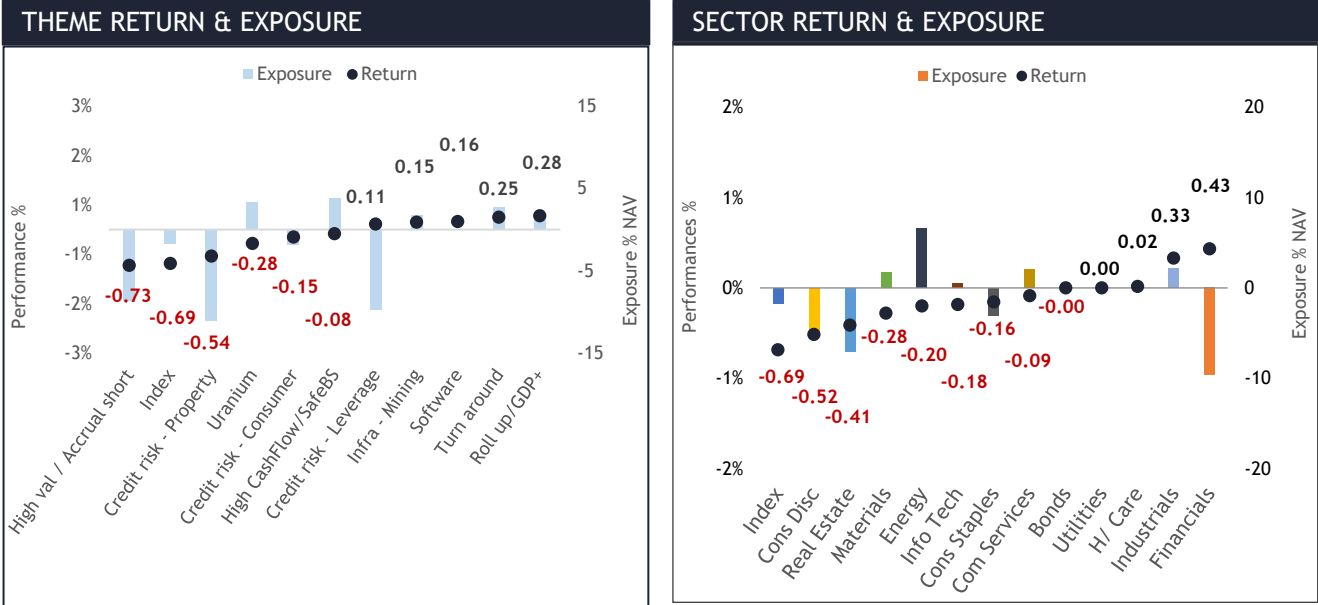
MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
-1.66%	100.61%	-14.45%

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												-1.66

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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