

COMMENTARY

Uranium Thesis

There are 3 key reasons we like Uranium;
1. Increase in demand for uranium;
2. Decrease in uranium production;
3. Uranium price is well below the cost of production;

Most uranium transactions are settled via long-term contracts with US utilities holding two-to-three years of inventory on-hand. Chinese inventories are much longer. For the past 9 months or so there has been very little signing of long-term contracts because of the uncertainty surrounding the Section 232 Partition. This has led to the drawdown of inventories.

Over the weekend we received news of Trump's response to the Section 232 partition on Uranium Tariffs. At this stage there will be no tariffs implemented. With this uncertainty out of the way, utilities in the both the US and elsewhere are likely to start contracting again.

This is going to be interesting. As we head into 2020, the uranium market is rapidly tightening with 12.4Mlbs of uncovered demand expected in 2020 and increasing each year out (see chart below). So we should start to see upward pressure on prices.

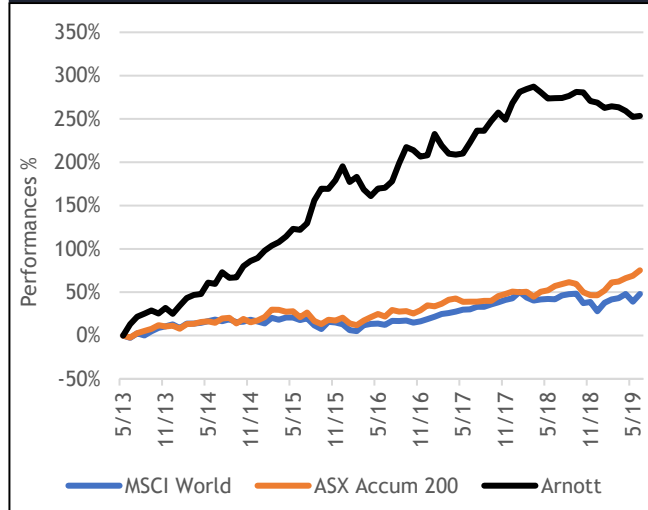
Exposures and Attribution

We have added a few names to our Core Growth and Gold names. Our largest shorts are in the High Valuation/Accrual theme. Trading activity has been busy in Financials and Mining sectors.

PERFORMANCE METRICS

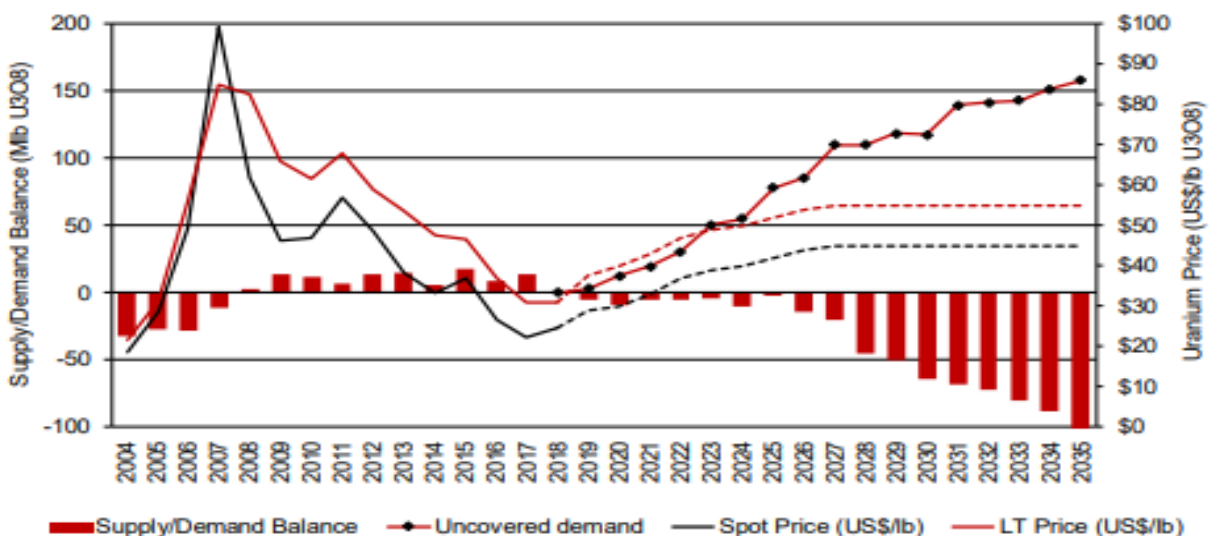
	From May 2013
Annualised returns	23.07%
% Positive months	65.75%
Average monthly return	1.82%
Avg +ve monthly return	3.85%
Avg -ve monthly return	-2.09%
Best month	13.07%
Worst month	-6.09%
Largest drawdown	-11.61%
Longest drawdown (mths)	15
Up Capture ratio	29.9%
Down Capture ratio	-212.0%
Sortino	3.66
Sharpe ratio	1.61

CUMULATIVE FUND PERFORMANCE (2013-current)



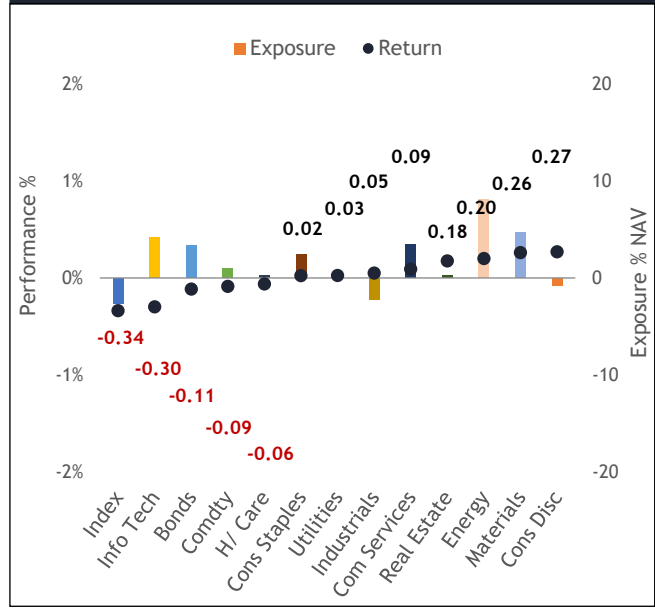
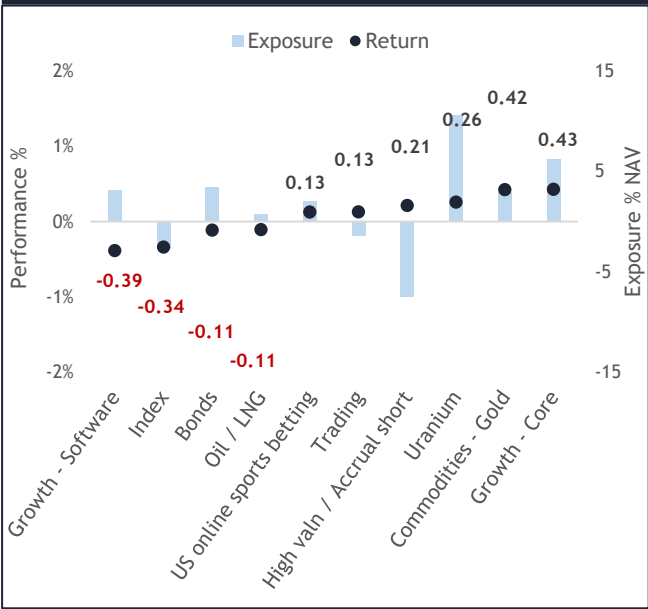
MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
0.29%	96.42%	21.70%

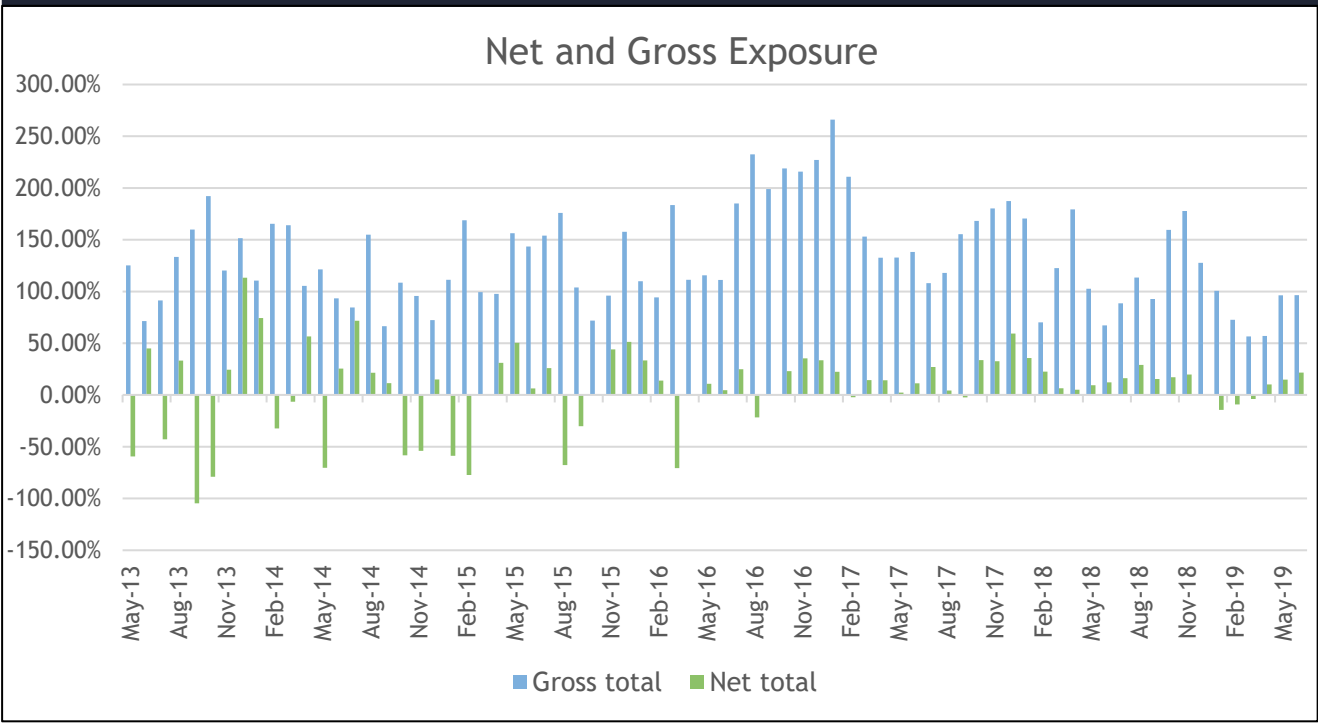


Source: Company Reports, RCKS Estimates, UxC

THEME RETURN & EXPOSURE **SECTOR RETURN & EXPOSURE**



NET AND GROSS HISTORICAL EXPOSURE



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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