

COMMENTARY

EXPOSURES AND ATTRIBUTION

We had positive performance from shorts in Steels, High Valuation and the Credit Risk theme. The losses were predominantly in our Oil theme where we were still carrying some longs and particularly in WOR which was a special situation trade we had on in large size.

PORTFOLIO OPPORTUNITIES AND RISKS

Uranium is the largest long theme in the portfolio. There has been little change in the underlying price recently and we expect little in the way of news in the next few months. However, the producers remain rational with their production curbs while the demand outlook remains positive.

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.

Generally, we are running net exposure flat at these market levels. Trading activity is pretty high but margins are low. We are keeping risk tight.

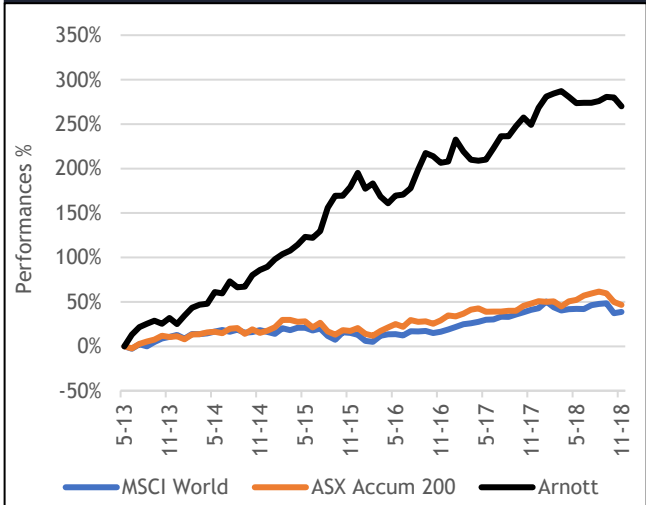
MACRO WATCH

The market has moved very swiftly from risks of higher oil and higher inflation and more fed rate rises, to slowing growth and less rate rises. Money has poured into property and defensive names as a proxy for cash and on the other end of the spectrum some commodity names look very cheap.

PERFORMANCE METRICS

	From May 2013
Annualised returns	26.86%
% Positive months	68.18%
Average monthly return	2.08%
Avg +ve monthly return	4.09%
Avg -ve monthly return	-2.22%
Best month	13.07%
Worst month	-6.09%
Largest drawdown	-11.61%
Longest drawdown (mths)	8
Up Capture ratio	42.8%
Down Capture ratio	-214.4%
Sortino	3.90
Sharpe ratio	1.79

CUMULATIVE FUND PERFORMANCE (2013-current)



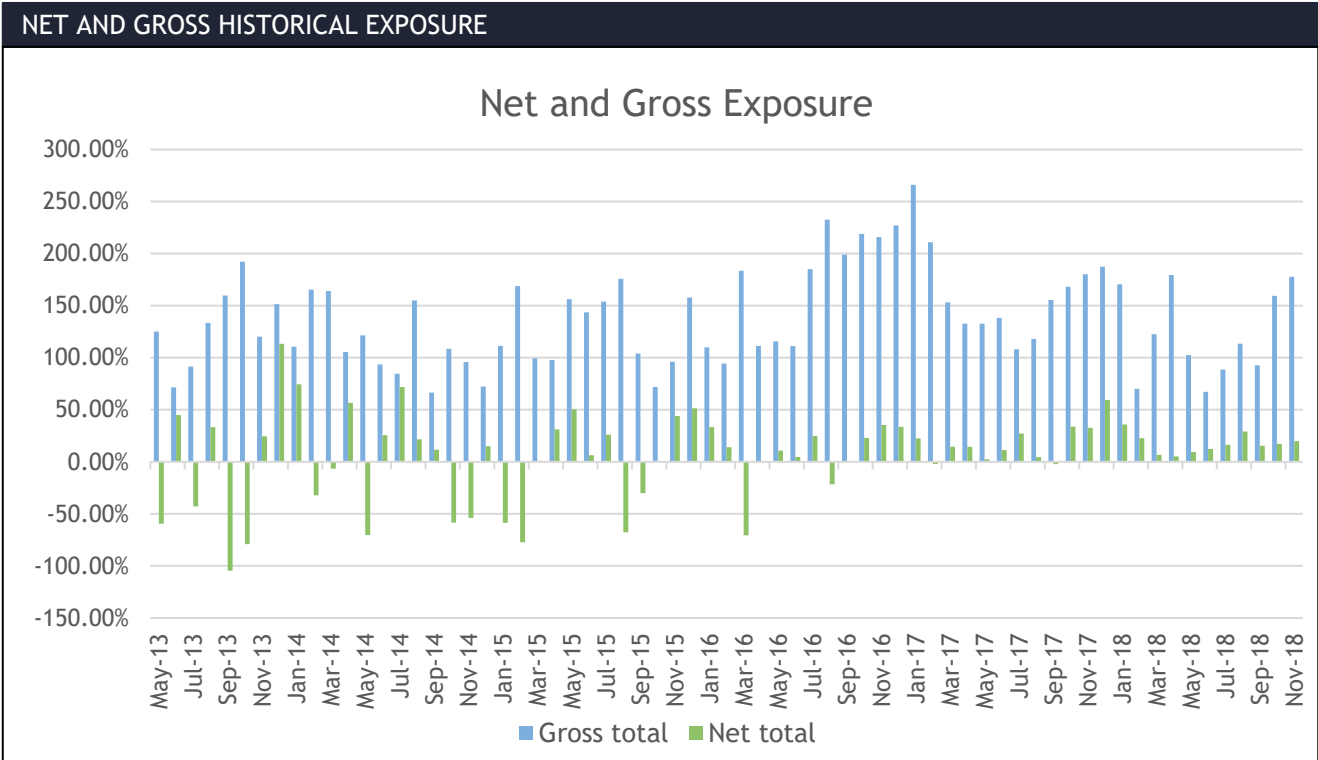
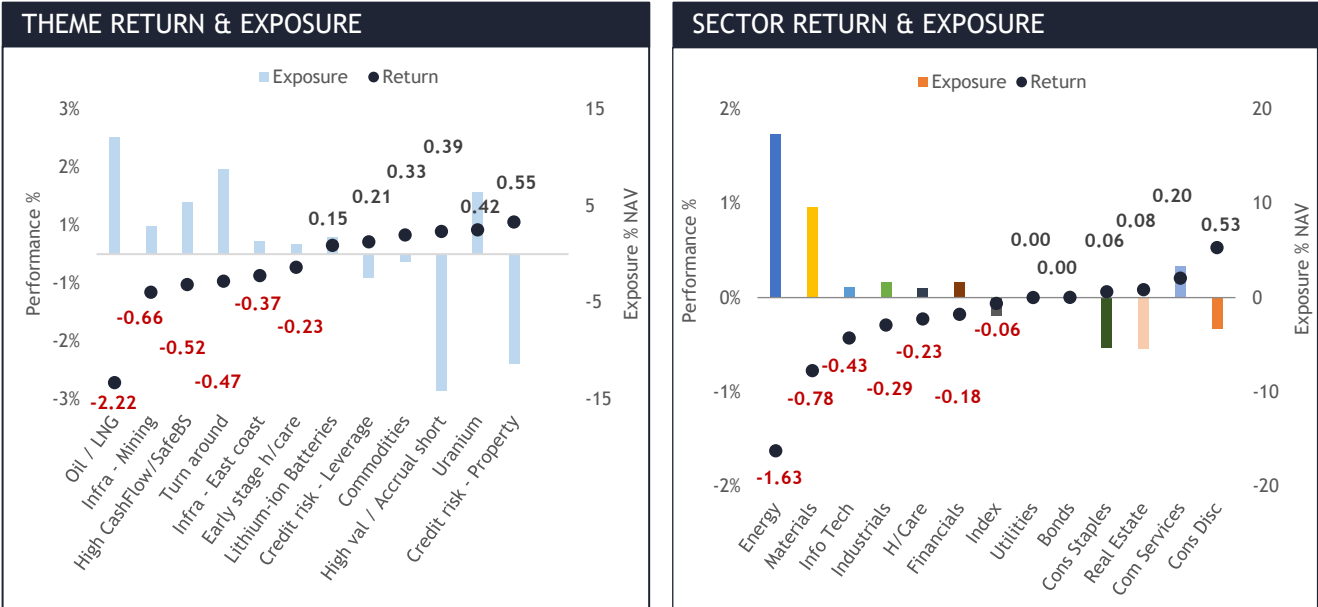
MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
-2.61%	177.74%	19.83%

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		0.62

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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