

COMMENTARY

The fund returned negative 3.32% for the month. Net exposure averaged 64% long, while gross averaged 139%.

At Arnott we apply an asymmetric approach to investing, which means that in every situation we invest in we perceive that the upside potential is far greater than the downside risk.

Presently the outperformance of high multiple, high growth equities relative to low growth, value equities is at an extreme that has not been seen since 2000. Put simply, the price people are willing to pay for growth verse the price people are willing to pay for value is sitting at the widest level in twenty years.

As asymmetric investors, given this backdrop, we see the highest risk / reward opportunities from the long side presenting themselves almost exclusively in the value segment of equity markets. Companies branded with the “value” tag have seen multiples de-rate significantly, investor interest wane, resulting in share prices that are capitalising poor operating conditions into perpetuity. As we look out beyond the current Covid-19 induced operating environments, we see a very bright outlook for some of these businesses and have been taking advantage of the markets overly pessimistic stance to tilt the portfolio aggressively towards the value factor.

This does not mean we do not believe that the high growth, structural winners of the current era are not great businesses that will continue to grow in the coming years. However, we believe the price set by the market to own these companies present as poor risk / return investment opportunities in the intermediate term. We often remind ourselves of one of the hottest stocks from the dot.com era that continued to exist beyond the bubble bursting, Microsoft Corporation (‘MSFT’). From 2000 - 2013 MSFT grew their revenues by +350%, however an investor who bought MSFT in 2000 made 0% from capital appreciation over the period to 2013, despite tremendous growth in the company. In our view, asymmetric investing does not entail buying growth at any price.

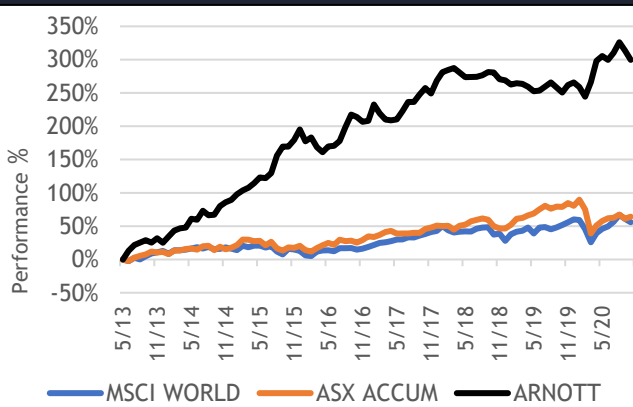
PERFORMANCE METRICS

	From May 2013	
	Arnott	MSCI
Annualised returns	20.54%	6.16%
% Positive months	64.04%	64.04%
Average monthly return	1.64%	0.57%
Avg return in MSCI up months	1.39%	2.73%
Avg return in MSCI down months	2.08%	-3.27%
Best month	13.07%	10.80%
Worst month	-6.09%	-13.47%
Largest drawdown	-11.61%	-21.44%
Longest drawdown (mths)	24	20
Sortino	3.76	0.58
Sharpe ratio	1.62	0.46

CORRELATION TO ASSETS (2013 to Current)

MSCI Index	-0.02
US Government Bond Index	-0.02
US\$ Gold	0.03
Bloomberg Commodities Index	-0.14
Hedge Fund L/S	0.02

CUMULATIVE FUND PERFORMANCE (2013-current)



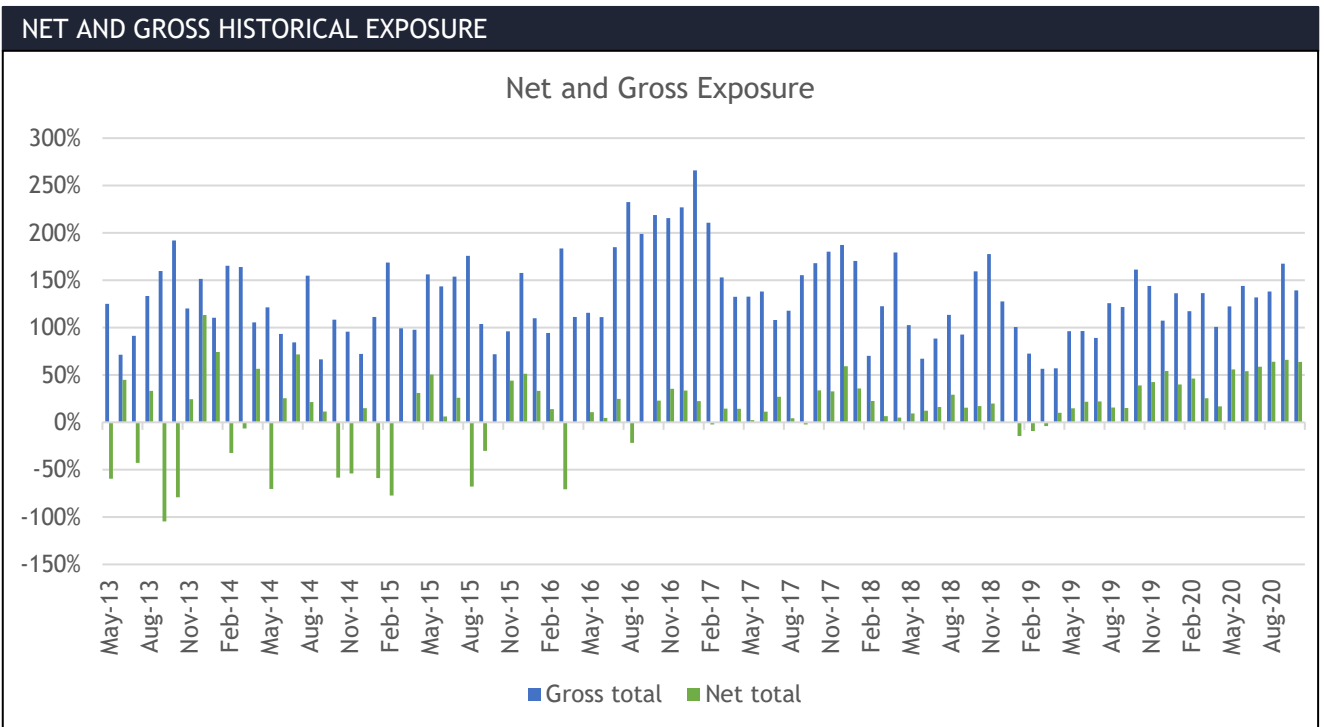
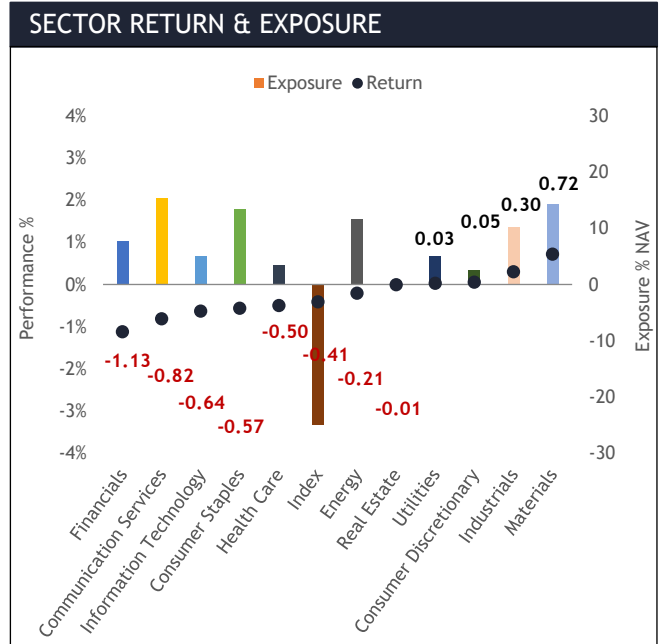
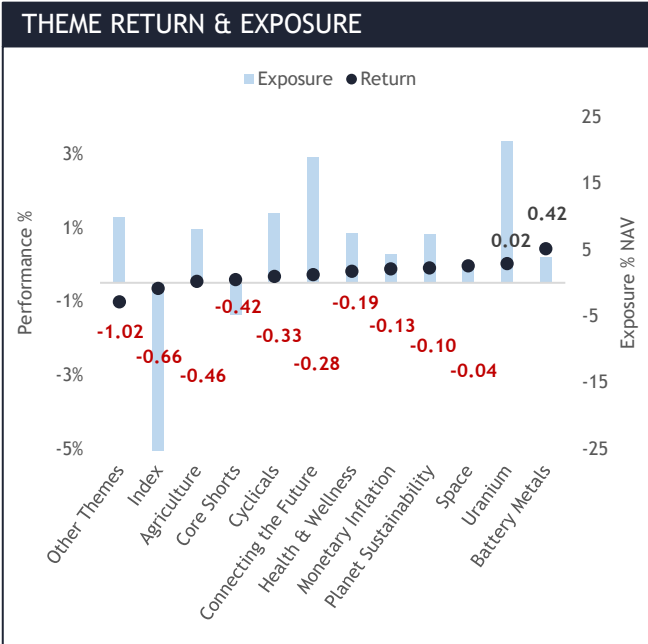
MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
-3.32%	139%	64%

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
2020	-1.90	-4.03	6.32	8.76	1.82	-1.47	2.69	3.82	-2.94	-3.32			9.28

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

Our Investment Approach:

1. Find asymmetric themes
2. Invest in the best stocks within those themes
3. Focus on macro drivers for risks and opportunities
4. To generate an asymmetric return profile

The strategy is global long/short equity with a variable delta bias. The portfolio will typically contain 40 to 70 positions. The fund focuses on identifying underinvested global investment themes through extensive macroeconomic research and then utilises a bottom up fundamental process to identify the highest quality securities within an investment theme to deliver Asymmetric returns for investors.

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	20%	FUND ADMINISTRATOR	Mainstream
MANAGEMENT FEE	1.5%	FUND AUDITOR	Ernst and Young
SUBSCRIPTIONS	Monthly	LEGAL ADVISORS	Ernst and Young

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