

COMMENTARY

Attribution and exposures

The fund returned positive 5.03% for the month. Net exposure averaged 62% long, while gross averaged 142%.

Uranium update

The largest contributor for the month was our Uranium theme. There have been a few interesting developments in the Uranium market. Sprott Asset Management has entered into an agreement with Uranium Participation Corporation to form the Sprott Physical Uranium Trust. One of their primary objectives is to seek a dual listing for the trust on both the Toronto Stock Exchange and the NYSE. This has the potential to bring significant demand into the spot Uranium market.

More recently, we have seen a leak at a Chinese nuclear plant. While not deemed to be any threat, this type of tail risk in our uranium investment theme is why we limit the exposure to around 18% to 25% of the fund despite our very bullish view on the uranium price.

Portfolio risks and opportunities

We remain intrigued by the debate on inflation. Two clear camps are forecasting either transitory or sustained inflation and quite a lot is at stake for portfolio positioning.

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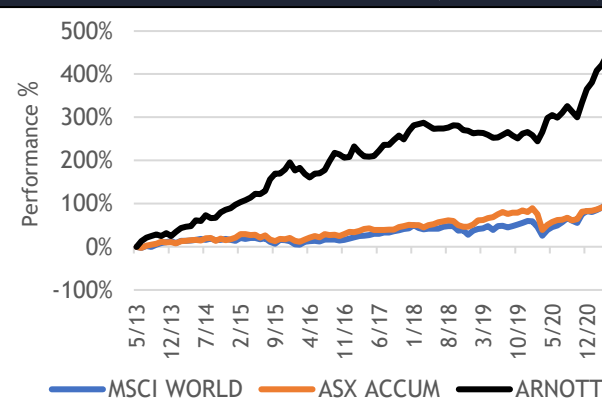
PERFORMANCE METRICS

	From May 2013	
	Arnett	MSCI
Annualised returns	24.29%	9.20%
% Positive months	66.67%	65.63%
Average monthly return	1.90%	0.81%
Avg return in MSCI up months	1.79%	2.92%
Avg return in MSCI down months	2.12%	-3.21%
Best month	13.07%	12.66%
Worst month	-6.09%	-13.47%
Largest drawdown	-11.61%	-21.44%
Longest drawdown (mths)	24	20
Sortino	4.44	0.89
Sharpe ratio	1.81	0.67

CORRELATION TO ASSETS (2013 to Current)

MSCI Index	0.07
US Government Bond Index	-0.05
US\$ Gold	0.02
Bloomberg Commodities Index	-0.04
Hedge Fund L/S	0.02

CUMULATIVE FUND PERFORMANCE (2013-current)



MONTHLY SUMMARY METRICS

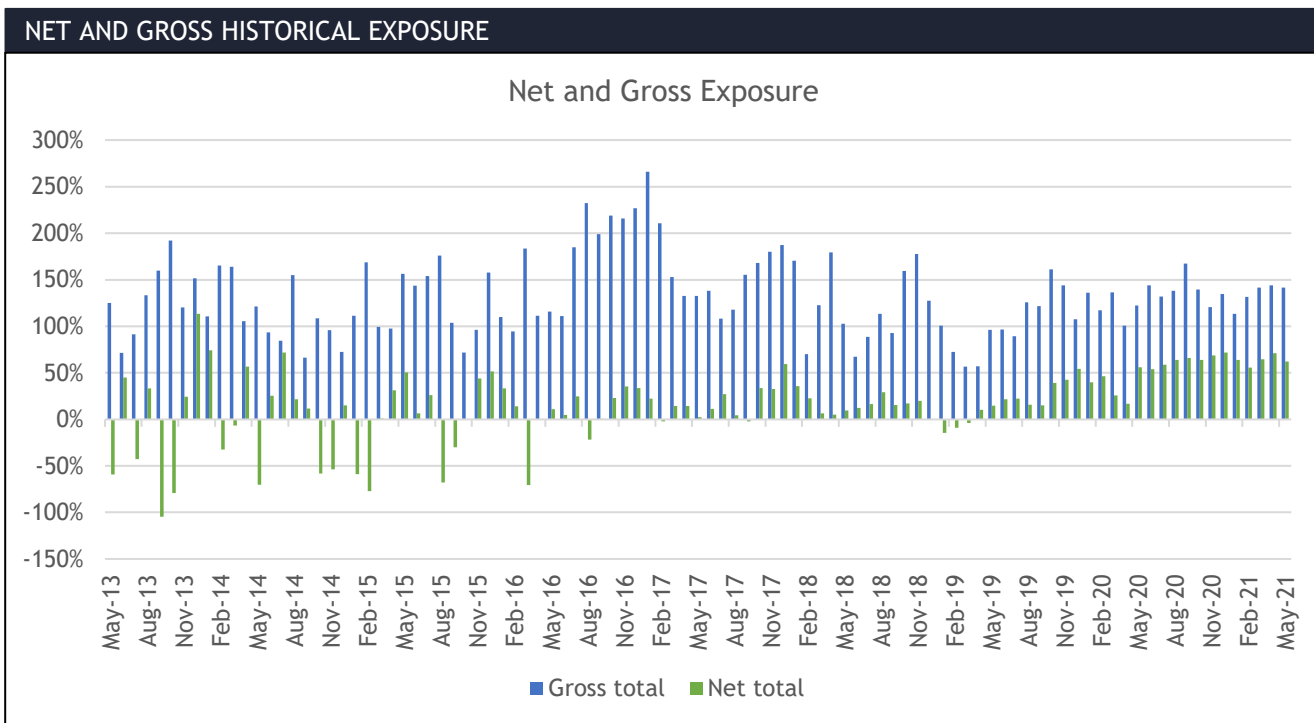
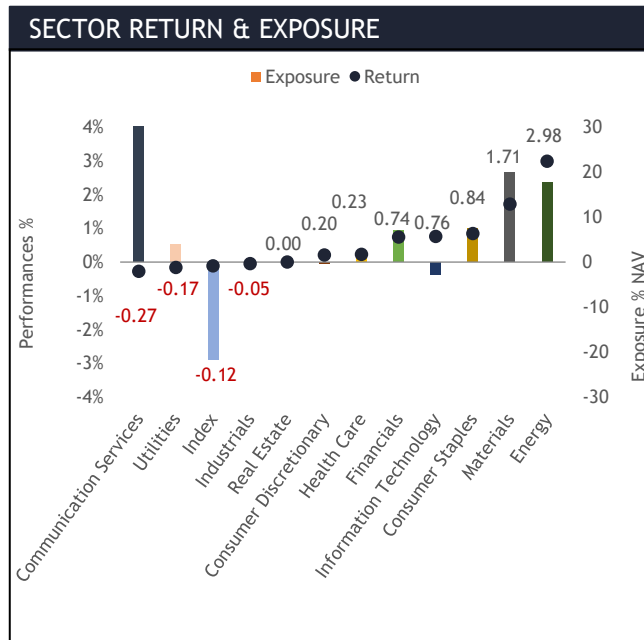
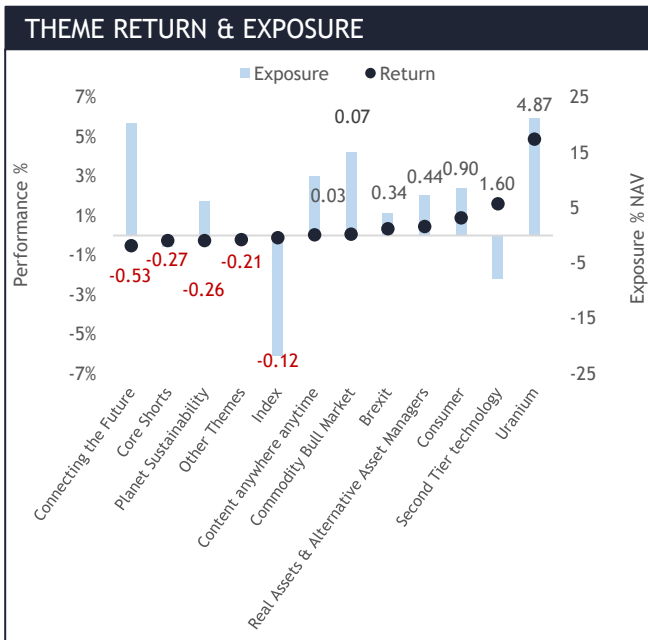
NET RETURN	AV GROSS EXP	AV NET EXP
5.03%	142%	62%

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	8.59	7.22	27.23
2021	3.26	5.69	2.74	3.93	5.03								22.40

We think it is very important to differentiate between what we may believe central bankers should do vs what they are most likely to do. As Mohamed A. El-Erian recently outlined, if the Fed were CEO's of competitive private companies they would likely start tapering in light of very buoyant recent data. However, that outcome is not likely anytime soon as the Fed's projections forecast temporary factors reversing in the short term, hence they will not change course quickly.

In our opinion, odds favour more persistent inflation given the magnitude of monetary and fiscal stimulus going into the system. Under this scenario, many cyclical names remain too cheap. We remain exposed to these names, but we note that the outcome may not be known for months and in the mean time there is a distinct possibility of summertime (northern hemisphere) blues by the market as we lead into the important Jackson Hole meeting in late August.



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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