

COMMENTARY

THE CURRENT DRAWDOWN

We have a very disciplined process that has been developed since I began trading in 1990. We can control our investment process but not the individual outcomes of that process. Drawdowns are the result of a string of bad outcomes that occur together.

The chart below shows all drawdowns on a quarterly basis since 1999. During this period we have 11 drawdowns between 4 and 9% on a quarterly basis. These are exceptional results when compared to market drawdowns. We have managed this by reducing exposures when we are in a drawdown in order to control losses. This means when we have a string of negative outcomes we will keep risk low. As at the end of May this drawdown was around 9%. Month to date June is positive, so the drawdown has improved.

We navigated the back end of 2018 very well, however we did not put enough risk back on in the first quarter of 2019. Also in the last few months we have had; mark to market losses in our Uranium theme, a large loss in Dulux which was bid for, and lastly we were not positioned for a coalition win at the Australian elections.

PORTFOLIO OPPORTUNITIES AND RISKS

The biggest long exposure remains Uranium at 11%. We have increased this as the Section 232 partition outcome draws closer. In our Growth and Software themes we are long 12%. We have taken advantage of extreme price moves, following poorly handled placements, as an opportunity to enter longs. This includes St Barbara, which is in our Gold theme. We have initiated exposure to US Gaming Theme with the recent IPO of Points Bet and Fox Corporation.

On the short side we have 11% in High Valuation / Accrual Short Theme. These names include Domino's, Treasury Wine and Reliance Worldwide.

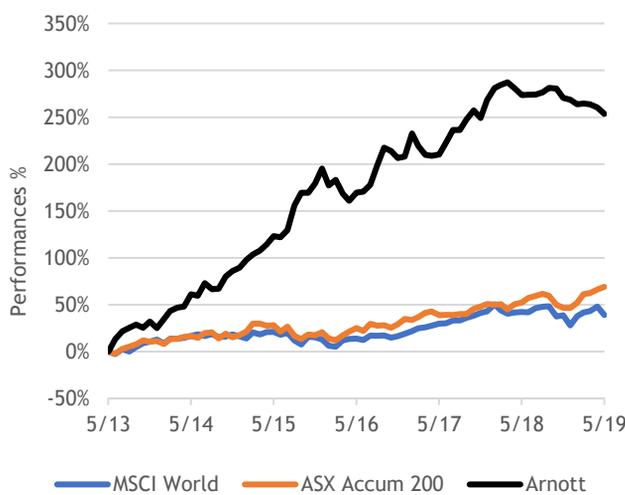
We have a Dual Listed Spread on between Rio Australia and Rio London which is out at a wide level. We have been involved in the Amcor / Bemis takeover trade, taking advantage of the spread between the Australian and US lines.

PERFORMANCE METRICS

From May 2013

Annualised returns	23.43%
% Positive months	65.28%
Average monthly return	1.84%
Avg +ve monthly return	3.92%
Avg -ve monthly return	-2.06%
Best month	13.07%
Worst month	-6.09%
Largest drawdown	-11.61%
Longest drawdown (mths)	14
Up Capture ratio	31.6%
Down Capture ratio	-212.0%
Sortino	3.68
Sharpe ratio	1.62

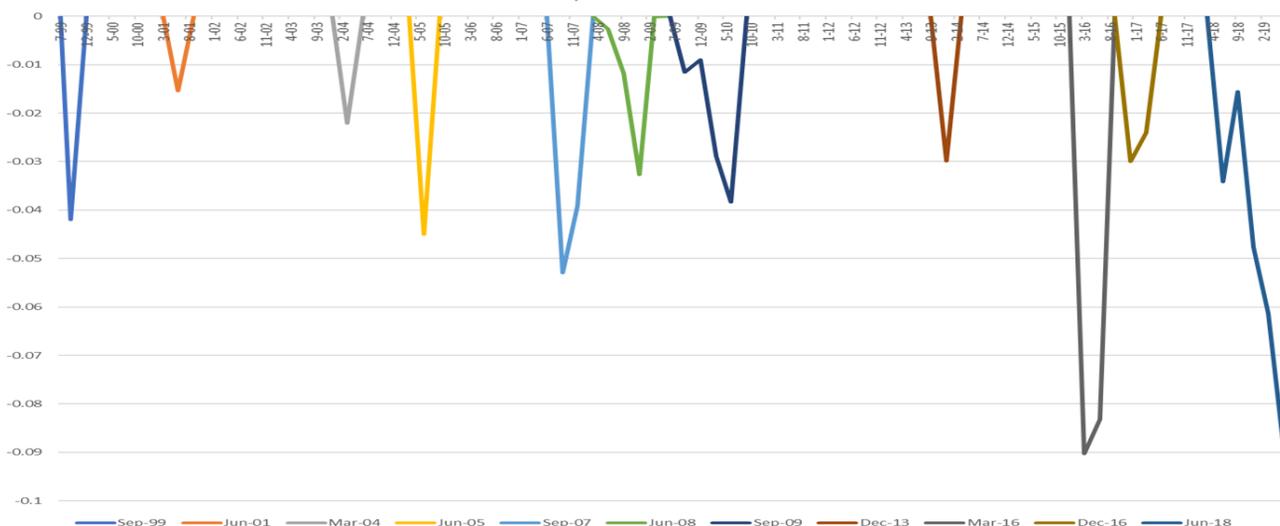
CUMULATIVE FUND PERFORMANCE (2013-current)

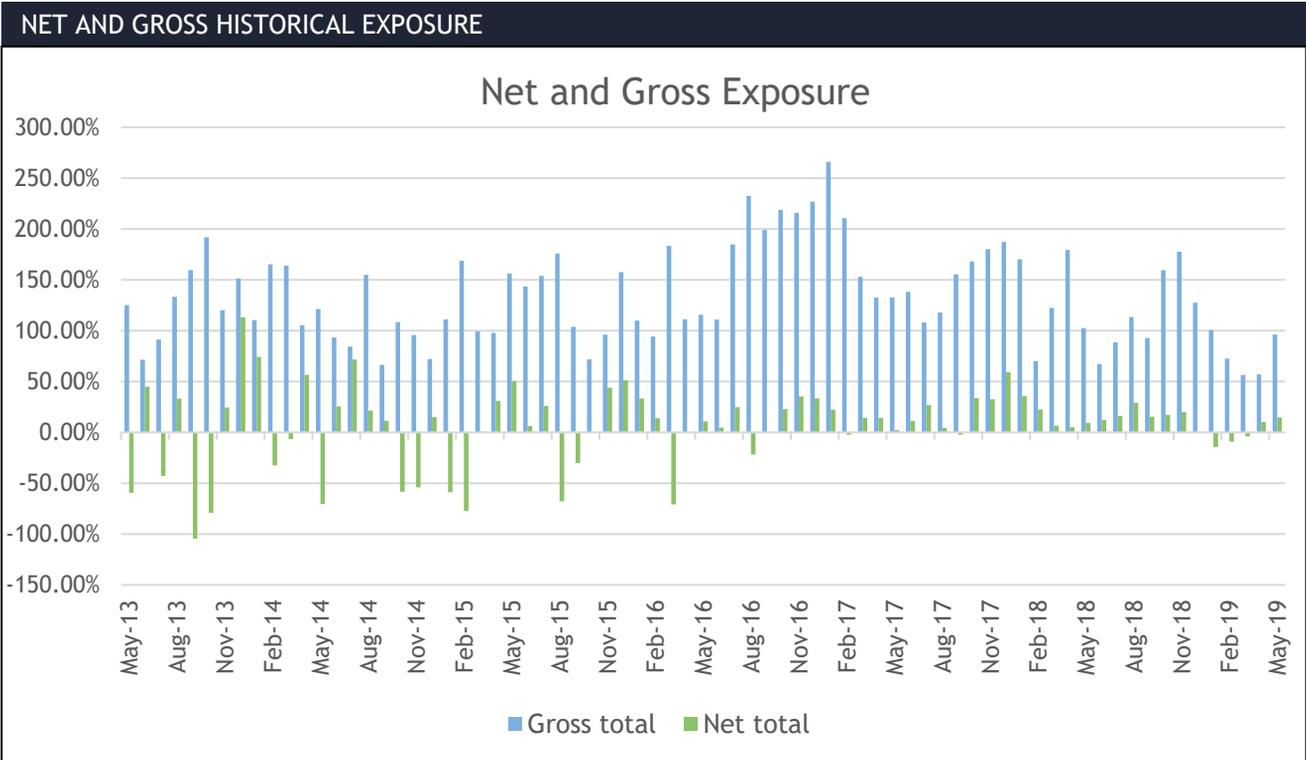
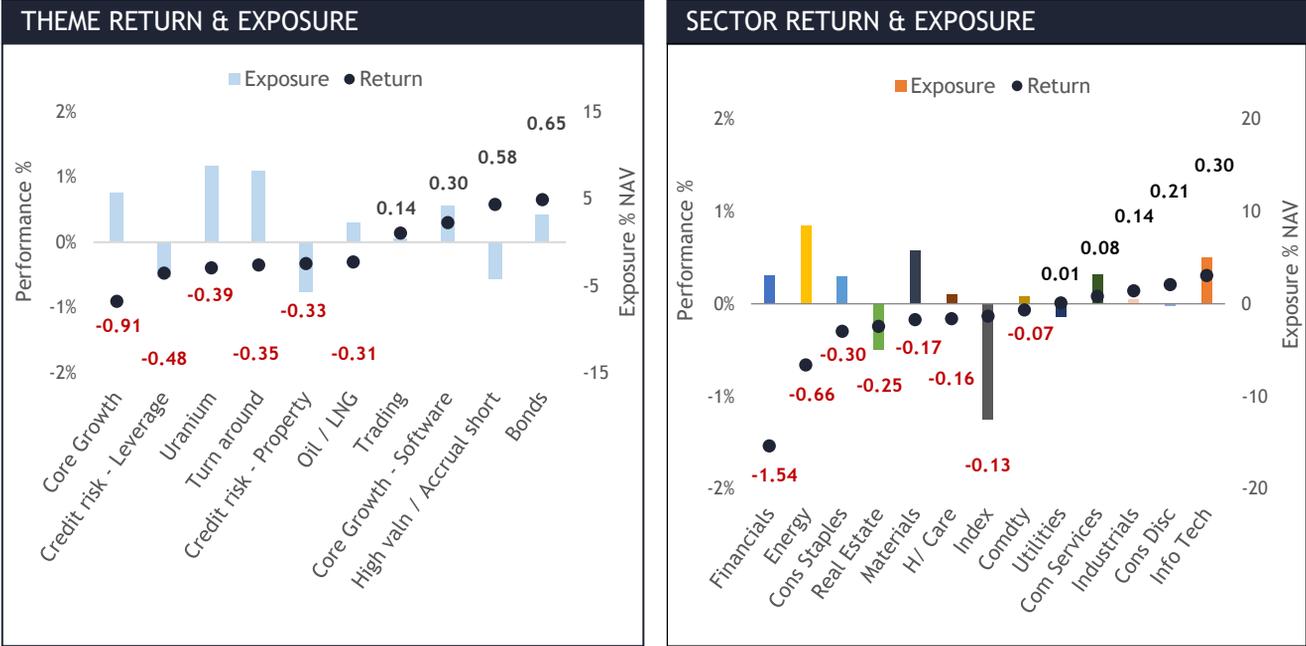


MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
-1.87%	98.29%	14.78%

Quarterly Draws 1999 - Present





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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