MONTHLY PERFORMANCE REPORT
May 2018

GENERAL INFORMATION

Base Currency: AUD

Entity Type: Open Ended Unit Trust

PMs: Marcel von Pfyffer (CIO)
Neill Colledge

Launch date: Jul-2014

Benchmark: 0% (Absolute Return)

Fees: 1 and 10

Domicile: Australia

Close of Financial Year: 30th June

Unit Pricing: Weekly

APIR Code: PKF0001AU

ISIN Code: AU60PKF00011

Fund Administration: APEX Fund Services (Australia)

Fund Custodian: Australian Executor Trustees Limited

Prime Broker: Interactive Brokers

Auditors: Grant Thornton

Compliance: King Irving

INVESTMENT MANAGER

Arminius Investment Management Pty Ltd
AFSR 471285 ACN 602780950
licensed by:
Arminius Capital Advisory Pty Ltd
AFSL 461307 ACN 165509928

DISTRIBUTION DETAILS

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The Fund returned +0.24% for the month, compared with +0.49% for the S&P/ASX 200 (XJO). The Credit Suisse Global Macro Index returned -0.94% for the month. The Fund achieved its return with lower volatility than the S&P/ASX 200, as a consequence of our risk averse strategies.

Our stance remains pragmatic towards the US; negative on Australia; optimistic on Europe and negative on emerging markets. Our econometric models can locate value in Europe and Japan, but the unfolding of the impacts of rising inflationary expectations in the US will have manifold effects through 2018. The US dollar and continued expected rises in US interest rates will eventually lead to more defaults in lower-quality sovereign and corporate bonds.

PERFORMANCE (Inception JUL-2014)	Arminius Capital ALPS Fund	S&P/ASX200 XJO (AUD)	S&P/ASX200 XNT TOTAL RETURN (AUD)	HFRX (USD) ABSOLUTE RETURN INDEX	CREDIT SUISSE GLOBAL MACRO (USD) INDEX
1 Month	**0.24%**	0.49%	1.08%	0.45%	-0.94%
3 Months	**-2.86%**	-0.07%	1.03%	0.39%	-6.70%
Calendar YTD	**-1.70%**	-0.88%	0.90%	0.84%	0.65%
1 Year	**-0.70%**	5.02%	9.30%	2.94%	8.71%
3 Years	**14.91%**	4.06%	17.81%	5.05%	7.27%
5 Years	-	22.03%	49.97%	10.37%	2.80%
Cumulative since Inception JUL 2014	**27.90%**	**11.42%**	**31.19%**	**6.48%**	**6.60%**

Arminius Capital ALPS Fund (Inception July-2014) Returns are gross of fees.

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2014	-	-	-	-	**INCEPTION =>**		2.09%	0.04%	-1.43%	2.02%	1.18%	2.35%	6.37%
2015	3.85%	1.56%	-0.07%	-1.47%	0.77%	-0.09%	0.52%	-1.23%	-0.45%	1.23%	0.19%	-2.43%	2.26%
2016	-0.38%	-2.38%	0.54%	2.37%	1.22%	0.41%	-0.10%	0.03%	0.00%	0.20%	3.55%	4.60%	10.33%
2017	-0.13%	2.69%	3.31%	0.10%	1.25%	0.02%	-0.34%	1.28%	-1.45%	1.93%	-1.41%	1.04%	8.47%
2018	3.94%	-2.64%	-3.56%	0.49%	0.24%								-1.70%

* 2014/07 - 2015/02 Strategy run as Mandate, 2015/03+ as Unit Trust Structure. EOM date is typically last Friday of month.

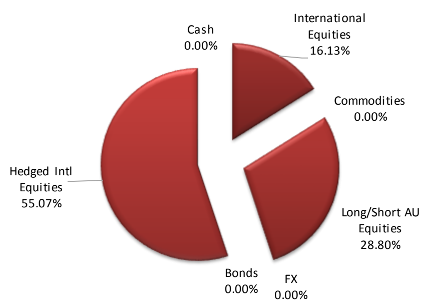
FUND OBJECTIVES: The fund provides investors with exposure to all asset classes in the global macro universe. Arminius' aim is to provide smooth positive annual returns with lower volatility and lower risk than concentrated single market/asset class exposure. Our absolute return investment methodology utilises a combination of fundamental, momentum and quantitative inputs. As an absolute return fund, the objective is to preserve the capital base across every 3 year rolling period.

INVESTMENT STRATEGY: Arminius uses econometric modelling based on macro-economic indicators alongside fundamentals pertinent to each individual instrument within each asset class. Momentum is taken into account only once the fundamental value of each instrument has been ascertained. Low volatility and risk management is complemented by frequent re-balancing and equal weighting, accordingly to what each hedging sub-strategy dictates.

FUND STATISTICS MONTHLY

From July 2014	ALPS Fund	XJO
Sharpe Ratio	**0.71**	0.11
Sortino Ratio (RFR)	**1.92**	0.37
Downside Deviation	**2.28%**	3.61%
Standard Deviation	**1.78%**	3.39%
Annualized SD	**6.17%**	11.76%
Mean Monthly Return	**0.54%**	0.29%
Compound Monthly Return	**0.52%**	0.23%
Excess Return (RFR)	**4.38%**	1.34%

STRATEGIC ASSET ALLOCATION
at Month's commencement



FUND MANAGER'S COMMENTARY:

The Fund returned +0.24% this month, compared to +0.49% for the S&P/ASX200 Price index. The Fund's return for the calendar year to date is -1.7%, compared to +0.65% for the Credit Suisse Global Macro Index. The fund's return in the time period since inception is +27.9% vs +11.4% for the S&P/ASX200 Price Index vs +6.48% for the HFRX Absolute Return Index.

The US S&P500 price index rose by 2.16% in May, but most global equity markets were weak, as rumours circulated about an imminent US-China trade war. The Stoxx Europe 600 price index slipped -0.59%, and Japan's Nikkei 225 fell -1.18%. The fund capitalised on this with successful shorting on average of certain Japanese stocks, amongst which were NSK and Furukawa Electric which fell some 15% and 24%

respectively during May.

The Shanghai Composite price index rose +0.43% but Hong Kong's Hang Seng price index went down -1.1%. Most markets are still below where they started the year. (All figures are in the currency of each market.)

Global equity markets have a good record of long term growth, but they also produce negative returns about once a decade, usually because of recessions or financial crises. As we approach the tenth anniversary of the GFC, investors are asking us, "When is the next GFC going to happen?" We think that it will occur in the next two years, but it won't be the same as last time around. The fund identified continued stress in the US retail space, with shorts on JC Penney and Dollar Tree Inc. both returning in excess of +15% in May.

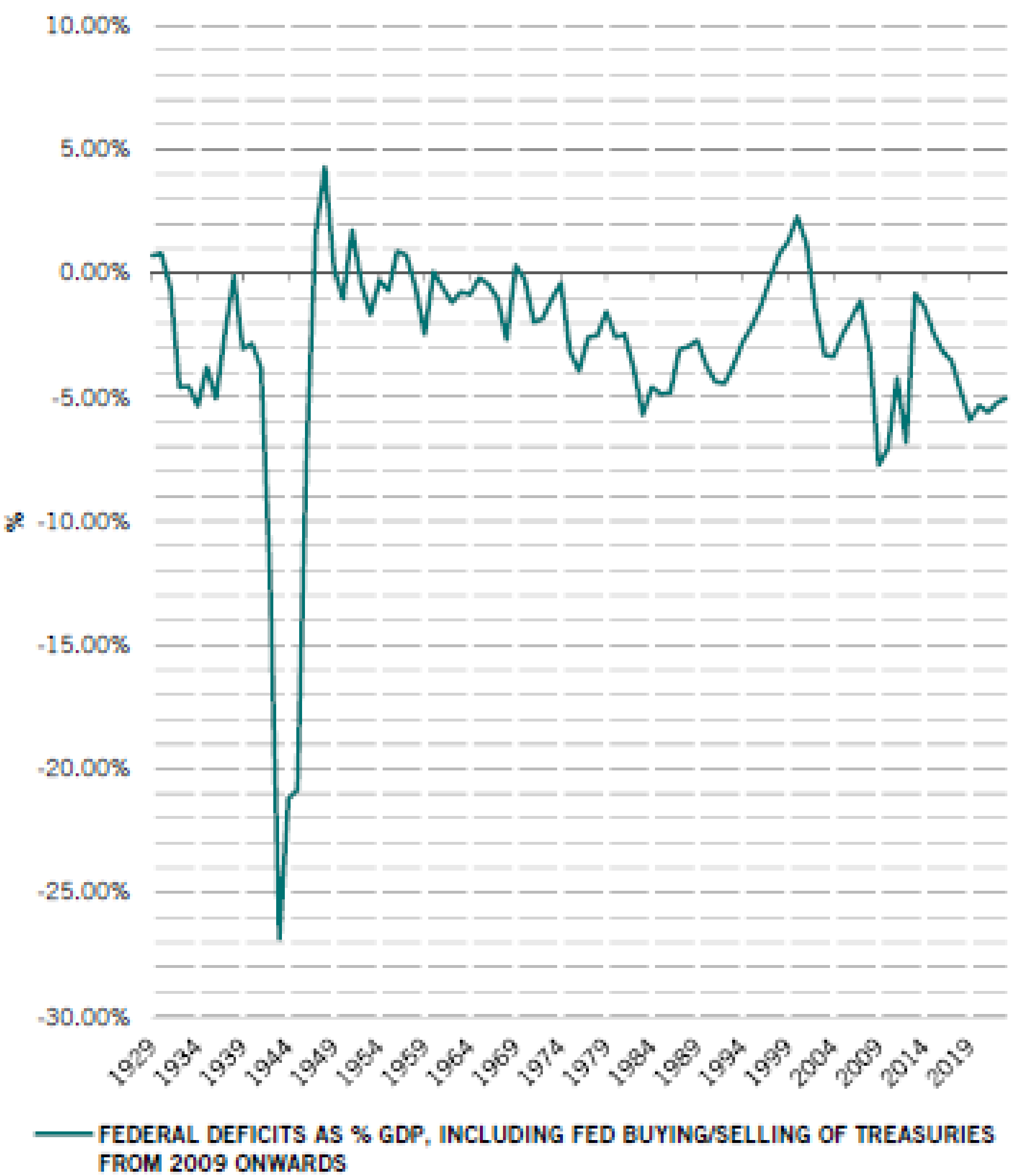
In the US, good economic data are concealing underlying problems with corporate debt and government debt. The chart above shows how, since the GFC, US companies have succumbed to the lure of cheap debt, whether from banks or bond markets. The bulk of the increase in debt has funded share buybacks, rather than capital expenditure on real assets.

The picture is almost as bad in the government sector, as the chart on the next page shows. Apart from a few isolated atypical boom years under Clinton, the Federal government has been running deficits since Nixon's first term. The Republicans in Congress had complained about Obama's deficits, but in December 2017 they voted in a package of unfunded tax cuts which would total USD$1.5 trillion over the next ten years. Under these circumstances it is not surprising that the yields on US government bonds have been rising this year. Blue and Red American parties have historically demonstrated that they both have difficulty in balancing the ledger after delivering the policies that helped get them elected. This administration is doing nothing to disprove that historical trait; instead keeping with the same tradition as almost all administrations that have come before it in the post-war era.

By contrast, the banks and the households whose over-gearing fuelled the GFC have been on their best behaviour. US banks have been forced to improve their disclosure and their risk management at the same time as they were raising more equity to serve as a buffer against bad loans. US consumers have been generally living within their means since the GFC, and savings ratios have improved slightly.

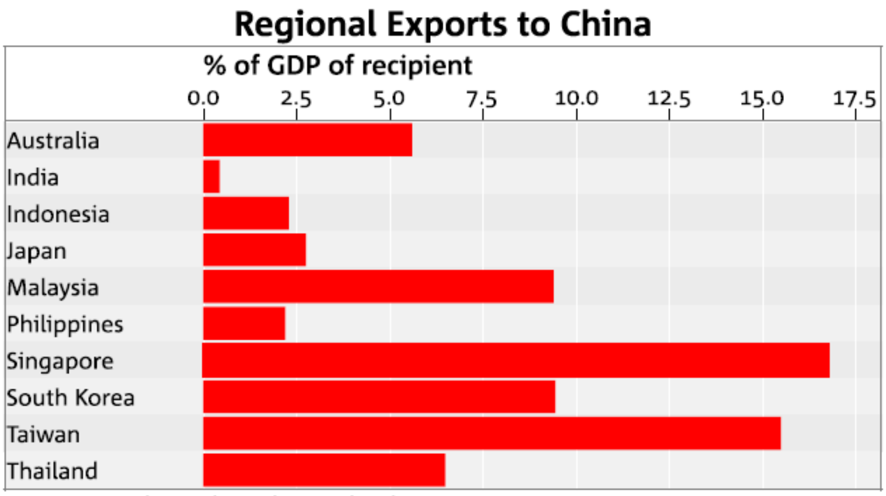
Therefore we expect that the next financial crisis in the US will mainly affect the corporate sector. Current levels of corporate gearing suggest that there will be a rash of corporate insolvencies, as in the early 1990s, with some collateral damage to the banks who lent to the insolvent companies. And we mustn't forget the wild cards – currency crises in emerging markets (e.g. the 1998 Asian crisis) and the knock-on effects of a possible US-China trade war.

Federal deficits net of Fed buying of treasuries – long term picture



Source: Federal Reserve, CBO. Pictet Asset Management. Projections are based on expected rolloff of the treasuries component of the Fed's balance sheet

As we have noted in previous monthly reviews, the probability of a US-China trade war is increasing, even though the Trump White House is sending mixed signals. The effects of a trade war will be more serious for smaller economies which have strong trading relationships with China, as summarized in the table on the following page. In 2016 China bought 28% of Australia's exports, but another 27% of our exports went to other Asian countries which are also major trading partners of China. Therefore Australia – along with Singapore, South Korea, and Taiwan – will suffer twice over if a trade war does break out.



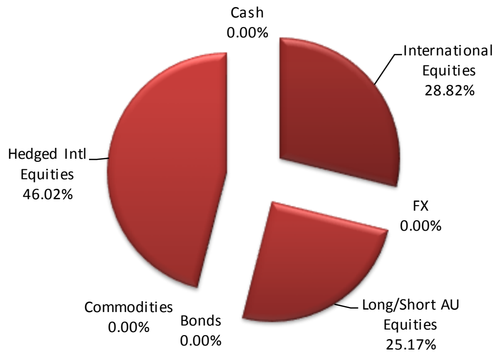
Source: National Australia Bank, Macrobond

But the news is not all bad. In Australia, March quarter GDP growth reached 3.1%, which was well above most forecasts. This augurs well for earnings growth among S&P/ASX200 companies and, as upgrades filter through analyst forecasts, the valuations of Australian companies may improve in coming months – excluding the banking and resource sectors.

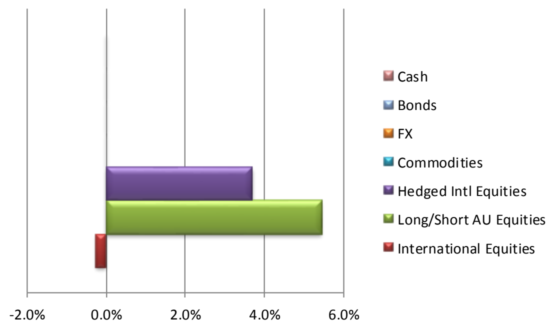
We continue to have long Australian equities exposure in the fund to select Australian stocks who had an enjoyable May, such as Domino's Pizza (+16%), Super Retail Group (+17%) and Accent Group (+26%), despite our fears about possible heady valuations in the months ahead. The fund has employed protection strategies through May in order to preserve the capital base of the fund and expects to continue this practice in the months ahead.

PERFORMANCE TABLES

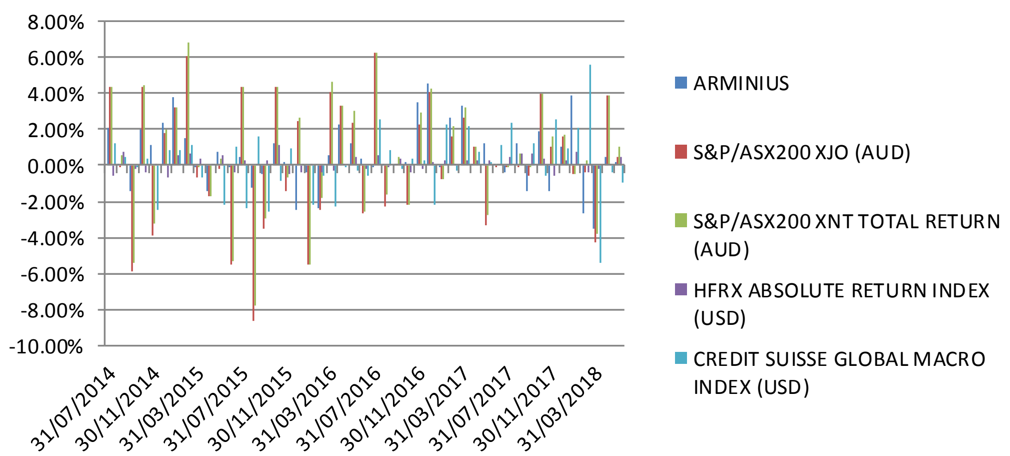
Exposure at month's end as % of NAV



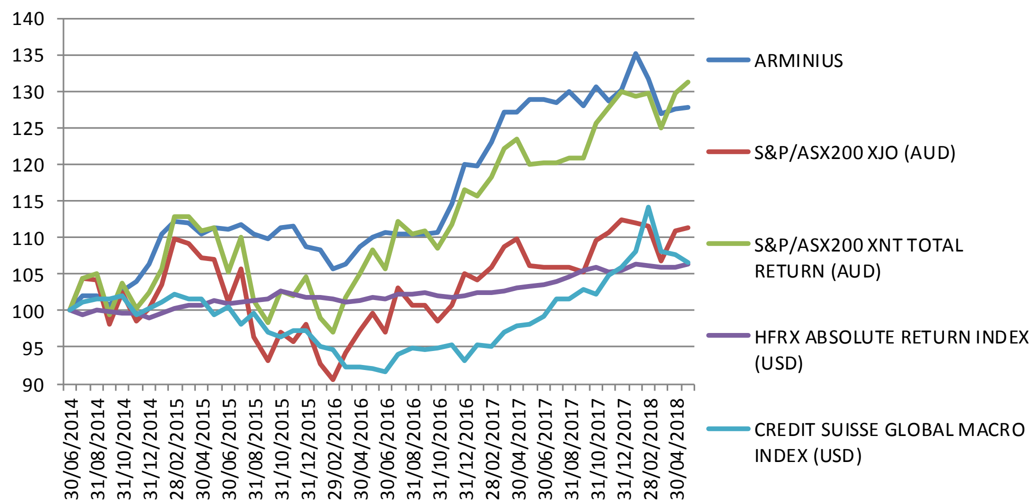
Monthly Asset Class average returns of individual constituents per SAA in domestic market currency



Monthly Performance since Inception July 2014



Cumulative Performance since Inception (Base 100 = 30 June 2014)



GLOBAL FINANCIAL MARKETS – MONTHLY DATA

EQUITIES	30-Apr-18	31-May-18	ROR
EUROPE			
Germany DAX (TR)	12612.1	12604.9	-0.06%
Switzerland SMI (PR)	8886.3	8457.0	-4.83%
STOXX Europe 600 (EUR)	385.3	383.1	-0.59%
FTSE 100	7509.3	7678.2	2.25%
France CAC 40	5520.5	5398.4	-2.21%
FTSE MIB	23979.4	21784.2	-9.15%
Netherlands AEX	555.7	552.9	-0.52%
Belgium BEL 20	3910.3	3764.2	-3.74%
OMX Stockholm 30	1570.7	1549.9	-1.32%
Norway Oslo All-Share	974.2	998.6	2.50%
Ireland ISEQ	6805.2	7140.9	4.93%
Spain IBEX 35	9980.6	9465.5	-5.16%
Cyprus CSE General	68.7	71.0	3.35%
AMERICAS			
S&P 500	2648.1	2705.3	2.16%
DJ 30 Industrials	24163.2	24415.8	1.05%
DJ 65 Composite Average	8134.2	8234.5	1.23%
NASDAQ Composite	7066.3	7442.1	5.32%
Russell 1000	1468.3	1502.3	2.32%
S&P TSX	15607.9	16061.5	2.91%
Brazil Bovespa	86115.5	76753.6	-10.87%
Argentina Merval	30006.4	28558.8	-4.82%
Mexico IPC	48358.2	44662.6	-7.64%
ASIA			
S&P ASX 200	5982.7	6011.9	0.49%
Nikkei 225	22467.9	22201.8	-1.18%
Hang Seng	30808.5	30468.6	-1.10%
Korea KOSPI	2515.4	2423.0	-3.67%
FTSE Strait Times	3613.9	3428.2	-5.14%
Taiwan TAIEX	10657.9	10875.0	2.04%
New Zealand NZX 50 (TR)	8443.6	8658.8	2.55%
Shanghai SSE Composite	3082.2	3095.5	0.43%
India S&P BSE SENSEX	35160.4	35322.4	0.46%
FTSE Bursa Malaysia KLCI	1870.4	1740.6	-6.94%
Indonesia JSX	5994.6	5983.6	-0.18%

FOREIGN EXCHANGE	30-Apr-18	31-May-18	ROR
AUD/USD	0.753	0.757	0.49%
EUR/USD	1.212	1.170	-3.49%
JPY/USD	108.956	108.519	-0.40%
GBP/USD	1.378	1.330	-3.46%
CHF/USD	1.013	1.016	0.32%
USD/CAD	0.779	0.772	-0.93%
EUR/GBP	0.880	0.880	-0.02%
EUR/AUD	1.610	1.546	-3.96%
USD/CHF	0.991	0.986	-0.49%
GBP/AUD	1.827	1.756	-3.88%
CBOE Volatility Index	15.93	15.43	-3.14%

COMMODITIES	30-Apr-18	31-May-18	ROR
Energy			
Crude Oil WTI (NYM $/bbl) Continuous	68.57	67.04	-2.23%
Brent Crude (ICE $/bbl) Continuous	75.17	77.59	3.22%
NY Harbor ULSD (NYM $/gal) Continuous	2.15	2.20	2.57%
NY Harb RBOB (NYM $/gal) Continuous	2.13	2.16	1.39%
Natural Gas (NYM $/btu) Continuous	2.76	2.95	6.84%
Precious Metals			
Gold (NYM $/ozt) Continuous	1319.20	1304.70	-1.10%
Silver (NYM $/ozt) Continuous	16.40	16.46	0.35%
Industrial Metals			
Aluminum (LME Cash $/t)	2224.00	2285.50	2.77%
High Grade Copper (NYM $/lbs) Continuous	6783.00	6825.00	0.62%
Nickel (LME Cash $/t)	13725.00	15200.00	10.75%
Iron Ore 62% CN TSI (NYM $/mt)	65.27	65.95	1.04%
Zinc (LME Cash $/t)	3171.00	3100.00	-2.24%
Agricultural			
Corn (CBT $/bu) Continuous	4.01	3.94	-1.68%
Soybeans (CBT $/bu) Continuous	10.49	10.19	-2.86%
Wheat (CBT $/bu) Continuous	5.11	5.26	3.09%
Cotton #2 (NYF $/lbs) Continuous	0.84	0.93	11.10%
Sugar #11 (NYF $/lbs) Continuous	0.12	0.13	8.85%
Indices			
GS Commodity (CME) Continuous	474.75	481.20	1.36%
PowerShares DB Commodity Index Tracking Fund	17.56	18.03	2.68%
db x-trackers SICAV - db x-trackers DB COMMODITY BO	16.29	16.57	1.72%

10 YEAR SOVEREIGN YIELDS	29-Apr-18	31-May-18	Yield D
US	2.96%	2.83%	-0.13%
UK	1.46%	1.23%	-0.23%
Europe	0.57%	0.33%	-0.24%
Australia	2.83%	2.65%	-0.18%
Belgium	0.82%	0.74%	-0.08%
Canada	2.32%	2.22%	-0.09%
Denmark	0.59%	0.33%	-0.26%
France	0.79%	0.67%	-0.12%
Germany	0.57%	0.33%	-0.24%
Greece	3.90%	4.55%	0.65%
Ireland	0.97%	0.94%	-0.03%
Italy	1.74%	2.82%	1.08%
Japan	0.05%	0.03%	-0.02%
Netherlands	0.71%	0.51%	-0.20%
New Zealand	2.88%	2.73%	-0.16%
Norway	1.94%	1.74%	-0.20%
Portugal	1.64%	1.95%	0.31%
Spain	1.25%	1.48%	0.23%
Sweden	0.71%	0.47%	-0.24%
Switzerland	0.12%	-0.05%	0.17%

ROR = Rate of Return
Yield D = Yield differential