MONTHLY PERFORMANCE REPORT
July 2018

The Fund returned -0.05% for the month, compared with +1.38% for the S&P/AX200. The Fund has achieved its returns with lower volatility than the S&P/ASX 200, as a consequence of the stocks selected by the investment process which is designed to eliminate high risks stocks therefore avoiding the chance of permanent loss of investor capital.

GENERAL INFORMATION

Base Currency: AUD

Entity Type: Strategy

PMs: Neill Colledge (CIO)
Marcel von Pfyffer

Launch date: Jul-2018

Benchmark: ASX200 TR

Fees: 0.8% and 10% +GST

Domicile: Australia

Close of Financial Year: 30th June

Dealing: Daily

PERFORMANCE (Inception JUL-2014)	Arminius Capital ALCE Strategy
1 Month	**-0.05%**
3 Months	N/A
Calendar YTD	-0.05%
1 Year	N/A
3 Years	N/A
5 Years	N/A
Cumulative since Inception JUL 2017	**-0.05%**

Arminius Capital ALCE Strategy (Inception July-2018) Returns are net of fees

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2018	-	-	-	-	**INCEPTION =>**		-0.05%	-	-	-	-	-	-0.05%

INVESTMENT MANAGER
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STRATEGY OBJECTIVES:

The aim of the portfolio is to outperform the S&P/ASX 200 (TR) Index over rolling 5-year periods. The portfolio will also aim to deliver above market dividend income and lower volatility than the S&P/ASX 200 (TR) Index. The investment process starts with taking the constituents of the investment universe, the S&P/ASX200, and applying quantitative filters to screen out companies which have high volatility or low dividend yield or low earnings quality. The objective is not to maximise returns, but rather to eliminate high risk stocks.

INVESTMENT STRATEGY: The investment strategy underlying this portfolio is founded on the belief that (i) stocks with above-average dividend yields tend to outperform in the long term, provided that a filter for earnings quality is applied and (ii) low volatility stocks tend to outperform in the long term, especially if a valuation measure is added to the stock selection process.

The portfolio is designed for investors who (i) are seeking exposure to a concentrated core portfolio of Australian equities with returns comprising of both capital appreciation and income; (ii) accept the risk of price fluctuations particularly over periods less than the minimum investment timeframe and accept that capital preservation is not guaranteed; and (iii) are prepared to invest for the minimum investment timeframe of five years.

Portfolio performance statistics will be provided as soon as the ALCE portfolio has sufficient history to be meaningful.

INVESTMENT UPDATE

In July the Australian share market was quietly positive. The S&P/ASX200 accumulation index rose by 1.57%. Tech stocks continued their momentum of recent months. The property sector staged a modest recovery. Sentiment improved for the banks, in absence of new revelations of gouging their customers. Most commodity prices weakened, and the Brent oil price dropped 6%. The debate about Australia's energy plans meandered on, giving no relief to coal miners, power generators, pipeliners, energy retailers, or LNG exporters.

The Fund returned -0.05% for July. Negative returns came from AMP, Estia, IAG, and Woolworths (in descending order), but the worst negative contribution came from Nine Entertainment. In response to Nine's scrip bid for Fairfax, arbitrageurs chopped 10% off the Nine share price and lifted the Fairfax share price by a similar percentage. These movements are not a reflection of fundamentals, but rather a consequence of arbitrage on the scrip-based takeover bid. Fairfax buyers are hoping for a higher bid, while Nine buyers are assuming that the scrip consideration will create an excess supply of Nine paper, depressing the share price for a while. If the bid fails, both prices will revert to the status quo.

OUTLOOK

The FY18 result season is looking good, but Australian investors need to keep an eye on global events. We continue to believe that a correction will occur in the next few months. The Australian and US share markets are among the very few to have risen in the year to date. European markets are roughly where they started the year, and all Asian markets are down year to date with China's Shenzen A Share Index down -17.03% calendar YTD to July 2018. The immediate cause for concern is the growing probability of a US-China trade war, but there are three other long-term trends which could also lead to an abrupt correction:

- The Chinese economy was slowing down even before the trade war. In the last twelve months the government has focused on the quality of economic growth, rather than the quantity, as it ramps up measures to alleviate poverty and reduce environmental pollution. Most importantly, the regulators' active attempts to control debt growth by shrinking the shadow banking sector have caused a credit crunch for many private businesses.

- Global debt continues to rise, particularly in emerging markets and US non-financial corporations. As an example, global non-financial corporate debt has risen by a factor of 2.7 times since 2007, from USD $4.3 trillion in 2007 to USD $11.7 trillion in 2017. Australian companies are not over-leveraged, but turbulence in the world's bond markets will buffet Australia too.

- Global liquidity is slowly but surely tightening, as central banks raise interest rates and stop buying bonds. At the same time, the US Federal government will near USD $1 trillion this year, and will probably exceed USD $1 trillion in 2019. This combination of tight cash and increasing supply of bonds could precipitate a "melt-up" in the bond market, taking the US 10-year bond yield from 2.95% at present to more than 3.5%.

As a low-volatility portfolio, ALCE is expected to outperform in the event of a correction. The portfolio is conservatively positioned, with a prospective P/E of 13.2 and yield of 5.5%.

WHAT TO LOOK FOR IN THE REPORTING SEASON

ADELAIDE BRIGHTON

ABC's focus on cement, concrete, clinker, and lime insulates it from the housing downturn. Demand is improving in all building materials markets except WA and NT, so few surprises are expected in the result. Current consensus full-year forecast is for EPS 33c and DPS 21c, with 8.5c DPS for the first half. But the big news may be the appointment of a new CEO.

AMP

Management has foreshadowed first-half 2018 underlying profit of $490m to $500m. There will be a charge of $290m post-tax to remediate its flawed financial advice over the last decade, plus a charge of $55m post-tax for one-off costs related to the Hayne Royal Commission. The market is looking for a cut in the first-half dividend, even though management indicated that the full-year dividend will be around 70% of earnings. The company says that at June 2018 it had about $1.8bn capital over and above regulatory requirements. Naming a new CEO is still some months off.

CROWN

No surprises are likely in the FY18 result. Consensus forecasts are EBITDA $862m, EPS 54c, and DPS of 60c (unchanged).

ESTIA

EHE will continue grow by opportunistic acquisitions as well as greenfield development. New CEO takes over in November 2018. Consensus forecasts are EPS 17c and DPS 15.2c (unchanged).

GWA

The company has been transitioning from diversified building products activities to a focus on "water solutions" – bathrooms and toilets – and expanding from its residential base market into commercial and aged care. Consensus forecasts are EPS 21c and DPS 17c (unchanged).

IAG

The hardening market in most parts of Australian general insurance are giving IAG modest premium growth and better margins. Consensus forecasts are EPS 45c and DPS 34c (+4%).

LEND LEASE

LLC's strong outlook rests on an all but ungeared balance sheet and a $56 billion development pipeline at December 2017. Consensus forecasts are EPS 130c and DPS 67c (+1%).

MIRVAC

A diversified development pipeline in the office, industrial, and retail property sectors is expected to offset the slowing residential market. Consensus forecasts are EPS 15.6c and DPS 11c (+6%).

MEDIBANK

Fears that an ALP government might cap health insurance premium increases have retreated. MPL's renewal program seems to be delivering better customer relations with lower costs. Consensus forecasts are EPS 17c and DPS 12.8c (+7%).

NINE

The company has had a good year in the ratings with shows such as Love Island, Australian Ninja Warrior, and Married at First Sight. Nine's revenues are also becoming less dependent on traditional TV as management learns how to fully exploit parallel media such as Stan and 9Now. Consensus forecasts are EPS 18c and DPS 10c (+4%).

NIB

Rising premiums and above-average claims experience should bring a good result, but longer term issues include a new China JV and the need to retain more prudential capital. Fears that an ALP government might cap health insurance premium increases have retreated. Consensus forecasts are EPS 29c and DPS 19.2c (+1%).

PLATINUM

PTM's February announcement that founder Kerr Neilson was stepping down as CEO cut 30% off the share price, even though he remains as an executive director, investment manager, and major shareholder. Funds under management have barely moved – down $1.4bn to $25.7bn at 30 June 2018. Current performance of all funds is good, and PTM's newer funds are growing in size to catch up with the $11bn flagship fund. Consensus forecasts are EPS 32c and DPS 30c (+1%).

STOCKLAND

SGP's highly diversified property portfolio and development operations should see the company through the housing downturn without mishap. Consensus forecasts are EPS 34c and DPS 26.7c (+5%). The company has indicated a 13.5c DPS for the June half.

VICINITY

Chadstone, which is Australia's largest shopping centre, has performed outstandingly since its redevelopment. Redevelopment of other centres is on track, and VCX's disposals of non-core properties is lifting the average quality of its property portfolio. Consensus forecasts are EPS 18c and DPS 16.1c (-7%).

WESFARMERS

The demerger of Coles is scheduled to occur in November. WES shareholders will receive one new Coles share for every WES share, and WES will retain 15% of Coles. Spin-offs generally do well, and the new Coles will start life with a strong balance sheet and a 6.5 year weighted average lease expiry for its properties. The WES FY18 result will bear the scars of the Bunnings UK misadventure, but underlying operations are sound. Consensus forecasts are EPS 246c and DPS 220c (unchanged).

WOOLWORTHS

This result should confirm that the turnaround of the supermarkets is still under way, with more upside over the next two years. Big W is unlikely to yield any good news. After BP decided not to proceed with its purchase of the WOW petrol business, WOW entered into an agreement with Caltex over its loyalty program and convenience stores. Consensus forecasts are EPS 130c and DPS 93c (+11%).

AUSTRALIAN FIFTY LEADERS – MONTHLY DATA

Code	Name	Sector	30-Jun-18	31-Jul-18	ROR
AGL	AGL Energy Limited	Utilities	$22.48	$21.99	-2.18%
AMC	Amcor Limited	Materials	$14.41	$15.07	4.58%
AMP	AMP Limited	Financials	$3.56	$3.40	-4.49%
ANZ	ANZ Banking Group Limited	Financials	$28.24	$29.30	3.75%
APA	APA Group Units FP Stapled Securities	Utilities	$9.85	$9.65	-2.03%
ALL	Aristocrat Leisure	Consumer Discretionary	$30.90	$32.20	4.21%
ASX	ASX Limited	Financials	$64.39	$65.69	2.02%
AZJ	Aurizon Holdings Limited	Industrials	$4.33	$4.55	5.08%
BHP	BHP Billiton Limited	Materials	$33.91	$34.86	2.80%
BXB	Brambles Limited	Industrials	$8.88	$9.88	11.26%
CTX	Caltex Australia	Energy	$32.54	$32.56	0.06%
COH	Cochlear Limited	Health Care	$200.17	$203.36	1.59%
CBA	Commonwealth Bank	Financials	$72.87	$74.79	2.63%
CPU	Computershare Limited	Information Technology	$18.43	$18.19	-1.30%
CSL	CSL Limited	Health Care	$192.62	$196.61	2.07%
DXS	Dexus Units FP Stapled	Real Estate	$9.71	$10.08	3.81%
FMG	Fortescue Metals Group	Materials	$4.39	$4.37	-0.46%
GMG	Goodman Group Stapled Securities FP	Real Estate	$9.62	$9.63	0.10%
GPT	GPT Group Stapled Securities FP	Real Estate	$5.06	$5.16	1.98%
IAG	Insurance Australia	Financials	$8.53	$8.04	-5.74%
JHX	James Hardie Indust Chess Depositary Int	Materials	$22.68	$21.50	-5.20%
LLC	Lendlease Group Unit/ Stapled Securities	Real Estate	$19.81	$20.13	1.62%
MQG	Macquarie Group Limited	Financials	$123.65	$122.82	-0.67%
MPL	Medibank Private Limited	Financials	$2.92	$3.11	6.51%
MGR	Mirvac Group Stapled Securities	Real Estate	$2.17	$2.28	5.07%

Code	Name	Sector	30-Jun-18	31-Jul-18	ROR
NAB	National Aust. Bank	Financials	$27.41	$28.33	3.36%
NCM	Newcrest Mining	Materials	$21.80	$21.63	-0.78%
OSH	Oil Search Limited 10 Toea	Energy	$8.90	$8.98	0.90%
ORI	Orica Limited	Materials	$17.75	$17.58	-0.96%
ORG	Origin Energy	Energy	$10.03	$9.77	-2.59%
QAN	Qantas Airways	Industrials	$6.16	$6.72	9.09%
QBE	QBE Insurance Group	Financials	$9.74	$10.10	3.70%
RHC	Ramsay Health Care	Health Care	$53.98	$56.24	4.19%
RIO	RIO Tinto Limited	Materials	$83.44	$81.20	-2.68%
STO	Santos Limited	Energy	$6.27	$6.38	1.75%
SCG	Scentre Group Stapled Securities	Real Estate	$4.39	$4.25	-3.19%
SHL	Sonic Healthcare	Health Care	$24.53	$26.08	6.32%
S32	SOUTH32 Limited	Materials	$3.61	$3.57	-1.11%
SGP	Stockland Units/ Stapled Securities	Real Estate	$3.97	$4.15	4.53%
SUN	Suncorp Group Limited	Financials	$14.59	$14.97	2.60%
SYD	SYD Airport FP Stapled Securities US Pr	Industrials	$7.16	$7.07	-1.26%
TLS	Telstra Corporation	Telecommunication Services	$2.62	$2.84	8.40%
TCL	Transurban Group Ordinary Shares/Unit	Industrials	$11.97	$11.70	-2.26%
TWE	Treasury Wine Estate	Consumer Staples	$17.39	$18.42	5.92%
URW	Unibailrodawestfield Chess Depositary Ir	Real Estate	$14.67	$14.87	1.36%
VCX	Vicinity Centres Ordinary/Units FP Stap	Real Estate	$2.59	$2.66	2.70%
WES	Wesfarmers Limited	Consumer Staples	$49.36	$49.46	0.20%
WBC	Westpac Banking Corp	Financials	$29.30	$29.46	0.55%
WPL	Woodside Petroleum	Energy	$35.46	$36.14	1.92%
WOW	Woolworths Group Limited	Consumer Staples	$30.52	$30.09	-1.41%

ROR = Rate of Return