



MONTHLY PERFORMANCE REPORT

July 2018

GENERAL INFORMATION

Base Currency: AUD
Entity Type: Registered Managed Investment Scheme
PMs: Marcel von Pfyffer (CIO)
 Neill Colledge
Launch date: SEP 2016
Benchmark: 0% (Absolute Return)
Fees: 0.50%
Domicile: Australia
Close of Financial Year: 30th June
Unit Pricing: Weekly
Distribution Frequency: Quarterly
APIR: EVO0003AU platforms
 EVO0002AU direct

Fund Responsible Entity:
 QUAY FUND SERVICES LTD
 AFSL No. 494 886
 ABN 84 616 465 671

The Fund returned +0.52% in July, building on the +1.14% return in June.

These returns represent the reversal of the unrealised losses in capital value which occurred between February and May 2018.

The fears aroused by the new Labor Party policy on franking credits and the revelations of the Royal Commission into banks have receded, and the capital values of bank-issued hybrids have begun to recover. Throughout this year the Fund's prospective cash generation has remained consistent: at 31 July the portfolio had a running yield exceeding 3.5% and a yield to maturity exceeding 4.5%.

PERFORMANCE (Inception NOV-2016)	Arminius Capital EMMA Fund
1 Month	0.52%
3 Months	1.43%
Calendar YTD	1.29%
1 Year	2.56%
3 Years	-
5 Years	-
Since Inception SEP 2016	4.69%

As the Fund's objective is to achieve an absolute return between 2.50% and 3.50% per annum, comparators of relative fixed income returns are not considered meaningful.

Arminius Capital EMMA Fund (Inception SEP 2016) Returns are net of fees

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2016	-	-	-	-	-	-	INCEPTION =>	0.08%	0.12%	0.08%	0.09%	0.37%	
2017	0.03%	0.09%	0.27%	0.29%	0.58%	0.28%	0.15%	0.14%	-0.04%	0.56%	0.07%	0.53%	2.98%
2018	0.28%	-0.45%	-0.45%	0.48%	-0.23%	1.14%	0.52%						1.29%

NAV: \$11,115,613.55

Unit Price: 1.0003

INVESTMENT MANAGER

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 AFSL 461307

DISTRIBUTION DETAILS

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FUND OBJECTIVES: The Fund seeks to provide stable income with low volatility. To achieve this, Arminius monitors the short-term money market on a daily basis to source the highest yielding opportunities which are consistent with their requirements for safety (capital preservation) and liquidity. The investment manager uses financial and econometric modelling to assess the relative value of different fixed income securities which meet the Fund's investment requirements. The fund aims to provide an income return, before costs and tax, of 2.50-3.50% per annum.

Top 10 Holdings

ISSUER	% OF FUND
BETASHARESCASHETF ETF UNITS	10.41%
SUNCORP GROUP LTD CNV PREF 3-BBSW+3.4%	5.57%
MACQUARIE GROUP LTD CAP NOTE 3-BBSW+4.00%	5.55%
NATIONAL AUST BANK CNV PREF 3-BBSW+3.25%	5.51%
NATIONAL AUST BANK CNV PREF 3-BBSW+3.20%	5.49%
WESTPAC BANKING CORP CAP NOTE 3-BBSW+3.20%	5.32%
MCP MASTER INCOME ORDINARY UNITS FULLY PAID	4.65%
CHALLENGER LIMITED CNV PREF 3-BBSW+3.40%	4.60%
WESTPAC BANKING CORP CAP NOTE 3-BBSW+3.20%	4.59%
COMMONWEALTH BANK CAP NOTE 3-BBSW+3.80%	4.58%



FUND MANAGER COMMENTARY

INVESTMENT PERFORMANCE

The Investment Manager regrets the fact that the Fund had negative returns in February, March and May this year. The Fund's yield remained consistent through this period, but the capital values of several bank-issued securities declined slightly because of events which we did not foresee - the revelations of the Royal Commission into banks, and the new Labor Party policy on franking credits.

The scandalous behaviour of AMP and the banks created concern in the minds of some investors that the report of the Royal Commission next year might be followed by stricter legislation or regulation of banks, damaging their profitability or their balance sheets. It has become clear, however, that the main source of the scandals was the banks' financial advice businesses, which have been or will be divested by the big banks.

When the Australian Labour Party indicated that it would remove the cash payment of franking credits, some investors were worried that this move presaged an attack on the whole system of franked dividends. Subsequent statements have made it clear, however, that other recipients of franking credits – such as the industry super funds – will continue to enjoy the tax benefits of franking credits. Therefore it is clear that there will be no reduction in the value of franking credits attached to securities such as bank hybrids.

Accordingly we expect that the Fund's modest negative returns in the first half of 2018 will be outweighed by positive returns for the remainder of the year, as we have seen in June and July.

PORTFOLIO COMPOSITION

At 31 July 2018 the portfolio included twenty-three securities with weighted average maturity of 3.0 years. The portfolio had a running yield exceeding 3.5% and a yield to maturity exceeding 4.5%. Cash and cash equivalents amounted to 10% of the portfolio.

As always, all the securities in the portfolio are issued in Australian dollars by well-known, financially stable Australian groups, because the preservation of our investors' capital is of paramount importance to us. In addition, all the securities held by EMMA are listed on the ASX, so as to provide maximum liquidity for any redemptions.

INVESTMENT OUTLOOK

We expect that the next twelve months will bring greater turbulence in global bond markets as the credit cycle moves into its late phase and bond defaults become more frequent. The most probable sources of trouble are US corporate bonds, as well as corporate and sovereign bonds issued by emerging market countries. The combination of rising US interest rates and a rising US dollar creates risky conditions where even small negative shocks could trigger a string of bond defaults. While Australian bonds are not in the firing line, they will certainly be buffeted by the turbulence overseas.

To minimise the effect of the coming turbulence, we have improved the credit quality of the portfolio by increasing the allocation to higher ranking securities such as the senior debt securities issued by Australian Unity and Tatts Group. We will continue this strategy when some of our holdings are redeemed by their issuers over the next few months, always focusing on the preservation of our investors' capital.

As expected, Westpac and Crown have all announced that they will redeem certain securities at their next call dates, in order to take advantage of cheaper funding. Westpac has announced that it will redeem the Westpac Subordinated Notes II (WBCNB) on the security's call date of 22 August 2018. Crown has announced it intends to redeem the Crown Subordinated Notes (CWNHA) on the security's call date of 14 September 2018. In addition, we expect the AMP Subordinated Notes 2 (AMPHA) to be redeemed by the issuer on 18 December 2018.



Given that the EMMA Fund also owns the AMP Capital Notes 3 (AMPPA), we must emphasize that AMP's current embarrassments are unlikely to affect the value of AMPHA or AMPPA. In the first half result, management stated that the AMP balance sheet was still strong: at 30 June 2018, surplus capital was \$1.8b above the minimum requirements, even after the \$290m provision to remediate AMP's maltreated customers.

On the basis of current relative funding costs, it is also likely that the issuers will redeem the following securities in the next two years: the Westpac Capital Notes (WBCPD) in March 2019, the National Australia Bank (NABPA) in March 2019, the IAG Reset Exchangeable Securities (IANG) in December 2019, the Bendigo Bank (BENPE) in November 2020.

Fund Updates

- Details of EMMA risks are included in the fund's PDS.
- There have been no changes to the risk profile of the Fund during the month.
- There has been no material change to the Fund's strategy during the month.
- There has been no change to key individuals at Arminius.
- This report is made for information purposes only, reflecting Arminius' interpretation of a specific historic period, source referenced from the broker's proprietary reporting software. All other data is sourced from FACTSET.


GLOBAL FINANCIAL MARKETS – MONTHLY DATA

EQUITIES	30-Jun-18	31-Jul-18	ROR	COMMODITIES	30-Jun-18	31-Jul-18	ROR
EUROPE				Energy			
Germany DAX (TR)	12306	12805.5	4.06%	Crude Oil WTI (NYM \$/bbl) Continuous	74.15	68.76	-7.27%
Switzerland SMI (PR)	8609.3	9174.33	6.56%	Brent Crude (ICE \$/bbl) Continuous	79.44	74.25	-6.53%
STOXX Europe 50 (EUR)	3042.96	3165.21	4.02%	NY Harbor ULSD (NYM \$/gal) Continuous	2.21	2.14	-3.27%
FTSE 100	7636.93	7748.76	1.46%	NY Harb RBOB (NYM \$/gal) Continuous	2.15	2.08	-3.29%
France CAC 40	5323.53	5511.3	3.53%	Natural Gas (NYM \$/btu) Continuous	2.92	2.78	-4.86%
FTSE MIB	21626.27	22215.69	2.73%	Precious Metals			
Netherlands AEX	551.68	574.25	4.09%	Gold (NYM \$/ozt) Continuous	1254.50	1233.60	-1.67%
Belgium BEL 20	3719.86	3899.04	4.82%	Silver (NYM \$/ozt) Continuous	16.20	15.56	-3.94%
OMX Stockholm 30	1558.8778	1615.5963	3.64%	Industrial Metals			
Norway Oslo All-Share	1004.94	1017.72	1.27%	Aluminum (LME Cash \$/t)	2183.00	2061.00	-5.59%
Ireland ISEQ	6982.83	6831.98	-2.16%	High Grade Copper (NYM \$/lbs) Continuous	6646.00	6213.00	-6.52%
Spain IBEX 35	9622.7	9870.7	2.58%	Nickel (LME Cash \$/t)	14910.00	13770.00	-7.65%
Cyprus CSE General	75	75.94	1.25%	Iron Ore 62% CN TSI (NYM \$/mt)	64.80	64.35	-0.69%
AMERICAS				Zinc (LME Cash \$/t)	2948.00	2630.00	-10.79%
S&P 500	2718.37	2816.29	3.60%	Agricultural			
DJ 30 Industrials	24271.41	25415.19	4.71%	Corn (CBT \$/bu) Continuous	3.71	3.87	4.11%
DJ 65 Composite Average	8146.05	8547.97	4.93%	Soybeans (CBT \$/bu) Continuous	8.80	9.19	4.43%
NASDAQ Composite	7510.305	7671.789	2.15%	Wheat (CBT \$/bu) Continuous	5.01	5.54	10.47%
Russell 1000	1509.959	1560.36	3.34%	Cotton #2 (NYF \$/lbs) Continuous	0.84	0.90	6.76%
S&P TSX	16277.73	16434.01	0.96%	Sugar #11 (NYF \$/lbs) Continuous	0.12	0.11	-13.88%
Brazil Bovespa	72762.51	79220.43	8.88%	Indices			
Argentina Merval	26037.01	29287.34	12.48%	GS Commodity (CME) Continuous	487.10	465.10	-4.52%
Mexico IPC	47663.2	49698.01	4.27%	PowerShares DB Commodity Index Tracking Fund	17.68	17.25	-2.43%
ASIA				db x-trackers SICAV - db x-trackers DB COMMODITY BO	15.97	15.63	-2.12%
S&P ASX 200	6194.6	6280.2	1.38%	10 YEAR SOVEREIGN YIELDS			
Nikkei 225	22304.51	22553.72	1.12%	US	2.85%	2.97%	0.12%
Hang Seng	28955.11	28583.01	-1.29%	UK	1.27%	1.34%	0.07%
Korea KOSPI	2326.13	2295.26	-1.33%	Europe	0.30%	0.45%	0.15%
FTSE Strait Times	3268.7	3319.85	1.56%	Australia	2.64%	2.66%	0.02%
Taiwan TAIEX	10836.91	11057.51	2.04%	Belgium	0.69%	0.75%	0.05%
New Zealand NZX 50 (TR)	8943.13	8922.09	-0.24%	Canada	2.16%	2.34%	0.18%
China Shenzhen A Share	1680.9141	1648.18	-1.95%	Denmark	0.32%	0.40%	0.08%
India S&P BSE SENSEX	35423.48	37606.58	6.16%	France	0.66%	0.74%	0.08%
FTSE Bursa Malaysia KLCI	1691.5	1784.25	5.48%	Germany	0.30%	0.45%	0.15%
Indonesia JSX	5799.237	5936.443	2.37%	Greece	3.93%	3.95%	0.01%
FOREIGN EXCHANGE				Ireland	0.81%	0.91%	0.09%
AUD/USD	0.740	0.744	0.55%	Italy	2.69%	2.75%	0.07%
EUR/USD	1.174	1.174	0.01%	Japan	0.03%	0.06%	0.03%
JPY/USD	110.284	111.483	1.09%	Netherlands	0.46%	0.54%	0.08%
GBP/USD	1.324	1.315	-0.65%	New Zealand	2.86%	2.78%	-0.08%
CHF/USD	1.016	1.014	-0.15%	Norway	1.76%	1.86%	0.10%
USD/CAD	0.762	0.770	1.10%	Portugal	1.78%	1.75%	-0.03%
EUR/GBP	0.887	0.893	0.67%	Spain	1.32%	1.41%	0.10%
AUD/EUR	1.586	1.578	-0.54%	Sweden	0.49%	0.59%	0.10%
USD/CHF	0.991	0.990	-0.04%	Switzerland	-0.05%	0.02%	-0.07%
GBP/AUD	1.785	1.767	-1.03%				
CBOE Volatility Index	16.09	12.83	-20.26%				

ROR = Rate of Return

Yield D = Yield differential

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