MONTHLY PERFORMANCE REPORT
June 2018

GENERAL INFORMATION

Base Currency: AUD

Entity Type: Registered Managed Investment Scheme

PMs: Marcel von Pfyffer (CIO)
Neill Colledge

Launch date: NOV 2016

Benchmark: 0% (Absolute Return)

Fees: 1.26% base and 10.125% performance fee ("PF"). *The PF is calculated on the excess return and is accrued monthly in the unit price and paid monthly.*

Domicile: Australia

Close of Financial Year: 30th June

Unit Pricing: Weekly

APIR: EVO0006AU platforms
EVO0005AU direct

ISIN: AU60EVO00063 platforms
AU60EVO00055 direct

ARSN: 614 078 812

Fund Responsible Entity: Quay Fund Services Ltd AFSL No. 494 886 ABN 84 616 465 671

Fund Administration: APEX Fund Services (Australia)

Fund Custodian: AET Corporate Trust Pty Limited

Prime Broker: Interactive Brokers *(for the underlying fund).*

Auditors: Grant Thornton

NAV: $15,188,428.18

Unit Price: 0.9437

INVESTMENT MANAGER
Arminius Capital Management Pty Ltd AFSR 001244100 licensed by: Arminius Capital Advisory Pty Ltd AFSL 461307

DISTRIBUTION DETAILS
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The Fund returned -0.58% for the month, compared with +0.20% for the HFRX Absolute Return Index. The Credit Suisse Global Macro Index returned -0.31% for the month.

Our stance is negative towards US equities; 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. We are of the view that 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 NOV-2016)	Arminius Capital GMMA Fund	HFRX (USD) ABSOLUTE RETURN INDEX	CREDIT SUISSE GLOBAL MACRO (USD) INDEX	MSCI World Index	S&P/ASX200 XJO (AUD)
1 Month	**-0.58%**	0.20%	-0.31%	0.20%	3.04%
3 Months	**0.10%**	0.74%	-1.62%	2.98%	7.56%
Calendar YTD	**-2.70%**	1.04%	0.34%	0.17%	2.14%
1 Year	**-1.82%**	3.04%	7.17%	8.80%	8.27%
Cumulative Since Inception NOV 2016	**5.33%**	**4.51%**	**11.92%**	**22.50%**	**16.49%**

Arminius Capital GMMA Fund (Inception NOV 2016) Returns are net of fees

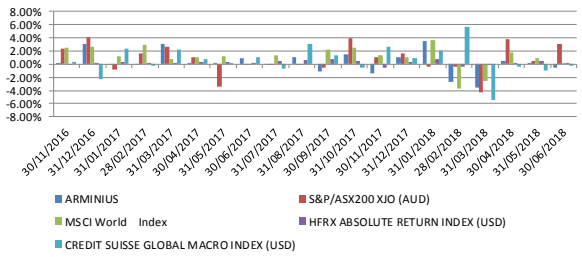
%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2016	-	-	-	-	-	-	-	-	**INCEPTION =>**		0.08%	3.06%	3.14%
2017	-0.02%	-0.14%	3.14%	0.02%	0.06%	0.94%	-0.08%	1.07%	-1.15%	1.47%	-1.36%	0.99%	4.96%
2018	3.47%	-2.66%	-3.50%	0.46%	0.22%	-0.58%							-2.70%

Returns for the fund are calculated as of the last valuation day of the month (generally a Friday), whereas the index returns are calculated as of the last trading day of the month. Index returns are provided for comparative purposes only and the Benchmark used to manage the fund is 0%(absolute return).

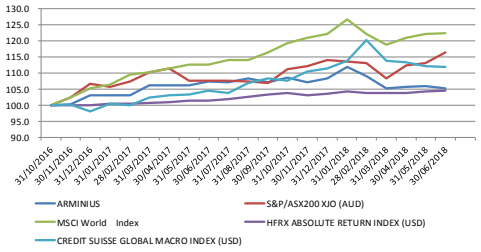
FUND OBJECTIVES: The Arminius Capital GMMA Fund invests by purchasing units in an underlying wholesale hedge fund, being the "**Arminius Capital ALPS Fund**", which provides investors with exposure to all asset classes in the global macro universe. As such, there may be some degree of difference between the performance returns of the underlying wholesale fund and this fund due to differing fees, expenses and fund inflow effects. 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, according to what each hedging sub-strategy dictates.

Monthly Performance since Inception November 2016



Cumulative Performance since Inception (Base 100 = 31 October 2016)



FUND MANAGER'S COMMENTARY:

The Fund returned -0.58% in June, compared to -0.31% for the Credit Suisse Global Macro Index and +0.20 for the MSCI World Index. The Fund's return for the calendar year 2018 to date is -2.70%, compared to +0.34% for the Credit Suisse Global Macro Index and +0.17% for the MSCI World Index.

The surprising strength of the Australian share market in June propelled it to the top of the league tables for the calendar year to date (+2.14% XJO price level). We see little rationale in fundamentals to support the ASX at these levels and expect to continue to increase our short positions should the ASX continue to rise. The US S&P500 price index rose by 0.5% in June, but most global equity markets were weak.

In particular, the outbreak of the US-China trade war caused the Shanghai and Shenzhen exchanges to fall by approx. 8.0% and 9.0% respectively in June. With the exception of Australia and the US, most major markets are still in negative territory for the year. (All figures are in the currency of each market.)

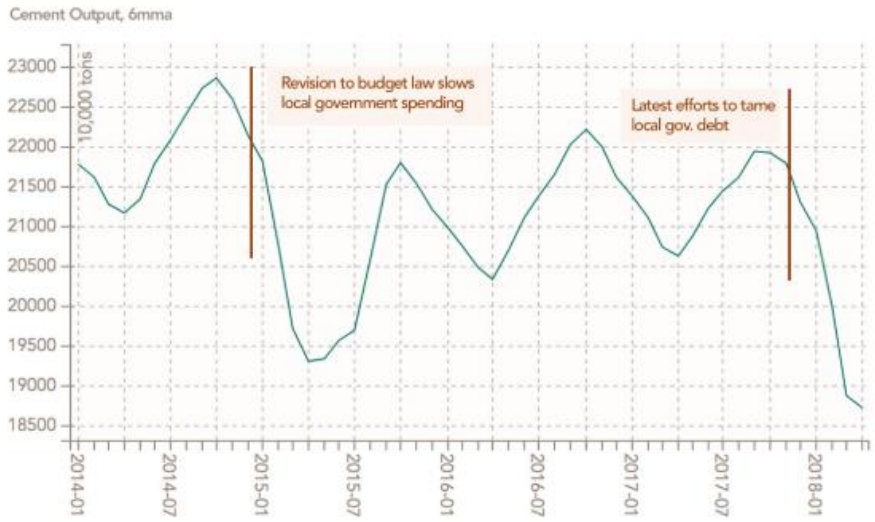
*Including shadow banking, corporate bonds, and equity finance.
Source: CEIC

We believe European equities have been oversold and are below fair value, so our long positions subsequently reflect the current 2018 YTD weakness in those equities markets. Similarly, in Japanese equities, our positions have borne the brunt of market disfavour in 2018. We reiterate our previous months' missives whereby the fund will only hedge when the models indicate that instruments are expensive. We do not purchase umbrellas if the drought has only just started.

The equities market which has enjoyed a stellar run YTD is of course the S&P500; another market like Australia in which our models can locate very little value so we have net short positions open. These two markets have rebounded significantly since the first quarter VIX shock of 2018, however they represent, in our models' opinions, the worst value to investors of all global equities. We believe that the VIX shock was the canary in the coal mine and that the US and Australian markets are now facing an increased probability of a major correction in the months ahead. We have therefore positioned our equities portfolios as such. Whilst our models identify over-valuations, the cost to the fund to implement capital preservation strategies is never "cheap", however our models indicate that hedging the portfolio now is the correct path to pursue in the long term interests of capital preservation. We remind investors that monthly returns of >3%+ in equities markets are typically followed by similar sized reversals (when we have identified that those markets were initially expensive). The XJO is up +7.56% in 12 weeks with no perceptible change in underlying fundamentals.

It appears that in both the US and Australia, the smaller companies (mid and microcaps) have added to "equity market enthusiasm" so it would be prudent to recall what occurs to the smaller market capitalisation weighted companies when equity market retracements eventually occur. Both principals of Arminius Capital worked through the GFC, the Tech/Dotcom Crash, LTCM's collapse (we have 62 years combined experience) and can recall vividly the outsized negative performance that small companies experience when the index itself falls markedly.

The fall in Chinese share markets was triggered by the incipient trade war, but the fundamental cause of the fall was the deterioration in the Chinese economy and the deliberate slowing of Chinese credit growth. Although the headline number of 6.7% for March quarter GDP growth was as expected, it conceals several worrying signs. Total investment grew by only 6%, its lowest level for more than twenty years. Money supply, as measured by M2, grew by only 8.0%, the lowest level since records began in 1999. Total credit, shown in the chart above, continued to drop. The steep decline in cement production, shown in the chart below, suggests that the property sector will slow dramatically in late 2018.



Source: Trivium China

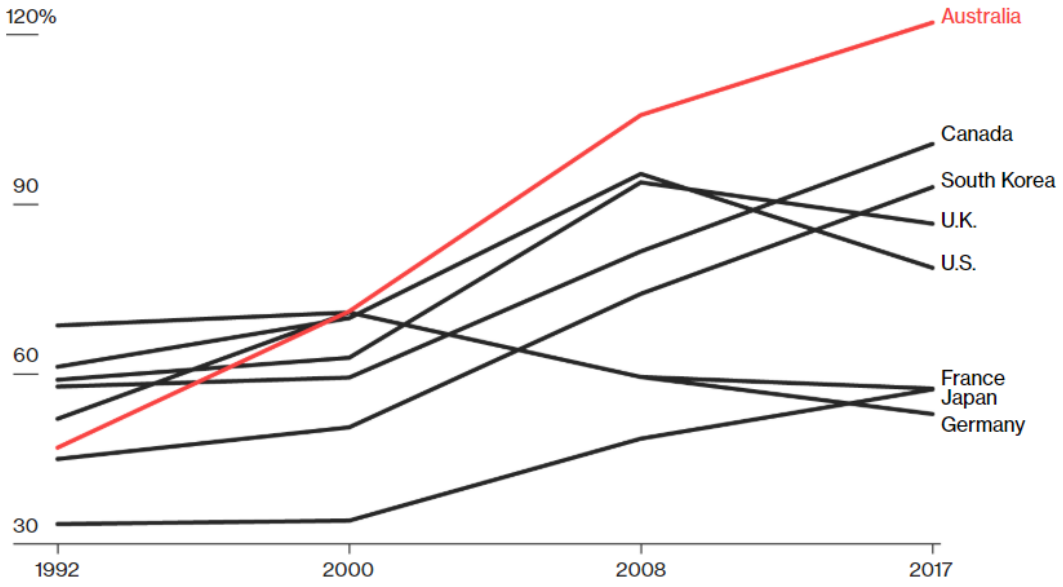
For several months we have been warning investors that China was slowing down. The trade war will reduce China's growth rate even further. Each government has now imposed USD$32.5bn of tariffs on USD$250bn of the other's exports, and President Trump has threatened an additional 10% tariff on another USD$200bn worth. The tariffs have already weakened commodity prices, and it is possible that they will spread further. Most importantly, the governments are not negotiating with each other, and the various comments emitted by various parts of the White House make it very difficult for the Chinese to work out exactly what would satisfy President Trump. The situation is likely to get worse before it gets better.

The US share market, by contrast, seems blithely unconcerned, despite howls of protest from US industry sectors, which have been echoed by Congressmen and Senators. US investors appear to be focusing on second-quarter earnings growth, as turbo-charged by the Trump tax cuts. But, as the chart below shows, the S&P500 Index, which runs on reported post-tax profits, has got a long way ahead of companies' operating profit.

As outlined in last month's report, we believe that imbalances are once again building up in the global financial system and will lead to another crisis. This time around, though, we believe the crisis will be triggered by US corporate debt or emerging market debt.

The strength of the Australian market in June seems unjustified. Although resource companies will announce good profits and dividends for FY18, the slide in commodity prices suggests that FY19 will be nowhere near as good. In addition, the banking sector has managed a dead cat bounce, on the grounds that the bad news is all factored in now. We disagree: restrictive regulation may still be enacted in 2019 or 2020, and the size of the housing downturn is still unknown. In particular, we have the most over-geared households in the world, and their vulnerability and absence of reserves will multiply the effect on any external shock.

Australia household debt exceeds 120 percent of GDP



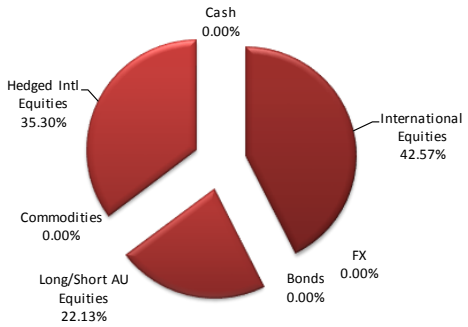
Note: Household debt as % of GDP
Source: Bank for International Settlements

The global outlook for the second half of 2018 is not promising. The tariff wars show no sign of cooling down, with the EU now sharing the crosshairs with China. The global macro environment has proven difficult for some of even the most seasoned of operators. In our own field, funds such as those at AQR ($226 billion under management, employing 73 PhDs) and Winton Capital (~$30 billion) are both in negative territory YTD, the lagging performer by some -7.4%, despite both companies' funds posting double digit % positive returns in the GFC. We look forward to positioning our fund appropriately as per market conditions dictate when the second half of 2018 gets underway.

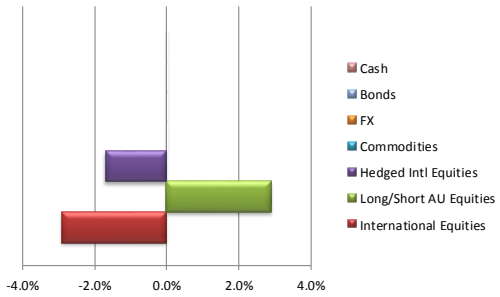
UNDERLYING FUND DATA

Important Note: The data on this page (unless otherwise referenced) specifically refers to the underlying fund. There may be some degree of difference between the performance returns of the underlying wholesale fund and this fund due to differing fees, expenses and fund inflow effects.

Underlying Fund's Exposure at month's end as % of NAV



Underlying Fund's Monthly Asset Class average returns of individual constituents per SAA in domestic market currency



- 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 prime broker "Interactive Brokers" proprietary reporting software "PortfolioAnalyst". All other data is sourced from FACTSET and Hedge Fund Research Inc.

GLOBAL FINANCIAL MARKETS – MONTHLY DATA

EQUITIES	31-May-18	30-Jun-18	ROR
EUROPE			
Germany DAX (TR)	12604.9	12306.0	-2.37%
Switzerland SMI (PR)	8457.0	8609.3	1.80%
STOXX Europe 600 (EUR)	383.1	379.9	-0.82%
FTSE 100	7678.2	7636.9	-0.54%
France CAC 40	5398.4	5323.5	-1.39%
FTSE MIB	21784.2	21626.3	-0.72%
Netherlands AEX	552.9	551.7	-0.21%
Belgium BEL 20	3764.2	3719.9	-1.18%
OMX Stockholm 30	1549.9	1558.9	0.58%
Norway Oslo All-Share	998.6	1004.9	0.64%
Ireland ISEQ	7140.9	6982.8	-2.21%
Spain IBEX 35	9465.5	9622.7	1.66%
Cyprus CSE General	71.0	75.0	5.65%
AMERICAS			
S&P 500	2705.3	2718.4	0.48%
DJ 30 Industrials	24415.8	24271.4	-0.59%
DJ 65 Composite Average	8234.5	8146.1	-1.07%
NASDAQ Composite	7442.1	7510.3	0.92%
Russell 1000	1502.3	1510.0	0.51%
S&P TSX	16061.5	16277.7	1.35%
Brazil Bovespa	76753.6	72762.5	-5.20%
Argentina Merval	28558.8	26037.0	-8.83%
Mexico IPC	44662.6	47663.2	6.72%
ASIA			
S&P ASX 200	6011.9	6194.6	3.04%
Nikkei 225	22201.8	22304.5	0.46%
Hang Seng	30468.6	28955.1	-4.97%
Korea KOSPI	2423.0	2326.1	-4.00%
FTSE Strait Times	3428.2	3268.7	-4.65%
Taiwan TAIEX	10875.0	10836.9	-0.35%
New Zealand NZX 50 (TR)	8658.8	8943.1	3.28%
Shanghai SSE Composite	3095.5	2847.4	-8.01%
India S&P BSE SENSEX	35322.4	35423.5	0.29%
FTSE Bursa Malaysia KLCI	1740.6	1691.5	-2.82%
Indonesia JSX	5983.6	5799.2	-3.08%

FOREIGN EXCHANGE	31-May-18	30-Jun-18	ROR
AUD/USD	0.757	0.740	-2.23%
EUR/USD	1.170	1.174	0.31%
JPY/USD	108.519	110.284	1.63%
GBP/USD	1.330	1.324	-0.47%
CHF/USD	1.016	1.016	-0.09%
USD/CAD	0.772	0.762	-1.37%
EUR/GBP	0.880	0.887	0.78%
EUR/AUD	1.546	1.586	2.59%
USD/CHF	0.986	0.991	0.46%
GBP/AUD	1.756	1.785	1.64%
CBOE Volatility Index	15.43	16.09	4.28%

COMMODITIES	31-May-18	30-Jun-18	ROR
Energy			
Crude Oil WTI (NYM $/bbl) Continuous	67.04	74.15	10.61%
Brent Crude (ICE $/bbl) Continuous	77.59	79.44	2.38%
NY Harbor ULSD (NYM $/gal) Continuous	2.20	2.21	0.23%
NY Harb RBOB (NYM $/gal) Continuous	2.16	2.15	-0.43%
Natural Gas (NYM $/btu) Continuous	2.95	2.92	-0.95%
Precious Metals			
Gold (NYM $/ozt) Continuous	1304.70	1254.50	-3.85%
Silver (NYM $/ozt) Continuous	16.46	16.20	-1.58%
Industrial Metals			
Aluminum (LME Cash $/t)	2285.50	2183.00	-4.48%
High Grade Copper (NYM $/lbs) Continuous	6825.00	6646.00	-2.62%
Nickel (LME Cash $/t)	15200.00	14910.00	-1.91%
Iron Ore 62% CN TSI (NYM $/mt)	65.95	64.80	-1.74%
Zinc (LME Cash $/t)	3100.00	2948.00	-4.90%
Agricultural			
Corn (CBT $/bu) Continuous	3.94	3.71	-5.77%
Soybeans (CBT $/bu) Continuous	10.19	8.80	-13.60%
Wheat (CBT $/bu) Continuous	5.26	5.01	-4.75%
Cotton #2 (NYF $/lbs) Continuous	0.93	0.84	-9.91%
Sugar #11 (NYF $/lbs) Continuous	0.13	0.12	-4.22%
Indices			
GS Commodity (CME) Continuous	481.20	487.10	1.23%
PowerShares DB Commodity Index Tracking Fund	18.03	17.68	-1.94%
db x-trackers SICAV - db x-trackers DB COMMODITY BO	16.57	15.97	-3.66%

10 YEAR SOVEREIGN YIELDS	30-May-18	30-Jun-18	Yield D
US	2.84%	2.85%	0.01%
UK	1.22%	1.27%	0.05%
Europe	0.33%	0.30%	-0.03%
Australia	2.63%	2.64%	0.01%
Belgium	0.75%	0.69%	-0.06%
Canada	2.26%	2.16%	-0.09%
Denmark	0.33%	0.32%	-0.02%
France	0.68%	0.66%	-0.02%
Germany	0.33%	0.30%	-0.03%
Greece	4.55%	3.93%	-0.62%
Ireland	0.98%	0.81%	-0.17%
Italy	3.03%	2.69%	-0.34%
Japan	0.02%	0.03%	0.01%
Netherlands	0.52%	0.46%	-0.07%
New Zealand	2.73%	2.86%	0.13%
Norway	1.75%	1.76%	0.02%
Portugal	2.11%	1.78%	-0.34%
Spain	1.58%	1.32%	-0.26%
Sweden	0.47%	0.49%	0.02%
Switzerland	-0.05%	-0.05%	0.00%

ROR = Rate of Return
Yield D = Yield differential