



# 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:** 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:** 30<sup>th</sup> 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:** \$14,436,402.91  
**Unit Price:** 0.9267

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

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The Fund returned -1.80% for the month, compared with -1.31% for the Credit Suisse Global Macro Index. The HFRX Absolute Return Index returned -0.05% 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	-1.80%	-0.05%	-1.31%	3.08%	1.38%
3 Months	-2.15%	0.60%	-2.53%	4.27%	4.97%
Calendar YTD	-4.46%	0.99%	-0.97%	3.26%	3.55%
1 Year	-3.51%	2.50%	6.47%	10.63%	9.78%
Cumulative Since Inception NOV 2016	3.43%	4.46%	10.45%	26.27%	18.10%

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

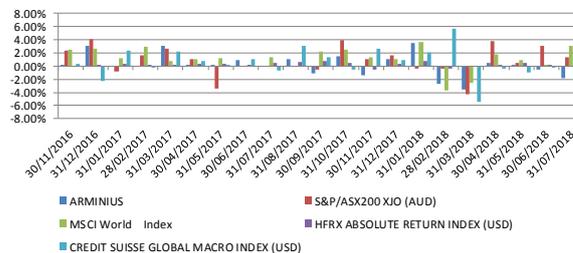
%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2016	-	-	-	-	-	-	-	-	INCEPTION =>	0.08%	3.06%		3.14%
2017	-0.02%	-0.14%	3.14%	0.02%	0.06%	0.94%	-0.08%	1.07%	-1.15%	1.47%	-1.36%	0.99%	4.96%
2018	3.47%	-2.66%	-3.50%	0.46%	0.22%	-0.58%	-1.80%						-4.46%

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).

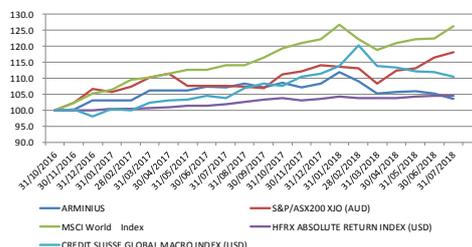
**FUND OBJECTIVES:** The Arminius Capital GMMA Fund invests by purchasing units in an underlying wholesale hedge fund, being the "Arminius Capital ALPS Fund", which provides investors with exposure to all asset classes in the global macro universe. As such, there may be some degree of difference between 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 -1.80% for the month, compared with -1.31% for the Credit Suisse Global Macro Index. The HFRX Absolute Return Index returned -0.05% for the month.

Strong corporate earnings and GDP growth of 4.1% for the June quarter helped to lift the US S&P500 price index by 3.6% in July. For similar reasons, the Stoxx 600 European index rose by 3.1% in June. By contrast, Asian equity markets moved by 1% or less either way as fears of a US-China trade war receded but did not disappear. Chinese markets are still at least 13% below their year-start levels. (All figures are in the currency of each market).

The fundamental reason why the GMMA Fund underperformed in July is that our quantitative models are saying that many markets are fully priced and a correction is overdue. Alternatively, think of it as walking through a bone-dry eucalyptus forest on a hot summer day. You know that the conditions are ripe for a bushfire – you just don't know whether it will start today, tomorrow, next week, or next month. So, the fund was exposed net short and markets continued to rise – a rise our models state are unsupported by fundamentals.

Through July, our models indicated net short positions in many of the markets the fund had exposure to. Our models particularly viewed the Australian stock market as the most statistically expensive of all the global equity markets we have exposure to, so our dynamic models had their highest degree of shorting active there. The short positions in Australia did not perform in July as expected, and this detracted significantly from the fund's total returns for July. Although the fund's long positions in Australia performed acceptably (positive) on a stock by stock position (eg. Super Retail Group, Magellan, JB HiFi) our net short exposures offset these gains.

Late in July, Facebook fell some -20% in one day (the 26<sup>th</sup>). It took with it the unenviable title of the largest one day drop by nominal dollars of any publicly listed company in US history, with ~\$120 Billion worth of share holder value disappearing into the ether. To put this in perspective, this is almost equal to the value of McDonald's or Nike, and larger also than GE, Goldman Sachs, Blackrock and entire stock markets of some South American countries who currently have interest rates of 45% (Argentina).

For the record, we do not hold a direct long position in Facebook – only at its constituent weighting in the S&P500 of our index level exposure.

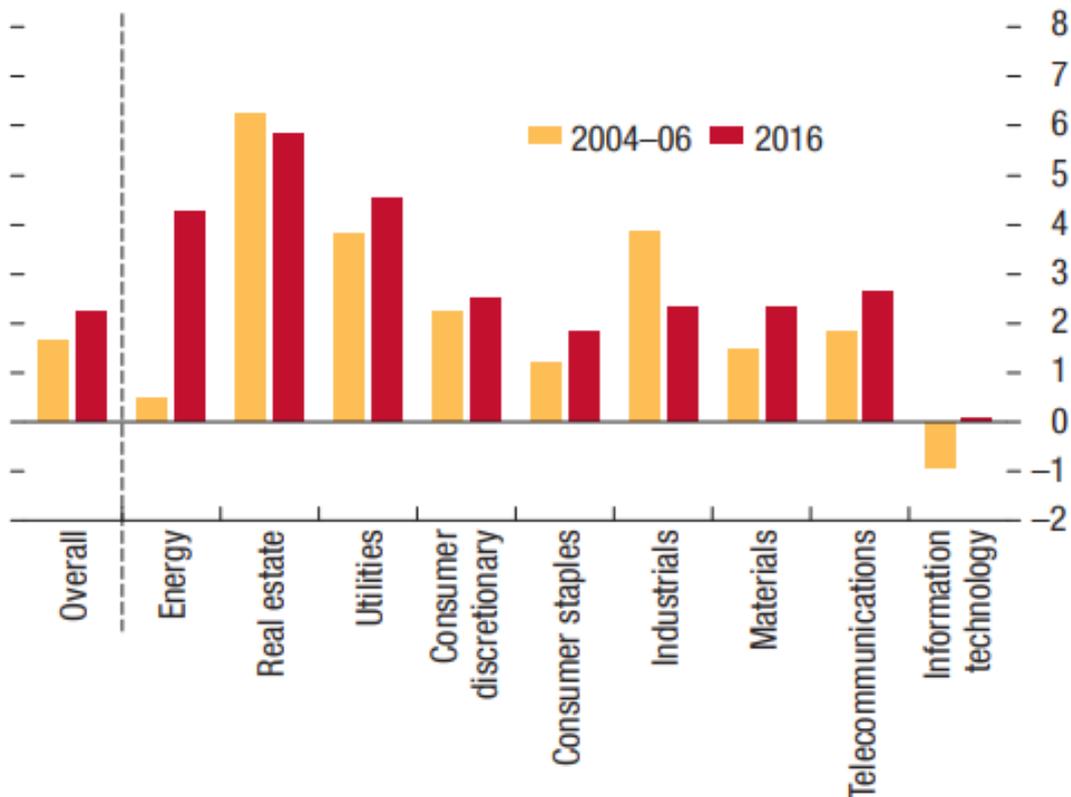
The fact that this colossal amount of share holder value disappeared in merely one day from the markets' beloved FAANG participant, without the merest indication of guidance from the company itself or hint of analyst forewarning does not bode well for the rest of the market when corporates' profit downgrades eventually begin to seep through the analysts' numbers as the Fed continues its rate rising later this year. We said in our February performance report that the Volatility Spike sending the VIX up to 50 was merely a prelude, not the requiem.

As the US and Europe equity markets also rose by more than 3% each in July, our net short exposures there were similarly affected. We view global equity markets in second half 2018 as Potemkin Villages awaiting recalibration. There is a plethora of reasons to doubt the continued upwards march of equities, particularly whilst other well experienced leading indicators such as copper (down -16.7% from its peak in June to 31 July) point to a very different end to 2018. The fund will continue to hold short positions going into August at the time of writing this report (early August).



Eight out of ten sectors witness an increase in leverage across a broad set of firms.

#### 4. Net Leverage by Sector (Ratio of net debt to EBITDA)



The probable triggers for a crisis are debt in US corporations and debt in emerging markets. The chart above shows how leverage (expressed as net debt to EBITDA) has risen in most US sectors since the GFC.

US corporate bonds will become more vulnerable if a trade war breaks out or if the US dollar continues to rise, because when a company is highly leveraged, even a small surprise can tip it over the edge.

At the time of the GFC, the emerging market economies congratulated themselves that they had not made the same mistake as US and European policymakers – allowing housing debt to mount and mount until it threatened the stability of the banking system. This time around, their housing debt is still modest, but emerging markets governments and corporations have taken advantage of record low interest rates to gear up their balance sheets. For many economies, an adverse turn of events – such as falling commodity prices – could trigger a foreign exchange crisis, a debt crisis, a banking crisis, or all three.

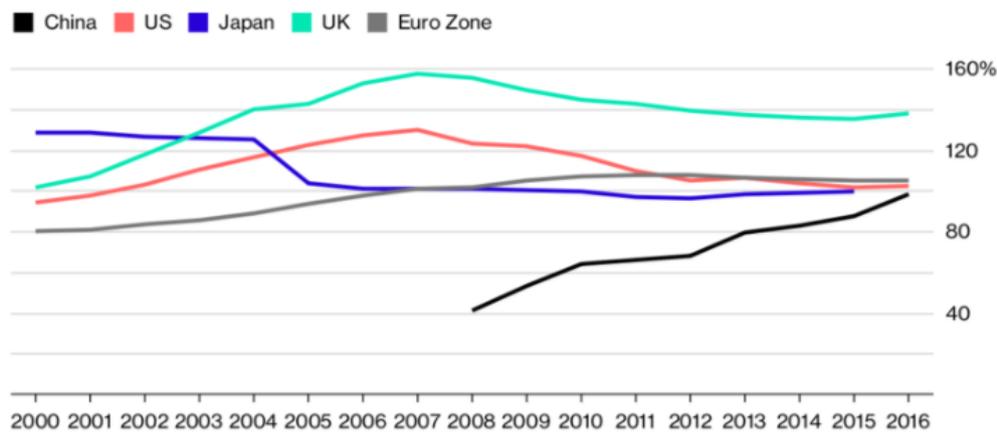
This problem is of course most obvious in China, where total debt is now nearly three times GDP. For the last eighteen months, the authorities have been trying to reduce the rate of credit growth, with some success. But one consequence has been a tightening in the flow of credit to the private sector, which will tend to slow GDP growth and increase the number of insolvencies. Meanwhile, the impact of the Trump tariffs will further complicate the problem of how to get the financial system under control without bringing the economy to a halt. Ten years ago, at the time of the GFC, the average Chinese household had very little consumer debt or mortgage debt.

Now, as the chart below shows, rapid economic growth and the wider availability of loans have lifted household indebtedness almost to Western levels.



## Still Solvent

China's household debt-to-disposable-income ratio is approaching advanced-economy levels



Source: IIF, Bloomberg

Bloomberg

The Australian market in July reached its highest level since the GFC, partly driven by hopes of a good result season in August. Most sectors rose slightly during the month, led by telecommunications (although this may just be a dead cat bounce). Inflation remained subdued at 2.1% year on year, and house prices declined between 1% and 3% in most capital cities. The Australian resources sector was flat for the month. The prices of most commodities fell in July, led by the base metals. We spoke previously about copper. Iron ore was the exception, jumping 4.5% to \$67 per tonne on falling inventories and the expectation that the authorities will mandate more production cuts. Crude oil prices weakened as the oil market worried about production increases and tried to assess the impact of sanctions on Iran.

We remain wary of Australian equities for three main reasons. The strongest is that all the Asian markets are down for the year to date, because they have factored in the probable consequences of a US-China trade war. The ASX has not, even though the Australian economy is just as exposed to China. The benchmark China Shenzhen A Share Index is down -17.03% for the calendar year to date to 31 July, whereas the ASX200 is up 3.55%.

For the Australian company analysts to continue to refuse to factor in expectations that the US-China trade war impacts will have an effect on Australian company earnings' projections is, in our opinion, (but in the words of Dr Johnson) a triumph of hope over experience.

The second reason is that, even without a trade war, Chinese GDP growth is slowing down, so that demand for resources is retreating and commodity prices are falling. Copper, for example, is regarded as a good leading indicator because it has a broad range of industrial uses: the copper price has fallen 16% in recent weeks, as shown in the chart on the following page.



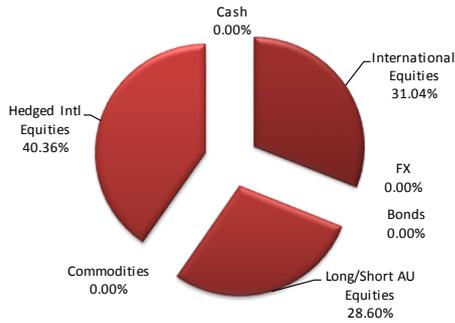
Finally, the weakness in house prices and housing starts suggests that the Australian economy will decelerate in 2019 and 2020, damaging profitability in many sectors. Under these circumstances, we consider that the Australian share market is overdue for a correction.



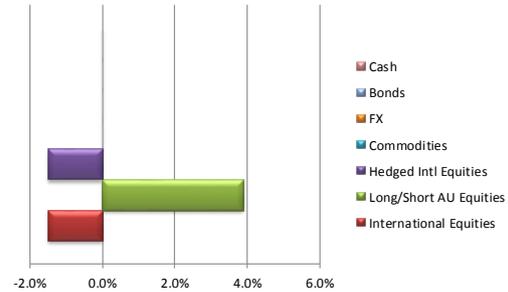
**UNDERLYING FUND DATA**

**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**

<b>EQUITIES</b>	30-Jun-18	31-Jul-18	<b>ROR</b>	<b>COMMODITIES</b>	30-Jun-18	31-Jul-18	<b>ROR</b>
<b>EUROPE</b>				<b>Energy</b>			
Germany DAX (TR)	12306.0	12805.5	<b>4.06%</b>	Crude Oil WTI (NYM \$/bbl) Continuous	74.15	68.76	<b>-7.27%</b>
Switzerland SMI (PR)	8609.3	9174.3	<b>6.56%</b>	Brent Crude (ICE \$/bbl) Continuous	79.44	74.25	<b>-6.53%</b>
STOXX Europe 600 (EUR)	379.9	391.6	<b>3.07%</b>	NY Harbor ULSD (NYM \$/gal) Continuous	2.21	2.14	<b>-3.27%</b>
FTSE 100	7636.9	7748.8	<b>1.46%</b>	NY Harb RBOB (NYM \$/gal) Continuous	2.15	2.08	<b>-3.29%</b>
France CAC 40	5323.5	5511.3	<b>3.53%</b>	Natural Gas (NYM \$/btu) Continuous	2.92	2.78	<b>-4.86%</b>
FTSE MIB	21626.3	22215.7	<b>2.73%</b>	<b>Precious Metals</b>			
Netherlands AEX	551.7	574.3	<b>4.09%</b>	Gold (NYM \$/ozt) Continuous	1254.50	1233.60	<b>-1.67%</b>
Belgium BEL 20	3719.9	3899.0	<b>4.82%</b>	Silver (NYM \$/ozt) Continuous	16.20	15.56	<b>-3.94%</b>
OMX Stockholm 30	1558.9	1615.6	<b>3.64%</b>	<b>Industrial Metals</b>			
Norway Oslo All-Share	1004.9	1017.7	<b>1.27%</b>	Aluminum (LME Cash \$/t)	2183.00	2061.00	<b>-5.59%</b>
Ireland ISEQ	6982.8	6832.0	<b>-2.16%</b>	High Grade Copper (NYM \$/lbs) Continuous	6646.00	6213.00	<b>-6.52%</b>
Spain IBEX 35	9622.7	9870.7	<b>2.58%</b>	Nickel (LME Cash \$/t)	14910.00	13770.00	<b>-7.65%</b>
Cyprus CSE General	75.0	75.9	<b>1.25%</b>	Iron Ore 62% CN TSI (NYM \$/mt)	64.80	64.35	<b>-0.69%</b>
<b>AMERICAS</b>				Zinc (LME Cash \$/t)	2948.00	2630.00	<b>-10.79%</b>
S&P 500	2718.4	2816.3	<b>3.60%</b>	<b>Agricultural</b>			
DJ 30 Industrials	24271.4	25415.2	<b>4.71%</b>	Corn (CBT \$/bu) Continuous	3.71	3.87	<b>4.11%</b>
DJ 65 Composite Average	8146.1	8548.0	<b>4.93%</b>	Soybeans (CBT \$/bu) Continuous	8.80	9.19	<b>4.43%</b>
NASDAQ Composite	7510.3	7671.8	<b>2.15%</b>	Wheat (CBT \$/bu) Continuous	5.01	5.54	<b>10.47%</b>
Russell 1000	1510.0	1560.4	<b>3.34%</b>	Cotton #2 (NYF \$/lbs) Continuous	0.84	0.90	<b>6.76%</b>
S&P TSX	16277.7	16434.0	<b>0.96%</b>	Sugar #11 (NYF \$/lbs) Continuous	0.12	0.11	<b>-13.88%</b>
Brazil Bovespa	72762.5	79220.4	<b>8.88%</b>	<b>Indices</b>			
Argentina Merval	26037.0	29287.3	<b>12.48%</b>	GS Commodity (CME) Continuous	487.10	465.10	<b>-4.52%</b>
Mexico IPC	47663.2	49698.0	<b>4.27%</b>	PowerShares DB Commodity Index Tracking Fund	17.68	17.25	<b>-2.43%</b>
<b>ASIA</b>				db x-trackers SICAV - db x-trackers DB COMMODITY BO	15.97	15.63	<b>-2.12%</b>
S&P ASX 200	6194.6	6280.2	<b>1.38%</b>	<b>10 YEAR SOVEREIGN YIELDS</b>			
Nikkei 225	22304.5	22553.7	<b>1.12%</b>	US	2.85%	2.97%	<b>0.12%</b>
Hang Seng	28955.1	28583.0	<b>-1.29%</b>	UK	1.27%	1.34%	<b>0.07%</b>
Korea KOSPI	2326.1	2295.3	<b>-1.33%</b>	Europe	0.30%	0.45%	<b>0.15%</b>
FTSE Strait Times	3268.7	3319.9	<b>1.56%</b>	Australia	2.64%	2.66%	<b>0.02%</b>
Taiwan TAIEX	10836.9	11057.5	<b>2.04%</b>	Belgium	0.69%	0.75%	<b>0.05%</b>
New Zealand NZX 50 (TR)	8943.1	8922.1	<b>-0.24%</b>	Canada	2.16%	2.34%	<b>0.18%</b>
Shanghai SSE Composite	2847.4	2876.4	<b>1.02%</b>	Denmark	0.32%	0.40%	<b>0.08%</b>
India S&P BSE SENSEX	35423.5	37606.6	<b>6.16%</b>	France	0.66%	0.74%	<b>0.08%</b>
FTSE Bursa Malaysia KLCI	1691.5	1784.3	<b>5.48%</b>	Germany	0.30%	0.45%	<b>0.15%</b>
Indonesia JSX	5799.2	5936.4	<b>2.37%</b>	Greece	3.93%	3.95%	<b>0.01%</b>
<b>FOREIGN EXCHANGE</b>				Ireland	0.81%	0.91%	<b>0.09%</b>
AUD/USD	0.740	0.744	<b>0.55%</b>	Italy	2.69%	2.75%	<b>0.07%</b>
EUR/USD	1.174	1.174	<b>0.01%</b>	Japan	0.03%	0.06%	<b>0.03%</b>
JPY/USD	110.284	111.483	<b>1.09%</b>	Netherlands	0.46%	0.54%	<b>0.08%</b>
GBP/USD	1.324	1.315	<b>-0.65%</b>	New Zealand	2.86%	2.78%	<b>-0.08%</b>
CHF/USD	1.016	1.014	<b>-0.15%</b>	Norway	1.76%	1.86%	<b>0.10%</b>
USD/CAD	0.762	0.770	<b>1.10%</b>	Portugal	1.78%	1.75%	<b>-0.03%</b>
EUR/GBP	0.887	0.893	<b>0.67%</b>	Spain	1.32%	1.41%	<b>0.10%</b>
EUR/AUD	1.586	1.578	<b>-0.54%</b>	Sweden	0.49%	0.59%	<b>0.10%</b>
USD/CHF	0.991	0.990	<b>-0.04%</b>	Switzerland	-0.05%	0.02%	<b>-0.07%</b>
GBP/AUD	1.785	1.767	<b>-1.03%</b>				
CBOE Volatility Index	16.09	12.83	<b>-20.26%</b>				

ROR = Rate of Return  
Yield D = Yield differential

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