MONTHLY PERFORMANCE REPORT
August 2018

The Fund returned +1.19% for the month, compared with +1.42% for the S&P/AX200 (TR) Index. 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.

PERFORMANCE (Inception JUL-2014)	Arminius Capital ALCE Strategy
1 Month	**1.19%**
3 Months	N/A
Calendar YTD	1.13%
1 Year	N/A
3 Years	N/A
5 Years	N/A
Cumulative since Inception JUL 2017	**1.14%**

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%	1.19%	-	-	-	-	1.13%

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

INVESTMENT MANAGER

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DISTRIBUTION DETAILS

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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

The FY18 season was broadly encouraging, with no more negative surprises than usual. The S&P/ASX200 accumulation index rose by 1.42%. The best performing sectors were Information Technology, Telecommunications, and Health Care. The worst were Materials, Energy, and Financials.

The Fund returned 1.19% for July, 23 basis points below the Index. The largest positive performances came from NIB, Nine, Mirvac, Wesfarmers, and Macquarie. The worst negative returns came from Adelaide Brighton, Woolworths, GWA, Estia, and Westpac. Nine's outperformance reversed the company's arbitrage-related price fall which we noted in July. The Fund's largest holdings are Westpac, National Australia Bank, Wesfarmers, Macquarie Bank, and Woolworths. (All lists are ranked from largest to smallest in absolute size).

OUTLOOK

The news that GDP grew by 3.4% in the June quarter fitted the general tenor of company results and management commentary. But it is worth remembering that the two largest sectors of the Australian share market carry a lot of downside risk. The banks have visibly disgraced themselves in the way they have treated their customers, and some form of restrictive legislation is likely after the Hayne Royal Commission reports. The miners (but not oil or LNG producers) are watching their commodity prices slide even before the US-China trade war becomes serious.

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In recent months we have frequently warned our investors of the negative effects of slower Chinese growth and tighter global liquidity. These risks have crystallized in currency crises in two of the most vulnerable emerging economies, Turkey and Argentina. The sight of collapsing currencies and spiralling interest rates in these jurisdictions has frightened investors away from the currencies, stocks, and bonds of other emerging economies, such as South Africa, Russia, India and Indonesia. This contagion is likely to spread further.

As a low-beta portfolio, ALCE is expected to outperform the S&P/ASX200 index in the event of a correction. The portfolio is conservatively positioned, with a prospective P/E of 13.6 and a yield of 5.6%.

WHAT HAPPENED IN THE REPORTING SEASON

ADELAIDE BRIGHTON

Profits in the first half of ABC's year fell slightly short of expectations, but guidance for the full year remains unchanged at $200m to $210m net profit after tax, and a 4c special dividend was announced. ABC's focus on cement, concrete, clinker, and lime tends to insulate it from the housing downturn and leverage it to the ongoing spend on infrastructure projects. Product prices firmed in most sectors, and cement volumes rose 8% yoy. The short term, however is clouded with uncertainty: the new CEO will not be announced before October, and the CFO has also resigned.

AMP

First-half 2018 underlying profit came in at $495m, in line with management guidance. Post-tax charges of $290m to remediate its flawed financial advice over the last decade, plus other costs related to the Hayne Royal Commission, cut net profit to $115m, down 74%. The first-half dividend was cut from 14.5c to 10.0c 50% franked, and 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, compared to $2.3bn at December 2017.

The scandal-ridden Wealth Management division saw $873m flow out the door, but AMP still has FUM of $189bn. Although AMP has thrown away decades of customer goodwill, the big banks suffered similar self-inflicted embarrassments with their various financial planning villainies, and their share prices eventually recovered. The interim CEO outlined plans to re-design the business and restore customer trust, but the appointment of a permanent CEO is still some way off.

CROWN

A strong operational result at Crown Melbourne lifted normalised NPAT by 12.7% to $387m (EPS 81c), beating expectations. Final dividend was unchanged at 30c, making 60c for the year. Operating cash flow jumped from $465m to $731m. The share buyback will resume shortly.

ESTIA

EPU of 15.8c were slightly below the consensus expectations, but DPU of 15.8c were slightly above. Net bank debt fell to $62m, which was equivalent to only 0.7x EBITDA, well below the target range of 1.5x to 1.8x. Hence EHE is well placed to debt fund its ongoing refurbishments and new developments. Guidance for FY19 was similar to FY18's 4% increase in EBITDA, with a payout ratio of 70% to 100% of EPS. The new CEO takes over in November 2018.

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GWA

FY18 net profit met expectations and the final dividend was 1c better than expected, although operating cash flow was weak. 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. Recent innovations in products and distributions seem to be working. In the wake of recent divestments, GWA now has zero net debt, so the company is well-placed to make acquisitions which fit its "water solutions" strategy, and a small share buyback is also possible. No guidance was offered for FY19.

IAG

Although the FY18 result showed steady improvement in most insurance classes, the reported result fell slightly short of market expectations, and the IAG share price retreated. The company's key capital ratios were above their target ranges and well above regulatory requirements. In addition to the 20c final dividend, IAG announced a 19.5c capital return and a 5.5c special dividend. Guidance for FY19 was cautious, suggesting that the reported insurance margin would stay in the FY18 range of 16.0% to 18.0%. Investors welcomed the divestment of the last South East Asian operations, but growth in Australian and New Zealand markets is forecast to be slow. In September, the general insurance industry will also come under scrutiny from the Hayne Royal Commission.

LEND LEASE

Earnings and dividends slightly exceeded market expectations, despite a $190m provision relating to $2bn of troubled engineering projects in Australia. The current development pipeline suggests that the outlook for the next two years is strong. Investment assets under management now total $30bn, and are set to rise further. The company continues to carry very little debt, and it is only one-third of the way through its $500m share buyback, which is likely to resume soon.

MIRVAC

The Mirvac (MGR) FY18 result was in line with the company's previous guidance. Gains in the office and industrial sectors offset slowdowns in the residential and retail sector, lifting operating profit by 9% to $580m. Final distribution was 11c per unit as expected. The group's strategy is based on raising the quality of its property portfolio and on building passive earnings, as opposed to development profits.

MEDIBANK PRIVATE

MPL has stopped losing policyholders, and its "young market" brand seems to be working. On the claims side, Australians are visiting hospitals less and not staying as long, while their procedures are getting cheaper. Against those advantages, costs are not yet contained, and the whole private health insurance system rests on the assumption that the under-65's will keep on paying for the over-65's. If an ALP government does enact a 2%pa price cap, MPL's 78% payout ratio suggests that it will have to cut its dividend.

NINE

Earnings and dividends met market expectations in a year when the free-to-air advertising market grew by 2.5% and NEC increased its share of the market, based not only on top-rating shows but also on a better use of parallel digital media such as Stan and 9Now. Management skills will be severely tested if the Fairfax merger goes ahead. The company indicated FY19 EBITDA of $280m to $300m.

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NIB

NHF not only beat forecasts but triggered upgrades. Better market share growth, better claims experience, and better cost control made its FY18 result significantly better than Medibank Private's. These factors also give it advantage in devising a flexible response to any price caps imposed by a future ALP government.

PLATINUM ASSET MANAGEMENT

PTM's earnings and dividends slightly exceeded expectations, partly because the strong performance of most of the company's funds generated increased performance fees. But this factor also lifted employee remuneration, and there is no guarantee that FY19 will see the same sort of outperformance. Funds under management (FUM) have risen in 12 of the last 13 months, suggesting that investors have digested the fact that founder Kerr Neilson is stepping down as CEO (although remaining as an executive director, fund manager, and major shareholder. Consensus forecasts imply little growth in the next two years.

STOCKLAND

Earnings and dividends met expectations, but the performance of the Group's shopping centres was weak. SGP has the ability to time the release of profits from its many large residential projects, and net debt to equity remains low at 34%. Management indicated that Funds from Operations would grow by 5% to 7% in FY19, based on stable residential margins.

VICINITY

The Vicinity (VCX) FY18 result met expectations: Funds from Operations (FFO) rose 2.2% to 18.2c, and a 90% payout ratio took full-year distributions to 16.3c. NTA rose 5.3% to 297c per share. VCX's malls had 99.7% occupancy and 1.2% same-store sales growth, led by the redeveloped Chadstone. Gearing remains at the low end of VCX's target range, so that the company is comfortably able to debt fund its development pipeline.

In the past three years VCX has upgraded the quality of its property portfolio by selling $1.9bn in non-core assets, and it plans to sell up to $1.0bn more this year, as well as starting a $1.0bn fund in joint venture with Keppel Capital. Besides flagging a "potential" buyback, management indicated that FFO would increase by 3.4% to 4.6% in FY19, and it would pay 85% to 90% of FFO in distributions.

WESFARMERS

Leaving aside the $1.4bn write-downs of Bunnings UK (which has been fully priced in), the underlying result met expectations. Coles trading improved in the second half, EBIT from KMart and Target rose 21%, Officeworks EBIT climbed 8%, and Bunnings EBIT grew 12%. Comment on the outlook was very restricted because the Coles demerger details are not yet published.

The November demerger of Coles is motivated by the fact that Coles accounts for 64% of WES assets but only 35% of EBIT. 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 new WES will start life with a higher return on capital than Coles and a desire for acquisitions or capital management.

WOOLWORTHS

Earnings and dividends met expectations, but the market did not like the news that WOW sales had slowed relative to Coles. Woolworths' supermarket revenues are under threat not only from a revitalized Coles, but also from the steady expansion of Aldi and Kaufhaus. In addition, the new lease accounting standard has

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highlighted the fact that WOW's lease position is not as good as Coles. WOW is looking expensive against the upcoming Coles spin-off.

Big W's $110m EBIT loss was disappointing: it was near the bottom of guidance of $80m to $120m, and it compared badly with the performance of the Wesfarmers discount department stores. Management expects to reduce the loss in FY19, but we can't help thinking of the old market adage, "Turnarounds take seven years."

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AUSTRALIAN FIFTY LEADERS – MONTHLY DATA

Code	Name	Sector	31-Jul-18	31-Aug-18	ROR
AGL	AGL Energy Limited	Utilities	$21.99	$20.78	-5.50%
AMC	Amcor Limited	Materials	$15.07	$14.30	-5.11%
AMP	AMP Limited	Financials	$3.40	$3.34	-1.76%
ANZ	ANZ Banking Group Limited	Financials	$29.30	$29.50	0.68%
APA	APA Group Units FP Stapled Securities	Utilities	$9.65	$10.00	3.63%
ALL	Aristocrat Leisure	Consumer Discretionary	$32.20	$31.59	-1.89%
ASX	ASX Limited	Financials	$65.69	$67.64	2.97%
AZJ	Aurizon Holdings Limited	Industrials	$4.55	$4.20	-7.69%
BHP	BHP Billiton Limited	Materials	$34.86	$33.21	-4.73%
BXB	Brambles Limited	Industrials	$9.88	$10.97	11.03%
CTX	Caltex Australia	Energy	$32.56	$30.21	-7.22%
COH	Cochlear Limited	Health Care	$203.36	$215.81	6.12%
CBA	Commonwealth Bank	Financials	$74.79	$71.24	-4.75%
CPU	Computershare Limited	Information Technology	$18.19	$19.22	5.66%
CSL	CSL Limited	Health Care	$196.61	$227.31	15.61%
DXS	Dexus Units FP Stapled	Real Estate	$10.08	$10.72	6.35%
FMG	Fortescue Metals Group	Materials	$4.37	$3.84	-12.13%
GMG	Goodman Group Stapled Securities FP	Real Estate	$9.63	$10.70	11.11%
GPT	GPT Group Stapled Securities FP	Real Estate	$5.16	$5.17	0.19%
IAG	Insurance Australia	Financials	$8.04	$7.72	-3.98%
JHX	James Hardie Indust Chess Depositary In	Materials	$21.50	$21.17	-1.53%
LLC	Lendlease Group Unit/ Stapled Securities	Real Estate	$20.13	$20.49	1.79%
MQG	Macquarie Group Limited	Financials	$122.82	$129.40	5.36%
MPL	Medibank Private Limited	Financials	$3.11	$3.04	-2.25%
MGR	Mirvac Group Stapled Securities	Real Estate	$2.28	$2.43	6.58%

Code	Name	Sector	31-Jul-18	31-Aug-18	ROR
NAB	National Aust. Bank	Financials	$28.33	$28.37	0.14%
NCM	Newcrest Mining	Materials	$21.63	$19.39	-10.36%
OSH	Oil Search Limited 10 Toea	Energy	$8.98	$8.96	-0.22%
ORI	Orica Limited	Materials	$17.58	$17.59	0.06%
ORG	Origin Energy	Energy	$9.77	$7.95	-18.63%
QAN	Qantas Airways	Industrials	$6.72	$6.43	-4.32%
QBE	QBE Insurance Group	Financials	$10.10	$11.01	9.01%
RHC	Ramsay Health Care	Health Care	$56.24	$55.70	-0.96%
RIO	RIO Tinto Limited	Materials	$81.20	$72.74	-10.42%
STO	Santos Limited	Energy	$6.38	$6.78	6.27%
SCG	Scentre Group Stapled Securities	Real Estate	$4.25	$4.11	-3.29%
SHL	Sonic Healthcare	Health Care	$26.08	$26.19	0.42%
S32	SOUTH32 Limited	Materials	$3.57	$3.48	-2.52%
SGP	Stockland Units/ Stapled Securities	Real Estate	$4.15	$4.13	-0.48%
SUN	Suncorp Group Limited	Financials	$14.97	$15.49	3.47%
SYD	SYD Airport FP Stapled Securities US Pr	Industrials	$7.07	$7.21	1.98%
TLS	Telstra Corporation	Telecommunication Services	$2.84	$3.10	9.15%
TCL	Transurban Group Ordinary Shares/Uni	Industrials	$11.52	$11.87	3.08%
TWE	Treasury Wine Estate	Consumer Staples	$18.42	$19.47	5.70%
URW	Unibailrodawestfield Chess Depositary I	Real Estate	$14.87	$14.52	-2.35%
VCX	Vicinity Centres Ordinary/Units FP Stap	Real Estate	$2.66	$2.77	4.14%
WES	Wesfarmers Limited	Consumer Staples	$49.46	$51.45	4.02%
WBC	Westpac Banking Corp	Financials	$29.46	$28.54	-3.12%
WPL	Woodside Petroleum	Energy	$36.14	$36.87	2.02%
WOW	Woolworths Group Limited	Consumer Staples	$30.09	$28.30	-5.95%

ROR = Rate of Return

Sector Composition of the ASX50

- Information Technology
- Consumer Discretionary
- Utilities
- Telecommunication Services
- Industrials
- Energy
- Real Estate
- Consumer Staples
- Health Care
- Materials
- Financials

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