



# MONTHLY PERFORMANCE REPORT

## September 2018

The portfolio returned -3.33% for the month, compared with -1.68% for the S&P/ASX200 (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.

### 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: 30<sup>th</sup> June

Dealing: Daily

PERFORMANCE (Inception JUL-2018)	Arminius Capital ALCE Strategy
1 Month	-3.33%
3 Months	-2.23%
Calendar YTD	N/A
1 Year	N/A
3 Years	N/A
5 Years	N/A
<b>Cumulative since Inception JUL 2018</b>	<b>-2.23%</b>

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%	-3.33%	-	-	-	-	N/A

### 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 S&P/ASX200 accumulation index fell by -1.68% and the XJO fell -1.77%. The best performing sectors were Resources, Energy, and Communications Services. All the rest were negative for the month, the worst being Healthcare, Consumer Discretionary, and Utilities.

The Fund returned negative 3.33% for September, 165 basis points below its benchmark. The largest positive performances came from Stockland, Woolworths, Mirvac, GWA, and Dulux. The worst negative returns came from Estia, NIB, IAG, Nine, and Lend Lease. Along with other aged care stocks, Estia fell 19% on the day that the Prime Minister announced a Royal Commission into the aged care sector. (Royal Commissions seem to be like peanuts – you can't stop at one. There are suggestions that the power sector will be the next target.) The Fund's largest holdings are Westpac, ANZ, Wesfarmers, Macquarie Bank, and Woodside.

The portfolio underwent its regular algorithmic re-balance on 28 September. The number of changes was unusually large, affecting half the holdings. Stocks sold were Adelaide Brighton, AMP, Estia, IAG, Medibank, National Australia Bank, Nine, Platinum, Vicinity, and Woolworths. Stocks bought were ANZ, Atlas Arteria, Boral, Coca Cola Amatil, IPH, Premier, Spark NZ, Tabcorp, and Woodside.

As a low-beta portfolio, ALCE is expected to outperform the S&P/ASX200 index in the event of a correction. The portfolio is cheaper than the market, with a prospective P/E of 13.9 and yield of 5.2%.



Consensus forecasts for the S&P/ASX200 imply a P/E of 15.3 and yield of 4.6%.

## OUTLOOK

The Australian economy has been doing surprisingly well, with GDP growth better than expected and the FY2018 budget deficit smaller than expected. Labour markets remain firm, with unemployment unchanged at 5.3%. Household spending is weak, but inflation is still subdued. The housing downturn is well under way, but views differ on how severe it will be.

Investors, however, have focused on the fact that a Federal election is due by May 2019: the Labor Party is ahead in the polls, with a list of policies targeting the banks, franking credits, and the capital gains tax. Bank share prices bounced back temporarily at month-end in a relief rally, after the Royal Commission's interim report fell short of the drastic recommendations which the banks feared (and probably deserved). The banks are likely to strengthen in October in advance of their 2018 results and final dividends, but there is no hope of any good news which could offset the housing downturn and the Royal Commission's final report.

The outlook for resources is mixed. Data from China suggest that the economy continues to slow, even before the latest sanctions begin to bite. Copper markets liked the news that Chinese copper inventories were falling, but this move may only reflect China's tightening credit conditions: copper has long been Chinese banks' preferred security for loans to marginal borrowers. China remains the world's growth engine, supplying 35% of forecast GDP growth, with the US a distant second at 17%.

Oil and LNG prices have been rising steadily and will keep on rising. This is mostly the fault of The Donald, who decided to tear up his predecessor's agreement with Iran. As a consequence, sanctions will be imposed on Iranian exports from early November, and the US has made it clear that sanction breakers will be shut out of the global payments system (which is controlled by the US). What The Donald overlooked was the awkward fact that there is not enough spare production capacity in the world to make up for the loss of Iran's 2.5 million barrels per day. Iran has already cut its production by 1.0 million barrels per day as sanctions-wary buyers run away, which is why prices are already rising. China is expected to keep buying about 1 million barrels per day from Iran, regardless of sanctions – it will use Chinese ships and Chinese insurers.

On top of the effect of the Iran sanctions, oil prices are being propelled upward by the long-scheduled imposition of caps on high-sulphur oil. They don't come into force until 2020, but they do require changes to ships and refineries, and these will not be fully completed on time. Therefore an oil price over USD\$100 per barrel is quite possible in the next few months, with negative consequences for global growth and inflation.



AUSTRALIAN FIFTY LEADERS – MONTHLY DATA

Code	Name	Sector	31-Aug-18	30-Sep-18	ROR	Code	Name	Sector	31-Aug-18	30-Sep-18	ROR
AGL	AGL Energy Limited	Utilities	\$20.78	\$19.50	-6.16%	NAB	National Aust. Bank	Financials	\$28.37	\$27.81	-1.97%
AMC	Amcor Limited	Materials	\$14.30	\$13.68	-4.34%	NCM	Newcrest Mining	Materials	\$19.39	\$19.41	0.10%
AMP	AMP Limited	Financials	\$3.34	\$3.19	-4.49%	OSH	Oil Search Limited 10 Toea	Energy	\$8.96	\$9.03	0.78%
ANZ	ANZ Banking Group Limited	Financials	\$29.50	\$28.18	-4.47%	ORI	Orica Limited	Materials	\$17.59	\$17.03	-3.18%
APA	APA Group Units FP Stapled Securities	Utilities	\$10.00	\$9.98	-0.20%	ORG	Origin Energy	Energy	\$7.95	\$8.26	3.90%
ALL	Aristocrat Leisure	Consumer Discretionary	\$31.59	\$28.44	-9.97%	QAN	Qantas Airways	Industrials	\$6.43	\$5.90	-8.24%
ASX	ASX Limited	Financials	\$67.64	\$63.66	-5.88%	QBE	QBE Insurance Group	Financials	\$11.01	\$11.12	1.00%
AZJ	Aurizon Holdings Limited	Industrials	\$4.20	\$4.11	-2.14%	RHC	Ramsay Health Care	Health Care	\$55.70	\$54.93	-1.38%
BHP	BHP Billiton Limited	Materials	\$33.21	\$34.63	4.28%	RIO	RIO Tinto Limited	Materials	\$72.74	\$78.76	8.28%
BXB	Brambles Limited	Industrials	\$10.97	\$10.90	-0.64%	STO	Santos Limited	Energy	\$6.78	\$7.26	7.08%
CTX	Caltex Australia	Energy	\$30.21	\$29.90	-1.03%	SCG	Scout24 Group Stapled Securities	Real Estate	\$4.11	\$3.97	-3.41%
COH	Codhlear Limited	Health Care	\$215.81	\$200.64	-7.03%	SHL	Sonic Healthcare	Health Care	\$26.19	\$24.91	-4.89%
CBA	Commonwealth Bank	Financials	\$71.24	\$71.41	0.24%	S32	SOUTH32 Limited	Materials	\$3.48	\$3.92	12.64%
CPU	Computershare Limited	Information Technology	\$19.22	\$19.95	3.80%	SGP	Stokland Units/ Stapled Securities	Real Estate	\$4.13	\$4.15	0.48%
CSL	CSL Limited	Health Care	\$227.31	\$201.11	-11.53%	SUN	Sunoco Group Limited	Financials	\$15.49	\$14.46	-6.65%
DXS	Dexus Units FP Stapled	Real Estate	\$10.72	\$10.56	-1.49%	SYD	SYD Airport FP Stapled Securities US Pr	Industrials	\$7.21	\$6.89	-4.44%
FMG	Fortescue Metals Group	Materials	\$3.84	\$3.92	2.08%	TLS	Telstra Corporation	Telecommunication Services	\$3.10	\$3.19	2.90%
GMG	Goodman Group Stapled Securities FP	Real Estate	\$10.70	\$10.36	-3.18%	TCL	Transurban Group Ordinary Shares/Uni	Industrials	\$11.87	\$11.22	-5.49%
GPT	GPT Group Stapled Securities FP	Real Estate	\$5.17	\$5.21	0.77%	TWE	Treasury Wine Estate	Consumer Staples	\$19.47	\$17.49	-10.17%
IAG	Insurance Australia	Financials	\$7.72	\$7.32	-5.18%	URW	UnibailRodawestfield Chess Depository I	Real Estate	\$14.52	\$14.12	-2.75%
JHX	James Hardie Indust Chess Depository In	Materials	\$21.17	\$20.96	-0.99%	VCX	Vicinity Centres Ordinary/Units FP Stap	Real Estate	\$2.77	\$2.62	-5.42%
LLC	Lendlease Group Unit/ Stapled Securities	Real Estate	\$20.49	\$19.66	-4.05%	WES	Wesfarmers Limited	Consumer Staples	\$51.45	\$49.85	-3.11%
MQG	Macquarie Group Limited	Financials	\$129.40	\$126.04	-2.60%	WBC	Westpac Banking Corp	Financials	\$28.54	\$27.93	-2.14%
MPL	Medibank Private Limited	Financials	\$3.04	\$2.91	-4.28%	WPL	Woodside Petroleum	Energy	\$36.87	\$38.58	4.64%
MGR	Mirvac Group Stapled Securities	Real Estate	\$2.43	\$2.41	-0.82%	WOW	Woolworths Group Limited	Consumer Staples	\$28.30	\$28.08	-0.78%

ROR = Rate of Return

Sector Composition of the ASX50 - end of Month

