



# MONTHLY PERFORMANCE REPORT

## September 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:** \$ 14,216,626.71

**Unit Price:** 0.9165

**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 -1.95% for the month, compared with -1.64% for the Credit Suisse Global Macro Index. The HFRX Absolute Return Index returned -0.36% for the month.

Our stance is negative towards US equities; mostly negative on Australia; negative on Europe & 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. 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	-1.95%	-0.36%	-1.64%	0.56%	-1.77%
3 Months	-2.88%	-0.04%	-3.14%	4.84%	0.21%
Calendar YTD	-5.51%	1.00%	-2.80%	5.02%	2.35%
1 Year	-4.48%	1.13%	0.11%	10.21%	9.26%
Cumulative Since Inception NOV 2016	2.30%	4.47%	8.41%	28.43%	16.73%

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

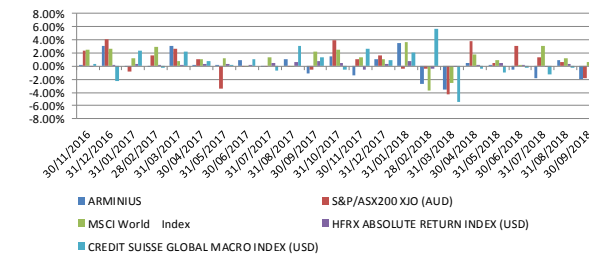
%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2016	-	-	-	-	-	-	-	-	INCEPTION =>	0.08%	3.06%		3.14%
2017	-0.02%	-0.14%	3.14%	0.02%	0.06%	0.94%	-0.08%	1.07%	-1.15%	1.47%	-1.36%	0.99%	4.96%
2018	3.47%	-2.66%	-3.50%	0.46%	0.22%	-0.58%	-1.80%	0.87%	-1.95%				-5.51%

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).

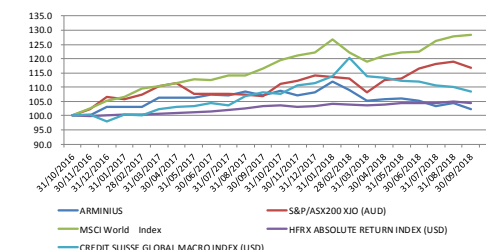
**FUND OBJECTIVES:** The Arminius Capital GMMA Fund invests by purchasing units in an underlying wholesale hedge fund, being the "Arminius Capital ALPS Fund", which provides investors with exposure to all asset classes in the global macro universe. As such, there may be some degree of difference between 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 -1.95% in September, which was a confused month for global equity markets. The Credit Suisse Global Macro Index returned -1.64% for September. We compare our fund's returns to both the HFRX Absolute Return index and the Credit Suisse Global Macro ("CSGM") Index because they are proximate equivalent comparators to our fund's investing strategy style, modelling methodology, low volatility metrics and above all else, capital preservation mandate.

We have taken a very negative view of where the world economy is headed, based on our detailed and quantitative analysis of economic trends. However, the monthly performance report is not the right medium for this, so we will release articles on these issues separately in the weeks ahead. They will address:

- Ray Dalio's forecast of a **massive global debt restructuring crisis**. Ray's firm Bridgewater (US\$160 billion of funds under management) pioneered the "risk-parity" approach 30 years ago.
- **US vs MSCI World: this is mostly a US crisis**. Since 2009, the rest of the world has **missed out on most of the upside, but it's sure going to get to participate in the downside**.
- **Why global macro funds have had such a rough ride this year** through the turbulence. We are far from alone, other huge global macro hedge funds with platoons of PhDs and stellar 20+ year track records such as Winton Capital (US\$29 Billion of funds under management) and Cliff Assness' AQR (US\$226 Billion of funds under management) – both who made money through the GFC - have also suffered badly so far in 2018.

During September, the US S&P500 price index set a new record of 2929 but fell back to close the month at 2914, up only 0.43%. The US equities market has been by far the strongest developed market this year; up +8.99% in 2018 to 30 September. Our positions were affected this month by (i) a +0.65% rising AUDUSD, as a material part of the fund is in USD denominated instruments and (ii) a number of Australian banking/finance and health sector stocks hit by regulatory risk.

Regulatory risk is very hard to hedge against. No reasonable fund manager or investor in Australia would have presumed that some blue chip ASX companies' dead clients were being charged fees, or that some aged care residents were being fed only \$6 worth of food per day. Along with a number of the fund's other banking/finance & health related stock positions, the fund's material holdings of Estia and NIB (chosen for reported fundamental quality of earnings and dividends) fell heavily on the day that the Prime Minister announced a Royal Commission into the aged care sector. Estia fell 19% in one day. It is fair to say that the impact of not one but two Royal Commissions, welcomingly uncovering distasteful business conduct and ethics, contributed manifoldly to our fund having a negative return for September.

After not having lost money in any calendar year from the funds' inception in 2016, we are down -5.51% YTD for 2018. The point of this fund is to preserve the capital base over a rolling time period. Institutions do not invest in short term time horizons and neither should individuals. Traders (speculators) are welcome to, but investors should not. If we were down -5.51% in mid 2007 I am sure we would have had many disappointed investors when the SP500 had returned a rolling 12 month number of +20.5% by May of 2007. However, the goal of a global macro fund (and most other styles of hedge funds) is not to match equity market returns, or equity market volatility.

By December 2007 though, the S&P500 had pared back its first quarter gains to end the entire year at only +3.53% and then of course it lost -38.4% through calendar 2008. It then carried on to mark its lowest point in early March 2009 whereby it had fallen approx.. -44.7% in a rolling 12 month period. We are wary that recent market activity through September will lead to a worsening environment through October and the months ahead. The fund can tolerate temporary levels of volatility as the design of the strategy is to make money in a severe downturn (not just lose less) but this requires patience through the volatile months. Times of temporary



negative returns in the fund can be a temptation for investors to withdraw and put into cash “until the crash happens”, but this requires exquisite timing, which is difficult for even seasoned market professionals to do. The 2 principals of Arminius have a combined experience in excess of 6 decades and have seen many, many market corrections and crashes.

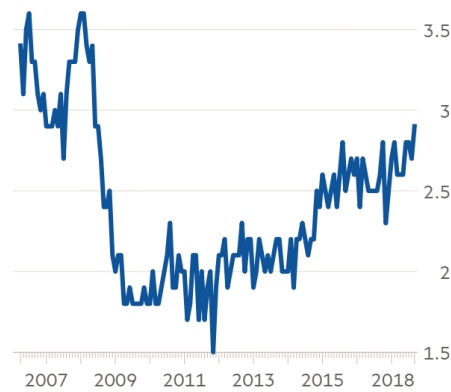
The Australian S&P/ASX200 price index fell -1.77% during September, amid worsening news out of China and domestic worries about the finance sector. The index is up +2.35% for the year. European markets, as measured by the Stoxx 600, barely moved (+0.24%): the index is still slightly below its year-start level and has been trading in a narrow band to fall -3.46% YTD so far in 2018. Chinese share markets stopped falling and picked up a little, but the China Shenzhen A Share Index is now down -24.13% for the year to date. We had no exposure to Chinese equities in September.

The big surprise was Japan, where the Nikkei 225 price index rose +5.49% in September (we were long), leaving the index up 5.95% for the nine months of 2018. The main factor driving it up was the falling yen, which reached a new low for the year. A falling yen is positive for Japan’s many global companies, and it is likely that The Donald will not make Japan a trade war target. In addition, Shinzo Abe, who has been Prime Minister since 2012, seems set to win another term, meaning that expansionary policies will continue. (All figures are in the currency of each market.)

US share investors and US bond investors appear to be living in two different economies. Bond investors started 2018 by suffering the worst quarterly loss since 1994. Since then, they have watched nervously as the Federal Reserve raised cash rates again, the US government almost doubled its deficit, and core inflation crept steadily upward. The “US Average Hourly Earnings” chart below shows how wages growth is slowly accelerating, powered by the sectoral labour shortages implicit in a 3.9% unemployment rate. The yield on the benchmark US government 10-year bond is now over 3.0% again, and it is widely expected to hit 3.5% next year.

### US Average Hourly Earnings

Percentage year-on-year growth



Source: Bloomberg  
© FT

US share investors are serenely untroubled by the prospect of higher inflation and higher interest rates. All they can see is rising earnings for the S&P500, with the prospect of even more business-friendly policies from the Trump Administration. Equity markets do get blinkered from time to time – for example, when the S&P500 and the S&P/ASX200 reached new highs in October-November 2008 even though US fixed interest markets had begun to seize up in June 2008. Share investors will receive a rude awakening some day: perhaps from resurgent inflation, perhaps from the US-China trade war, perhaps from a Democrat victory in the mid-term elections on 6 November. The US housing sector is already going backwards. The Homebuilders sector of the S&P500 has fallen 21% in 2018 because housing starts are slowing and building approvals are declining. This is a normal downswing in the housing cycle, caused by higher building costs (due to shortages of skilled labour and key materials) and, higher mortgage interest rates, and worsening affordability (because of higher house prices).

Outside the US, there is no doubt that economic growth is slowing. As we repeat frequently, China’s size and resource consumption have made it the engine of growth in the emerging economies, and as the chart on the next page shows, the emerging economies are the source of most of the world’s growth.

It is worth noting that the entire Eurozone – 27 countries which make up the world’s largest economic bloc – is contributing less than 8% of world growth. Although the trade war with the US will knock less than one percentage point off China’s GDP growth rate (the current target is “about 6.5%”), the Chinese economy is already slowing down because the central government’s attacks on shadow banks have tightened credit



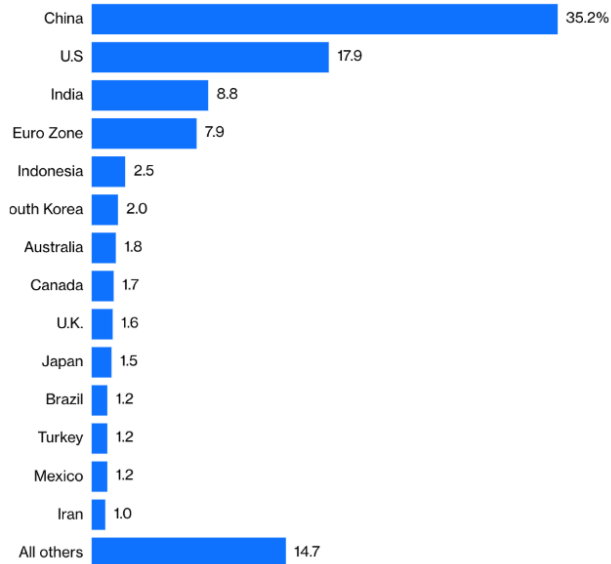
conditions. In recent months, as The Donald imposed his tariffs, Chinese authorities have been providing carefully targeted assistance to counteract the effects of the trade war, while trying not to pump up the economy again with more debt.

This is a delicate balancing act, and there is no guarantee that it will work. We still believe that a China

meltdown is unlikely, but the trade war is making the authorities' balancing act more and more difficult.

#### Growth Is Mostly an Emerging-Market Event

Country predicted contribution to global real gross domestic product, 2017-19



Consumer price inflation has also begun to move upward in China. Rising food prices are just the tip of the iceberg. Several elements of core inflation – consumer goods, transport, housing, and a broad range of services – are pressing upward, and this upward pressure will be reinforced by higher oil prices, the lower renminbi, and the impact of African Swine Fever. The latest CPI inflation figure is only 2.3% pa, but it may pass the government's target of 3.0% as early as next year.

These negative trends do not mean that the Chinese economy is on the brink of collapse, as the Trump Administration seems to think. They do mean that the Australian economy can expect little help from China.

In addition to the worsening trade war, the Australian share market suffered collateral damage from the ongoing domestic political problems. Investors 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 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). We shall see what the lasting impacts will be of the next Royal Commission.

An unwelcome complication for the global outlook is the continuing rise in oil prices. 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.

On top of the sanctions on Iran, 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 of USD\$100 per barrel is quite possible in the next few months, with negative consequences for global growth and inflation.

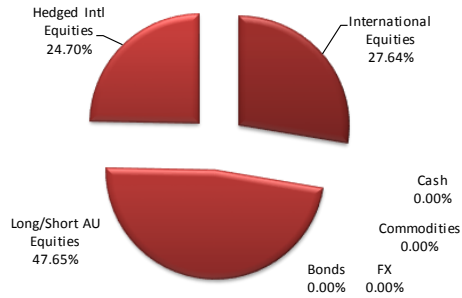
Our view of the immediate future is that the global economy is at a precarious point in time. US bond yields are rising (and will continue to) for the first time in a decade and this will have significant, material impacts on all global markets. We systematically and actively position the fund, and then monitor it every day to ensure that the strategy of the fund which has been robust since July 2014 continues to be adhered to. Our perspective of the remainder of 2018 is that we are grateful that our fund has the capacity to hedge positions and profit from shorting. We expect that the long-only, passive funds world is going to have a difficult time in the periods ahead, as we watch them go through and then down from the "peak" of the post GFC recovery.



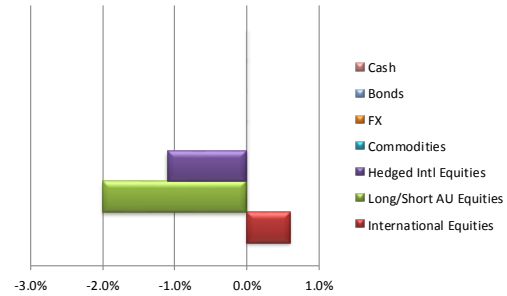
**UNDERLYING FUND DATA**

**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>	31-Aug-18	30-Sep-18	<b>ROR</b>	<b>COMMODITIES</b>	31-Aug-18	30-Sep-18	<b>ROR</b>
<b>EUROPE</b>				<b>Energy</b>			
Germany DAX (TR)	12364.1	12246.7	<b>-0.95%</b>	Crude Oil WTI (NYM \$/bbl) Continuous	69.80	73.25	<b>4.94%</b>
Switzerland SMI (PR)	8973.6	9088.0	<b>1.28%</b>	Brent Crude (ICE \$/bbl) Continuous	77.42	82.72	<b>6.85%</b>
STOXX Europe 600 (EUR)	382.3	383.2	<b>0.24%</b>	NY Harbor ULSD (NYM \$/gal) Continuous	2.24	2.35	<b>4.70%</b>
FTSE 100	7432.4	7510.2	<b>1.05%</b>	NY Harb RBOB (NYM \$/gal) Continuous	2.00	2.09	<b>4.44%</b>
France CAC 40	5406.9	5493.5	<b>1.60%</b>	Natural Gas (NYM \$/btu) Continuous	2.92	3.01	<b>3.16%</b>
FTSE MIB	20269.5	20711.7	<b>2.18%</b>	<b>Precious Metals</b>			
Netherlands AEX	558.4	549.6	<b>-1.58%</b>	Gold (NYM \$/ozt) Continuous	1206.70	1196.20	<b>-0.87%</b>
Belgium BEL 20	3740.7	3706.7	<b>-0.91%</b>	Silver (NYM \$/ozt) Continuous	14.56	14.71	<b>1.06%</b>
OMX Stockholm 30	1658.2	1662.4	<b>0.25%</b>	<b>Industrial Metals</b>			
Norway Oslo All-Share	1028.9	1069.1	<b>3.91%</b>	Aluminum (LME Cash \$/t)	2112.00	2011.50	<b>-4.76%</b>
Ireland ISEQ	6773.9	6522.4	<b>-3.71%</b>	High Grade Copper (NYM \$/lbs) Continuous	6019.00	6180.00	<b>2.67%</b>
Spain IBEX 35	9399.1	9389.2	<b>-0.11%</b>	Nickel (LME Cash \$/t)	13010.00	12480.00	<b>-4.07%</b>
Cyprus CSE General	73.7	72.6	<b>-1.53%</b>	Iron Ore 62% CN TSI (NYM \$/mt)	67.16	68.73	<b>2.34%</b>
<b>AMERICAS</b>				Zinc (LME Cash \$/t)	2504.00	2573.00	<b>2.76%</b>
S&P 500	2901.5	2914.0	<b>0.43%</b>	<b>Agricultural</b>			
DJ 30 Industrials	25964.8	26458.3	<b>1.90%</b>	Com (CBT \$/bu) Continuous	3.65	3.56	<b>-2.40%</b>
DJ 65 Composite Average	8707.6	8810.2	<b>1.18%</b>	Soybeans (CBT \$/bu) Continuous	8.44	8.46	<b>0.24%</b>
NASDAQ Composite	8109.5	8046.4	<b>-0.78%</b>	Wheat (CBT \$/bu) Continuous	5.46	5.09	<b>-6.69%</b>
Russell 1000	1610.7	1614.5	<b>0.24%</b>	Cotton #2 (NYF \$/lbs) Continuous	0.82	0.76	<b>-7.12%</b>
S&P TSX	16262.9	16073.1	<b>-1.17%</b>	Sugar #11 (NYF \$/lbs) Continuous	0.11	0.11	<b>5.66%</b>
Brazil Bovespa	76677.5	79342.4	<b>3.48%</b>	<b>Indices</b>			
Argentina Merval	29293.5	33461.8	<b>14.23%</b>	GS Commodity (CME) Continuous	468.70	486.20	<b>3.73%</b>
Mexico IPC	49547.7	49504.2	<b>-0.09%</b>	PowerShares DB Commodity Index Tracking Fund	17.38	17.97	<b>3.39%</b>
<b>ASIA</b>				db x-trackers SICAV - db x-trackers DB COMMODITY BO	15.27	15.55	<b>1.83%</b>
S&P ASX 200	6319.5	6207.6	<b>-1.77%</b>	<b>10 YEAR SOVEREIGN YIELDS</b>			
Nikkei 225	22865.2	24120.0	<b>5.49%</b>	US	2.86%	3.05%	<b>0.20%</b>
Hang Seng	27888.6	27788.5	<b>-0.36%</b>	UK	1.46%	1.57%	<b>0.10%</b>
Korea KOSPI	2322.9	2343.1	<b>0.87%</b>	Europe	0.36%	0.47%	<b>0.11%</b>
FTSE Strait Times	3213.5	3257.1	<b>1.36%</b>	Australia	2.57%	2.67%	<b>0.10%</b>
Taiwan TAIEX	11063.9	11006.3	<b>-0.52%</b>	Belgium	0.72%	0.84%	<b>0.12%</b>
New Zealand NZX 50 (TR)	9313.2	9351.1	<b>0.41%</b>	Canada	2.27%	2.42%	<b>0.15%</b>
Shanghai SSE Composite	2725.3	2821.4	<b>3.53%</b>	Denmark	0.32%	0.39%	<b>0.07%</b>
China Shenzhen A Share	1517.3	1507.1	<b>-0.67%</b>	France	0.70%	0.81%	<b>0.11%</b>
India S&P BSE SENSEX	38645.1	36227.1	<b>-6.26%</b>	Germany	0.36%	0.47%	<b>0.11%</b>
FTSE Bursa Malaysia KLCI	1819.7	1793.2	<b>-1.46%</b>	Greece	4.30%	4.14%	<b>-0.17%</b>
Indonesia JSX	6018.5	5976.6	<b>-0.70%</b>	Ireland	0.87%	0.99%	<b>0.12%</b>
<b>FOREIGN EXCHANGE</b>				Italy	3.21%	3.18%	<b>-0.03%</b>
AUD/USD	0.718	0.723	<b>0.65%</b>	Japan	0.11%	0.12%	<b>0.01%</b>
EUR/USD	1.161	1.168	<b>0.63%</b>	Netherlands	0.46%	0.58%	<b>0.11%</b>
JPY/USD	110.902	112.943	<b>1.84%</b>	New Zealand	2.56%	2.61%	<b>0.05%</b>
GBP/USD	1.296	1.309	<b>0.94%</b>	Norway	1.76%	1.91%	<b>0.15%</b>
CHF/USD	1.033	1.028	<b>-0.42%</b>	Portugal	1.91%	1.89%	<b>-0.02%</b>
USD/CAD	0.766	0.775	<b>1.12%</b>	Spain	1.47%	1.51%	<b>0.04%</b>
EUR/GBP	0.896	0.893	<b>-0.31%</b>	Sweden	0.52%	0.63%	<b>0.11%</b>
EUR/AUD	1.617	1.616	<b>-0.03%</b>	Switzerland	-0.07%	0.07%	<b>-0.14%</b>
USD/CHF	0.969	0.982	<b>1.32%</b>				
GBP/AUD	1.802	1.805	<b>0.16%</b>				
CBOE Volatility Index	12.86	12.12	<b>-5.75%</b>				

ROR = Rate of Return

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