



MONTHLY PERFORMANCE REPORT

November 2018

The portfolio returned -3.56% for the month, compared with -2.21% 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 risk stocks therefore avoiding the chance of permanent loss of investor capital.

GENERAL INFORMATION

Base Currency: AUD

Entity Type: Strategy

PMs: Neill Colledge

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

PERFORMANCE (Inception JUL-2018)	Arminius Capital ALCE Strategy
1 Month	-3.56%
3 Months	-13.73%
Calendar YTD	N/A
1 Year	N/A
3 Years	N/A
5 Years	N/A
Cumulative since Inception July 2018	-12.74%

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%	-7.46%	-3.56%	-	-	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 -2.21% in November. This was worse than the falls in most global markets, including the US, China, and Japan. The fall in the Australian market was partly triggered by global anxieties over the US-China trade war, Brexit, slowing US growth, slowing global growth, rising US interest rates, etcetera, but investors are also worried about domestic issues such as the size of the coming fall in house prices, the possible removal of negative gearing, the

The Fund fell by -3.56% in October, 135 basis points more than its benchmark. Nearly half of the stocks in the portfolio rose during the month, but four large falls caused the portfolio as a whole to underperform – Lendlease (-28%), Coca-Cola Amatil (-13%), Woodside (-11%), and the health insurer NIB (-10%). We consider that the companies' underlying fundamentals have not deteriorated as much as the price falls suggest, therefore we will continue to hold the stocks. The Fund's largest holdings are Westpac, ANZ, Macquarie Bank, Woodside, and Spark. (Wesfarmers fell out of the top five because of the Coles spin-off)

The portfolio is cheaper than the market, with a prospective P/E of 12.5 and yield of 5.7% for FY2019. Consensus forecasts for the S&P/ASX200 currently imply a P/E of 14.0 and yield of 5.1%.

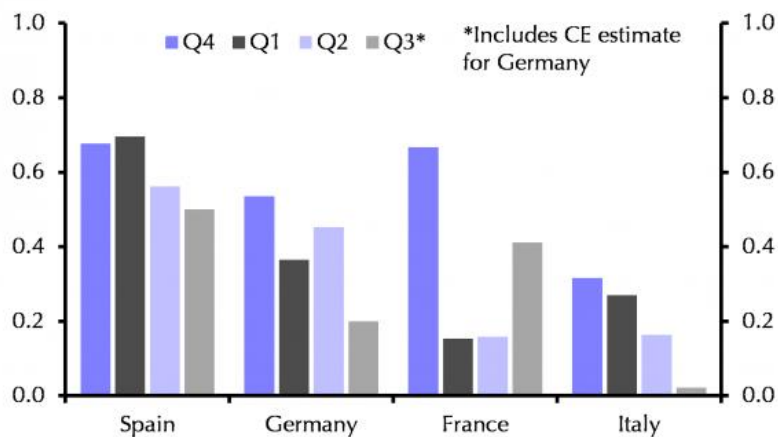


OUTLOOK

The last three months in Australian share market have been characterized by a series of negative surprises across most sectors, and investors have responded by aggressive selling which has cut share prices by 10% or more. Earnings downgrades have outnumbered earnings upgrades by five to one. In our opinion, the sharp price falls are an over-reaction, especially where dividend forecasts are not changed and there is no new unquantifiable risk such as a class action.

The September quarter GDP figure threw some light on why there have been so many downgrades. Quarter-on-quarter growth came in at 0.3%, which was half of the consensus expectation. Household income growth and spending were weak, and business investment fell by 1.9%, led down by a 7.6% fall in resources investment. The low September quarter figure has forced most GDP growth forecasts for FY2019 down below 3.0%.

Slowing GDP growth is not limited to Australia, as the chart below shows:



GDP growth in European countries has mostly fallen short of the optimistic forecasts which were prevalent at the start of the year. Japan's GDP actually fell in the September quarter by -0.3%, making the year-on-year GDP growth a dismal +0.4%. As we have noted before, China's GDP growth continues to slow, evidenced by November's data, such as CPI inflation dropping to 2.2% and import growth sliding to only 3.0% year on year. Even in the US, leading indicators such as housing and car sales suggest that economic growth in 2019 will be much lower than 2018.

In this sort of environment, it is hard to see how the Australian share market will recover. Our proprietary quantitative models indicate the S&P/ASX200 is neither cheap nor expensive at present. We think that it is likely to get cheaper before it gets expensive.



AUSTRALIAN FIFTY LEADERS – MONTHLY DATA

Code	Name	Sector	31-Oct-18	30-Nov-18	ROR	Code	Name	Sector	31-Oct-18	30-Nov-18	ROR
AGL	AGL Energy Limited	Utilities	\$18.00	\$18.81	4.50%	NAB	National Aust. Bank	Financials	\$25.21	\$24.64	-2.26%
AMC	Amcor Limited	Materials	\$13.30	\$13.43	0.98%	NCM	Newcrest Mining	Materials	\$20.61	\$20.75	0.68%
AMP	AMP Limited	Financials	\$2.47	\$2.43	-1.62%	OSH	Oil Search Limited 10 Toea	Energy	\$7.77	\$7.31	-5.92%
ANZ	ANZ Banking Group Limited	Financials	\$25.93	\$26.80	3.36%	ORI	Orica Limited	Materials	\$17.16	\$17.50	1.98%
APA	APA Group Units FP Stapled Securities	Utilities	\$9.60	\$8.80	-8.33%	ORG	Origin Energy	Energy	\$7.29	\$6.48	-11.11%
ALL	Aristocrat Leisure	Consumer Discretionary	\$26.50	\$23.66	-10.72%	QAN	Qantas Airways	Industrials	\$5.47	\$5.96	8.96%
ASX	ASX Limited	Financials	\$59.17	\$60.29	1.89%	QBE	QBE Insurance Group	Financials	\$11.32	\$11.32	0.00%
AZJ	Aurizon Holdings Limited	Industrials	\$4.20	\$4.21	0.24%	RHC	Ramsay Health Care	Health Care	\$56.22	\$54.22	-3.56%
BHP	BHP Billiton Limited	Materials	\$32.21	\$30.69	-4.72%	RIO	RIO Tinto Limited	Materials	\$76.40	\$73.28	-4.08%
BXB	Brambles Limited	Industrials	\$10.62	\$10.27	-3.30%	STO	Santos Limited	Energy	\$6.64	\$5.52	-16.87%
CTX	Caltex Australia	Energy	\$28.26	\$27.53	-2.58%	SCG	Scntre Group Stapled Securities	Real Estate	\$3.98	\$3.90	-2.01%
COH	Cochlear Limited	Health Care	\$177.58	\$169.28	-4.67%	SHL	Sonic Healthcare	Health Care	\$22.55	\$22.80	1.11%
CBA	Commonwealth Bank	Financials	\$69.23	\$71.23	2.89%	S32	SOUTH32 Limited	Materials	\$3.62	\$3.10	-14.36%
CPU	Computershare Limited	Information Technology	\$19.77	\$18.15	-8.19%	SGP	Stockland Units/ Stapled Securities	Real Estate	\$3.61	\$3.64	0.83%
CSL	CSL Limited	Health Care	\$188.00	\$177.40	-5.64%	SUN	Suncorp Group Limited	Financials	\$14.01	\$13.32	-4.93%
DXS	Dexus Units FP Stapled	Real Estate	\$10.20	\$10.46	2.55%	SYD	SYD Airport FP Stapled Securities US Pr	Industrials	\$6.44	\$6.80	5.59%
FMG	Fortescue Metals Group	Materials	\$4.00	\$4.00	0.00%	TLS	Telstra Corporation	Telecommunication Services	\$3.08	\$2.93	-4.87%
GMG	Goodman Group Stapled Securities FP	Real Estate	\$10.38	\$10.25	-1.25%	TCL	Transurban Group Ordinary Shares/Unit	Industrials	\$11.34	\$11.39	0.44%
GPT	GPT Group Stapled Securities FP	Real Estate	\$5.16	\$5.27	2.13%	TWE	Treasury Wine Estate	Consumer Staples	\$15.12	\$14.15	-6.42%
IAG	Insurance Australia	Financials	\$6.83	\$7.28	6.59%	URW	Unibailrodawestfield Chess Depository In	Real Estate	\$12.77	\$11.87	-7.05%
JHX	James Hardie Indust Chess Depository Int	Materials	\$18.79	\$16.00	-14.85%	VCX	Vicinity Centres Ordinary/Units FP Stapl	Real Estate	\$2.65	\$2.67	0.75%
LLC	Lendlease Group Unit/ Stapled Securities	Real Estate	\$17.60	\$12.66	-28.07%	WES	Wesfarmers Limited	Consumer Staples	\$33.45	\$31.59	-5.57%
MQG	Macquarie Group Limited	Financials	\$117.20	\$114.42	-2.37%	WBC	Westpac Banking Corp	Financials	\$26.85	\$25.97	-3.28%
MPL	Medibank Private Limited	Financials	\$2.79	\$2.42	-13.26%	WPL	Woodside Petroleum	Energy	\$34.85	\$31.06	-10.88%
MGR	Mirvac Group Stapled Securities	Real Estate	\$2.17	\$2.19	0.92%	WOW	Woolworths Group Limited	Consumer Staples	\$28.43	\$28.92	1.72%

ROR = Rate of Return

