ARMINIUS CAPITAL GMMA FUND

MONTHLY PERFORMANCE REPORT
February 2019

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: 30th 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: Sargon CT Pty Ltd

Prime Broker: Interactive Brokers *(for the underlying fund).*

Auditors: Grant Thornton

NAV: $ 11,973,739.62

Unit Price: 0.8292

INVESTMENT MANAGER

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

DISTRIBUTION DETAILS

Arminius Capital Management
Level 6, 10 Eagle St
Brisbane City
QLD 4000
AUSTRALIA
+61 7 3102 5775
info@arminiuscapital.com.au

The Fund returned +0.10% for the month, compared with -0.10% for the HFRX Absolute Return Index. The Fund has achieved its returns with lower volatility than the S&P/ASX 200 since inception July 2014, as a consequence of our risk averse strategies.

Two months into 2019, our models indicate that all major equities markets (the US, Europe & Japan) have been significantly overbought from December's correction. All major markets' recent rises have no basis in any fundamentals ie. Either company earnings or the macro backdrop. We expect the US dollar and US interest rates to both continue appreciating in 2019. This implies an outlook of 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	**0.10%**	-0.10%	4.86%	3.16%	5.19%
3 Months	**-2.16%**	0.15%	2.35%	1.71%	8.85%
Calendar YTD	**0.16%**	1.13%	4.01%	10.52%	9.26%
1 Year	**-15.13%**	0.18%	-15.24%	0.56%	2.54%
2 Years	**-10.25%**	3.62%	1.92%	8.00%	-7.31%
Cumulative Since Inception NOV 2016	**-7.45%**	**4.08%**	**1.99%**	**22.82%**	**16.01%**

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).

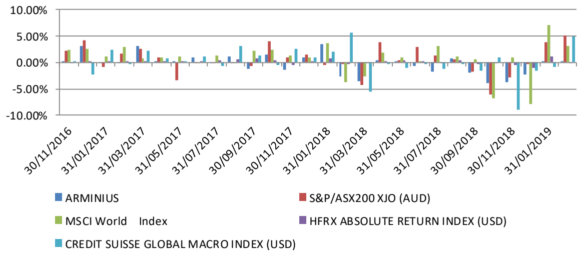
Arminius Capital GMMA Fund (Inception NOV 2016) Returns are net of fees

%	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%	-3.93%	-3.75%	-2.32%	-14.65%
2019	0.06%	0.10%	-	-	-	-	-	-	-	-	-	-	0.16%

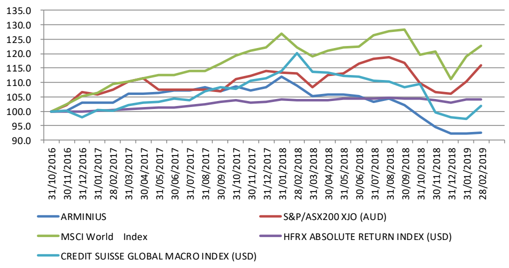
FUND OBJECTIVES: The Arminius Capital GMMA Fund invests by purchasing units in an underlying wholesale hedge fund, being the "**Arminius Capital ALPS Fund**", which provides investors with exposure to all asset classes in the global macro universe. As such, there may be some degree of difference between 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 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: ***IN THE COMMENTARY TO FOLLOW, ALL DATA REFERENCES TO POSITIONS, HOLDINGS, WEIGHTINGS OR EXPOSURE ARE DATA OF THE UNDERLYING ARMINIUS CAPITAL ALPS FUND INTO WHICH THE ARMINIUS CAPITAL GMMA FUND INVESTS.***

The Arminius Capital GMMA Fund returned +0.10% in February, performing better than the HFRX Absolute Return Index which fell -0.10%. We have outperformed the Credit Suisse Global Macro Index across the past 12 months. The fund adopted a risk-off position (via systematic draw-down control methodology) for the first 2 months of calendar 2019 with significant allocations to low risk assets. We expect that this positioning will start to change through March with increased allocation to risk-on short positions, as global asset prices have risen at higher than historical averages through January and February 2019.

Whilst the outlook for both (i) companies' earnings (EPS) and (ii) global GDP forecasts have declined significantly in the first 2 months of the year, global equity markets managed to increase some +11% (MSCI World). Our models view this pace and level of appreciation as unwarranted and highly susceptible to imminent reversion.

The fund held only a very limited number of risk positions, but they mostly all performed well in February; a long position in MFG-AU returned +27.9%, a short position in SKT-AU returned 8.0%. The fund's other positive returns were generated by interest received from holding low risk assets.

The S&P500 price index rose by 2.9% in February. The US government shutdown came to an end, company profits for the December quarter were mostly satisfactory, and prospects improved for a truce in the US-China trade war. The Stoxx Europe 600 price index advanced 3.9%, and Japan's Nikkei moved up 2.9%. Tech stocks have led the US market up this year. After the first two months of 2019, the NASDAQ was up 13.5%, compared to 11.0% for the S&P500.

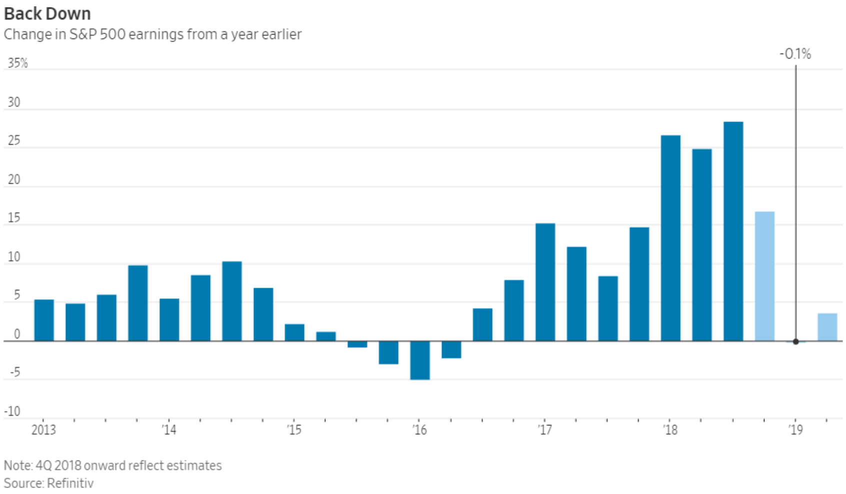
China's share markets had barely gained ground in January, but during February the Shanghai Composite jumped 13.8% and the Shenzhen Composite leaped 21.3%, including a 5% spurt in both markets on 25 February. Although an end to the US-China trade war would be very positive for many Chinese companies, the rise also extended to sectors which are minimally affected. The surge may have been partly due to hopes of renewed monetary stimulus, but it might also have been driven by a revival of margin lending for share purchases – regulators noted that they had noticed more occurrences of illegal "backdoor financing".

In Australia, the S&P/ASX200 rose by 5.1% in February, beating the resurgent US share market. The results season was better than feared, particularly among the large caps, but investors rewarded many stocks with higher share prices simply because they met market expectations and re-affirmed their full-year guidance. There were more negative surprises than positive ones, and the aggregate EPS forecast for FY2019 was downgraded further to 7%. Resource stocks were the stars of the show, and will record EPS growth of 12% plus for FY2019. Bank sector earnings will be flat, REITs will grow by 4%, and other industrials will average less than 3%.

GLOBAL INVESTMENT OUTLOOK

We remain cautious about the global economy in 2019. US growth in the December 2018 quarter slipped to 2.6% year-on-year, continuing its decline as the sugar hit of the Trump tax cuts wears off. GDP growth was 4.2% in the June 2018 quarter, then fell back to 3.4% in the September 2018 quarter. The current quarter will be weaker again, because of bad weather, the government shutdown, and disappointing retail sales.

Chart 1


Back Down

Change in S&P 500 earnings from a year earlier

Note: 4Q 2018 onward reflect estimates

Source: Refinitiv

Chart 1 shows how the Trump tax cuts flowed through to the quarterly earnings of the S&P500 companies. Most of the extra profits went into increased share buybacks and dividends. Corporate capex rose a little, but has not translated into a lasting stimulus for the real economy. Earnings in the March quarter are now expected to be slightly negative – the first negative quarter since June 2016. Forecasts for the rest of 2019 are still positive, but it should be remembered that analysts are always over-optimistic, so downgrades are likely.

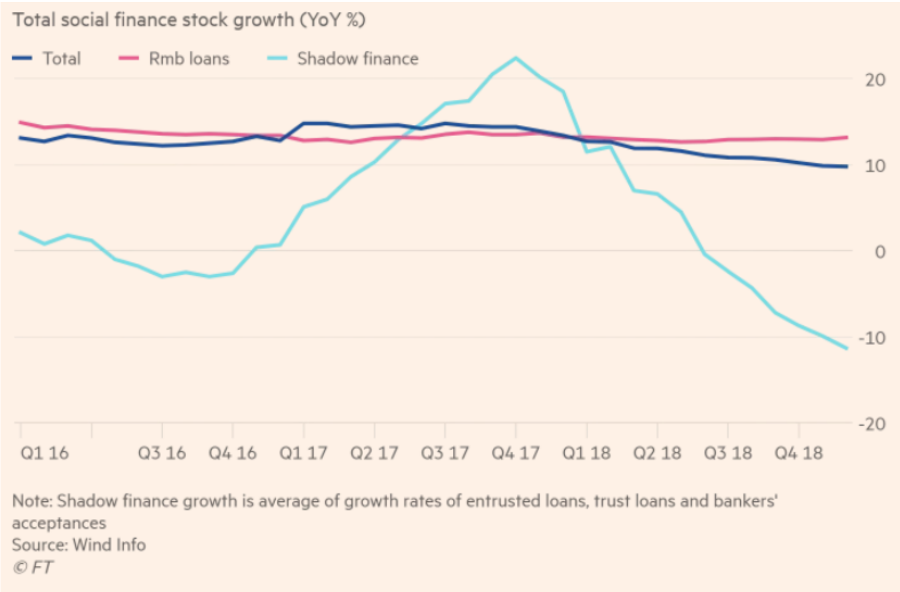
Recent comments from both the US and China suggest that they will soon reach a settlement in the trade war. While this would be good news, it seems to have been already priced in to the US and Chinese share markets. What has emerged, however, is that the settlement may benefit the US at the expense of China's other trading partners. It is said that China will commit to reducing its surplus in goods trade with the US by buying a lot more US exports. This could mean, for example, that China will buy LNG and agricultural goods from the US rather than from Australia.

A settlement in the US-China trade war will not solve the three persistent problems in the global economy:

- Slowing GDP growth in China, contributing to slowing growth in the global economy
- Falling profits in the US, China, Europe, and elsewhere
- Excessive gearing in many US corporate balance sheets.

Recent economic releases have confirmed our view that the China slowdown is only partly due to the trade war. Much more important factors are the retreat in consumer spending, the effects of over-capacity in heavy industry, and the controls on the shadow banking sector (which is the main lender to the private sector).

Chart 2


Total social finance stock growth (YoY %)

Note: Shadow finance growth is average of growth rates of entrusted loans, trust loans and bankers' acceptances

Source: Wind Info

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Chart 2 shows how successful the Chinese authorities have been in controlling the shadow banking sector, where loan growth had rocketed off in 2017. The unintended consequence was that private sector credit fell sharply, because the small banks and the shadow banks did the most lending to the private sector, whereas the big banks preferred the safer alternative of lending to governments and state-owned enterprises (SOEs). Various commentators have claimed that the slowdown in China will force the authorities to create another large fiscal or monetary stimulus. We believe that such a move would be an act of desperation, because it would put China back on the road of ever-increasing debt, which it has just stepped off. In recent weeks, officials from the Politburo down have repeated that monetary policy would remain "prudent and stable" and there would not be another massive stimulus to flood the economy with credit. Instead, the authorities have announced several targeted programs, such as assistance for tariff-affected sectors, support funds for listed companies, and tax cuts for individuals and small business.

We note that recent trends suggest that problems are building in China's corporate bonds, small banks, and consumer loans. We think that a crisis is likely in the next two years. The reasoning behind our views is detailed in the *Media >> Geld Zug Commentaries* section of the Arminius website, in the article "Preparing for the China crisis" http://arminiuscapital.com.au/preparing-for-the-china-crisis/

The US and China may be slowing down, but at least they are still growing. The same cannot be said of Europe. The Italian economy fell into recession in the December 2018 half-year, with two quarters of negative growth. The German economy just missed recession in this period, with one negative quarter and one flat quarter. France is grappling with the "yellow vests" protests, while the UK may be headed off the cliff of a "no-deal" Brexit. European share markets remain cheap, but there is no sign of any upside.

The Australian share market has made up most of what it lost in the December quarter, but to resume the bull market the S&P/ASX200 would have to pass its 2018 record of 6352, set on 30 August. In view of the upcoming Federal election, we think that broad gains are unlikely. Although favourable commodity prices could power the resources sector for a few more months, we stick to our forecast that the slowdown in the Chinese economy will adversely impact global growth.

STOCK MARKETS ARE RISING WITH UNSUPPORTED FUM FLOWS

Global equity markets as measured by the MSCI Global Index consist of approx.. $40 Trillion worth of developed country equities. It has risen 11% year to date, as has the US S&P500, which gives it the "best start to year" award since 1991. This, despite markets having experienced sustained outflows of FUM from both passive (ETFs) and active funds. [i]

Chart 3

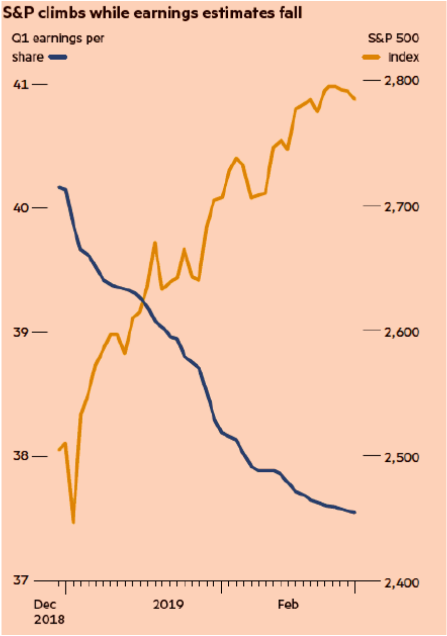
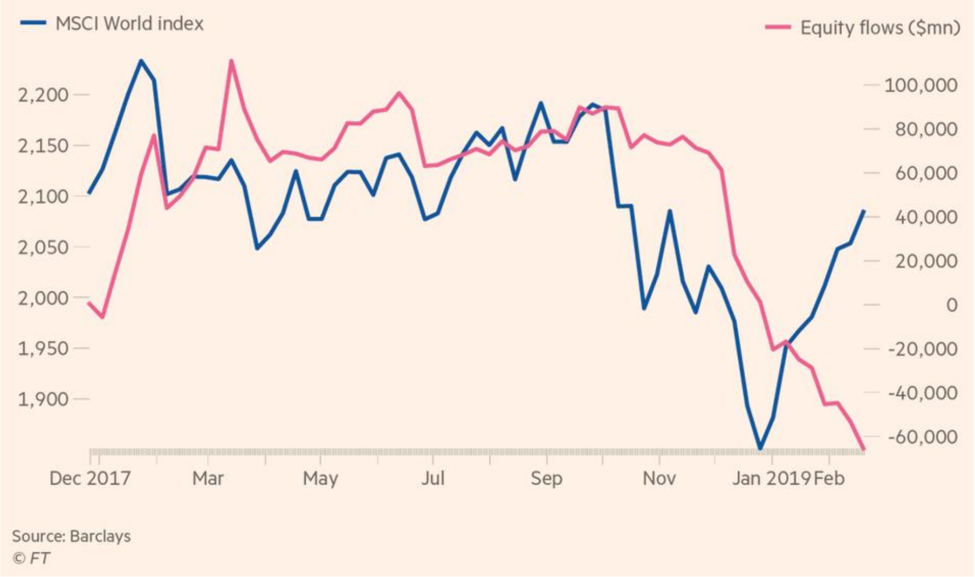


Chart 3 explains the high level of low risk assets that our models suggested we hold in January and February. US consensus EPS forecasts have fallen -6.6% since 31st December 2018. A fall of -6.6% in 8 weeks is far higher than long term averages. Not only are companies expected to earn less, the US dollar is stronger creating a drag on many companies; as discussed above the US-China trade war is still being fought; global GDP forecasts at the end of February have been materially lowered since December 2018. The meteoric climb of global equities since 1st January 2019 is increasingly being referred to as "**the flowless recovery**". Simply put, while the price level of the S&P500 has risen some 11% YTD, the amount of physical money (quantum) that has been allocated to global equities that had been in ETFs and managed funds has in fact **materially decreased** from 1st January 2019 to current date.

Historically it is very hard to have sustainable increases in price levels of indices unless the increase in prices is accompanied by increased flows of physical funds into those assets. $1 million worth of Apple shares changing hands at 5% higher than the price Apple was last week does not cause markets to continue to appreciate as much as if $10 billion worth of Apple shares had changed hands at a 5% higher price than it was last week. We expect that in time, the reality of the equity flows as shown in Chart 4 will lead global equities to track downwards.

Chart 4



Source: Barclays
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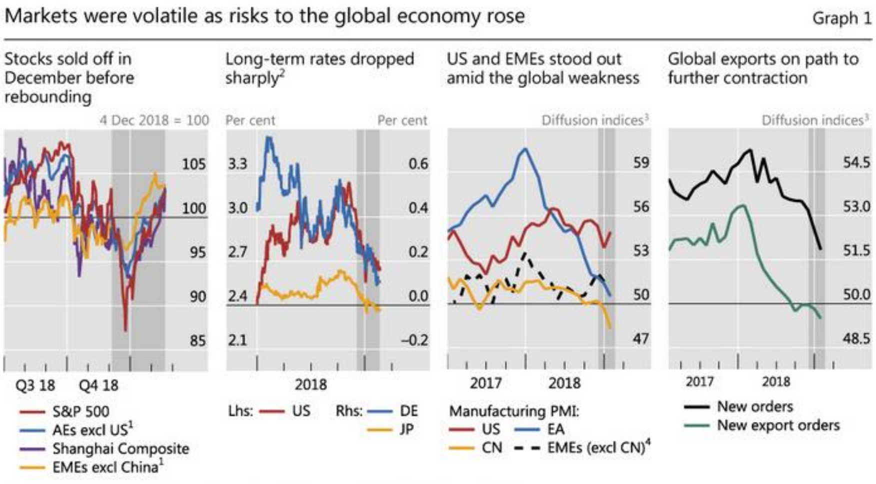
Comments from people such as Jamie Dimon, JP Morgan CEO, at the company's quarterly earnings call on 15th January 2019 of "***I don't pay much attention to short term turmoil – I honestly couldn't care less***" are fine when market dislocations (ie. corrections) occur without basis in any fundamentals, but our view at the time of the 4th quarter 2018 market correction was that it was in fact ***quite*** representative of ruptures appearing in markets. Despite equity markets rallying amazingly strongly since 31st December 2018, we believe that the recent EPS downgrades and GDP growth downgrades of the past 8 weeks are indeed worth Mr Dimon's attention.

As the BIS stated in February, global exports continue to accelerate their decline (far right graphic in Chart 5), even at a time when long term interest rates have show stubborn resistance and stayed low – thereby implying low future growth rates in those respective economies (2nd from left graphic in Chart 5).

Chart 5



The shaded areas indicate the review period, 5 December 2018 to 19 February 2019.

[1] Simple average across country stock indices in local currency. [2] Based on 10-year government bond yields. [3] A value of 50 indicates that the number of firms reporting business expansion and contraction is equal; a value above 50 indicates expansion of economic activity. [4] For EMEs, weighted average based on the GDP and PPP exchange rates of BR, IN, MX, RU and TR.

Sources: Bloomberg; Datastream; IHS Markit; national data; BIS calculations.

© Bank for International Settlements

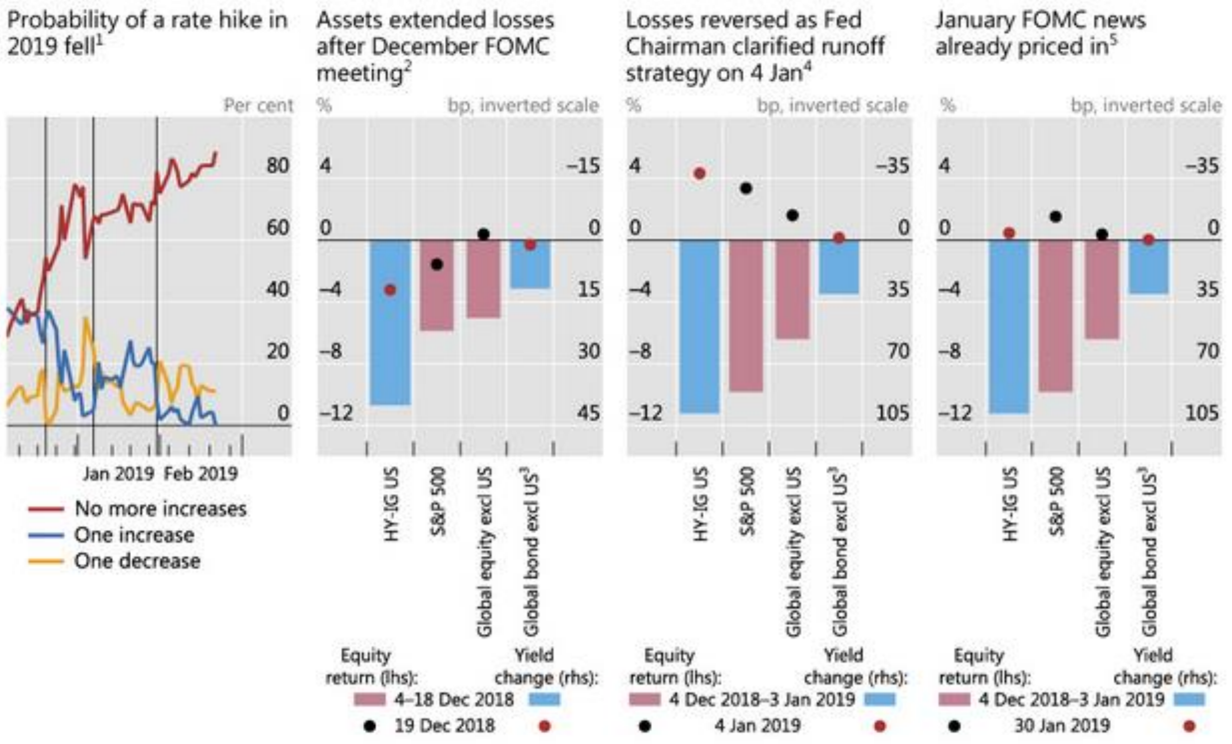
Even with the soothing tone of the Chairman of the US Federal Reserve in December 2018, it didn't assuage markets until he released another press note to market on 4th January 2019 which emphasised in stronger words (as far as Fed press releases go) that the "Fed Put" wasn't going to be revoked anytime soon. Our continued concern about the markets' perpetual reliance on the central bank riding to the rescue is the length of this current bull market. Historically, prior to the 1930s bull markets lasted 6 months. Since the Second World War that length has been extended to 4 years. Our current experiences with bull markets are around 8 years.

Given the demographic composition of those who are currently working in the financial services industry ie. Fund managers, asset allocators, financial advisors, stock brokers; more and more of the "old hand" are exiting the workforce, leaving many of the current market participants being workers who have never experienced a truly brutal bear market. Given their relatively limited frame of reference, what the "younger guard" have come to know as the "Fed Put" seems as natural a self-righting market keel as is the oxygen they breathe. As Chart 6 refers to in its 3rd graphic of BIS speak "*Losses reversed as Fed Chairman clarified runoff strategy*". Meaning, Jay Powell had to speak to the market again in early January "You're not listening to me – about what I said in December, it's all going to be ok guys because we're the Fed, ok got it?". This reminds us of the old adage that everything is working perfectly until the moment its not.

Chart 6

Accommodative policy outlook helped lift asset prices

Graph 6


Probability of a rate hike in 2019 fell[1]

Assets extended losses after December FOMC meeting[2]

Losses reversed as Fed Chairman clarified runoff strategy on 4 Jan[4]

January FOMC news already priced in[5]

[1] Federal funds future-implied odds of 25 basis point rate increase or decrease for 2019; December 2019 contract; over the review period (5 December 2018 to 19 February 2019). [2] 19 December 2018. [3] Simple average of changes in HY–IG yield spreads for JPMorgan CEMBI indices and Europe Merrill Lynch indices. [4] Federal Reserve Chairman remarks that balance sheet unwinding would be flexible if necessary. [5] 30 January 2019.

Sources: Bloomberg; Datastream; ICE BofAML indices; JPMorgan Chase; BIS calculations.

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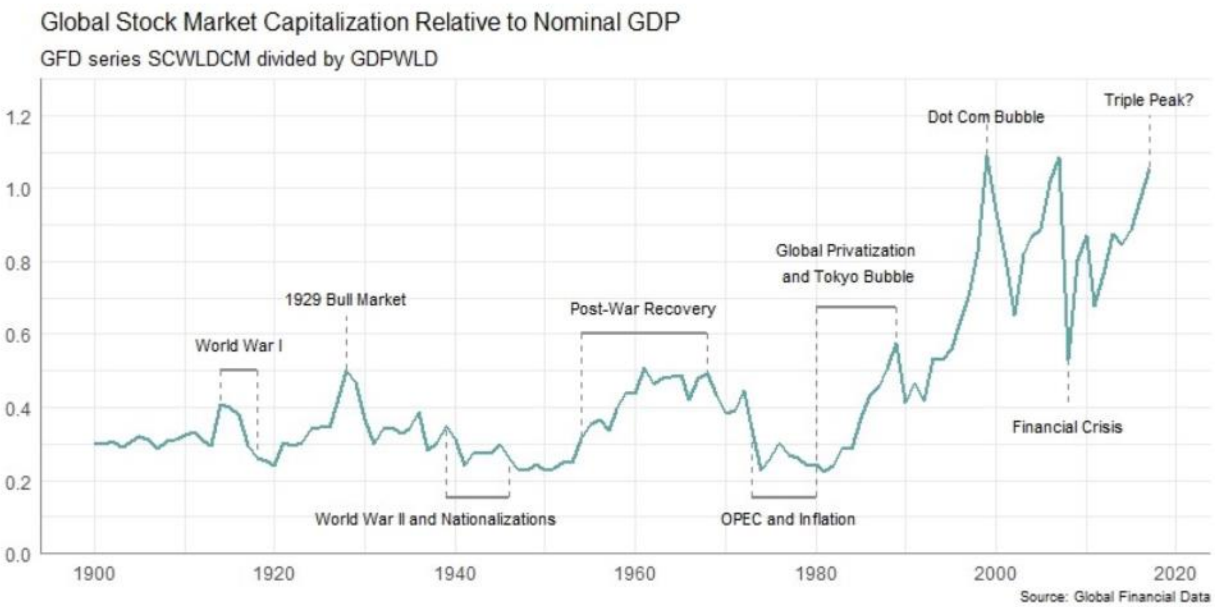
Chart 7


Global Stock Market Capitalization Relative to Nominal GDP
GFD series SCWLDCM divided by GDPWLD

World War I

1929 Bull Market

Post-War Recovery

Global Privatization and Tokyo Bubble

Dot Com Bubble

Triple Peak?

World War II and Nationalizations

OPEC and Inflation

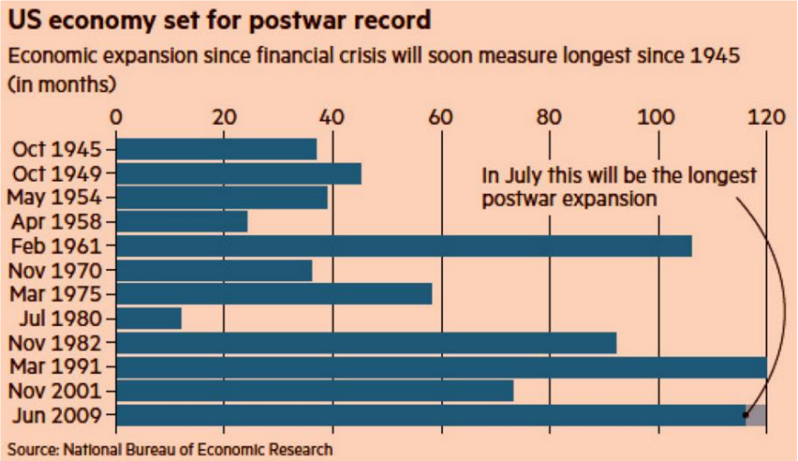
Financial Crisis

Source: Global Financial Data

One of Warren Buffet's favourite metrics to compare how far the US stock market is over or under valued, is to compare it to the size of the US economy. Berkshire Hathaway's stock price has twice had drawdowns of a colossal circa. -50% (1998-2000 was -49%, 2007-2009 was -51%) and twice had drawdowns of almost -40% (1987 was -37% as too was the period 1989-1990 of -37%). [ii] This is why the stock has volatility of approx. 24.8% as the company had effective leverage of 1.64 times in the period from 1976 to 2011.[iii]

Using the metric of the relative size of an economy vs a listed vehicle which runs businesses that largely operate in the real economy, has merit. This is not to say that the argument that, given the asset composition of Berkshire Hathaway in 2019, the company is now largely a managed fund with some PE (private equity) bolted on, is not without merit. The fact that Buffet has, in his most recent letter to shareholders decided to cease reporting the company by per-share book value supports this; he blames being forced by GAAP accounting rules [iv] to report the company's most recent reduction in the amount of unrealized capital gains in their "investment holdings". Chart 7 further reinforces the point that stock (not "asset") prices at current levels are, once again, far outstripping the contribution that real goods & services are making to the real economy. This ratio was stable from the early 1900s until the early 1980s, when a large disconnect in the ratio began.

Chart 8


US economy set for postwar record
Economic expansion since financial crisis will soon measure longest since 1945 (in months)

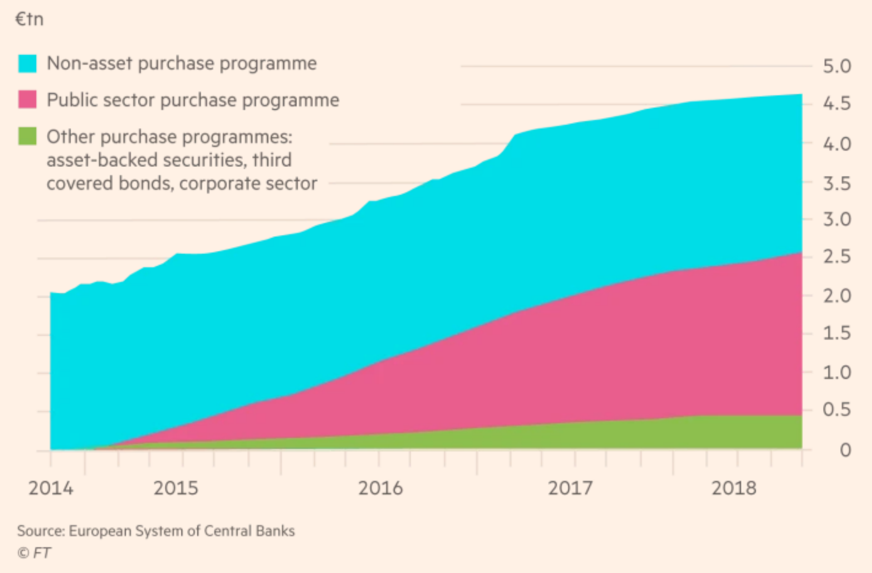
In July this will be the longest postwar expansion

Source: National Bureau of Economic Research

Now, since 1st January 2019 we have witnessed an 11% rise in global equities while **company earnings have been downgraded** and **global GDP growth has been downgraded**. When Charts 7 and 8 are viewed in conjunction with Shiller's well publicised CAPE ratio, in view of the context of recent GDP and EPS revisions downward, we question how the global equities markets see an 11% rise in 8 weeks has any basis in any form of fundamentals.

EUROPE

Chart 9



Source: European System of Central Banks
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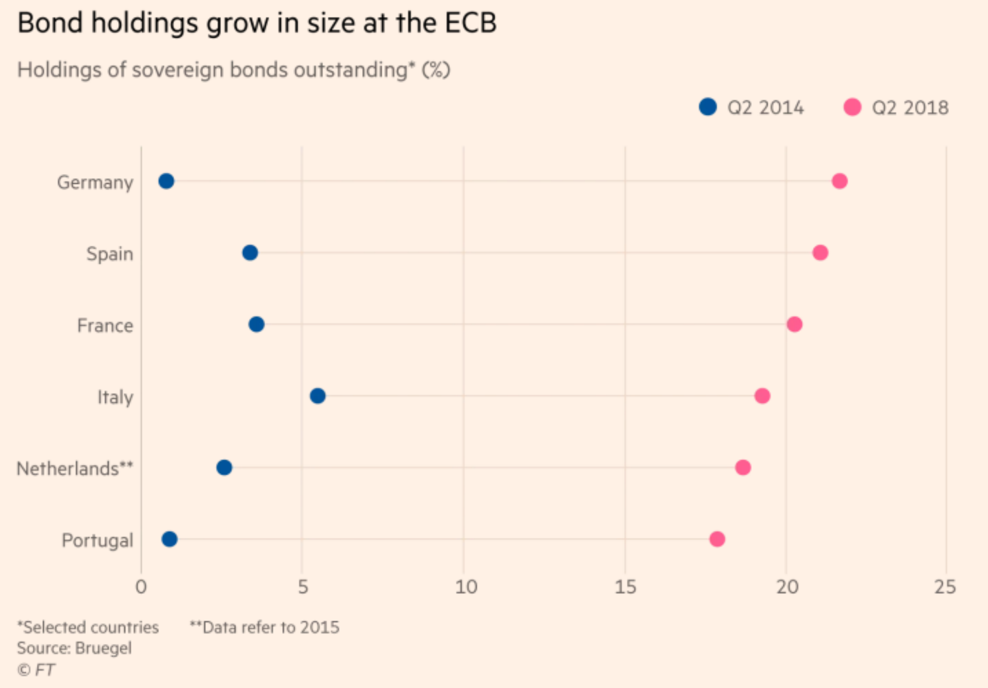
Despite having ceased the *expansion* of its EUR 2.6 Trillion quantitative easing programme in December 2018, the ECB remains struggling to normalise a level of monetary policy to foster economic growth in 28 economies as diverse in capability ranging from Germany to Greece. We italicise "*expansion*", as you see in Chart 9 that the program has begun to taper off, yet the total has almost doubled even from 2014.

Chart 10



*Selected countries **Data refer to 2015
Source: Bruegel
© FT

Mario Draghi will this year most likely depart as head of the ECB having never raised interest rates for the entirety of his 8 year tenure. His departing report card will glumly show that his own institution's economic forecasting team have downgraded EU GDP from 1.7% to 1.1% for CY2019. To downgrade one's expectations for GDP by over one-third (-35%) is quite material. Europe appears to be stuck in "pervasive uncertainty" (Mario's own words) which has led to an economic environment of (i) low growth (ii) low inflation (iii) negative deposit rates…yet with (iv) huge levels of seemingly endless liquidity – provided of course by the ECB, see Chart 10. We wonder if Europe is attempting to reinvent itself to be known as the "Land of the Rising Croissant & Espresso" – because those list of economic conditions are beginning to make Europe sound an awful lot like **another Japan**.

To be the head of an institution whose job is to foster accommodative economic conditions so that growth can ensue, and yet to have **__not raised rates even once__** since the GFC, is a breath-takingly mediocre laurel upon which the man, who was once referred to as "Super Mario", will rest forever.

CHINA

2018 saw car sales in China fall for the first time in 28 years. The auto sector represents approx. 5% of China's GDP and in 2018 they only sold 23.8 million vehicles - China represents some 30% of the global car market - so these numbers have been felt from afar by European carmakers. Property developers who in previous years demanded a 30% downpayment, are now happy to see a 10% deposit. The country's 1.4 billion consumers that have accounted for approx. 30% of world growth for the past 10 years is now undeniably slowing down.

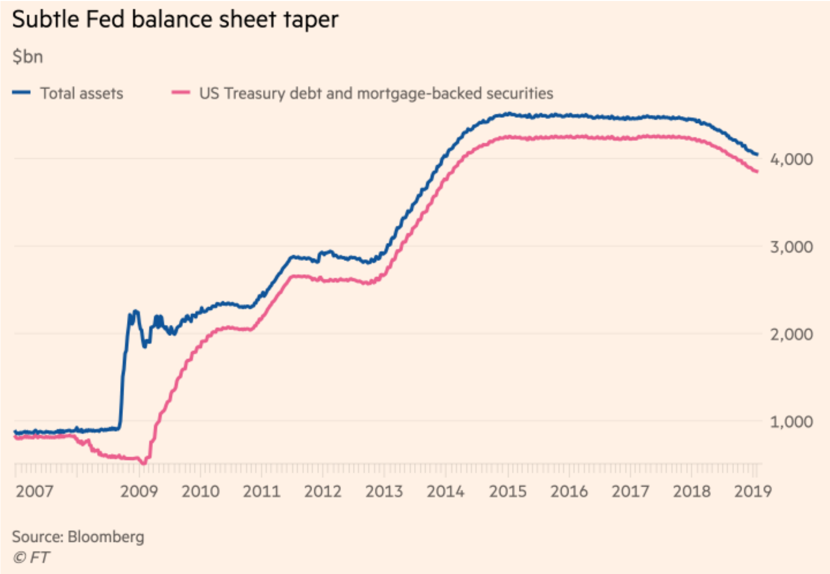
One of the major thrusts of the CCP (Chinese Communist Party) is to move the balance in the Chinese economy between investment and consumption more towards to the consumption camp. Chinese culture historically identifies as being a population of net savers. Encouraging the population to increase their level of household discretionary spending allocation is a far easier task whilst household assets increase in value, as individuals (or in communist China's case, "component parts of the collective") feel that they can spend more from their weekly wages if the overall level of their net wealth increases at a faster proportionate dollar rate (ok, yuan) than their level of actual dollars (yuan) spent on discretionary items.

Problems arise when households' asset bases start to decline in value. Property values in China are not what they used to be – in both valuation form but also the astronomical rate of seemingly endless year after year of increasing property prices. Likewise, the Chinese stockmarket – which is not huge by global institutional standards, but "individuals" in China see it as a more professional and stylish way to…gamble… had an unpleasant 2018, with the China Shenzhen A Share index falling -33.2% in 12 months. Both property valuations and stockmarket values (or volatility: the same Shenzen A Share index is up +21.3% in 4 weeks in February 2019) will lead to households decreasing their levels of discretionary spending. This does not reconcile well with The Party's proclamation that the Chinese populous must spend more and save less to alter the investment/consumption ratio in the economy.

DEBT – US CORPORATE AND GLOBAL SOVEREIGN BONDS

We continue to monitor levels of global debt, both corporate and sovereign, which have not abated since the GFC. For 10 years credit growth has advanced faster than growth in both broad money and nominal GDP. Quite to the contrary, some of the metrics are distressing to watch continue to rise:

Chart 11



Source: Bloomberg
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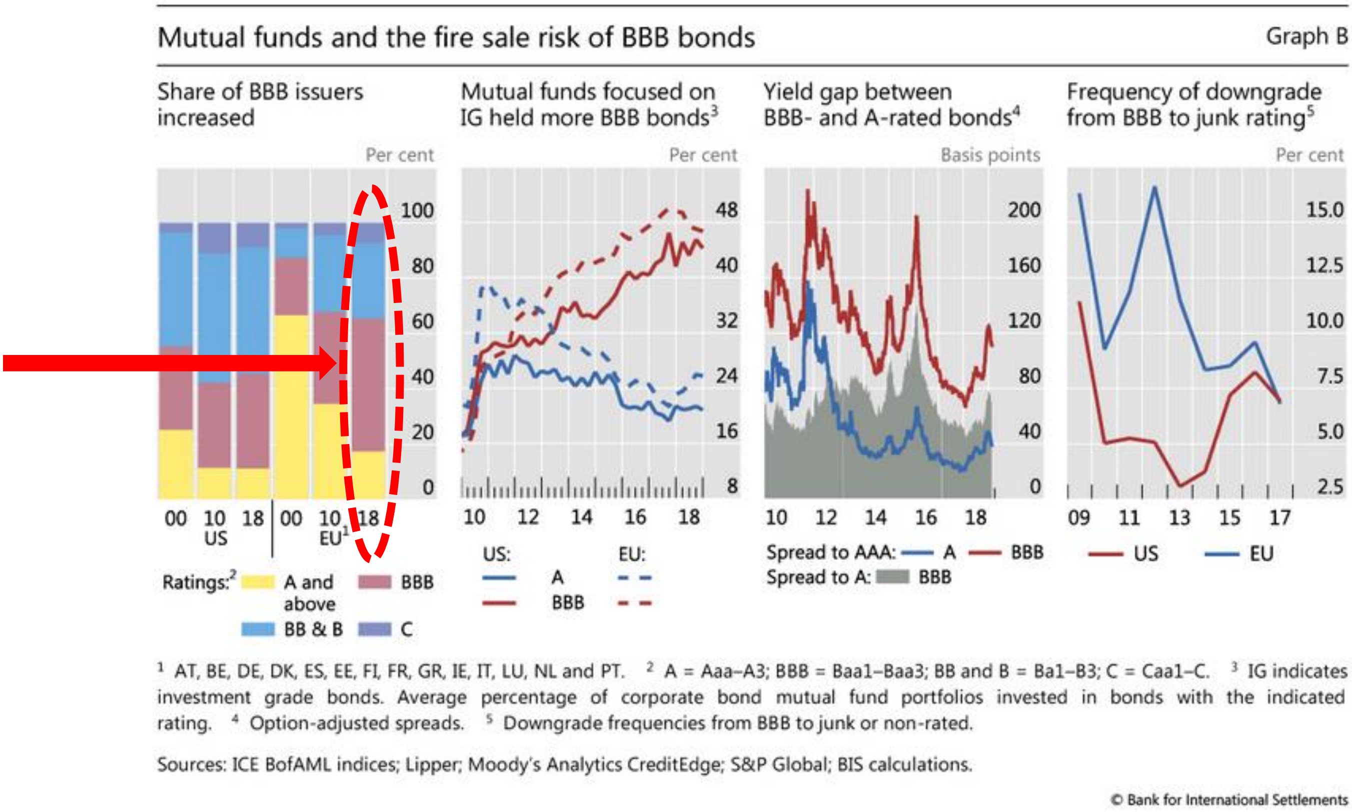
- 318% is the ratio of total global debt owed by households, governments, non-financial corporates and the financial sector to global GDP. That debt amounts to $244 Trillion
- 234% is the ratio of non-financial debt to gross GDP (210% in 2007)
- 80% is the ratio of global government debt vs global GDP ($66 Trillion which is almost double since the GFC)
- Only 11 countries hold AAA rating and eveloped countries will have to refinance 40% of their total debt stock by 2021
- $12 Trillion of US bonds will need to be sold in the next decade to fund the US budget at a time when the excesses of the pre-GFC period (see Chart 11) now seem quite tame in comparison.
- 300% is the size of total global financial assets vs global GDP

- -3% was what Triple-B corporate bonds lost in 2018, worst since the GFC
- 42% is the proportion that Triple-B corporate bonds are of **all** bonds
    - They were 30% of all bonds in 2009
- There are approx. $2.7 Trillion Triple-B rated bonds in the US alone. This is twice the size of the entire junk bond market.

Although the corporate bond market has recovered somewhat from December 2018's market correction. By the end of December, the high yield market had gone for 41 days without any bond issuance, the longest dry spell since 1995. [v] The issue to take note of here is indicated in the red dash highlighted area in Chart 12.

Chart 12: Red arrow points to the the dark pink area which denotes BBB



Mutual funds and the fire sale risk of BBB bonds

Graph B

[1] AT, BE, DE, DK, ES, EE, FI, FR, GR, IE, IT, LU, NL and PT. [2] A = Aaa–A3; BBB = Baa1–Baa3; BB and B = Ba1–B3; C = Caa1–C. [3] IG indicates investment grade bonds. Average percentage of corporate bond mutual fund portfolios invested in bonds with the indicated rating. [4] Option-adjusted spreads. [5] Downgrade frequencies from BBB to junk or non-rated.

Sources: ICE BofAML indices; Lipper; Moody's Analytics CreditEdge; S&P Global; BIS calculations.

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Bond managers, like all fund managers, are bound by the investment mandate (parameters: what they can and cannot invest in) of their fund. The percentage of the market that is Triple-B rated is dwarfing what it was 10 and 20 years ago. If a bond fund's mandate prevents them from holding **any amount** of bonds that are rated below investment grade, then, as the BIS has warned in its February publication, "under reasonable assumptions, a return to 2009 downgrades could force portfolio rebalancing in excess of daily turnover in corporate bond markets". For funds that have increased their share of Triple-B bonds to 45% of their portfolios (in the US) and 20% (Europe) that will lead to difficulties in timely exits from those positions at "reasonable prices" should a global downgrade event (like 2009) happen in 2019 or 2020. Arminius does not hold any Triple-B rated bonds. You have been warned.

DO NOT TRY TO TIME THE MARKET – YOU WILL LOSE

The world's 3 major equity markets fell approx. 11% in the 4 weeks of December 2018. Global equities have since risen 7.1% in January and now 3.1% in February. Last month's performance report noted the January bounce-back being literally a **50% probability** event ie. Since 1951 there have been 35 months when markets have risen after a -5% or worse fall in the preceding month, and also exactly 35 months where markets have fallen again after a -5% or worse fall in the preceding month.

As we have previously written about, bear market rallies finish with very dead bulls who bought the dips. Buying the dips is hardly an investment "plan", and as Field Marshal Helmuth Karl Bernhard Graf von Moltke noted, ***"No plan survives first contact with the enemy"***. We caution anyone who may be falling prey to the media spin that January & February's 2019's recovery from 4th quarter 2018's correction can be extrapolated to say that 2019 will be ok because the "equities markets have returned 11% in the first 8 weeks of a 52 week investing year". This is not normal. We commend investors to maintain their investments with a view to their own particular investing time horizon.

The lagged outflows and lagged inflows to investments that have occurred between October 2018 to February 2019 into and out of global financial markets are going to be yet another page in the history of investors attempting to time the market and making the worst decisions at the worst possible time. This behavioural trait is well recognised in economic literature, so for a primer, we suggest beginning with Nobel Economics Prize winner Richard Thaler's seminal 1988 paper entitled "Anomalies: The Winner's Curse". [vi][1] We wrote on this subject in our Geld Zug article dated 31 October 2018 which can be found on our website here: http://arminiuscapital.com.au/from-weak-owners-to-strong/.

The same type of behavioural anomalies of investors is discussed at length in an excellent article in the Journal of Portfolio Management Vol. 45, No. 1, Fall 2018 edition, penned by the indomitable Rob Arnott from Research Affiliates ($195 billion in funds under management) named "**The Folly of Hiring Winners and Firing Losers**". [vii] The article's Conclusion paragraph is entitled "*Learning to Live with Discomfort*" and we will place a link to the full journal article on our website shortly. Until then, its conclusion states:

> ***The capital markets do not reward comfort. In investing, we generally find our best rewards in our discomfort zone.***
>
> ***Institutional and retail investors alike, and their advisors and consultants, often make the mistake of assuming past fund performance is an indication of skill, which leads to the common practice of terminating the poorly performing funds and replacing the fired manager with a fund that has had stellar past performance.***
>
> ***Even the most exceptional managers and funds will have extended periods of disappointment from time to time. These exceptional managers and funds will be fired at the worst possible time, often to be replaced with mediocrities enjoying a temporary bit of good fortune.***

An investor should seek an investment style that matches their investment time horizon, and stick with it. In reality, most investors have a few decades to invest across, but act with the temperament of having just a few years. Or one year. Therefore, attempting to "time their investments in the market" correctly instead of "timing their investing horizon" correctly, can have very permanent effects upon both an investor's psyche and their level of realised wealth.

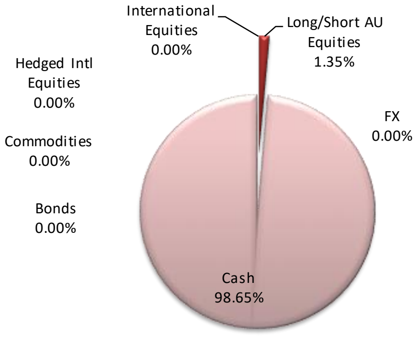
Q.E.D.

[1] *References at end of document*

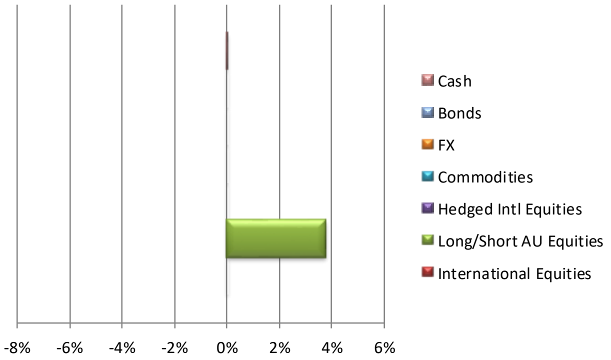
UNDERLYING FUND DATA

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

EQUITIES	31-Jan-19	28-Feb-19	ROR
EUROPE			
Germany DAX (TR)	11173.1	11515.64	**3.07%**
Switzerland SMI (PR)	8969.27	9388.94	**4.68%**
STOXX Europe 50 (EUR)	2897.13	3029.67	**4.57%**
FTSE 100	6968.85	7074.73	**1.52%**
France CAC 40	4992.72	5240.53	**4.96%**
FTSE MIB	19730.78	20659.46	**4.71%**
Netherlands AEX	520.63	541.05	**3.92%**
Belgium BEL 20	3491.62	3604.48	**3.23%**
OMX Stockholm 30	1515.4233	1572.6844	**3.78%**
Norway Oslo All-Share	946.38	977.88	**3.33%**
Ireland ISEQ	5767.68	6115.6	**6.03%**
Spain IBEX 35	9056.7	9277.7	**2.44%**
Cyprus CSE General	62.92	61.46	**-2.32%**
AMERICAS			
S&P 500	2704.1	2784.49	**2.97%**
DJ 30 Industrials	24999.67	25916	**3.67%**
DJ 65 Composite Average	8252.36	8567.61	**3.82%**
NASDAQ Composite	7281.738	7532.531	**3.44%**
Russell 1000	1498.356	1545.725	**3.16%**
S&P TSX	15540.6	15999.01	**2.95%**
Brazil Bovespa	97393.74	95584.35	**-1.86%**
Mexico IPC	43987.94	42823.81	**-2.65%**
ASIA			
S&P ASX 200	5864.7	6169	**5.19%**
Nikkei 225	20773.49	21385.16	**2.94%**
Hang Seng	27942.47	28633.18	**2.47%**
Korea KOSPI	2204.85	2195.44	**-0.43%**
FTSE Strait Times	3190.17	3212.69	**0.71%**
Taiwan TAIEX	9932.26	10389.17	**4.60%**
New Zealand NZX 50 (TR)	8985.34	9325.03	**3.78%**
China Shenzhen A Share	1332.7693	1616.9886	**21.33%**
India S&P BSE SENSEX	36256.69	35867.44	**-1.07%**
FTSE Bursa Malaysia KLCI	1683.53	1707.73	**1.44%**
Indonesia JSX	6532.969	6443.348	**-1.37%**

FOREIGN EXCHANGE	31-Jan-19	28-Feb-19	ROR
AUD/USD	0.727	0.710	**-2.41%**
EUR/USD	1.149	1.139	**-0.81%**
JPY/USD	108.513	111.266	**2.54%**
GBP/USD	1.314	1.328	**1.04%**
CHF/USD	1.009	1.004	**-0.55%**
USD/CAD	0.762	0.761	**-0.15%**
EUR/GBP	0.874	0.858	**-1.84%**
AUD/EUR	1.580	1.606	**1.63%**
USD/CHF	0.994	0.998	**0.43%**
GBP/AUD	1.802	1.869	**3.76%**
CBOE Volatility Index	16.57	14.78	**-10.80%**

COMMODITIES	31-Jan-19	28-Feb-19	ROR
Energy			
Crude Oil WTI (NYM $/bbl) Continuous	53.79	57.22	**6.38%**
Brent Crude (ICE $/bbl) Continuous	61.89	66.03	**6.69%**
NY Harbor ULSD (NYM $/gal) Continuous	1.88	2.03	**7.98%**
NY Harb RBOB (NYM $/gal) Continuous	1.38	1.75	**27.20%**
Natural Gas (NYM $/btu) Continuous	2.81	2.81	**-0.07%**
Precious Metals			
Gold (NYM $/ozt) Continuous	1325.20	1316.10	**-0.69%**
Silver (NYM $/ozt) Continuous	16.07	15.63	**-2.73%**
Industrial Metals			
Aluminum (LME Cash $/t)	1880.50	1893.00	**0.66%**
High Grade Copper (NYM $/lbs) Continuous	6148.00	6536.00	**6.31%**
Nickel (LME Cash $/t)	12380.00	13040.00	**5.33%**
Iron Ore 62% CN TSI (NYM $/mt)	76.03	87.33	**14.86%**
Zinc (LME Cash $/t)	2719.50	2794.00	**2.74%**
Agricultural			
Corn (CBT $/bu) Continuous	3.77	3.71	**-1.53%**
Soybeans (CBT $/bu) Continuous	9.15	9.10	**-0.55%**
Wheat (CBT $/bu) Continuous	5.17	4.60	**-11.04%**
Cotton #2 (NYF $/lbs) Continuous	0.74	0.73	**-2.12%**
Sugar #11 (NYF $/lbs) Continuous	0.13	0.13	**0.39%**
Indices			
GS Commodity (CME) Continuous	407.80	425.65	**4.38%**
PowerShares DB Commodity Index Tracking Fund	15.52	15.96	**2.84%**
db x-trackers SICAV - db x-trackers DB COMMODITY BO	14.71	14.75	**0.26%**

10 YEAR SOVEREIGN YIELDS	30-Jan-19	28-Feb-19	Yield D
US	2.69%	2.71%	**0.02%**
UK	1.25%	1.31%	**0.06%**
Europe	0.18%	0.19%	**0.01%**
Australia	2.25%	2.10%	**-0.15%**
Belgium	0.64%	0.70%	**0.06%**
Canada	1.92%	1.95%	**0.03%**
Denmark	0.33%	0.28%	**-0.05%**
France	0.60%	0.58%	**-0.02%**
Germany	0.18%	0.19%	**0.01%**
Greece	3.91%	3.65%	**-0.27%**
Ireland	0.92%	0.83%	**-0.09%**
Italy	2.60%	2.77%	**0.17%**
Japan	0.00%	-0.03%	**-0.03%**
Netherlands	0.29%	0.30%	**0.01%**
New Zealand	2.32%	2.16%	**-0.16%**
Norway	1.75%	1.72%	**-0.03%**
Portugal	1.66%	1.48%	**-0.18%**
Spain	1.25%	1.18%	**-0.07%**
Sweden	0.40%	0.39%	**-0.01%**
Switzerland	-0.24%	-0.32%	**0.08%**

ROR = Rate of Return
Yield D = Yield differential

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