



MONTHLY PERFORMANCE REPORT

March 2019

The portfolio returned +2.58% for the month, compared with +1.48% for the S&P/ASX200 Accumulation Index and +0.19% for the S&P/ASX200 Price 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	S&P/ASX200 XJO (AUD)
1 Month	2.58%	0.19%
3 Months	10.03%	9.46%
Calendar YTD	10.03%	9.46%
1 Year	N/A	7.31%
3 Years	N/A	21.60%
5 Years	N/A	14.57%

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%	-3.08%	-7.46%	-3.56%	-2.47%	N/A
2019	2.48%	4.67%	2.58%	-	-	-	-	-	-	-	-	-	10.03%

INVESTMENT MANAGER

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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 PERFORMANCE

The ALCE portfolio rose by +2.58% in March, 110 basis points more than its benchmark, the S&P/ASX200 accumulation index, which gained only 1.48%. ALCE's outperformance was mainly due to stock selection in the property and infrastructure sectors, helped by the underperformance of resource stocks.

The S&P/ASX200 price index ended March at 6180, still short of its 2018 record of 6352, set on 30 August last year. The weak performance of the S&P/ASX200 index in March was broadly based. Only three of the eleven GICS sectors rose during the month – property trusts, telecommunications, and materials. Lower commodity prices took some of the shine off the resources sector, while investors pondered the meaning of China's latest restrictions on Australian coal imports.



The five largest percentage contributions to the ALCE portfolio came from IPH (+16.4%), Chorus (+16.1%), Stockland (+10.6%), Mirvac (+7.0%), and Transurban (+6.4%). The only negative contributions came from ANZ (-6.5%), Woodside (-4.0%), Westpac (-2.9%), and Tabcorp (-2.3%). Fourteen of the portfolio's twenty holdings beat the benchmark.

There were no changes in portfolio holdings. At month-end the Fund's largest holdings were Westpac, ANZ, Macquarie Bank, Wesfarmers, and Transurban.

The portfolio is cheaper than the market, with a prospective P/E of 14.3x and yield of 5.4% for FY2019. Consensus forecasts for the S&P/ASX200 currently imply a P/E of 15.9x and yield of 4.9%.

The month of March was positive in most equity markets, but the rises were much smaller than in January and February. The S&P500 price index rose by +1.8%, the Stoxx Europe 600 gained +1.7%, and the Shanghai Composite increased +5.1%, but the S&P/ASX200 price index could only manage an 0.19% lift. The 2019 share market recovery seemed to be losing momentum.

MARKET OUTLOOK

The Australian share market still faces the hurdle of a Federal election in May. Investors are trying to assess the share market impact of Labor Party policies, especially regarding banks, health insurers, housing, and franking credits. The ALCE portfolio is based on academically established empirical evidence that stocks with low volatility outperform in the long run, regardless of changes of government. Since inception in 2010, the ALCE strategy has outperformed the S&P/ASX200 index despite frequent changes of Prime Minister and governing party. In the long run, economic trends matter more than politicians.

During March, downward earnings revisions continued to outnumber upward ones by a factor of three, and the aggregate EPS forecast for FY2019 was downgraded from 7% to 5%. Resource stocks are still providing most of the earnings growth, and the banking sector's EPS is now expected to fall slightly.

Over the next twelve months we expect that Australia will be affected by economic slowdowns in China and the US. Although the Shanghai Composite index jumped 23.9% in the March quarter, the real economy in China was heading in the opposite direction. In the two months January and February, Chinese industrial production fell 14% year-on-year, smartphone sales also fell 14%, and passenger car sales fell 18%. If the US-China trade negotiations do not reach an agreement, Chinese investors may be in for a rude awakening.

The recent inversion in the US yield curve is a good (but not perfectly reliable) indicator of an approaching recession. A yield inversion occurs when the yield on 10-year US Treasury bonds was lower than the yield on 3-month US Treasury bills, i.e. the US government was paying more to borrow short-term than long-term. Its major drawback as a recession indicator is that it doesn't tell you exactly when the recession will start – the onset may be as much as a couple of years away.

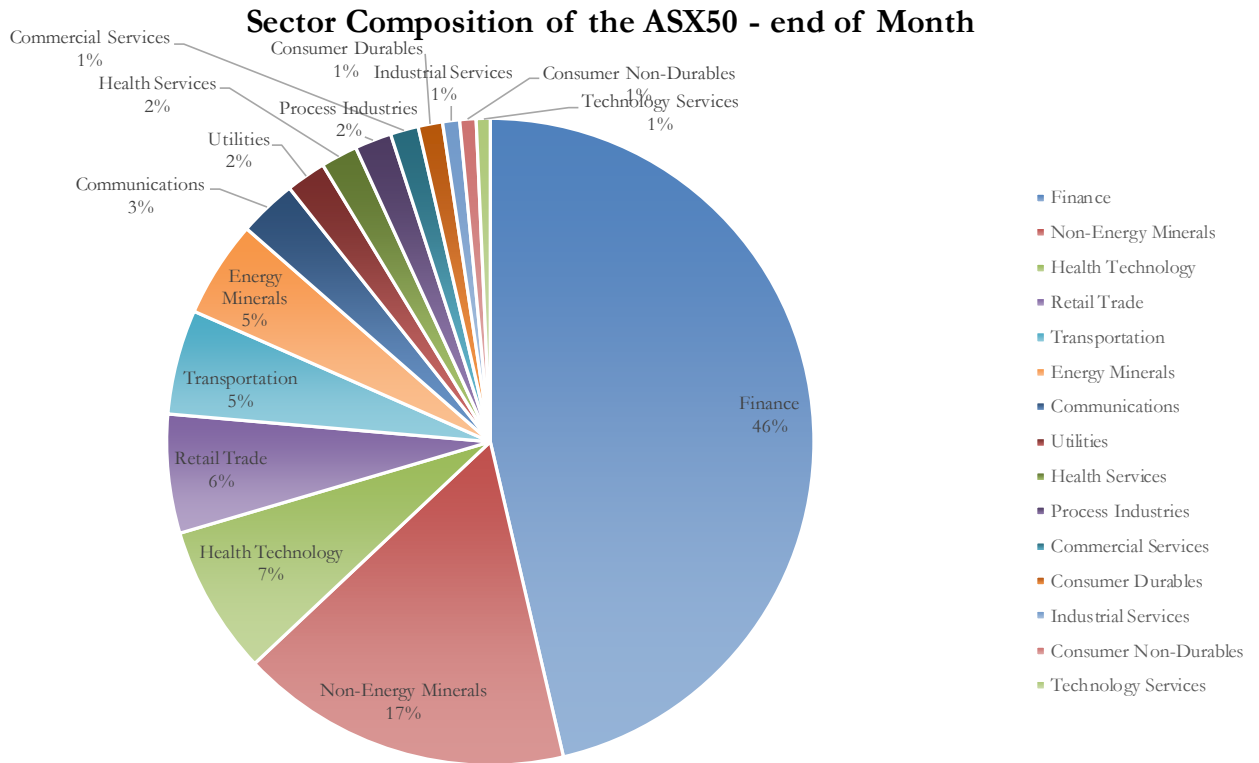
Across most major economies, bond yields have dropped by 25 to 50 basis points as a result of the worsening outlook for inflation and economic growth. In Germany and Japan, long-dated bond yields have slid back into negative territory. This means that bond investors are now paying companies and governments to take their money. It is hard to imagine a clearer sign that the economic outlook is rapidly worsening and may well lead to recession and deflation.

Even in Australia, where yields are far from negative, the yield on the 10-year government bond slipped from 2.19% on 01 March to 1.78% on 29 March, a decline of 41 basis points. The decline was partly due to pressure from comparable international bonds, but another key factor was the growing belief that the Reserve Bank will cut interest rates again this year. The fall in bond yields means an increase in bond prices, which is good for bondholders, but the new low yields will make life harder for income-oriented investors.



AUSTRALIAN FIFTY LEADERS – MONTHLY DATA

Code	Name	Sector	28-Feb-19	31-Mar-19	ROR
AGL	AGL Energy Limited	Utilities	\$21.21	\$21.77	2.64%
AMC	Amcor Limited	Materials	\$15.05	\$15.39	2.26%
AMP	AMP Limited	Financials	\$2.36	\$2.10	-11.02%
ANZ	ANZ Banking Group Limited	Financials	\$28.00	\$26.03	-7.04%
APA	APA Group Units FP Stapled Securities	Utilities	\$10.01	\$9.98	-0.30%
ALL	Aristocrat Leisure	Consumer Discretionary	\$24.62	\$24.51	-0.45%
ASX	ASX Limited	Financials	\$69.77	\$69.84	0.10%
AZJ	Aurizon Holdings Limited	Industrials	\$4.52	\$4.55	0.66%
BHP	BHP Billiton Limited	Materials	\$37.23	\$38.49	3.38%
BXB	Brambles Limited	Industrials	\$11.76	\$11.76	0.00%
CTX	Caltex Australia	Energy	\$28.60	\$26.21	-8.36%
COH	Codhlear Limited	Health Care	\$170.50	\$173.28	1.63%
CBA	Commonwealth Bank	Financials	\$73.95	\$70.64	-4.48%
CPU	Computershare Limited	Information Technology	\$17.25	\$17.08	-0.99%
CSL	CSL Limited	Health Care	\$193.76	\$194.94	0.61%
DXS	Dexus Units FP Stapled	Real Estate	\$12.02	\$12.74	5.99%
FMG	Fortescue Metals Group	Materials	\$6.06	\$7.11	17.33%
GMG	Goodman Group Stapled Securities FP	Real Estate	\$12.80	\$13.35	4.30%
GPT	GPT Group Stapled Securities FP	Real Estate	\$5.85	\$6.21	6.15%
IAG	Insurance Australia	Financials	\$7.35	\$7.68	4.49%
JHX	James Hardie Indust Chess Depository In	Materials	\$17.64	\$18.14	2.83%
LLC	Lendlease Group Unit/ Stapled Securities	Real Estate	\$12.88	\$12.38	-3.88%
MQG	Macquarie Group Limited	Financials	\$128.64	\$129.42	0.61%
MPL	Medibank Private Limited	Financials	\$2.84	\$2.76	-2.82%
MGR	Mirvac Group Stapled Securities	Real Estate	\$2.57	\$2.75	7.00%
NAB	National Aust. Bank	Financials	\$25.13	\$25.27	0.56%
NCM	Newcrest Mining	Materials	\$24.32	\$25.51	4.89%
OSH	Oil Search Limited 10 Toea	Energy	\$8.37	\$7.85	-6.21%
ORI	Orica Limited	Materials	\$17.65	\$17.63	-0.11%
ORG	Origin Energy	Energy	\$7.36	\$7.20	-2.17%
QAN	Qantas Airways	Industrials	\$5.73	\$5.66	-1.22%
QBE	QBE Insurance Group	Financials	\$12.55	\$12.31	-0.32%
RHC	Ramsay Health Care	Health Care	\$64.78	\$64.35	-0.66%
RIO	RIO Tinto Limited	Materials	\$96.16	\$97.91	1.82%
STO	Santos Limited	Energy	\$6.92	\$6.83	-1.30%
SCG	Scenre Group Stapled Securities	Real Estate	\$3.87	\$4.11	6.20%
SHL	Sonic Healthcare	Health Care	\$24.12	\$24.56	1.82%
S32	SOUTH32 Limited	Materials	\$3.91	\$3.73	-4.60%
SGP	Stockland Units/ Stapled Securities	Real Estate	\$3.50	\$3.85	10.00%
SUN	Sunocoop Group Limited	Financials	\$13.55	\$13.78	1.70%
SYD	SYD Airport FP Stapled Securities US Pr	Industrials	\$7.20	\$7.43	3.19%
TLS	Telstra Corporation	Telecommunication Services	\$3.13	\$3.32	6.07%
TCL	Transurban Group Ordinary Shares/Uni	Industrials	\$12.47	\$13.20	5.85%
TWE	Treasury Wine Estate	Consumer Staples	\$14.98	\$14.93	-0.33%
URW	UnibailRodavestfield Chess Depository I	Real Estate	\$11.26	\$11.57	2.75%
VCX	Vicinity Centres Ordinary/Units FP Stap	Real Estate	\$2.46	\$2.60	5.69%
WES	Wesfarmers Limited	Consumer Staples	\$33.18	\$34.65	4.43%
WBC	Westpac Banking Corp	Financials	\$26.96	\$25.92	-3.86%
WPL	Woodside Petroleum	Energy	\$36.25	\$34.62	-4.50%
WOW	Woolworths Group Limited	Consumer Staples	\$28.67	\$30.40	6.03%



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