MONTHLY PERFORMANCE REPORT
March 2019

GENERAL INFORMATION

Base Currency: AUD
Entity Type: Open Ended Unit Trust
PMs: Marcel von Pfyffer (CIO)
Neill Colledge
Launch date: Jul-2014
Benchmark: 0% (Absolute Return)
Fees: 1 and 10
Domicile: Australia
Close of Financial Year: 30th June
Unit Pricing: Weekly
APIR Code: PKF0001AU
ISIN Code: AU60PKF00011
Fund Administration: APEX Fund Services (Australia)
Fund Custodian: Sargon CT
Prime Broker: Interactive Brokers
Auditors: Grant Thornton
Compliance: King Irving

INVESTMENT MANAGER
Arminius Investment Management Pty Ltd
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licensed by:
Arminius Capital Advisory Pty Ltd
AFSL 461307 ACN 165509928

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The Fund returned +0.35% for the month, compared with -0.56% for the HFRX Absolute Return Index. The Fund continues to achieve its objective of being a low volatility fund (6.54% since inception July 2014) with low correlation to equity markets, as a consequence of our risk averse strategies.

At the end of Q1 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 i.e. 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 JUL-2014)	Arminius Capital ALPS Fund	HFRX (USD) ABSOLUTE RETURN INDEX	CREDIT SUISSE GLOBAL MACRO (USD) INDEX	SOCIETE GENERALE CTA MUTUAL FUND INDEX
1 Month	**0.35%**	-0.56%	0.05%	4.08%
3 Months	**0.55%**	0.56%	4.06%	-0.48%
Calendar YTD	**0.55%**	0.56%	4.06%	-0.48%
1 Year	**-11.53%**	-0.23%	-10.31%	-2.66%
3 Years	**5.63%**	4.38%	4.89%	-8.68%
5 Years	**-**	6.19%	-2.98%	1.23%
Cumulative since Inception JUL 2014	**11.79%**	**5.66%**	**-3.11%**	**-0.69%**

Arminius Capital ALPS Fund (Inception July-2014) Returns are net of base fees; gross of performance fee.

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2014	-	-	-	-	**INCEPTION =>**		2.09%	0.04%	-1.43%	2.02%	1.18%	2.35%	6.37%
2015	3.85%	1.56%	-0.07%	-1.47%	0.77%	-0.09%	0.52%	-1.23%	-0.45%	1.23%	0.19%	-2.43%	2.26%
2016	-0.38%	-2.38%	0.54%	2.37%	1.22%	0.41%	-0.10%	0.03%	0.00%	0.20%	3.55%	4.60%	10.33%
2017	-0.13%	2.69%	3.31%	0.10%	1.25%	0.02%	-0.34%	1.28%	-1.45%	1.93%	-1.41%	1.04%	8.47%
2018	3.94%	-2.64%	-3.56%	0.49%	0.24%	-0.57%	-1.77%	0.88%	-1.94%	-3.90%	-3.75%	-2.26%	-14.1%
2019	0.08%	0.12%	0.35%	-	-	-	-	-	-	-	-	-	0.55%

* 2014/07 - 2015/02 Strategy run as Mandate, 2015/03+ as Unit Trust Structure. EOM date is typically last Friday of month.

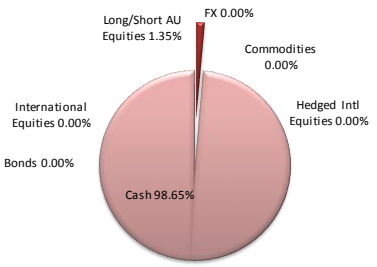
FUND OBJECTIVES: The fund provides investors with exposure to all asset classes in the global macro universe. Arminius' aim is to provide smooth positive returns with lower volatility and lower risk than concentrated single market/asset class exposure. Our absolute return investment methodology utilises 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.

FUND STATISTICS MONTHLY

From July 2014	ALPS Fund	XJO
Sharpe Ratio	**0.10**	0.13
Sortino Ratio (RFR)	**0.27**	0.44
Downside Deviation	**2.51%**	3.51%
Standard Deviation	**1.89%**	3.35%
Annualized SD	**6.54%**	11.62%
Mean Monthly Return	**0.22%**	0.29%
Compound Monthly Return	**0.20%**	0.24%
Excess Return (RFR)	**0.67%**	1.54%
Portfolio Correlation to XJO	**0.50**	-
R^2 Coefficient of Determination	**0.08**	-

STRATEGIC ASSET ALLOCATION
at Month's commencement



FUND MANAGER'S PERFORMANCE:
The fund returned +0.35 in March, performing better than the HFRX Absolute Return Index which fell -0.56%. We have outperformed the HFRX AR index, the Credit Suisse Global Macro Index and the Societe Generale CTA Mutual Fund Index across both the past 3 years and since our inception (July 2014). Our current holdings reflected the risk-off outlook implied by our models. As covered later in the report, almost all of the State Street Institutional Investors (US, EU & Asia-Pac) share our current perspective that the first quarter's rise has been unwarranted and now poses a

significant marker of a possible correction occurring in the Q2 2019. As we move into April, we expect that our models will implement that view quantitatively. In March, the fund's returns were primarily provided by some equity exposure to the financial sector, but the majority of the fund's +0.35% return (outperforming the -0.56% HFRX Absolute Return Index) came from fixed income/bond/cash exposure due to risk-off positioning.

For share markets in the majority of developed economies, the March quarter was the best in several years. The main driver was the admission by several central banks that the deteriorating economic outlook would mean that they would stop raising interest rates and might even cut them. The other big positive factor was the belief that continuing negotiations between the US and China made a settlement of the trade war more likely. During the quarter, the US S&P500 price index leaped 13.07%, led by technology and energy stocks. The Stoxx Europe 600 jumped 12.27%, the S&P/ASX200 climbed 9.46%, and the Shanghai Composite soared 23.93%. Nonetheless, all major markets are still well below their 2018 peaks.

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 1.79%, the Stoxx Europe 600 gained 1.69%, and the Shanghai Composite increased 5.09%, but the S&P/ASX200 could only manage an 0.19% lift. The 2019 share market recovery seemed to be losing momentum.

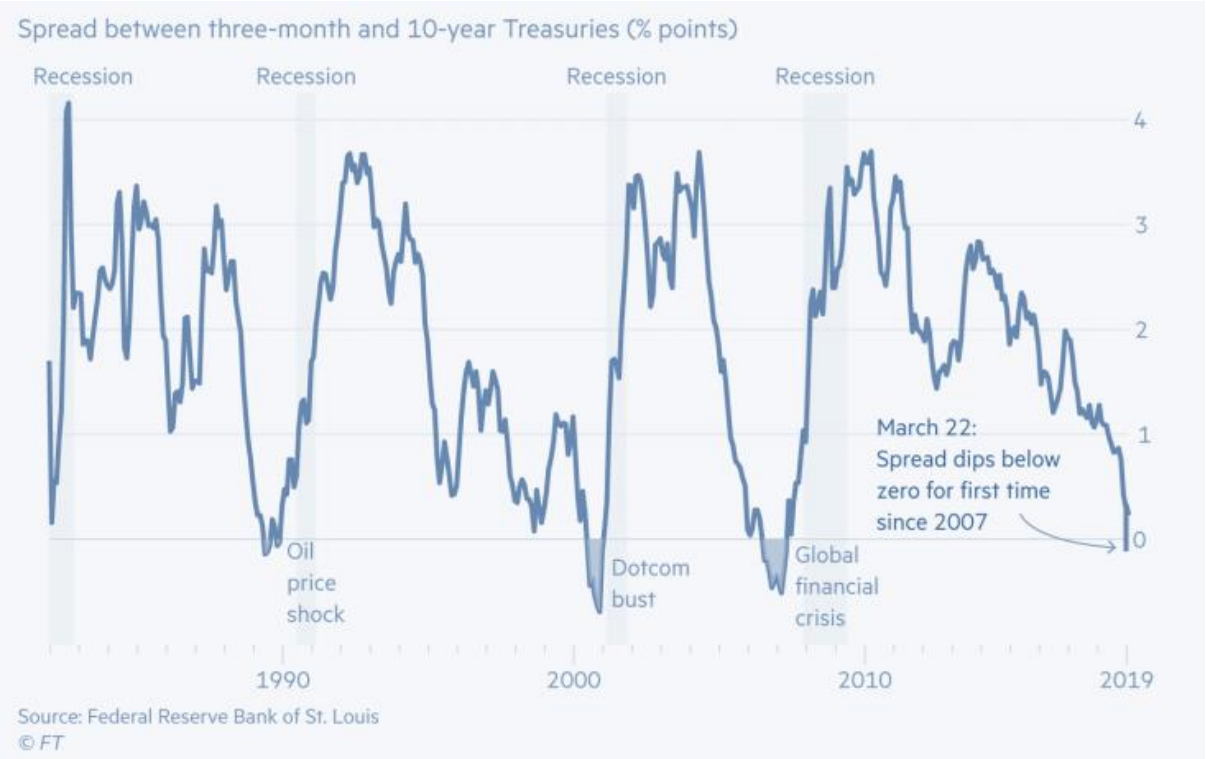
The Japanese share market actually lost ground in March, with the Nikkei 225 price index falling by -0.84%. The 2019 rally had been more subdued in Japan, with a rise of only 5.95% over the March quarter. There are two reasons behind this: Japanese monetary policy was not loosened, because it had never been tightened, and Japan's many global companies were less affected by the US-China trade war. For similar reasons, most emerging markets did not participate in the March quarter's enthusiastic rally.

INVESTMENT OUTLOOK

Chart 1

Bond markets are bigger, smarter, and less volatile than share markets, so it was big news when the US yield curve inverted in March. As Chart 1 shows, this meant that 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. Since World War II, an inverted yield curve has been a good (but not perfectly reliable) indicator of an approaching recession. Its major drawback 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. This is evidenced by Chart 2 which highlights the past four US recessions, alongside where the spread level narrows then crosses into "inverted" territory below the "0" mark on the X axis.

Chart 2



The fall in US long-dated bond yields is part of a global trend over the last six months. Chart 3 reflects that the fact that, 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 indication that the economic outlook is rapidly worsening and may well lead to recession and deflation.

Chart 3

During March, the total global amount of sovereign debt trading with nominal yields below zero ("negative yields") rose back up to levels of US$10.07 trillion. In early 2018 when the world appeared to be well on the way to recovery before the VIX explosion, negative yields only totalled some US$5.7 trillion.

Even in Australia, where yields are far from negative (see Chart 4), 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.

Chart 4

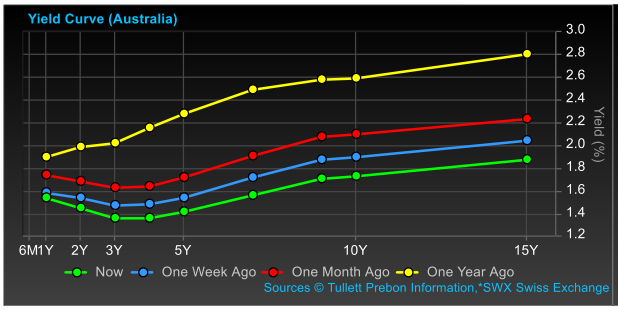
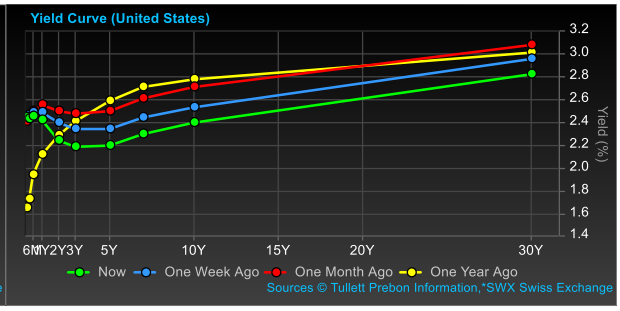


Chart 5



Recent economic data have not been encouraging, but it must be remembered that economic activity in January and February (see Chart 5) may not necessarily be representative of the rest of 2019. The US was disrupted by bad weather and the partial government shutdown, while China was affected by the factory closures and nationwide homeward travel associated with the Spring Festival (New Year in the traditional lunar calendar).

Even if the investment community wishes to look through the bad weather and government shutdown effects, the fundamental news in March which we discussed in February's performance report, was the cut in earnings estimates being the largest in 3 years. Bottom-up estimates for Q1 S&P500 EPS fell -7.2% (from $40.21 to $37.33) over the course of the quarter, marking it as the largest fall since Q1 2016. We can compare this -7.2% drop in EPS to the 5 year average decline: 3.2% and 10 year average decline of 3.7%. Evidently the as yet unresolved trade war with China and a tightening US labour market is beginning to take its toll. 58% of respondents to the US National Association for Business Economics survey have reported rising wage costs but only 19% of those respondents have passed those costs onto customers.

As we said in last month's report, further upward movement in the S&P500 will be strained in the absence of EPS growth. S&P Dow Jones Indices have reported that profit margin estimates have been revised downwards for almost half the companies in the S&P500 since January 2019; only 18% of companies have revised margins upward. With the S&P500 now having returned an eye-watering +13.07% in 12 weeks, the EPS numbers need to improve otherwise we can only interpret the market's ascent as if it has completely priced in a happy ending to the US-China trade war and continued bountiful US economic growth and awesome prosperity for the remainder of 2019.

Chart 6: Annual S&P500 Returns & Average since 1929 (Recession areas in grey)

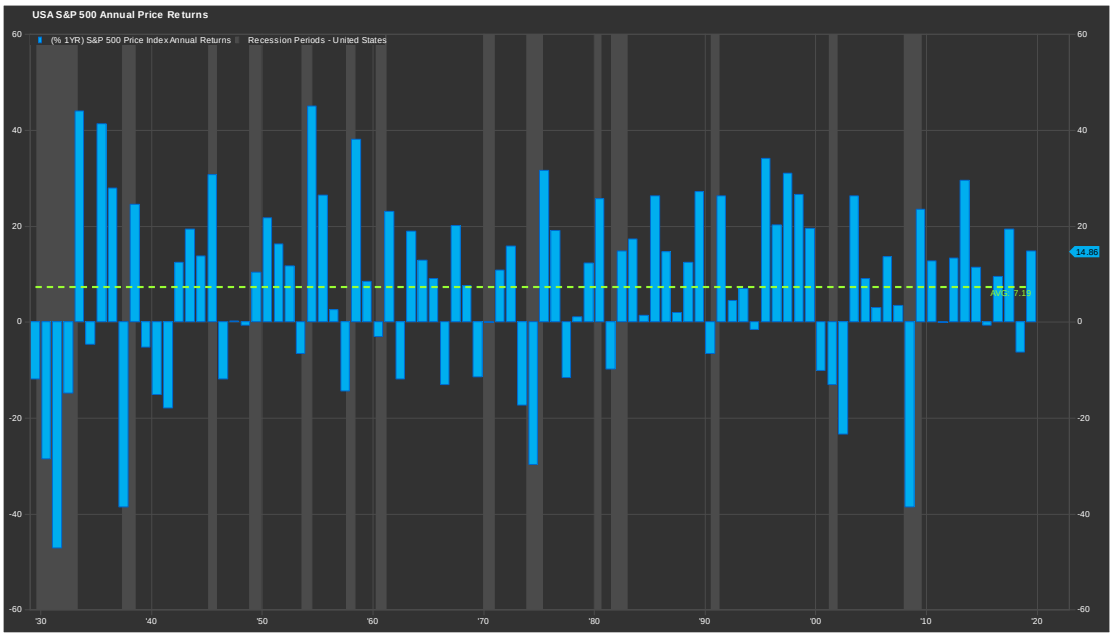
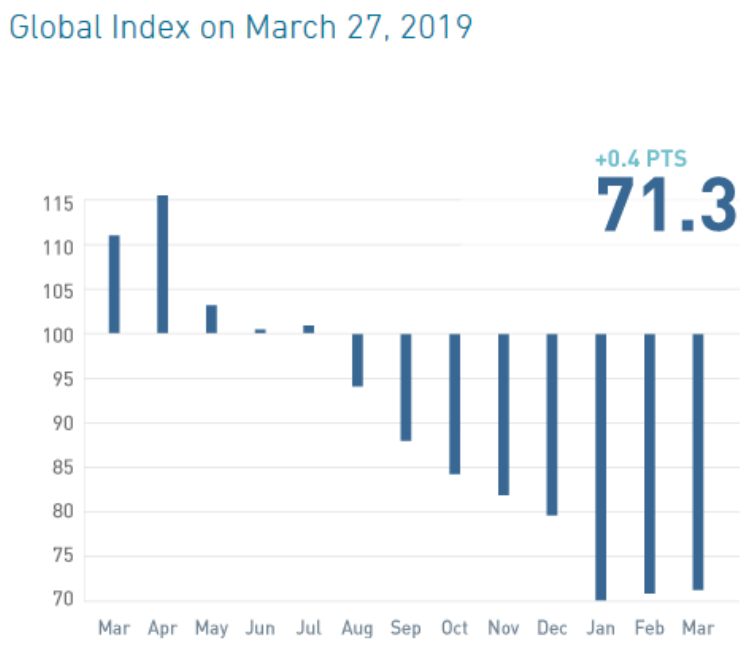


Chart 6 shows the long term average since 1929 for S&P500 annual price returns being +7.19% (recession periods are in grey). 12 weeks into a 52 week year and the index is up +13.07% vs the average of +7.19% per 52 week period. 2019 may have some surprises left in store yet for the passive world's present day heroes.

Chart 7



Institutional money has decided to not follow 2019's meteoric ascent of the S&P500. State Street publishes an institutional investor confidence index [i] spanning market participants in more than 45 countries across North America, Europe and Asia-Pacific. As Chart 7 shows, not only have institutional investors chosen to sit out (pig headed or pragmatic?) Q1 2019's global equities rally, they have in fact been increasing their allocations since December 2018 to less-risky assets. A level above 100 means that they are increasing exposure to risk assets, with the inverse effect below 100.

CHINA

March saw the annual meeting of China's "Parliament", the National People's Congress. Although this august body has never voted against anything the government put in front of it, it does serve as the main official forum (and photo opportunity) for the Party leaders to recite their achievements and reveal their plans. The Premier, Li Keqiang, announced RMB 2 trillion (AUD$400 billion) in tax cuts, and lowered the 2019 GDP growth target to the range 6.0-6.5% (compared to the 2108 actual of 6.6%).

He also indicated that infrastructure and defence spending would rise, and that banks would be forced to increase their lending to smaller, private-sector firms. He and other officials made it clear that monetary policy would remain prudent and stable – specifically, that there would not be a "flood" of credit, just the continuation of the present "drip irrigation".

The leaders did not mention one of the most striking developments in the Chinese economy, which is visible on the chart below from *The Economist*. China is still running a large surplus on its balance of trade (i.e. goods exported minus goods imported), but its growing spend on overseas tourism is reducing its current-account surplus. The current account includes exports and imports of services as well as goods, so the fact that the Chinese government has been encouraging its citizens to holiday overseas means that the intangible import of tourism has been rising steadily for the last decade.

The net effect is that China's foreign exchange reserves are no longer growing rapidly; instead, they have stabilized just above USD$3 trillion. If the US-China trade settlement includes big Chinese purchases of US goods, China might actually run a balance-of-payments deficit.

Chart 8

The recent stimulus measures which will contribute some RMB 4.6 trillion are not expected to have the same effect as the RMB 4 trillion that the Chinese authorities previously spent to ensure that China could watch the rest of the world have a GFC while they did not. The IMF has noted that whilst in 2008, RMB 1 trillion of credit was required to generate approx. RMB 1 trillion of economic output (GDP), more recently that multiplier has moved to RMB 3.5 trillion being now required in order to produce the same RMB 1 trillion of GDP.

Chart 9

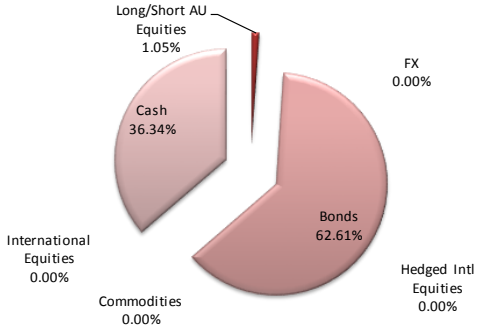
European economic growth remains subdued, and European share markets remain cheap, but there is no sign of any upside. Arminius has never taken any investment positions on the Brexit outcome, because it is a one-off event which is not suitable for our statistical modelling. It is worth bearing in mind that, despite the noise and drama from the BBC and other UK media being the most pronounced since the Battle of Britain, Brexit is simply not important for global investors (including Australia). A "no-deal" Brexit would be painful for the UK and a nuisance for parts of Europe, but the UK's economic links with Australia are too small to have much effect on us.

The S&P/ASX200 price index ended March at 6180, still short of its 2018 record of 6352, set on 30 August. 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. Downward earnings revisions continued to outnumber upward ones by a factor of three, and the aggregate EPS forecast for FY2019 was downgraded further to 5%. Resource stocks are still providing most of the earnings growth, and the banking sector's EPS is now expected to fall slightly. The Australian share market still faces the hurdle of a Federal election in May.

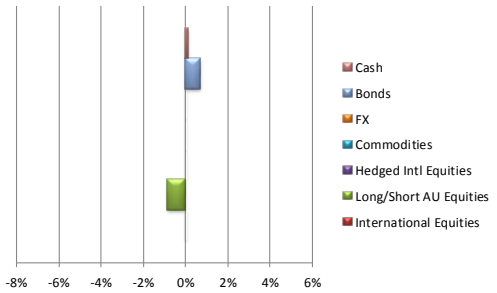
Q.E.D.

PERFORMANCE TABLES

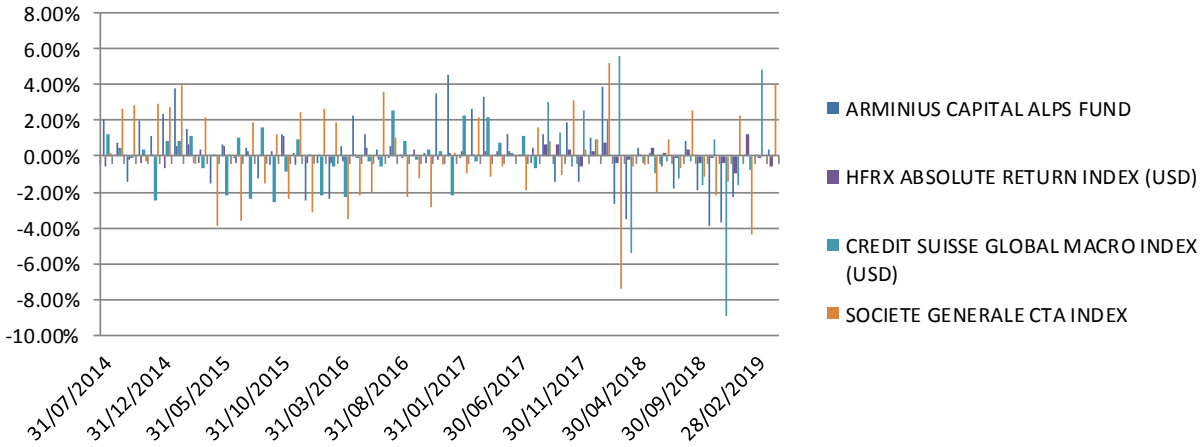
Exposure at month's end as % of NAV



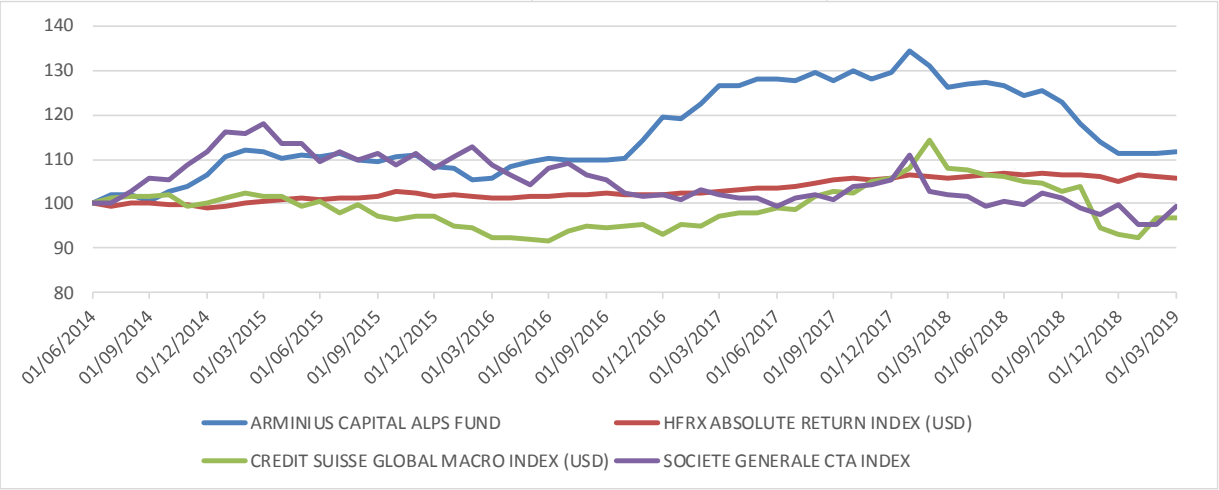
Monthly Asset Class average returns of individual constituents per SAA in domestic market currency



Monthly Performance since Inception July 2014



Cumulative Performance since Inception (Base 100 = 30 June 2014)



GLOBAL FINANCIAL MARKETS – MONTHLY DATA

EQUITIES	28-Feb-19	31-Mar-19	ROR
EUROPE			
Germany DAX (TR)	11515.6	11526.0	**0.09%**
Switzerland SMI (PR)	9388.9	9477.8	**0.95%**
STOXX Europe 600 (EUR)	372.8	379.1	**1.69%**
FTSE 100	7074.7	7279.2	**2.89%**
France CAC 40	5240.5	5350.5	**2.10%**
FTSE MIB	20659.5	21286.1	**3.03%**
Netherlands AEX	541.1	549.0	**1.47%**
Belgium BEL 20	3604.5	3658.7	**1.50%**
OMX Stockholm 30	1572.7	1553.4	**-1.22%**
Norway Oslo All-Share	977.9	978.0	**0.01%**
Ireland ISEQ	6115.6	6138.7	**0.38%**
Spain IBEX 35	9277.7	9240.3	**-0.40%**
Cyprus CSE General	61.5	65.2	**6.09%**
AMERICAS			
S&P 500	2784.5	2834.4	**1.79%**
DJ 30 Industrials	25916.0	25928.7	**0.05%**
DJ 65 Composite Average	8567.6	8598.5	**0.36%**
NASDAQ Composite	7532.5	7729.3	**2.61%**
Russell 1000	1545.7	1570.2	**1.59%**
S&P TSX	15999.0	16102.1	**0.64%**
Brazil Bovespa	95584.4	95414.6	**-0.18%**
Mexico IPC	42823.8	43281.3	**1.07%**
ASIA			
S&P ASX 200	6169.0	6180.7	**0.19%**
Nikkei 225	21385.2	21205.8	**-0.84%**
Hang Seng	28633.2	29051.4	**1.46%**
Korea KOSPI	2195.4	2140.7	**-2.49%**
FTSE Strait Times	3212.7	3212.9	**0.01%**
Taiwan TAIEX	10389.2	10641.0	**2.42%**
New Zealand NZX 50 (TR)	9325.0	9845.0	**5.58%**
Shanghai SSE Composite	2941.0	3090.8	**5.09%**
China Shenzhen A Share	1617.0	1772.8	**9.64%**
India S&P BSE SENSEX	35867.4	38672.9	**7.82%**
FTSE Bursa Malaysia KLCI	1707.7	1643.6	**-3.75%**
Indonesia JSX	6443.3	6468.8	**0.39%**

FOREIGN EXCHANGE	28-Feb-19	31-Mar-19	ROR
AUD/USD	0.710	0.711	**0.20%**
EUR/USD	1.139	1.129	**-0.92%**
JPY/USD	111.266	110.150	**-1.00%**
GBP/USD	1.328	1.306	**-1.67%**
CHF/USD	1.004	1.011	**0.76%**
USD/CAD	0.761	0.750	**-1.44%**
EUR/GBP	0.858	0.865	**0.76%**
EUR/AUD	1.606	1.588	**-1.11%**
USD/CHF	0.998	0.995	**-0.33%**
GBP/AUD	1.869	1.838	**-1.70%**
CBOE Volatility Index	14.78	13.71	**-7.24%**

COMMODITIES	28-Feb-19	31-Mar-19	ROR
Energy			
Crude Oil WTI (NYM $/bbl) Continuous	57.22	60.14	**5.10%**
Brent Crude (ICE $/bbl) Continuous	66.03	68.39	**3.57%**
NY Harbor ULSD (NYM $/gal) Continuous	2.03	1.97	**-2.76%**
NY Harb RBOB (NYM $/gal) Continuous	1.75	1.88	**7.43%**
Natural Gas (NYM $/btu) Continuous	2.81	2.66	**-5.33%**
Precious Metals			
Gold (NYM $/ozt) Continuous	1316.10	1298.50	**-1.34%**
Silver (NYM $/ozt) Continuous	15.63	15.11	**-3.35%**
Industrial Metals			
Aluminum (LME Cash $/t)	1893.00	1900.00	**0.37%**
High Grade Copper (NYM $/lbs) Continuous	6536.00	6485.00	**-0.78%**
Nickel (LME Cash $/t)	13040.00	13015.00	**-0.19%**
Iron Ore 62% CN TSI (NYM $/mt)	87.33	85.70	**-1.87%**
Zinc (LME Cash $/t)	2794.00	3000.00	**7.37%**
Agricultural			
Corn (CBT $/bu) Continuous	3.71	3.57	**-3.84%**
Soybeans (CBT $/bu) Continuous	9.10	8.84	**-2.86%**
Wheat (CBT $/bu) Continuous	4.60	4.58	**-0.38%**
Cotton #2 (NYF $/lbs) Continuous	0.73	0.78	**6.58%**
Sugar #11 (NYF $/lbs) Continuous	0.13	0.13	**-1.96%**
Indices			
GS Commodity (CME) Continuous	425.65	433.80	**1.91%**
PowerShares DB Commodity Index Tracking Fund	15.96	15.90	**-0.38%**
db x-trackers SICAV - db x-trackers DB COMMODITY BO	14.75	14.64	**-0.75%**

10 YEAR SOVEREIGN YIELDS	27-Feb-19	31-Mar-19	Yield D
US	2.69%	2.42%	**-0.27%**
UK	1.27%	1.00%	**-0.27%**
Europe	0.15%	-0.07%	**-0.22%**
Australia	2.07%	1.77%	**-0.30%**
Belgium	0.68%	0.42%	**-0.26%**
Canada	1.92%	1.65%	**-0.27%**
Denmark	0.25%	-0.01%	**-0.26%**
France	0.56%	0.32%	**-0.23%**
Germany	0.15%	-0.07%	**-0.22%**
Greece	3.68%	3.73%	**0.05%**
Ireland	0.81%	0.55%	**-0.26%**
Italy	2.78%	2.49%	**-0.28%**
Japan	-0.03%	-0.09%	**-0.07%**
Netherlands	0.26%	0.03%	**-0.23%**
New Zealand	2.14%	1.82%	**-0.33%**
Norway	1.70%	1.61%	**-0.09%**
Portugal	1.45%	1.25%	**-0.20%**
Spain	1.16%	1.09%	**-0.07%**
Sweden	0.33%	0.17%	**-0.16%**
Switzerland	-0.29%	-0.39%	**0.10%**

ROR = Rate of Return
Yield D = Yield differential

[i] http://www.statestreet.com/ideas/investor-confidence-index.html

Societe Generale CTA Mutual Fund Index constituents:

- AQR Managed Futures Strategy I (AQMIX)
- Natixis ASG Managed Futures Strategy Y (ASFYX)
- American Beacon AHL Managed Futures Strategy I (AHLIX)
- LoCorr Market Trend I (LOTIX)
- PIMCO TRENDS Managed Futures Strategy I (PQTIX)
- Longboard Managed Futures Strategy I (WAVIX)
- Credit Suisse Managed Futures Strategy I (CSAIX)
- Goldman Sachs Managed Futures Strategy I (GMSSX)
- Equinox Chesapeake Strategy I (EQCHX)
- Equinox Campbell Strategy I (EBSIX)