



MONTHLY PERFORMANCE REPORT

May 2019

The portfolio returned +0.95% for the month, compared with +1.17% for the S&P/ASX200 Accumulation Index and +1.13% 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	0.95%	1.13%
3 Months	6.01%	3.69%
Calendar YTD	13.71%	13.29%
1 Year	N/A	6.40%
3 Years	N/A	18.93%
5 Years	N/A	16.47%

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%	2.37%	0.95%	-	-	-	-	-	-	-	13.71%

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 0.95% in May, slightly less than the 1.17% return from its benchmark, the S&P/ASX200 accumulation index.

The S&P/ASX200 price index ended May at 6397, up 1.13% for the month and up 13.29% for the five months of 2019. The accrual of dividends lifted the fractionally positive price return into a slightly larger accumulation return.

Performance varied widely across sectors. The outcome of the Federal election lifted the banks, the health insurers, and housing-related stocks, but falling oil prices depressed the energy sector. The increasing likelihood of further Brexit disasters has weighed upon stocks with substantial UK operations, such as Link, Pandal, Janus Henderson, and Macquarie Group. Stocks with China exposure were mixed: high coal and iron ore prices



supported the big miners, but other stocks with China exposures were marked down as investors worried about the impact of the trade war on Chinese markets. In aggregate, large caps (especially the 50 Leaders) performed better than small and mid caps.

The five largest positive movements in the ALCE portfolio were Stockland (+14.2%), Aurizon (+9.7%), Mirvac (+8.7%), ANZ Bank (+4.9%), and Nine (+4.3%). The five largest negative movements were Macquarie (-7.4%), Tabcorp (-5.9%), Chorus (-5.6%), IPH (-4.8%), and Vicinity (-4.0%).

The regular portfolio re-balance resulted in exits from six positions – Atlas Arteria, AGL, Dexus, Mirvac, Spark Infrastructure, and Tabcorp. Six new stocks were added – Coca Cola Amatil, IAG, JB HiFi, Nine, Shopping Centres of Australia, and Vicinity. At month-end the Fund's largest holdings were Westpac, ANZ, Wesfarmers, Macquarie Bank, and Transurban.

Apart from Australia, the world's major share markets all fell during May, reversing their April gains. The catalyst was the growing possibility of a full-scale trade war. The US and Chinese sides hardened their positions, and there are no plans for negotiations to resume. On top of that, on 31 May The Donald tweeted that he would impose tariffs of up to 25% on Mexican goods unless the Mexican government stopped the flow of illegal immigrants into the US. Investors promptly ditched equities and scrambled into high-quality bonds, sending yields down around the world.

The US S&P500 price index fell 6.6%, the Stoxx Europe 600 price index slid 5.7%, and the Japanese Nikkei 225 price index plunged 7.4%. The Chinese share markets continued their April decline: the Shanghai Composite price index dropped 5.8% and the Shenzhen Composite fell 6.4%. The gold price, by contrast, hit a two-month high.

MARKET OUTLOOK

The outcome of the Federal election has removed many fears about tax changes and the housing market, but the domestic economy is weak and global risks are rising. Australian GDP grew by only 0.4% in the March quarter, making 1.8% for the year. What growth there was came from government spending and strong exports, while consumer spending remained subdued.

In these circumstances it is not surprising that the number of downward earnings revisions in May was three times the number of downward ones, taking the aggregate EPS forecast for FY2019 down to 3.5%. As FY2019 results are largely priced in for most companies, from now on we will assess the portfolio on the basis of FY2020 forecasts. The ALCE portfolio has a FY2020 forecast P/E of 14.8x and yield of 5.1%, making it cheaper than the S&P/ASX200, where the consensus forecasts currently imply a P/E of 15.5x and yield of 4.5%.

A look at the composition of FY2020 EPS growth is not encouraging. The aggregate growth of 7% is helped by the resource stocks, which will grow by about 9%. The property trusts will grow by 4% to 5%, but the banks will only manage 1% to 2%. Better growth is forecast in some sectors, but investors should bear in mind the fact that company managements and share market analysts start every year with optimistic forecasts, which are mostly trimmed back as the year goes on.

In early June, the Reserve Bank cut the official cash rate by 25 basis points, to 1.25%. The cut, in conjunction with deposit subsidies for first-home buyers and looser prudential restrictions, may stop the slide in the housing market and lead to a recovery in 2020, but this is far from certain. The Federal Government faces a number of policy and legislative challenges, and China remains the greatest risk to the Australian economy.



High commodity prices will not last forever, and the Chinese economy was slowing even before the impact of the tariffs.



Fixed interest investors may have noticed that their interest returns have been dropping in recent months. This is because – even before the local rate cut – Australian government bonds were following a global downward trend in interest rates, which reflects the expectation that economic growth is slowing down in most countries, and that there is no risk of inflation. The chart above shows the size of the falls in the Australian, US, UK, and German ten-year bond yields. In effect, the world’s bond markets are warning us to expect further declines in global share markets over the next few months. Economic growth is weakening in the US, Europe, China, and Japan, while geopolitical tensions are rising.

It is possible that a full-scale trade war will be averted: if so, global equity markets will surge upward with relief. But we believe that the geopolitical problems are more fundamental. Even if the US and China do manage to patch up some sort of trade agreement soon, it will only be a truce in what is looking more and more like a long war between the two superpowers, which will be fought on multiple fronts – e.g. the South China Sea, the Belt and Road Initiative, intellectual property theft, control of the internet, and technological dominance. Given Australia’s export links with China, we remain very cautious about the prospects for the Australian share market in the next six months, and the ALCE portfolio will remain defensively positioned.



AUSTRALIAN FIFTY LEADERS – MONTHLY DATA

Code	Name	Sector	30-Apr-19	31-May-19	ROR
AGL	AGL Energy Limited	Utilities	\$22.23	\$20.55	-7.56%
AMC	Amcor Limited	Materials	\$16.03	\$16.48	2.81%
AMP	AMP Limited	Financials	\$2.27	\$2.17	-4.41%
ANZ	ANZ Banking Group Limited	Financials	\$27.20	\$27.88	2.50%
APA	APA Group Units FP Stapled Securities	Utilities	\$9.62	\$10.14	5.41%
ALL	Aristocrat Leisure	Consumer Discretionary	\$26.08	\$29.12	11.66%
ASX	ASX Limited	Financials	\$74.50	\$75.75	1.68%
AZJ	Aurizon Holdings Limited	Industrials	\$4.76	\$5.18	8.82%
BHP	BHP Billiton Limited	Materials	\$37.40	\$37.76	0.96%
BXB	Brambles Limited	Industrials	\$12.05	\$12.11	0.50%
CTX	Caltex Australia	Energy	\$27.21	\$26.39	-3.01%
COH	Codlear Limited	Health Care	\$187.33	\$200.13	6.83%
CBA	Commonwealth Bank	Financials	\$74.52	\$78.51	5.35%
CPU	Computershare Limited	Information Technology	\$17.83	\$16.68	-6.45%
CSL	CSL Limited	Health Care	\$198.57	\$205.49	3.48%
DXS	Dexus Units FP Stapled	Real Estate	\$12.50	\$12.88	3.04%
FMG	Fortescue Metals Group	Materials	\$6.67	\$8.05	20.63%
GMG	Goodman Group Stapled Securities FP	Real Estate	\$13.16	\$13.40	1.82%
GPT	GPT Group Stapled Securities FP	Real Estate	\$5.73	\$5.76	0.52%
IAG	Insurance Australia	Financials	\$7.88	\$7.65	-2.92%
JHX	James Hardie Indust Chess Depository In	Materials	\$19.28	\$18.34	-4.88%
LLC	Lendlease Group Unit/ Stapled Securities	Real Estate	\$13.30	\$14.25	7.14%
MQG	Macquarie Group Limited	Financials	\$134.70	\$120.31	-10.68%
MPL	Medibank Private Limited	Financials	\$2.86	\$3.31	15.73%
MGR	Mirvac Group Stapled Securities	Real Estate	\$2.83	\$3.03	7.07%
NAB	National Aust. Bank	Financials	\$25.35	\$26.49	4.50%
NCM	Newcrest Mining	Materials	\$25.01	\$27.21	8.80%
OSH	Oil Search Limited 10 Toea	Energy	\$7.78	\$7.05	-9.38%
ORI	Orica Limited	Materials	\$18.60	\$20.66	11.08%
ORG	Origin Energy	Energy	\$7.37	\$7.18	-2.58%
QAN	Qantas Airways	Industrials	\$5.61	\$5.55	-1.07%
QBE	QBE Insurance Group	Financials	\$12.93	\$11.67	-9.74%
RHC	Ramsay Health Care	Health Care	\$65.32	\$69.83	6.90%
RIO	RIO Tinto Limited	Materials	\$95.37	\$100.30	5.17%
STO	Santos Limited	Energy	\$7.19	\$6.74	-6.26%
SCG	Scout24 Group Stapled Securities	Real Estate	\$3.82	\$3.80	-0.52%
SHL	Sonic Healthcare	Health Care	\$25.65	\$26.15	1.95%
S32	SOUTH32 Limited	Materials	\$3.34	\$3.32	-0.60%
SGP	Stockland Units/ Stapled Securities	Real Estate	\$3.77	\$4.43	17.51%
SUN	Sunocoop Group Limited	Financials	\$13.27	\$13.03	-1.81%
SYD	SYD Airport FP Stapled Securities US Pr	Industrials	\$7.62	\$7.41	-2.76%
TLS	Telstra Corporation	Telecommunication Services	\$3.38	\$3.65	7.99%
TCL	Transurban Group Ordinary Shares/Uni	Industrials	\$13.44	\$13.93	3.65%
TWE	Treasury Wine Estate	Consumer Staples	\$17.20	\$15.05	-12.50%
URW	UnibailRodavestfield Chess Depository I	Real Estate	\$12.23	\$10.84	-11.37%
VCX	Vicinity Centres Ordinary/Units FP Stap	Real Estate	\$2.54	\$2.58	1.57%
WES	Wesfarmers Limited	Consumer Staples	\$36.01	\$37.05	2.89%
WBC	Westpac Banking Corp	Financials	\$27.51	\$27.44	-0.25%
WPL	Woodside Petroleum	Energy	\$35.39	\$35.42	0.08%
WOW	Woolworths Group Limited	Consumer Staples	\$31.85	\$31.37	-1.51%

