MONTHLY PERFORMANCE REPORT
July 2019

The portfolio returned +4.09% for the month, compared with +2.94% for the S&P/ASX200 Accumulation Index and +2.93% for the S&P/AX200 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	**4.09%**	2.93%
3 Months	**7.01%**	7.70%
Calendar YTD	**20.54%**	20.65%
1 Year	**N/A**	8.48%
3 Years	**N/A**	22.48%
5 Years	**N/A**	20.94%
Cumulative since Inception July 2018	**2.48%**	9.07%

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%	1.84%	4.09%	-	-	-	-	-	20.54%

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 4.09% in June, 115 basis points more than the 2.94% return from its benchmark, the S&P/ASX200 accumulation index. The main reason for the outperformance was stock selection: thirteen of the twenty stocks in the portfolio rose by more than the benchmark.

The S&P/ASX200 price index has finally broken its pre-GFC record of 6851.5, set on 30 November 2007. On 30 July the index hit an intraday high of 6872.9, but ended the day slightly lower and finished the month at 6813.

All sectors of the ASX recorded positive returns in July, led by Consumer Staples, Healthcare, and Information Technology. These sectors are usually defensive, in the sense that their profits are less affected by upturns and downturns in the economy. Discouraging news on commodity prices (except gold!) meant that the Energy and Materials sector underperformed the rest of the market. BHP, Rio, and Fortescue all fell in price when the Brazilian iron ore exporter Vale indicated that it would be re-opening some of the mines which had been shut down. The banks had a dismal month too, so the large cap stocks as a class were beaten by the small caps.

The five largest positive movements in the ALCE portfolio were **JB HiFi** (+16.4%), **IPH** (+11.8%), **Stockland** (+9.6%), **Wesfarmers** (+8.4%), and **Nine** (+7.7%). The only negative movements were ***Woodside*** (-4.6%), ***Chorus*** (-3.1%), and ***ANZ Bank*** (-1.1%).

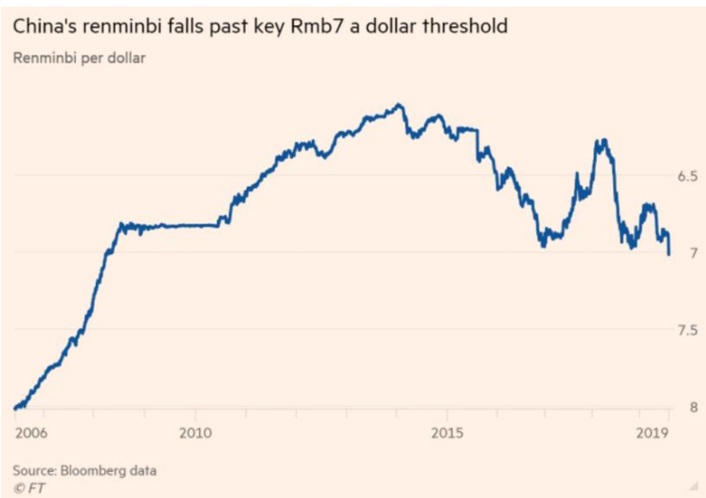
There were no changes in the portfolio during the month. At month-end the Fund's largest holdings were Westpac, ANZ, Macquarie Bank, Transurban, and Wesfarmers.

The Australian market's July rise of 2.9% beat all of the world's major equity markets. The US S&P500 price index rose by 1.3%, Japan's Nikkei 225 by 1.2%, and Europe's Stoxx 600 by only 0.2%. China's markets fell: the Shanghai Composite was down 1.6% and the Hang Seng dropped 2.9%. As if the ongoing protests in Hong Kong were not enough of a problem, Chinese investors worked out that the US trade war was not going to end any time soon. In addition, Chinese authorities stated very clearly that they were not planning another big stimulus for the economy, and they said very specifically that they were not going to pump up the property market again.

MARKET OUTLOOK

The outlook for global equity markets suddenly turned negative in early August. Talks between the US and China resumed in late July, and seemed to have put in place the conditions for more detailed discussions in September, until 31 July when The Donald sent out a tweet threatening China with more tariffs unless it did what he wanted. Global markets reacted with alarm. The Chinese government reacted with an official statement saying that China would not be bullied.

The Chinese response is in line with the way that Chinese media (all of which are State owned) have been framing the trade war as a US continuation of the "century of humiliation", when foreigners started the Opium Wars, looted the Summer Palace, and imposed unequal treaties on weak Chinese governments. The framing includes references to the Long March of 1934-1935, when the Chinese Communist Party retreated to mountain strongholds and regrouped in preparation for the 1949 Liberation. The message is clear: the Chinese people are willing to make sacrifices, because they are settling in for a long campaign.



Our pessimistic outlook was reinforced by the 5 august decision of the People's Bank of China (PBOC) to allow the renminbi (RMB) to slip below the psychological important level of 7.0 to the US dollar (USD). The latest move down takes the RMB to its lowest level since 2008.

Because The Donald has frequently accused China of keeping its exchange rate artificially low to boost exports, in recent months the PBOC has been playing nice in order to facilitate a trade deal. It has repeatedly intervened in the forex market to keep the RMB exchange rate above 7.0 to the USD. After The Donald's latest tariff tweet, the Chinese leadership told the central bank to stop bothering.

Depreciating the RMB against the USD will make Chinese exports more competitive and will mitigate the effect of current and future US tariffs. It also increases the probability of a full-scale trade war, complete with competitive devaluations of RMB and USD.

Australia's iron ore miners have been enjoying a surge in iron ore prices this year, thanks to the latest Brazilian tailings dam disaster. Because the Brazilian authorities forced the temporary closure of several mines for safety reasons, Vale had to curtail its exports to China, and its competitors were unable to fill the supply gap. In July, however, Vale indicated that it would soon be re-opening some of the closed mines. Iron ore prices abruptly retreated, followed by the share prices of the big miners.

The chart above shows the underlying situation. Steel prices rose in 2018 because in 2017 the Chinese government imposed a combination of permanent closures (to reduce over-capacity) and winter production restrictions (to reduce air pollution). Steelmakers then enjoyed a brief burst of profitability, which encouraged them to increase production again, so steel prices fell again. Then the Vale disaster raised iron ore prices, driving the steelmakers further into losses.

This combination of low steel prices and high iron ore prices was obviously unsustainable. The end-result is that iron ore prices will gently slide back down, but Australian miners will still benefit from high prices for a while longer. Hence the big miners are expected to report EPS growth of 20%-plus in FY2020, followed by EPS falls of around 20% in FY2021.

The upcoming result season will tell us a lot about prospects for the Australian economy, but the news is unlikely to be good enough to offset the risks in the rest of the world. The resources sector (except for the gold miners!) is suffering from weakening commodity prices. The banking sector was already having difficulty adjusting to life after the Hayne Royal Commission, not only in repaying cheated customers but also in meeting new standards of behaviour. Now the banks need to modify their business models to cope with a long period of low interest rates.

There are some bright spots. Income-oriented investors have rushed into high-yield stocks such as utilities and property trusts, propelling share prices upwards. House prices have stopped falling – but the prices of the building materials stocks are telling us that the housing market is not about to take off again.

According to the consensus forecast, the FY19 result season should report average EPS growth of 4%. This is already priced in – what will be interesting is how management comments change the forecasts for FY20, where the consensus is forecasting 9% EPS growth. Most of the FY20 growth comes from the resource stocks, where EPS growth of 20%-plus is expected. Property trusts are forecast to grow by 4% and banks by less than 1%.

The Australian economy is materially exposed to the US-China trade war and to the probable US recession. We do not see how investors can turn a blind eye to the world's mounting economic and political problems, therefore the ALCE portfolio remains defensively positioned. The ALCE portfolio has a FY2020 forecast P/E of 15.3x and yield of 5.0%, making it cheaper than the S&P/ASX200, where the consensus forecasts currently imply a P/E of 16.6x and yield of 4.1%.

AUSTRALIAN FIFTY LEADERS – MONTHLY DATA

Code	Name	Sector	30-Jun-19	31-Jul-19	ROR
AGL	AGL Energy Limited	Utilities	$20.01	$20.97	4.80%
AMC	Amcor Limited	Materials	$16.19	$15.53	-4.08%
AMP	AMP Limited	Financials	$2.12	$1.79	-15.57%
ANZ	ANZ Banking Group Limited	Financials	$28.21	$27.91	-1.06%
APA	APA Group Units FP Stapled Securities	Utilities	$10.80	$11.04	2.22%
ALL	Aristocrat Leisure	Consumer Discretionary	$30.72	$30.65	-0.23%
ASX	ASX Limited	Financials	$82.37	$88.85	7.87%
AZJ	Aurizon Holdings Limited	Industrials	$5.40	$5.76	6.67%
BHP	BHP Billiton Limited	Materials	$41.16	$40.76	-0.97%
BXB	Brambles Limited	Industrials	$12.88	$13.12	1.86%
CTX	Caltex Australia	Energy	$24.75	$26.96	8.93%
COH	Cochlear Limited	Health Care	$206.84	$220.35	6.53%
CBA	Commonwealth Bank	Financials	$82.78	$82.30	-0.58%
CPU	Computershare Limited	Information Technology	$16.21	$15.84	-2.28%
CSL	CSL Limited	Health Care	$215.00	$229.62	6.80%
DXS	Dexus Units FP Stapled	Real Estate	$12.98	$13.12	1.08%
FMG	Fortescue Metals Group	Materials	$9.02	$8.33	-7.65%
GMG	Goodman Group Stapled Securities FP	Real Estate	$15.03	$14.81	-1.46%
GPT	GPT Group Stapled Securities FP	Real Estate	$6.15	$6.21	0.98%
IAG	Insurance Australia	Financials	$8.26	$8.63	4.48%
JHX	James Hardie Indust Chess Depositary In	Materials	$18.70	$19.89	6.36%
LLC	Lendlease Group Unit/ Stapled Securities	Real Estate	$13.00	$14.55	11.92%
MQG	Macquarie Group Limited	Financials	$125.39	$128.79	2.71%
MPL	Medibank Private Limited	Financials	$3.49	$3.61	3.44%
MGR	Mirvac Group Stapled Securities	Real Estate	$3.13	$3.22	2.88%

Code	Name	Sector	30-Jun-19	31-Jul-19	ROR
NAB	National Aust. Bank	Financials	$26.72	$28.51	6.70%
NCM	Newcrest Mining	Materials	$31.95	$35.58	11.36%
OSH	Oil Search Limited 10 Toea	Energy	$7.07	$7.11	0.57%
ORI	Orica Limited	Materials	$20.27	$21.82	7.65%
ORG	Origin Energy	Energy	$7.31	$7.94	8.62%
QAN	Qantas Airways	Industrials	$5.40	$5.71	5.74%
QBE	QBE Insurance Group	Financials	$11.83	$12.49	5.58%
RHC	Ramsay Health Care	Health Care	$72.24	$72.78	0.75%
RIO	RIO Tinto Limited	Materials	$103.76	$98.90	-4.68%
STO	Santos Limited	Energy	$7.08	$7.23	2.12%
SCG	Scentre Group Stapled Securities	Real Estate	$3.84	$3.99	3.91%
SHL	Sonic Healthcare	Health Care	$27.10	$28.04	3.47%
S32	SOUTH32 Limited	Materials	$3.18	$3.14	-1.26%
SGP	Stockland Units/ Stapled Securities	Real Estate	$4.17	$4.57	9.59%
SUN	Suncorp Group Limited	Financials	$13.47	$13.51	0.30%
SYD	SYD Airport FP Stapled Securities US Pr	Industrials	$8.04	$8.36	3.98%
TLS	Telstra Corporation	Telecommunication Services	$3.85	$3.97	3.12%
TCL	Transurban Group Ordinary Shares/Uni	Industrials	$14.74	$15.55	5.50%
TWE	Treasury Wine Estate	Consumer Staples	$14.92	$17.70	18.63%
URW	Unibailrodawestfield Chess Depositary I	Real Estate	$10.27	$10.15	-1.17%
VCX	Vicinity Centres Ordinary/Units FP Stap	Real Estate	$2.45	$2.61	6.53%
WES	Wesfarmers Limited	Consumer Staples	$36.16	$39.19	8.38%
WBC	Westpac Banking Corp	Financials	$28.36	$28.65	1.02%
WPL	Woodside Petroleum	Energy	$36.36	$34.70	-4.57%
WOW	Woolworths Group Limited	Consumer Staples	$33.23	$35.62	7.19%

Sector Composition of the ASX50 - end of Month