MONTHLY PERFORMANCE REPORT
August 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: $ 6,747,549.54

Unit Price: 0.8583

INVESTMENT MANAGER

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

DISTRIBUTION DETAILS

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The Fund returned +1.41% for the month, compared with +0.44% for the HFRX Absolute Return Index. The Fund continues to achieve its objective of being a low volatility fund as a consequence of our risk averse strategies. At the end of H1 2019, our models indicate that all major markets' YTD rises have no basis in any fundamentals i.e. either company earnings or the macro backdrop. Volatility (VIX) is below its historical long term average. We expect the US dollar to continue appreciating in 2019 although the outlook for US interest rates is less certain. 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	SOCIETE GENERALE CTA MUTUAL FUND INDEX
1 Month	**1.41%**	0.44%	2.94%	5.22%
3 Months	**2.17%**	1.42%	7.58%	11.12%
Calendar YTD	**3.68%**	2.33%	19.41%	11.90%
1 Year	**-8.18%**	0.46%	6.24%	9.15%
2 Years	**-11.57%**	2.68%	9.54%	4.67%
Cumulative Since Inception NOV 2016	**-4.20%**	**5.33%**	**17.09%**	**11.66%**

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

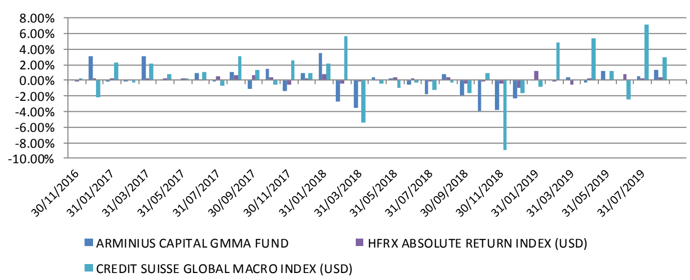
%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2016	-	-	-	-	-	-	-	-		INCEPTION =>	0.08%	3.06%	3.14%
2017	-0.02%	-0.14%	3.14%	0.02%	0.06%	0.94%	-0.08%	1.07%	-1.15%	1.47%	-1.36%	0.99%	4.96%
2018	3.47%	-2.66%	-3.50%	0.46%	0.22%	-0.58%	-1.80%	0.87%	-1.95%	-3.93%	-3.75%	-2.32%	-14.65%
2019	0.06%	0.10%	0.34%	-0.24%	1.22%	0.18%	0.57%	1.41%	-	-	-	-	3.68%

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).

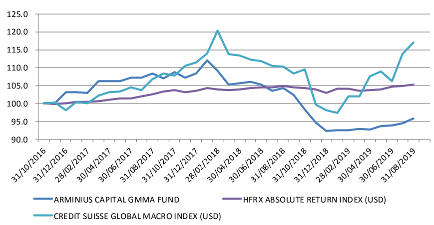
FUND OBJECTIVES: The Arminius Capital GMMA Fund invests by purchasing units in an underlying wholesale hedge fund, being the "**Arminius Capital ALPS Fund**", which provides investors with exposure to all asset classes in the global macro universe. As such, there may be some degree of difference between 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)

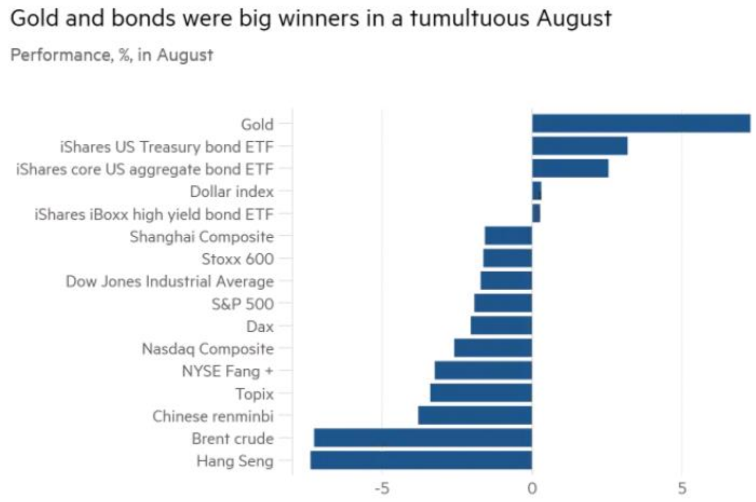


FUND MANAGER'S COMMENTARY: ***IN THE COMMENTARY TO FOLLOW, ALL DATA REFERENCES TO POSITIONS, HOLDINGS, WEIGHTINGS OR EXPOSURE ARE DATA OF THE UNDERLYING ARMINIUS CAPITAL ALPS FUND INTO WHICH THE ARMINIUS CAPITAL GMMA FUND INVESTS.***

FUND PERFORMANCE

The fund rose by **+1.41%** in August while almost all major global equities markets fell, some by ~6% mid-month (and that excludes Hong Kong's number completely; its August return was -7.39%). Global confidence was weighed down by rising tensions in the US-China trade war and growing fears of a global economic slowdown. The US S&P500 price index dropped **-1.81%**, Australia's S&P/ASX200 price index slid **-3.06%**, Japan's Nikkei 225 fell **-3.80%**, and Europe's Stoxx 600 slipped **-1.63%.**

The Shanghai Composite price index was down **-1.58%**, and as mentioned, the Hang Seng slumped **-7.39%** as the protests in Hong Kong continued. Investors abandoned risky assets in favour of perceived safe havens such as gold and US government bonds, as the chart below shows.



INVESTMENT OUTLOOK

Investors continue to abandon equities for bonds as the global outlook worsens. Commodity prices are falling too, because slower growth means less demand for raw materials. In addition to the knock-on effects of the US-China trade war, there are signs that GDP growth is weakening in several major economies.

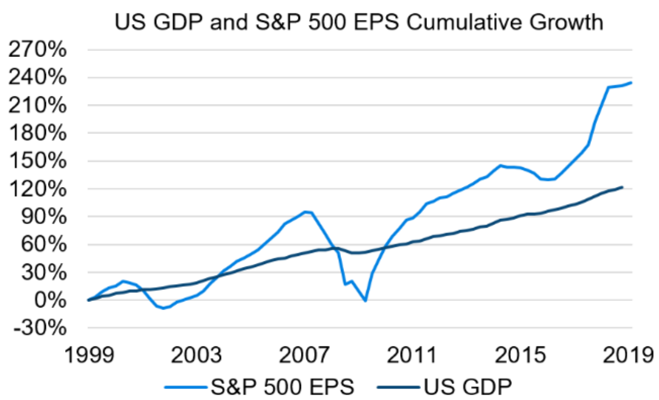
Japan has been in and out of recession and deflation for the last quarter-century, and may well dip back in when the next sales tax increase occurs in October. Japan's exports to China fell 8.3% in the year to July, and its shipments to Asia fell 9.3% in the same period. As if that weren't enough, Japan and South Korea have started their very own trade war, unrelated to China and the US. The ostensible cause is security issues, but resentment over Japanese maltreatment of Korean civilians has been smouldering between the two countries since World War II. (For more details, see the Arminius website under News, dated 06 August 2019.)

In Germany, GDP shrank 0.1% in the June quarter, industrial production in June was down 5.2% year-on-year, and the Bundesbank warned that the economy was likely to slip into recession in the September quarter. Because Germany is Europe's largest economy and most successful exporter, recession in Germany will affect the rest of Europe. In June, trade within the Eurozone and export from the Eurozone both dropped sharply (see chart below). In the UK, the new Prime Minister, Boris Johnson, has asserted that his country will be leaving the EU on 31 October, deal or no deal. Whatever happens, some degree of economic disruption is inevitable. The good news in Europe is that Spain, Portugal, and Greece – the former basket cases – are growing strongly.

Economic conditions are also deteriorating in Latin America. Mexico is hovering on the edge of recession, with GDP growth of negative 0.2% in the March quarter and positive 0.1% in the June quarter. Brazil's economy is similarly weak, but much better than Argentina, where the government scored its ninth debt default in 200 years, coupled with a 33% year-on-year fall in the Argentine peso against the US dollar and a 47% one-day fall in the Argentine stock exchange.

Because trade is so important to Singapore, its economy is a reliable bellwether for Southeast Asia. A 3.3% fall in the June quarter was caused by the flow-on from the US-China trade war. Ultimately the trade war may be good for Southeast Asia as Chinese industry relocates there, but in the meantime the reduction in Chinese demand and the disruption of supply chains will cause some economic hardship. (And The Donald may well tweet his declarations of new trade wars at any time.)

In the US itself, recession indicators are mounting. The yield curve remains stubbornly inverted, S&P500 company earnings fell 0.4% in the June quarter, capital expenditure forecasts have slumped, and factory orders have fallen to the lowest level in a decade. As the chart below shows, US share market expectations have run a long way ahead of the actual performance of US companies.



The Chinese manufacturing sector has been adversely affected the trade war, but the rest of the economy remains strong. In July, exports rose by 3.3% and imports fell by 5.3%, leading to a monthly trade surplus of USD 45bn, compared to USD 51bn in June. To date, all that the Trump tariffs have achieved is to shuffle the US trade deficit off to other countries. As the chart below shows, Chinese exports to the US have fallen, but exports from other countries to the US have made up the difference.

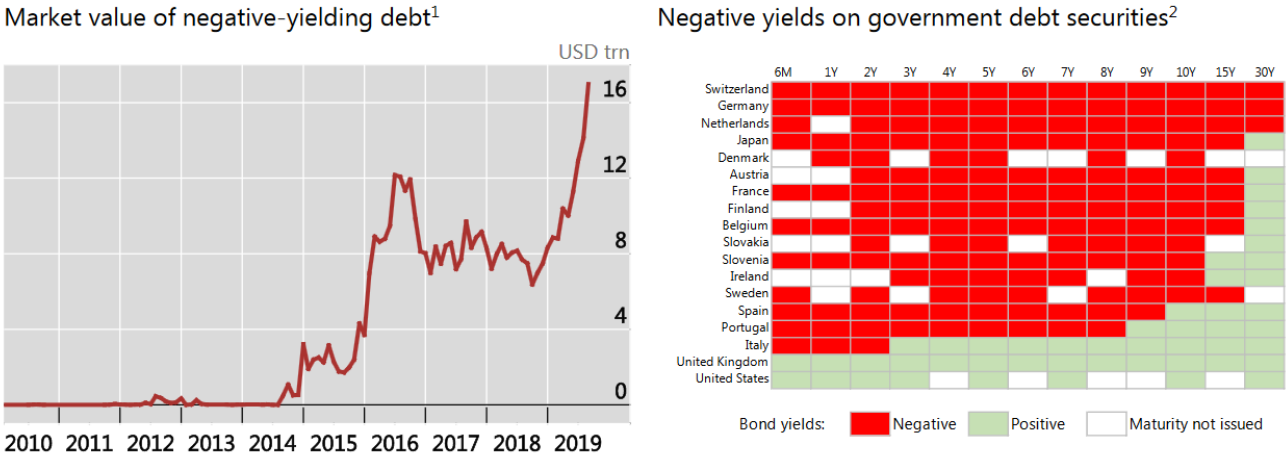
The government's response to the trade war has been twofold – to stimulate the private sector by reducing regulations and offering tax concessions, and to alleviate the pain for the manufacturing industries which have been worst affected. The decision to set the renminbi exchange rate at more than 7.00 to the US dollar is an example of the latter. Because the exchange rate is fixed by the authorities on a daily basis, exporters can be confident that it will not be going back up in a hurry.

In Australia, the FY2019 results season was disappointing, with several negative surprises and far more earnings downgrades than upgrades. The big miners underperformed the broader market because the main Brazilian iron ore exporter indicated that shipments would be resuming, with the result that iron ore prices collapsed from their peak of USD125 and are currently heading back to where they were in January before the temporary supply shortage began. The new record lows in mortgage interest rates have spurred homebuyers into action and driven up auction clearances, but companies in the property sector remain extremely wary. Management commentary was very cautious about the near-term outlook, with the residential market not expected to revive in the next twelve months.

FUND MANAGER COMMENTARY

How about those USD $16 Trillion worth of negatively yielding bonds hey? The number has been going up about a trillion a month this year, give or take. We recall the 1990's song "Where Do You Go" said in its deep, philosophically complex chorus: ***Where do you go, my lovely.*** Financial markets in August 2019 struggled to come to grips about where to go to find yield, let alone safety, similar to the question that the band (named "**No Mercy**") was asking, albeit for love, not money. How apt a name for current times in the search for yield - no mercy - they should get the band back together.

Uncharted waters: total negative-yielding debt globally — Graph 10



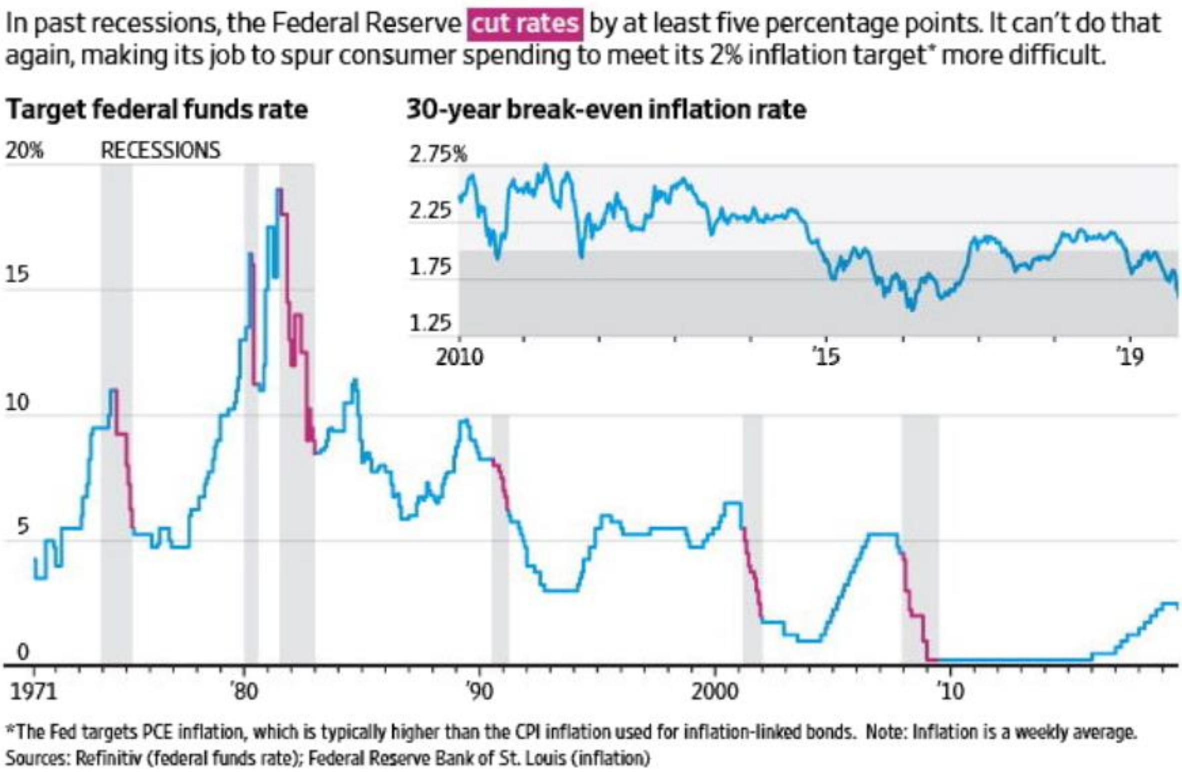
[1] Based on Bloomberg Barclays Global Aggregate Negative-Yielding Debt Index. [2] As of 29 August 2019.

Sources: Bloomberg; BIS calculations.

So where do you go? If you are more worried about a return of capital rather than a return on capital, you buy bonds from Switzerland, Germany, the Netherlands. Maybe Japan too. Looking at the BIS chart above on negative yields on government debt securities, there are really only 2 economies in which the global bond market participants do not see as potentially suffering from anaemic real GDP growth rates over the next 12 months and **out to the next 30 years**: The UK and the USA.

However, positive yields from UK gilts have been offset by falls in the GBP (Great British Peso) against the USD: in CY 2018 falling -5.43% and YTD August 2019 falling -4.93%. in both time samples, the FX loss of approx. -5% per annum (a plummeting devaluation of the pound) was more than what present day bond holders can only dream of receiving each year in "risk free" yield. And so the UK falls out of contention as one of the last 2 bastions of positive global yield. It follows that, much as Connor McCleod found out in Highlander: "There can be only one" – and it's the USA.

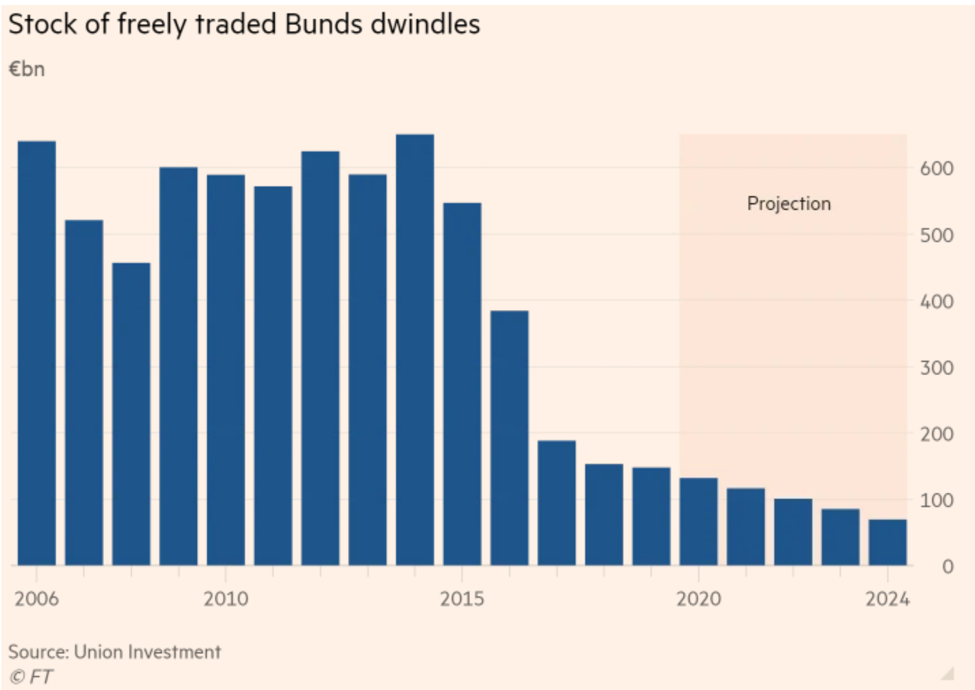
If Jay Powell thinks a recession is nigh, then he has painted himself into a corner and tipped the punchbowl over his gunpowder: having the arsenal at 2.00% hardly enables massive monetary policy assistance in the event the US does go into recession in 2020. Previously in the 1970s when the US entered a recession (as opposed to the GFC which was the closest thing in approx. 100 years to a depression) the "dry powder" of the Fed Funds rate was approx. 10%. Then in the 1980s after raising rates to almost 20% to kill off inflation, Volcker had ample room to cut multiple times in bouts of 50 bps without scraping the bottom of the monetary policy barrell. Indeed, in the last 6 recessions that the US has endured, the Fed has been able to cut rates by at least 5 percentage points (see graph from the WSJ & Refinitiv). However, sadly for my forlorn hopes of expanding my Van Halen tape collection, it is no longer the 1980s and base rates are not 18%. They are at t-w-o percent.

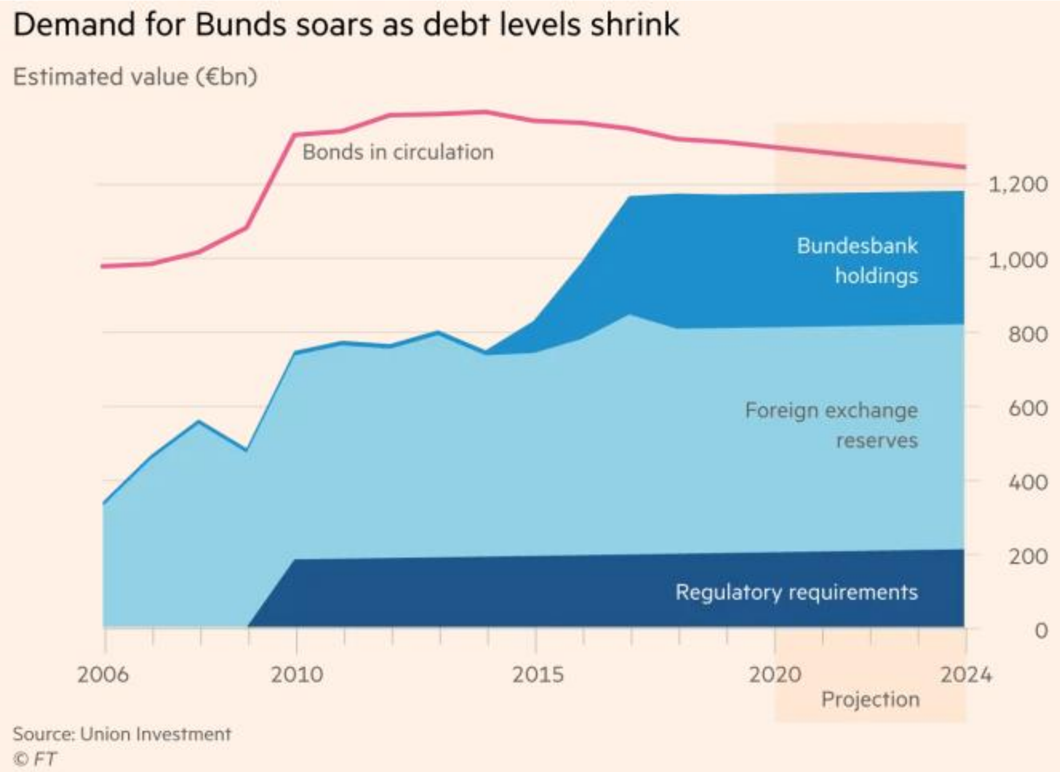


Markets in August effectively despaired about 2 major issues:

1. <u>A Belief that central banks will rescue us. Again. And again. And again.</u>

    a. How long can they physically keep buying bonds – supply, anyone ??? – see Bunds chart below. QE has been an abject failure in Japan and the Fed's balance sheet can be conservatively described as "large".

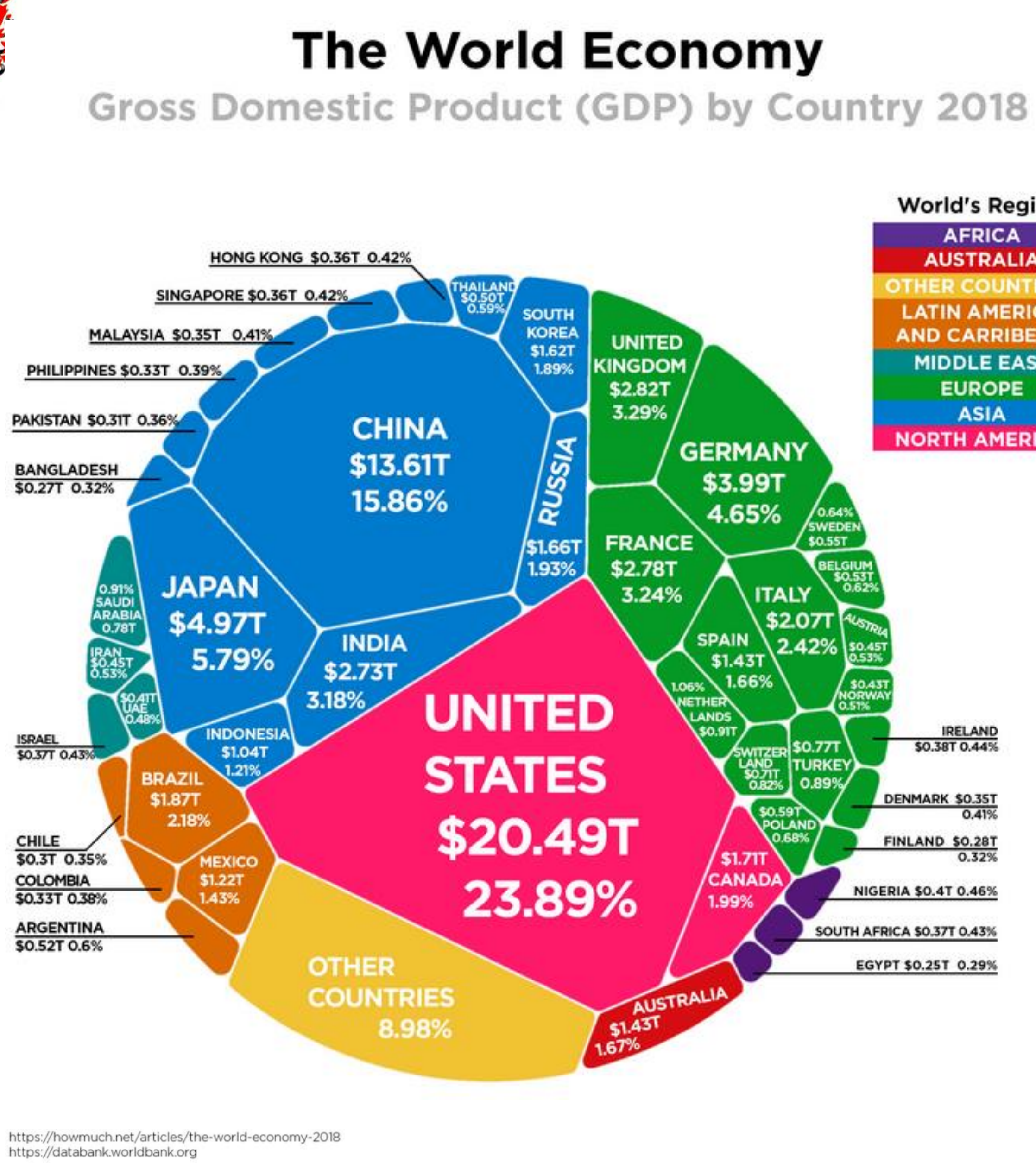




b. The European QE experiment has been a disaster and now they (the ECB) are talking about buying publicly listed European equities in material amounts

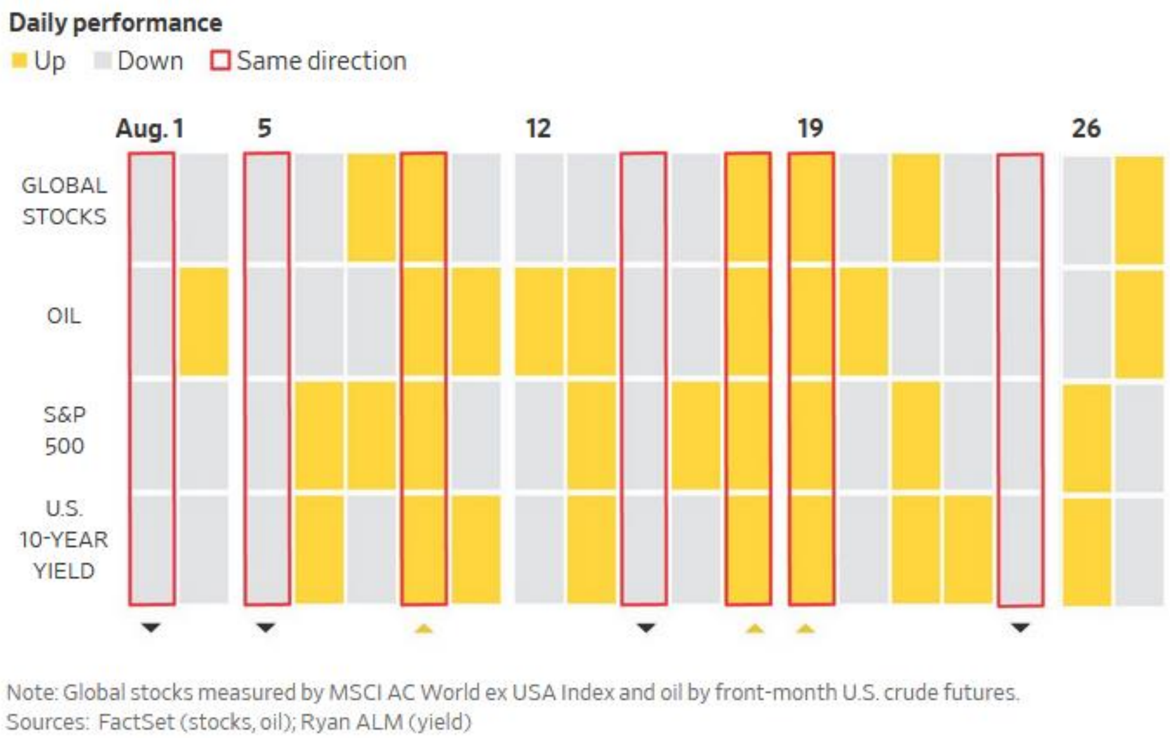
2. <u>Resolution of trade talks between US and China.</u>

   a. There is very little chance of this occurring before the US November 2020 presidential election. The Chinese strategy of hold and wait is not really working out how they thought it would, as the Democrat party line is now in alignment with Republicans as both parties ready themselves for policy election platforms ie. There is bipartisan support for the view that something is wrong with China's relationship with the rest of the world and it must change. China, admitted to the WTO in 2001, still enjoys "emerging market" trading status afforded to it by the WTO. Given the size of its economy at 15.8% of world GDP (brightly demonstrated in the ocularly damaging graph to follow) it makes of mockery of the WTO for the status quo to remain – China is the world's second largest economy after the US.

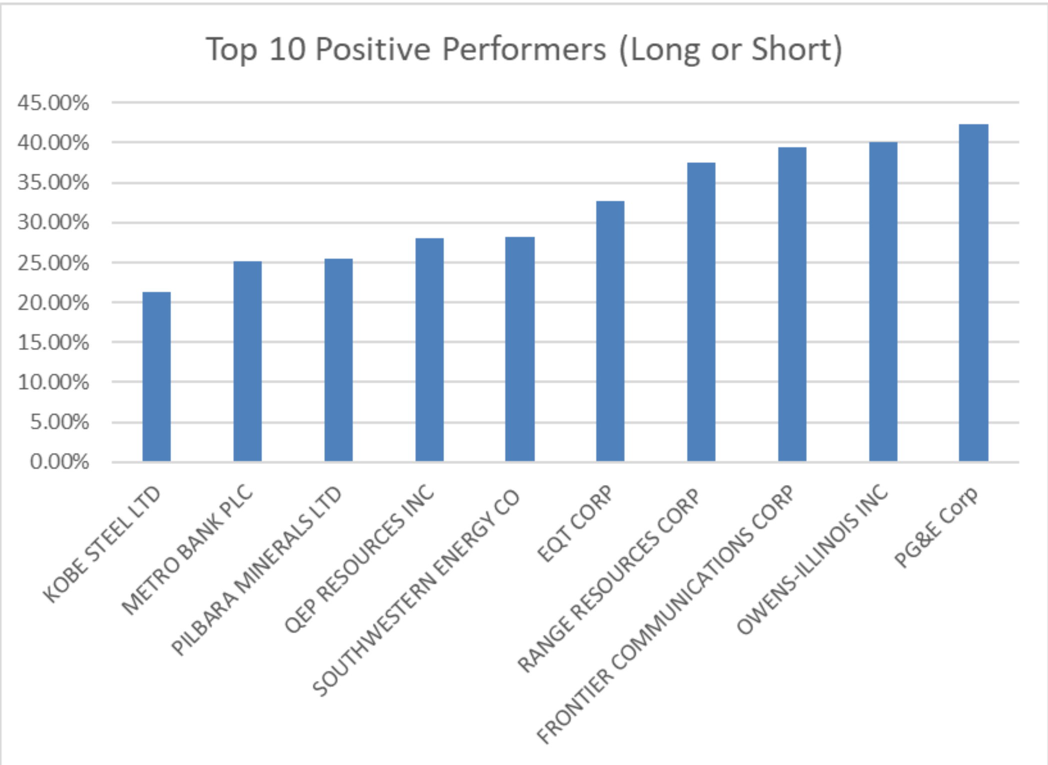


On top of those 2 issues, in addition to the trade war, investors can now add a currency war to the list with the US facing off with both China but more importantly the Euro. Mario Draghi departs his office at the ECB in a matter of mere weeks, and traders are already positioning themselves for a final shot across the bows of European inflation from Mario as he leaves the building. With inflation and growth in most parts of Europe a forlorn memory of yesteryear, you can almost bank on a depreciating Euro against the USD in the next few months ahead.

All of this combined to produce the below result: massive sell offs in multiple asset classes as demonstrated from the graph taken from the Journal.



The fund made almost all of its money this month shorting with some very large moves for an intra-month period. We benefitted significantly from depressed energy commodity prices. Our top 10 positions were all shorts.



The moves were sufficiently large through the month to provide us with a distribution of trade returns (see below graph) for positions held at month's end to average most individual positions returning almost 10%. Although it may not have seemed like it on the market's surface, the underlying moves in the market were quite dramatic – reminiscent of August 2015. The current large-cap composition of many global indices (eg.

massive tech stock concentration in the S&P500) means that if you are holding pure index positions, you will be unaware of what else is happening in the underlying constituents.

The global outlook remains precariously balanced. Inflation is non-existent, trade is slowing, and the only economy that is really firing, is possibly doing so on borrowed time. We see no imminent resolution to the US-China situation, which has trickle down effects on other major trading economies such as Germany, Japan and not to forget Australia. The world has come to rely and indeed expect a central banks' intervention whenever something looks like it is not going well. Sadly, the ammunition expended to remedy the global economic condition since 2008/09, has now been expended and depleted. Global bond yields in virtually any country of note, apart from the US, are negative. The central bank hawks at the ECB (the Germans, Dutch, Austrian & Estonian) are very, very angry at Mario. They are literally looking into the abyss and know what is coming next. The recruitment agency that placed Christine Lagarde as the next head of the ECB should take their placement fee and fade away into the night, much like European inflationary expectations do. She will have a momentous job ahead of her. However, she can compare notes about the great unknown that awaits, with Jay Powell across the Atlantic when he calls her sometime in the next 2 years with the news that the US in recession and that their base rate by then may well be about 1.5%. Not quite 500 basis points to play with this time.

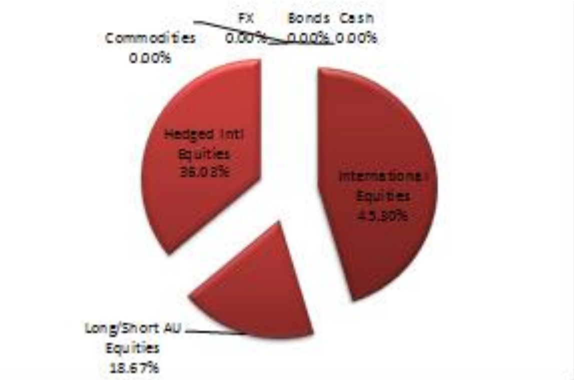
We are pleased with the ALPS fund's return this month of +1.44% against what has been a major global sell-off as equities and commodities markets react to bond market gyrations. Things may recover quickly in September, but we remain vigilant as to the prospect of declining global bond yields and the repercussive effects that will have on investors (and net savers) psyches' as they look at equities and their dividend yields as ***"the new fixed income"***.

Q.E.D.

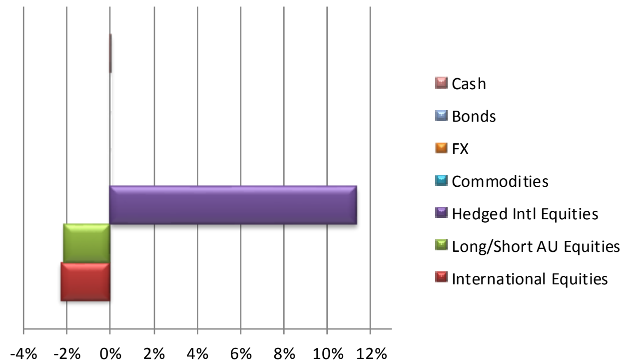
UNDERLYING FUND DATA

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



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)

- 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-Jul-19	31-Aug-19	ROR
EUROPE			
Germany DAX (TR)	12189.0	11939.3	-2.05%
Switzerland SMI (PR)	9919.3	9895.7	-0.24%
STOXX Europe 600 (EUR)	385.8	379.5	-1.63%
FTSE 100	7586.8	7207.2	-5.00%
France CAC 40	5518.9	5480.5	-0.70%
FTSE MIB	21398.2	21322.9	-0.35%
Netherlands AEX	572.1	558.4	-2.40%
Belgium BEL 20	3701.4	3570.8	-3.53%
OMX Stockholm 30	1599.8	1577.0	-1.42%
Norway Oslo All-Share	957.2	955.6	-0.16%
Ireland ISEQ	6111.1	5879.4	-3.79%
Spain IBEX 35	8971.0	8812.9	-1.76%
Cyprus CSE General	70.6	71.1	0.75%
AMERICAS			
S&P 500	2980.4	2926.5	-1.81%
DJ 30 Industrials	26864.3	26403.3	-1.72%
DJ 65 Composite Average	8895.2	8751.9	-1.61%
NASDAQ Composite	8175.4	7962.9	-2.60%
Russell 1000	1652.4	1618.6	-2.04%
S&P TSX	16406.6	16442.1	0.22%
Brazil Bovespa	101812.1	101134.6	-0.67%
Mexico IPC	40863.1	42622.5	4.31%
ASIA			
S&P ASX 200	6812.6	6604.2	-3.06%
Nikkei 225	21521.5	20704.4	-3.80%
Hang Seng	27777.8	25724.7	-7.39%
Korea KOSPI	2024.6	1967.8	-2.80%
FTSE Strait Times	3300.8	3106.5	-5.88%
Taiwan TAIEX	10823.8	10618.1	-1.90%
New Zealand NZX 50 (TR)	10857.8	10757.2	-0.93%
Shanghai SSE Composite	2932.5	2886.2	-1.58%
China Shenzhen A Share	1643.3	1651.7	0.52%
India S&P BSE SENSEX	37481.1	37332.8	-0.40%
FTSE Bursa Malaysia KLCI	1634.9	1612.1	-1.39%
Indonesia JSX	6390.5	6328.5	-0.97%

FOREIGN EXCHANGE	31-Jul-19	31-Aug-19	ROR
AUD/USD	0.685	0.673	-1.75%
EUR/USD	1.113	1.099	-1.24%
JPY/USD	108.419	106.146	-2.10%
GBP/USD	1.219	1.216	-0.22%
CHF/USD	1.011	1.011	-0.02%
USD/CAD	0.759	0.751	-1.02%
EUR/GBP	0.913	0.904	-1.02%
EUR/AUD	1.624	1.633	0.52%
USD/CHF	0.994	0.990	-0.45%
GBP/AUD	1.777	1.805	1.58%
CBOE Volatility Index	16.12	18.98	17.74%

COMMODITIES	31-Jul-19	31-Aug-19	ROR
Energy			
Crude Oil WTI (NYM $/bbl) Continuous	58.58	55.10	-5.94%
Brent Crude (ICE $/bbl) Continuous	65.05	59.25	-8.92%
NY Harbor ULSD (NYM $/gal) Continuous	1.97	1.84	-6.77%
NY Harb RBOB (NYM $/gal) Continuous	1.86	1.53	-17.88%
Natural Gas (NYM $/btu) Continuous	2.23	2.29	2.33%
Precious Metals			
Gold (NYM $/ozt) Continuous	1437.80	1529.40	6.37%
Silver (NYM $/ozt) Continuous	16.41	18.34	11.81%
Industrial Metals			
Aluminum (LME Cash $/t)	1776.50	1712.50	-3.60%
High Grade Copper (NYM $/lbs) Continuous	5926.00	5678.00	-4.18%
Nickel (LME Cash $/t)	14360.00	17860.00	24.37%
Iron Ore 62% CN TSI (NYM $/mt)	120.02	90.91	-24.25%
Zinc (LME Cash $/t)	2425.50	2246.00	-7.40%
Agricultural			
Corn (CBT $/bu) Continuous	4.10	3.70	-9.82%
Soybeans (CBT $/bu) Continuous	8.82	8.69	-1.42%
Wheat (CBT $/bu) Continuous	4.87	4.63	-5.08%
Cotton #2 (NYF $/lbs) Continuous	0.64	0.59	-7.85%
Sugar #11 (NYF $/lbs) Continuous	0.13	0.12	-7.35%
Indices			
GS Commodity (CME) Continuous	421.45	396.60	-5.90%
PowerShares DB Commodity Index Tracking Fund	15.55	14.83	-4.63%
db x-trackers SICAV - db x-trackers DB COMMODITY BO	14.12	13.72	-2.87%

10 YEAR SOVEREIGN YIELDS	31-Jul-19	31-Aug-19	Yield D
US	2.02%	1.50%	-0.52%
UK	0.62%	0.46%	-0.17%
Europe	-0.43%	-0.71%	-0.29%
Australia	1.20%	0.89%	-0.31%
Belgium	-0.11%	-0.36%	-0.26%
Canada	1.52%	1.16%	-0.36%
Denmark	-0.36%	-0.68%	-0.32%
France	-0.17%	-0.42%	-0.25%
Germany	-0.43%	-0.71%	-0.29%
Greece	2.02%	1.61%	-0.41%
Ireland	0.10%	-0.10%	-0.19%
Italy	1.56%	1.02%	-0.54%
Japan	-0.16%	-0.28%	-0.12%
Netherlands	-0.31%	-0.57%	-0.25%
New Zealand	1.44%	1.07%	-0.37%
Norway	1.38%	1.14%	-0.24%
Portugal	0.36%	0.13%	-0.23%
Spain	0.30%	0.11%	-0.19%
Sweden	-0.14%	-0.37%	-0.23%
Switzerland	-0.77%	-1.03%	0.26%

ROR = Rate of Return
Yield D = Yield differential