MONTHLY PERFORMANCE REPORT
September 2019

The portfolio returned +1.48% for the month, compared with +1.84% for the S&P/ASX200 Accumulation 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 Accumulation Index (AUD)
1 Month	**1.48%**	1.84%
3 Months	**5.73%**	2.37%
Calendar YTD	**23.06%**	22.39%
1 Year	**7.62%**	12.43%
3 Years	**N/A**	N/A
5 Years	**N/A**	N/A
Cumulative since Inception July 2018	**4.42%**	**11.44%**

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%	0.99%	-3.17%	-7.46%	-2.66%	-4.58%	N/A
2019	1.97%	4.67%	2.58%	2.37%	0.95%	1.84%	4.09%	-0.39%	1.48%	-	-	-	23.06%

INVESTMENT MANAGER

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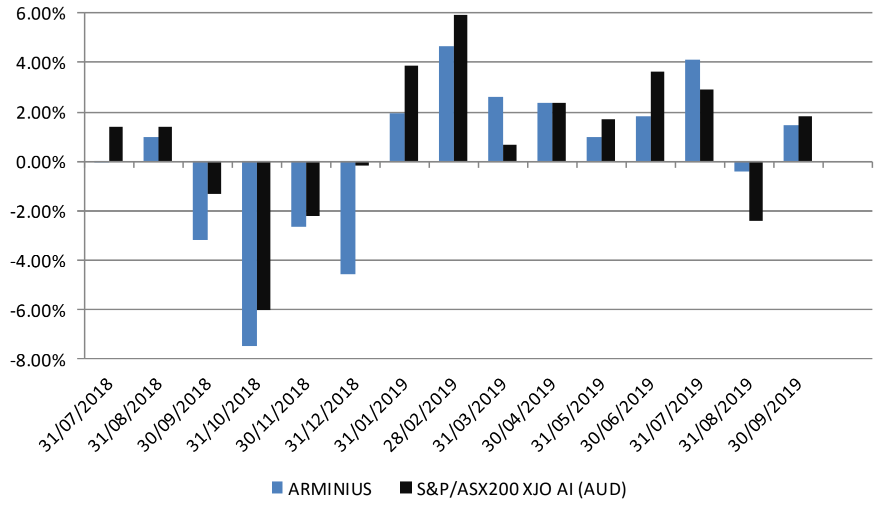
STRATEGY OBJECTIVES:

The aim of the ALCE (Australian Low Correlation Equities) 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 1.48% in September, 36 basis points less than the 1.84% return from its benchmark, the S&P/ASX200 accumulation index. The main reason for the underperformance was that ALCE was underweight the banking sector, which outperformed strongly (+5.9%) as investors positioned themselves for the dividends to be declared at end-October.

The five largest positive movements in the ALCE portfolio were **Coles** (+11.1%), **ANZ** (+6.4%), **Westpac** (+5.8%), **Macquarie** (+5.8%), and **JB Hi-Fi** (+3.4%). The five largest negative movements were **IPH** (-7.6%), **CocaCola Amatil** (-2.0%), **IAG** (-2.0%), **APA** (-1.9%), and **Growthpoint** (-1.7%).

The regular portfolio re-balance caused the sale of Chorus, IPH, JB Hi-Fi, Westpac, and Woodside, and the purchase of Amcor, APA, GPT, National Australia Bank, and Orora. At month-end the Fund's largest holdings were National Australia Bank, ANZ, Macquarie, Wesfarmers, and Transurban.

All major share markets rose in September, but they were strongly affected by local factors. Japan and Europe led the way on the strength of better economic news. The Nikkei 225 jumped 5.3% and the Stoxx 600 climbed 3.6%. The Anglo markets were less enthusiastic: the US S&P500 price index gained only 1.7%, and Australia's S&P/ASX200 price index was up only 1.3%. Although the US-China trade negotiations resume in Washington on 10-11 October, the two sides are still a long way apart. In addition, the Trump Administration is rumoured to be planning to cut off the flow of US capital to Chinese markets. Under these circumstances, the Shanghai Composite price index gained only 1.6%, and the ongoing protests in Hong Kong limited the Hang Seng's rise to 0.9%.

MARKET OUTLOOK

Australian monetary policy is heading into uncharted waters. On 02 October the Reserve Bank cut the official cash rate to a new record low of 0.75%pa, and in 2020 it may begin quantitative easing (QE). Investors who need income have already given up on fixed interest and moved their money to companies and property trusts, where cash yields of 5% can still be found.

The Federal Government has refused to increase spending so as to stimulate the economy. Instead, it is exhorting banks to lend more and companies to invest more. This "cheerleader" approach has been tried by many governments around the world, and it has never worked.

The banking sector performed strongly in September, rising 5.9%. Even though falling interest rates are compressing banks' net interest margins and smaller competitors are making inroads into the housing loan market, the banks offer fully franked yields of 5%-plus, and the next big payout follows the release of the ANZ, NAB, and Westpac results in late October and early November. But it is worth remembering that bank profits have not increased since 2015, as the chart above shows. The slow growth rate of the Australian economy is partly to blame, but the banks are also under pressure from increased regulation. In order to have "unquestionably strong" balance sheets ready for the next GFC, they were forced to reduce their leverage and hold more equity capital. This tends to reduce their rate of return on equity, as the chart below shows.

Complying with the post-Hayne regulatory world requires new loan approval procedures and compliance, which imposes extra costs. It is not surprising that the big banks have been losing market share to more agile competitors. With the opening up of customer data and the payments system next year, the big banks will find themselves under even more pressure.

Disappointing economic data has reduced forecasts for FY20 EPS growth even further. The consensus forecast has dropped from 7% to 6%, most of which comes from the resource stocks, where EPS growth of around 17% is expected. Property trusts are forecast to grow by 2%, and the banking sector is expected to record flat earnings. Downgrades of forecasts continue to outnumber upgrades of forecasts.

The Australian economy is materially exposed to the US-China trade war and to the probable US recession. The US and Australian markets are dominated by optimistic investors who are hoping for continued economic growth. Global bond markets, by contrast, are much more pessimistic, expecting an economic downturn, whether from a US recession or a worsening of the US-China trade war. Therefore the ALCE portfolio remains defensively positioned. The ALCE portfolio has a FY2020 forecast P/E of 15.2x and yield of 5.0%, making it cheaper than the S&P/ASX200, where the consensus forecasts currently imply a P/E of 16.9x and yield of 4.1%.