MONTHLY PERFORMANCE REPORT
December 2019

The portfolio returned -2.41% for the month, compared with -2.17% 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	**-2.41%**	-2.17%
3 Months	**-1.77%**	0.27%
Calendar YTD	**21.50%**	23.15%
1 Year	**21.50%**	23.15%
3 Years	**N/A**	N/A
5 Years	**N/A**	N/A
Cumulative since Inception July 2018	**2.81%**	**9.92%**

*All returns data for Arminius Capital ALCE Strategy are sourced from the **HUB24** platform, which ALCE is available upon.*

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%	-1.52%	2.01%	-2.41%	21.50%

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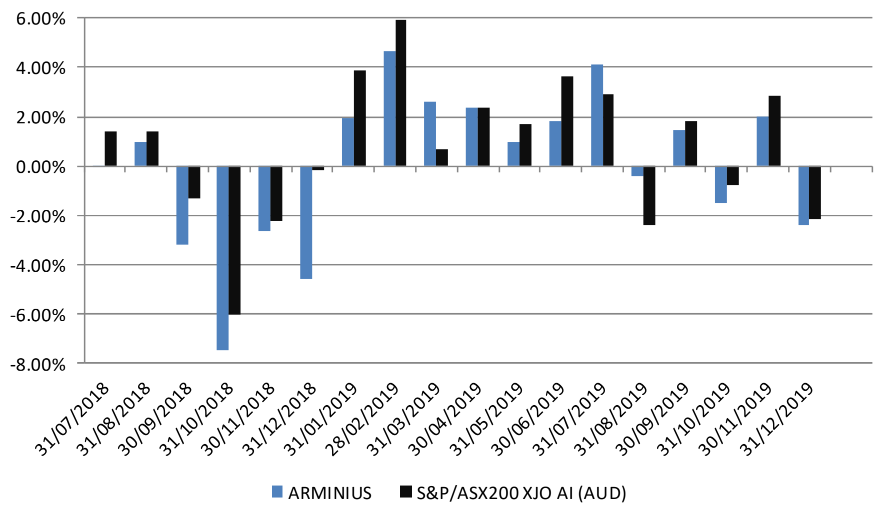
STRATEGY OBJECTIVES:
The aim of the ALCE (Australian Low Correlation Equities) portfolio is to outperform the S&P/ASX 200 (TR) Index over rolling 5-year periods. The portfolio will also aim to deliver above market dividend income and lower volatility than the S&P/ASX 200 (TR) Index. The investment process 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 fell by 2.41% in December, 24 basis points below the negative 2.17% return from its benchmark, the S&P/ASX200 accumulation index. This gives ALCE a total return of 21.50% for calendar 2019, compared to 23.15% for its benchmark.

ALCE achieved its 2019 return with a higher dividend yield and lower volatility than its benchmark – these two features are built into the Fund, because the purpose of ALCE is to provide our investors with reliable income and steady capital growth. ALCE owned several very successful companies in 2019, such as IPH, Macquarie and Wesfarmers, but most of the highest performing stocks in 2019 did not pay dividends, which means that ALCE was unable to hold them.

The regular re-balance of the ALCE portfolio in December saw the sale of Aurizon, Growthpoint, GPT, GWA, IAG and Spark New Zealand. They were replaced with AGL, Charter Hall Retail Trust, GUD, IOOF Holdings, Janus Henderson and QBE Insurance.

The five largest positive movements in the ALCE portfolio during December were GWA (+2.6%), Nine Entertainment (+2.1%), Amcor (+1.9%), Shopping Centres Australasia (+1.7%), and APA (+1.1%). The five largest negative movements were Coles (-8.6%), Aurizon (-7.3%), Stockland (-6.0%), GPT (-5.7%), and National Australia Bank (-5.6%). At month-end the Fund's largest holdings were still National Australia Bank, ANZ, Wesfarmers, Macquarie Group, and Transurban.

December was a good month for most of the world's equity markets – except the ASX, where the S&P/ASX price index fell 2.4%. A surge of optimism among US investors pushed the S&P500 price index up 2.9%, setting a new record of 3240 on 27 December. The European Stoxx 600 price index was not far behind, rising 2.1% over the month and also setting a new record of 420 on 27 December. Japan's Nikkei 225 price indices gained 0.4%. Chinese markets performed strongly as investors finally came to believe that a truce in the US-China trade war would be signed in January: the Shanghai Composite price index jumped 5.7%, and the Hong Kong Hang Seng leaped 8.2%.

MARKET OUTLOOK

2019 was one of those rare years when almost every asset class recorded strong returns. It took real talent to lose money – you had to invest in AMP shares or Argentina or lithium or US natural gas. Thus 2019 was the exact opposite of 2018, when the only asset classes which gave you a tiny positive return were cash and bonds.

What does 2020 hold in store for investors? Unfortunately, there is no clear pattern in the returns themselves. Looking at the last century of ASX returns shows us that a good year can be followed by a bad year, or another good year, or a mediocre year, with no clear probabilities.

The ASX is unlikely to record another year of 20%-plus returns, simply because the market is now much more expensive than it was at end-2018. Readers will remember that in the December quarter of 2018 global share markets suffered a panic attack as investors worried about a US recession, an EU recession, a no-deal Brexit, and a worsening of the US-China trade war. When none of these forebodings came to pass, global bond and equity markets rebounded in the first half of 2019.

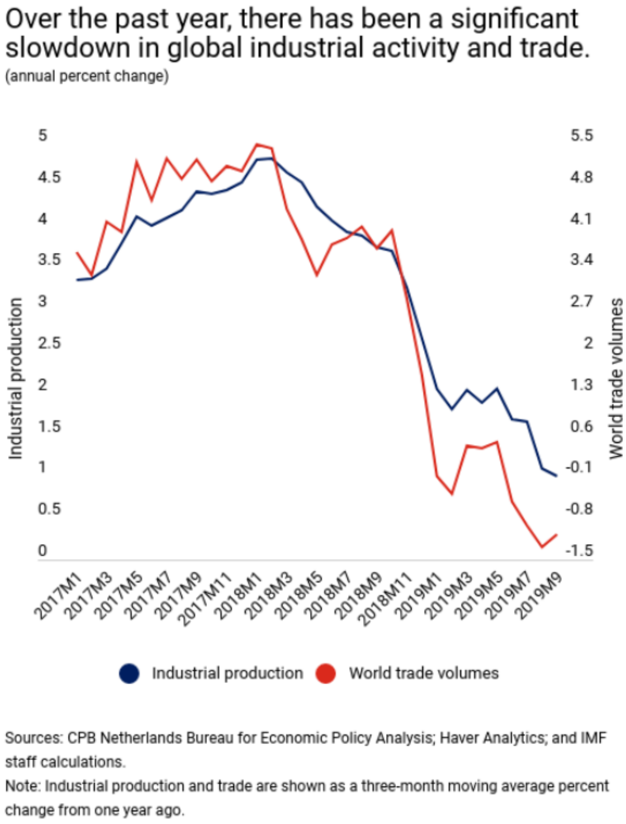
The net effect is that share prices have improved much more than their underlying fundamentals have. For the S&P/ASX200 index, the forward P/E ratio is 20% higher now than it was a year ago, and the year-ahead dividend yield has dropped to 4.3%, compared to 5.2% at end-2018.

In 2019 share markets rose because of interest rate cuts rather than earnings growth. In both Australia and the US, 2019 GDP growth was disappointing. US real GDP grew by only 2.0% in the year to June and 2.1% in the year to September. S&P500 earnings per share actually fell. Australian real GDP grew by only 1.6% in the year to June and 1.7% in the year to September. Earnings per share growth in the S&P/ASX200 was only 2%, mostly from the resources sector.

One of the reasons why Australian growth is lower than US growth is our dependence on exports to China. For the last five years Arminius has been saying that the Chinese economy was inevitably slowing down, so it came as no surprise to us that China's GDP growth rate in 2019 was the lowest since 1990. In addition, the second half of 2019 saw renewed softness in commodity prices as the outlook for Chinese demand deteriorated.

OUTLOOK FOR 2020	GDP growth (% p.a.)	CPI inflation (% p.a.)
Australia	2.5	1.8
China	5.9	4.0
Europe	0.7	1.6
Japan	0.8	0.7
USA	2.4	1.8

The economic outlook for 2020 is modestly positive. Our forecasts for the major economic blocs are set out in the table above. In Australia, growth will be boosted by the housing recovery, but held back by drought and bushfires. In China, GDP will come in close to 6.0% as planned, while pork prices will cause a temporary spike in the CPI. Europe seems to have escaped recession, and the Brexit disruption is probably postponed to 2021. Japan is enjoying a pickup in activity in advance of the Tokyo Olympics. In the US, some stimulus is likely before November's Presidential election.



As the IMF chart above shows, the fundamental problem in the world economy is that trade volumes and industrial production have been dropping like stones since mid-2018. The US-China trade war has contributed to the falls, but the main cause seems to be a broad-based lack of consumer demand, despite near-zero interest rates in many countries. For example, in 2018 and 2019 new car sales fell by 5% to 10% per year in countries as diverse as Australia, China, the EU, and the US.

The consensus forecast for US earnings growth for 2020 is currently 9.6%, based on 5.4% sales growth and an improvement in margins. We expect that the actual figure will turn out to be around 6% EPS growth. It is normal for the initial optimistic forecasts of CEOs and analysts to be revised downward repeatedly as they collide with the reality of quarterly profit results.

In Australia, the consensus forecast growth in earnings per share is 3%, mostly from the resources sector again. In an environment of weakening commodity prices, it is difficult to find any more upside in resources. Banks' EPS will fall 3%, property trusts' EPS will rise 2%. The standout growth stocks are the small number of Australian-domiciled companies who earn most of their profits overseas.

The ALCE portfolio remains defensively positioned. It has a FY2020 forecast P/E of 16.2x and yield of 4.9%, making it cheaper than the S&P/ASX200, where the consensus forecasts currently imply a P/E of 17.1x and yield of 4.3%.

Q.E.D.