MONTHLY PERFORMANCE REPORT
February 2020

The Fund returned +1.11% for the month, compared with -0.30% for the HFRX Absolute Return Index, and -1.67% for the Societe Generale CTA Mutual Fund Index. The Fund continues to achieve its objective of being a low volatility fund (6.25% since inception July 2014) with low correlation to equity markets, as a consequence of our risk averse strategies.

We expect the US dollar to continue appreciating against majors in 2020, despite the outlook for looser US interest rates policy. Global corporate debt imminent re-rating implies an outlook of more defaults in lower-quality sovereign and corporate bonds.

PERFORMANCE (Inception JUL-2014)	Arminius Capital ALPS Fund	HFRX (USD) ABSOLUTE RETURN INDEX	CREDIT SUISSE GLOBAL MACRO (USD) INDEX	SOCIETE GENERALE CTA MUTUAL FUND INDEX
1 Month	**1.11%**	-0.30%	-1.12%	-1.67%
3 Months	**0.61%**	0.34%	2.69%	-2.44%
Calendar YTD	**2.51%**	-0.30%	1.40%	-1.39%
1 Year	**2.58%**	2.90%	16.53%	6.59%
3 Years	**-6.65%**	6.62%	18.77%	-1.50%
5 Years	**1.87%**	7.25%	5.52%	-4.86%
Cumulative since Inception JUL 2014	**14.28%**	**9.33%**	**12.86%**	**1.71%**

Arminius Capital ALPS Fund (Inception July-2014) Returns are net of base fees; gross of performance fee.

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2014	-	-	-	-	**INCEPTION =>**		2.09%	0.04%	-1.43%	2.02%	1.18%	2.35%	6.37%
2015	3.85%	1.56%	-0.07%	-1.47%	0.77%	-0.09%	0.52%	-1.23%	-0.45%	1.23%	0.19%	-2.43%	2.26%
2016	-0.38%	-2.38%	0.54%	2.37%	1.22%	0.41%	-0.10%	0.03%	0.00%	0.20%	3.55%	4.60%	10.33%
2017	-0.13%	2.69%	3.31%	0.10%	1.25%	0.02%	-0.34%	1.28%	-1.45%	1.93%	-1.41%	1.04%	8.47%
2018	3.94%	-2.64%	-3.56%	0.49%	0.24%	-0.57%	-1.77%	0.88%	-1.94%	-3.90%	-3.75%	-2.26%	-14.1%
2019	0.08%	0.12%	0.35%	-0.22%	1.39%	0.20%	0.60%	1.44%	-2.72%	0.27%	0.70%	-1.85%	0.28%
2020	1.38%	1.11%											2.51%

* 2014/07 - 2015/02 Strategy run as Mandate, 2015/03+ as Unit Trust Structure. EOM date is typically last Friday of month.

FUND OBJECTIVES: The fund provides investors with exposure to all asset classes in the global macro universe. Arminius' aim is to provide smooth positive 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.

GENERAL INFORMATION

Base Currency: AUD
Entity Type: Open Ended Unit Trust
PMs: Marcel von Pfyffer (CIO)
Neill Colledge
Launch date: Jul-2014
Benchmark: 0% (Absolute Return)
Fees: 1 and 10
Domicile: Australia
Close of Financial Year: 30th June
Unit Pricing: Weekly
APIR Code: PKF0001AU
ISIN Code: AU60PKF00011
Fund Administration: APEX Fund Services (Australia)
Fund Custodian: Sargon CT
Prime Broker: Interactive Brokers
Auditors: Grant Thornton
Compliance: King Irving

INVESTMENT MANAGER

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DISTRIBUTION DETAILS

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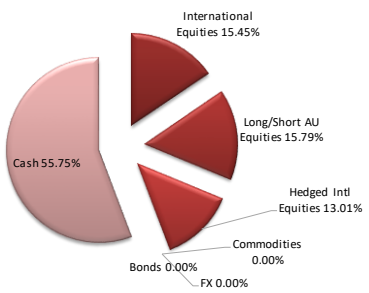
FUND STATISTICS MONTHLY

From July 2014	ALPS Fund	XJO
Sharpe Ratio	**0.32**	0.27
Sortino Ratio (RFR)	**1.34**	1.18
Downside Deviation	**1.50%**	2.71%
Standard Deviation	**1.80%**	3.39%
Annualized SD	**6.25%**	11.76%
Mean Monthly Return	**0.22%**	0.32%
Compound Monthly Return	**0.20%**	0.26%
Excess Return (RFR)	**2.02%**	3.20%
Portfolio Correlation to XJO	**0.43**	-
R^2 Coefficient of Determination	**0.05**	-

STRATEGIC ASSET ALLOCATION
at Month's commencement



FUND PERFORMANCE:

The Fund returned **+1.11%** in February, outperforming all major global equities markets (S&P500 **-8.41%,** Europe **-8.54%** and Japan **-8.89%**). The HFRX Absolute Return index returned **-0.30%** and the Societe Generale CTA Mutual Fund index (funds include AQR, PIMCO, Natixis, Goldman Sachs) returned **-1.67%**.

In our January report, we observed that many investment commentators had assumed that the

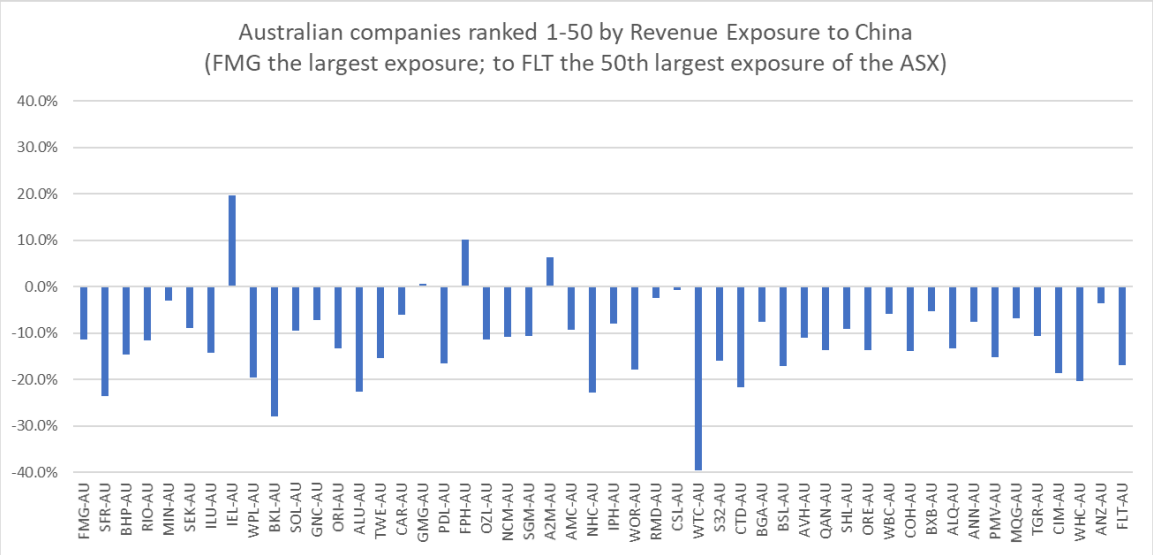
Chinese Wuhan Virus outbreak would be contained and those commentators told investors that they should "buy the dip". We suggested that if the virus was not contained it could trigger a correction. By the end of February, it appeared the Chinese Wuhan virus was in fact not contained, despite Chinese assurances, and the correction commenced.

Global share markets had begun the month by shrugging off the small attack of nerves which had afflicted it in the last week of January, and went on to new highs. The US S&P500 price index set a record of 3386 on 19 February, but as the Chinese virus cases spread all around the world, the index crashed at the **fastest rate since the Great Depression**, closing the month at 2954. The DOW JONES was down -10.96% for the first two months of 2020.

Other share markets followed a similar trajectory. The S&P/ASX200 price index reached a record of 7162 on 20 February, before collapsing to 6441 by 28 February, so that by February end it is now down -8.56% for the calendar year to date. China's share markets, however, have remained "miraculously aloft", supported manifoldly by State buying.

The coronavirus panic was reflected in commodities and currencies. Because the shutdown of much of China has slashed oil demand by about a quarter, world oil prices are down 28% in US dollar terms since the start of the year. Even gold, which had been rising since January, dropped 5% in US dollar terms over the last week of February. The US dollar strengthened because it is perceived as a safe haven, particularly in the form of US government bonds. The Australian dollar fell from USD 70.4 cents at year-start to USD 65.2 cents at end-February, because all investors know that China buys 35% of our exports.

In January's month end Arminius Capital ALPS Fund performance report we published a table of the Top 50 ranked Australian stocks that had the greatest revenue exposure to China. This is how they have performed between 31st January to 28th February: average return was -11.4%; median return -11.5%. Forty-six out of the fifty fell.



Investors have not only fled from China-exposed assets, they have also run away from risky assets in general. They have put their money into safe havens such as government bonds of the developed economies, especially the US. The yield on the benchmark 10-year US Treasury slipped 50 basis points, from 1.65% on 05 February to a new record low of 1.14% on 28 February. (Bond prices move inversely to bond prices.) Over the same period, the yield on the Australian 10-year government bond slid intra-month from 1.10% to 0.82%.

FUND MANAGER COMMENTARY

CHINESE VIRUS IMPACTS

First the good news. In China, the Chinese authorities tell us that their virus appears to have been contained. Rules about isolation are being loosened – even in Wuhan – as the number of new cases diminishes. The number of cases outside the core areas around Wuhan remain small, because the policy of draconian travel restrictions has succeeded in preventing new cases in the rest of China. Big cities like Shanghai and Hong Kong have set excellent examples of how to handle a pandemic, because their leaders were smart enough to listen to the experts and to act decisively very early on. Examples of this decisiveness include welding apartment buildings doors' shut.

This does not mean that China is out of the woods yet. Economic activity is still about half its normal level. The number of passengers on the Beijing metro is only 15% of the December figures, although other metro systems are averaging 25%. Starbucks has re-opened almost all of its outlets, but they are empty – February sales were down 78% on the previous year. In China's big cities (except Wuhan), between 40% and 50% of the workforce is back at work. The next challenge for the Chinese leadership is to free up travel restrictions so as to allow the 200 million-plus migrant workers to leave their rural villages in the hinterland and head back to their factories in the eastern and southern coastal provinces – without setting off a new round of infections.

After that the leadership has to encourage China's consumers to start spending again. This means taking the risk of going to shopping centres, eating in restaurants, and generally getting close to other people. The recovery will not be quick, because people do not drop their fears overnight. The GDP lost in the last two months will not flow back later in the year: expenditure foregone in one quarter does not all turn into pent-up demand, and – most importantly – the enforced isolations and business closures have slashed the incomes of many people, as well as pushing many firms to the edge of insolvency.

The Chinese authorities are committed to assisting businesses to re-start, but they will do so by means of targeted fiscal interventions, not by massive stimulus packages. The leadership has learned its lessons from past policy failures: for example, that rate cuts and credit creation **do not flow to small and medium enterprises**, and that surges in infrastructure spending only create "bridges to nowhere" and stimulate official corruption. One thing the authorities will do is to restrict inbound international travel – they don't want "disease-ridden foreigners" reinfecting healthy Chinese communists.

All this is good news for two reasons. The first is that the Chinese disruption to global supply chains should be over by mid-year, once China is back at work. The second is that China's negative impact on global GDP should be limited to the first half. In the unlikely event that China's statisticians will be allowed to tell the truth, we expect CY2020 GDP to fall to 3.3%, compared to 6.1% in 2019. Our 3.3% forecast assumes that the March quarter is negative, the June quarter is slightly positive, and the rest of the year is 5.5% annualized.

The bad news is that the rest of the world is now about to go through the sort of economic disruption that China has just been through, except that it will be worse for most countries, because (i) they can't resort to such brutal measures (welding apartment buildings' doors shut), or (ii) because their healthcare systems are inadequate, or (iii) because their governments are incompetent.

Apart from China, the Chinese virus is now present in 116 countries, with more than 40,000 cases (current as at 28 February). Its rapid spread in places such as Iran and Italy shows how quickly a situation can deteriorate. The fact that the virus is under control in Taiwan and Singapore – despite their close ties to China – shows that strong early action can be effective, e.g. checking all travellers, mass testing, contact tracking, strict quarantine of individuals, school closures, lockdowns of institutions and areas, and massive resources added to the healthcare system.

Most countries will not learn from Singapore and Taiwan. The chart below shows the number of tests and the number of cases in selected countries. Obviously, the number of tests is a subset of the number of cases. The more tests you run, the more cases you will find. If you don't find some cases, the carriers will spread the virus to the rest of the community, especially via schools, universities, offices, conferences, nursing homes – any place with close human proximity where rigorous hygiene rules are not enforced.

South Korea, after overlooking a locus of infection, appears to be identifying and isolating the Chinese virus cases effectively. The US has all but guaranteed community spread of the virus in the lower 48 States because the Federal government has not yet mounted an effective response, despite being able to call on some of the best epidemiologists in the world. Many US State and city governments, by contrast, have begun to take action without waiting for the Feds.

What will happen in countries like the US is a re-run of the Chinese experience. The inability of the government to enforce quarantine, or the unwillingness of the population itself to quarantine (Italy), effectively means that these economies will suffer some months of rolling disruption as offices and factories and schools are closed, and individuals work from home and avoid public places. This means two to four quarters of negative growth, i.e. a recession. World GDP growth will roughly halve in 2020, from 2.4% in 2019. In many countries the disruption will persist into 2021.

As of mid-March, major world share markets have fallen 20% on average. This may not be enough to make them cheap, simply because they were expensive to start with. The extent, duration, and economic impact of the Chinese virus are still matters for guesswork rather than precise assessment: it is entirely possible that the Chinese virus will spread faster and kill more people. Fiscal and monetary stimulus can only alleviate the pain: tax cuts can't fix broken supply chains, and central banks can't discover a coronavirus vaccine.

Excluding the Great Depression (when shares fell by 80%), the ASX has fallen by more than 30% on seven separate occasions since 1935. These seven bear markets have an average duration of 21 months, ranging between 5 months and 61 months. We will not be "buying the dip" because this bear market has only just begun.

THE TIDE HAS BEGUN TO GO OUT

A wise man once said, "**You think investing is an annual competition. I know it is about long term survival**". [i]

As we foreshadowed in our December 2019 performance report, the rise of the AUD against the USD of +3.7% was not supported by any fundamentals. We observed that the AUD is susceptible to material pullbacks, remembering that it fell approx. -16.0% in 4 weeks during the GFC. By the end of December, market participants were both net long and highly leveraged to the greatest extent in recent memory. As one financial commentator said in early January, "Everyone is just…all in. Everyone". Whilst the first few weeks of 2020 looked rosy (no doubt the desks were being manned by over enthusiastic junior portfolio managers while the bosses were away skiing and bid up prices even further) the back end of January took a very dark turn.

Our hedge fund returned +1.11% in February, building upon its +1.38% in January. We have outperformed the vast majority of our peer group. Given YTD returns, this would appear not to be difficult, with many funds and markets down circa. -10%, but we have generated significant alpha with our YTD figure of 2.51%. Big names such as Bridgewater, Renaissance & Millenium, all with 20+ year track records - including posting big returns in the GFC - have not navigated the viral waters as well. Ray Dalio's $160 billion Bridgewater Associates flagship fund is down almost -20.0% since the start of the year, with its Pure Alpha Fund II dropping -8.00% in the first 2 months of 2020. [ii]

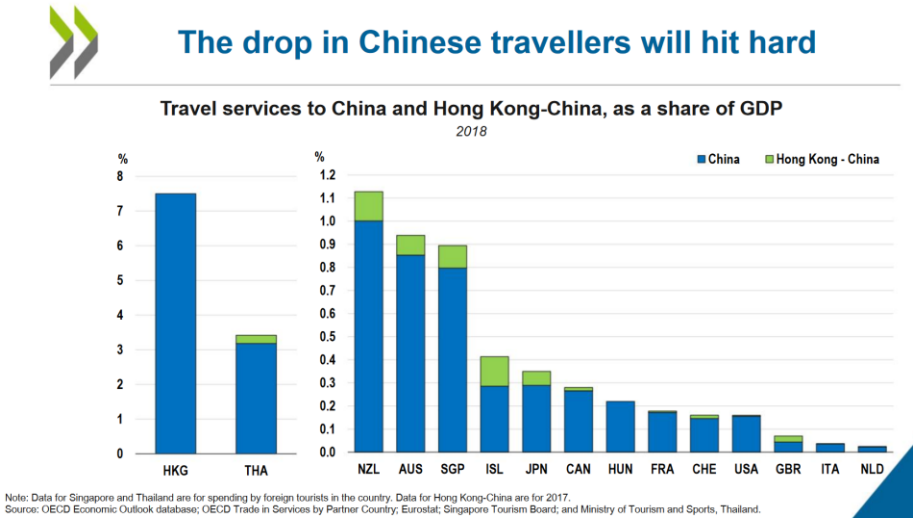
In January, we had already been monitoring reports of a "virus" that had been making the rounds in China in December 2019. Some doctors even had the temerity to speak up about it to the CCP authorities in December and were rewarded for their Hippocratic vigilance by being "disappeared" for a few weeks.[iii] Official news releases from the CCP (sourced by the Wall Street Journal) stated that the professors had been taken for "re-education". Re-education. You couldn't make this stuff up without being accused of plagiarism for ripping off Orson Welles' 1984. Only in China. However, this was only the tip of the iceberg. What has now come to pass is what will go down in history as one of the biggest joint cover-ups by the Chinese authorities, accompanied by the WHO's inexplicable refusal to declare a global pandemic until 12th March 2020 – after they couldn't buy the Chinese any more time on the world stage.

For those clients who have contacted us to discuss the situation, we have been very forthright in our assessment. This is what is called a "**dual side shock**" i.e. it will affect both global demand and global supply. When this occurs, parallels can be drawn to "crossing the streams" in Ghostbusters. It does not economically end well. [iv]

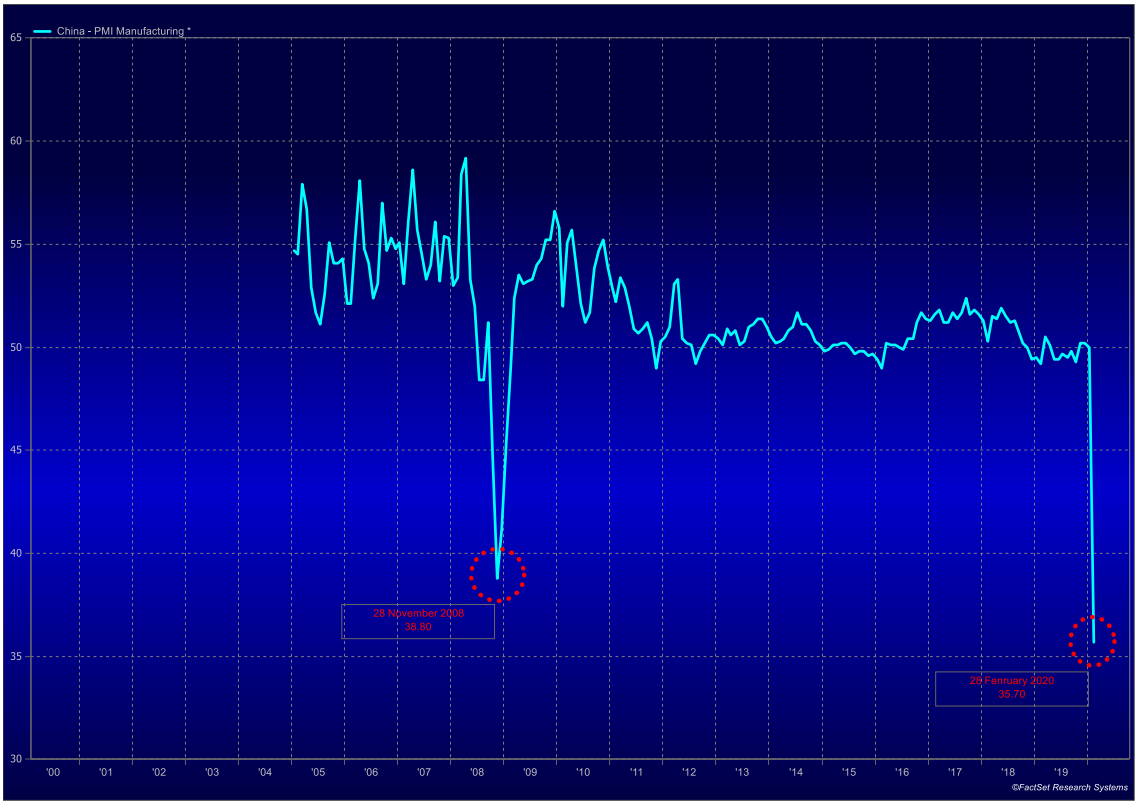
CHINA'S ECONOMIC IMPACT

As all investors will by now have realised, the global economy is very different to what it was in 2003 when China gave the world SARS. China in 2020 provides approximately 20% of global output and in addition to this, it is indispensable (or, was) to global supply chains. We expect that longer term effect of China giving the world yet another pandemic is that there will be a major reset of global companies' supply chains.

China's own citizens' consumption patterns will also have been irrevocably altered by this event. Chinese tourists spent over US$260 billion when visiting other countries. As we have now discovered, Chinese tourists bring more with them than just their wallets when they fly into other countries.



Other consumptions patterns that have seen immediate effects are obvious ones such as cinema attendance – box office revenues in China were estimated to be US$3.9 million across this Chinese new year as opposed to 2019's figure of US$1.5 billion. This is yet another poignant example that no matter what the rest of the world does regarding monetary policy (lowering interest rates) or fiscal policy (stimulus packages which we hope will have a more effective fiscal multiplier than just throwing cash at people ala Australia in the GFC) this money is lost forever. No matter what type of re-invigorating is embarked upon, those people dropping that $1.5 billion in movie tickets is lost **forever** – the economy cannot go back in a DeLorean and recoup it. Note the catastrophic reading below of the February Chinese PMI number.



Notes: Data seasonally adjusted
* The composite PMI is calculated from the following indexes (weighted as shown):
New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%), Raw Materials Inventory (10%).
The threshold of PMI is usually using 50 percent as the cut-off point of economy strength,
PMI above 50 percent reflects the manufacturing economy is expanding; less than 50 percent reflects the manufacturing economy is in recession.

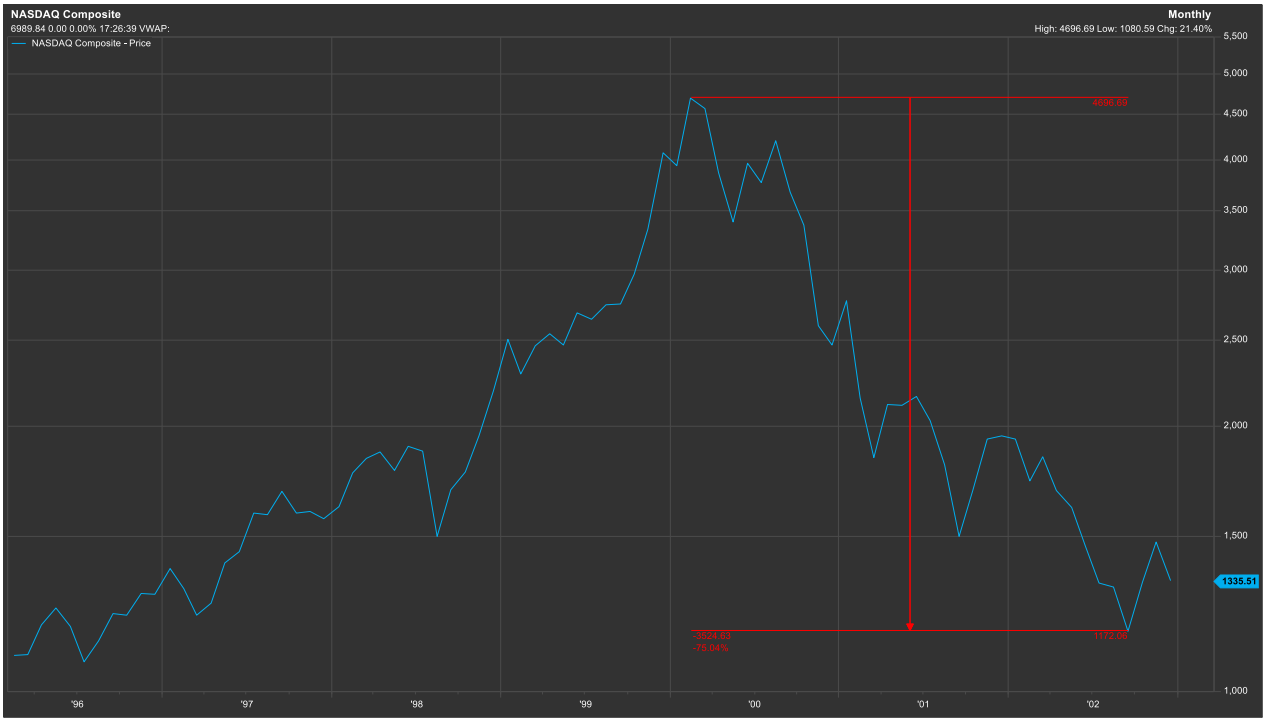
Source: Factset

What the central banks will slowly realise is that "a bayonet in the back will not restore China's economy" ref. Rabobank for that quote. As the Chinese virus has spread across the world since December (with some sources suggesting the first case was in fact in November), the IMF and WHO have in many ways played down the fallout from the outbreak. In the beginning, the WHO infamously even hesitated at first to declare the outbreak a "Public Health Emergency of International Concern (PHEIC)". More recently, the WHO Director-General has urged government officials to avoid using the "p-word" (Pandemic) for fear of a default in the two tranches of "pandemic bonds" that the organization issued a few years ago, a move that could wipe out the nascent market for WHO debt at a time when the organization is trying to expand in scope.[v] The politics at play here are hard to ignore.

US MARKETS & ECONOMY

Investors have been shocked by market movements in February, but we have been warning for some time that global equities markets were over-heated and that our models were having difficulty locating value. We had been writing this on the front page of our monthly performance reports for ***quite*** some time. This is best represented in America by taking a quick glance at what 2019's absolutely fabulous S&P500 equities market return was, in actuality, comprised of. One single company which produces very poor value for money telephones & stylish but functionally questionable PCs and laptops (Apple), alone counted for **ONE TENTH of the 29% increase of the S&P500 in 2019**. ONE TENTH.

If this isn't sufficient for investors to learn how to spell "over exposed", then try this one: the top 5 companies (pretty much all tech) together contributed approximately **ONE QUARTER of the 29% increase of the S&P500 in 2019**. We have written on this topic previously in 2018 so go here http://arminiuscapital.com.au/z-geldzug-articles/will-tech-disruption-destroy-your-share-portfolio/ for a recap. The allegory here is of course that in 2000 when the Tech bubble exploded all over everyone's face (the NASDAQ fell 75.04% between February 2000 and September 2002), the top 5 companies together had represented 19% of the S&P500. So, almost 25%, which would be…one quarter. He who ignores history is doomed to repeat its mistakes.



Between Microsoft, Apple, Amazon and Google, they had contributed approximately 60% of the S&P500's 2020 returns YTD until the wheels fell off the apple cart.

As if the Chinese virus was not enough for markets to concern themselves with in 2020, the other issue lurking large for late 2020 will be the US Presidential elections. When we have not been watching the updates on the global coronavirus map https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6 prepared by the excellent people at the John Hopkins Center for Systems Science and Engineering, we have been watching other intellectual stimuli, such as the televised Democrat debates.

While the televised debates managed to make the Brexit debates look positively structured, collegiate and well thought out, there has been one clear loser and one clear winner to date from this televised ~~torture~~ spectacle. Mike Bloomberg has demonstrated that he is consistent – he is definitely as user unfriendly as his eponymous financial market computer terminals. Up until very recently, it appeared that the winner by some margin would be Bernie Sanders – a stat that futures markets will increasingly react to as the year goes on. The VIX futures curve for October/November is looking interesting already, but we will discuss this further as the year progresses.

Bernie's policies are neither centrist (think Bill Clinton) or left (think Obama). Rather, he is trying to make FDR's New Deal of 1933 look like a rabid version of Gordon Gecko. It is not an understatement that financial markets appear to be pricing a Biden nomination much more favourably than a Sanders nomination. Time will tell. Sanders' platform policies [vi] include:

(i) Breaking up the banks (surprisingly never well received by Wall St banks)
(ii) A financial transactions tax of 0.5% on stock trades (European markets didn't really receive this too well when the French tried this on a few years ago)
(iii) Consumer banking: a cap on all consumer loans of 15%. Credit card companies will dig this.
(iv) Making the Federal Reserve policy makers more diverse; specifically, with more ethnic minorities & racial minorities. We all hope this will improve interest rate determination efficacy.
(v) Increased taxes on the "rich": Wealth tax of 1% on >$32M in assets, 8% on >$1B in assets (because there are no rich Democrat donors, right?)

We do look forward to November.

SUPPLY CHAINS BREAKING

With US shipping ports already expecting cargo volumes to fall -20% in Q1, the continued - and we expect increasing - strains on the global supply chain are already starting to show. The Port of Los Angeles (America's busiest port) is currently expecting to report a -25% drop in activity for February alone. Port authorities have already declared publicly that the impact on shipping will be "much worse" than during the SARS outbreak. Again, we caution anyone to draw direct comparisons between this Chinese Wuhan virus and SARS, in matters either economic or health related.

Supply chains risk warnings have been issued by companies as diverse as Best Buy, Croc shoes, Nissan, Fiat Chrysler and Apple. The list is almost endless. Large cap US stocks such as Microsoft and Google have already flagged that they are looking to switch country manufacturing bases. We expect that the longer term ramifications of the Chinese virus is that Vietnam, Indonesia and indeed many US states will receive new business as replacements for what were once Chinese based manufactured inputs into the global supply chain. The lag time for this to occur however is of course incalculable and unquantifiable as case levels (those that have been tested and/or reported) are still low in those "new" countries and we expect that when the number of cases inevitably increases, the workers will not be able to begin work for some time.

Larry Fink, CEO of Blackrock has commented on the issue, "**I do believe there's going to be a review of supply chains at every company. Outsized reliance on supplies from China may be inappropriate**". [vii]

Bain & Co. estimate that up to 60% of executives have no knowledge of the items in their supply chain beyond the tier one group. [viii] And as the saying goes, "**It takes 2,500 parts to build a car, but only one not to**".

CENTRAL BANKS PANIC (ACT I)

The big news in February was when we saw Federal Reserve Chairman Jay Powell deliver a rare unscheduled press release on 28th February, in which he stated that "…**the coronavirus poses evolving risks to economic activity. The Federal Reserve is closely monitoring developments and their implications for the economic outlook. We will use our tools and act as appropriate to support the economy…**" The immediate effect was that it provided a massive boost to stocks on the day that it was delivered (at the very end of the day which was a Friday).

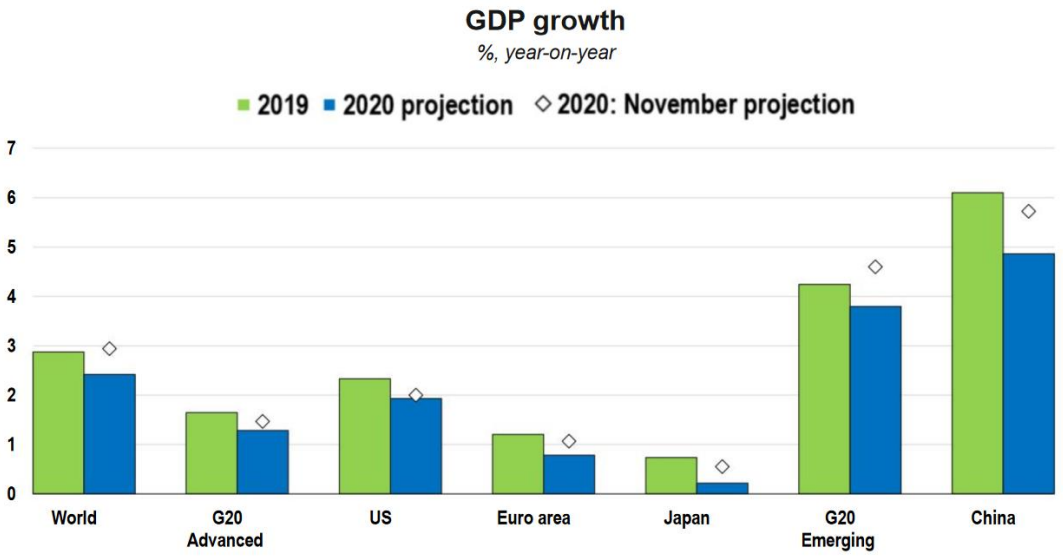
Across the Pacific at the Bank of Japan ("BOJ"), Haruhiko Kuroda, took much more decisive action. On the Monday morning following Powell's statement, the BOJ declared that it has noticed the Chinese virus' economic effects, (Japan was already in recession, which February's Q4 capex data at -5.0% illustrates further), and said that the BoJ would "**closely monitor future developments**". In addition to this jawboning, the BOJ physically intervened to stabilise their market and purchased a record amount of Japanese stock ETFs, to the tune of 100.2 billion yen (US$926 million). The BOJ already owns nearly 80% of the country's stock of ETFs, from policies that commenced in 2010 and were increased aggressively in 2013.

Then on March 3rd, the Fed cut by 50bps, [ix] thereby enacting the **largest emergency rate cut since 2008** and only the ninth **emergency cut** in its history. The other emergency cuts enacted have been:

08/10/2008:	50 bp cut	Lehman Brothers collapses
22/01/2008:	75 bp cut	Stock market collapses, recession imminent
17/08/2007:	50 bp cut	(to Fed discount rate) Sub-prime mortgage collapse
17/09/2001:	50 bp cut	9/11 terrorist attacks
18/04/2001:	50 bp cut	(to overnight loans) Economy failing
03/01/2001:	50 bp cut	Tech crash
15/10/1998:	25 bp cut	LTCM fails & Russian bonds crisis
18/04/1994:	25 bp rise	Economy solid

Central bankers world over will be re-assessing their economic forecasts as we speak. Other institutions such as the OECD [x] have suggested that if there was a "**longer lasting and more intensive coronavirus outbreak, spreading widely throughout the Asia-Pacific region, Europe and North America, prospects would dim further and global growth could drop to 1.5 per cent in 2020, half the rate projected prior to the virus outbreak**". Given the OECD's record of overstating potential booms and understating potential recessions, we believe (but also based on our own modelling of the Chinese virus' economic impacts) that this number will prove to be far too optimistic even as we approach Q2.

The economic situation was stabilising before Covid-19

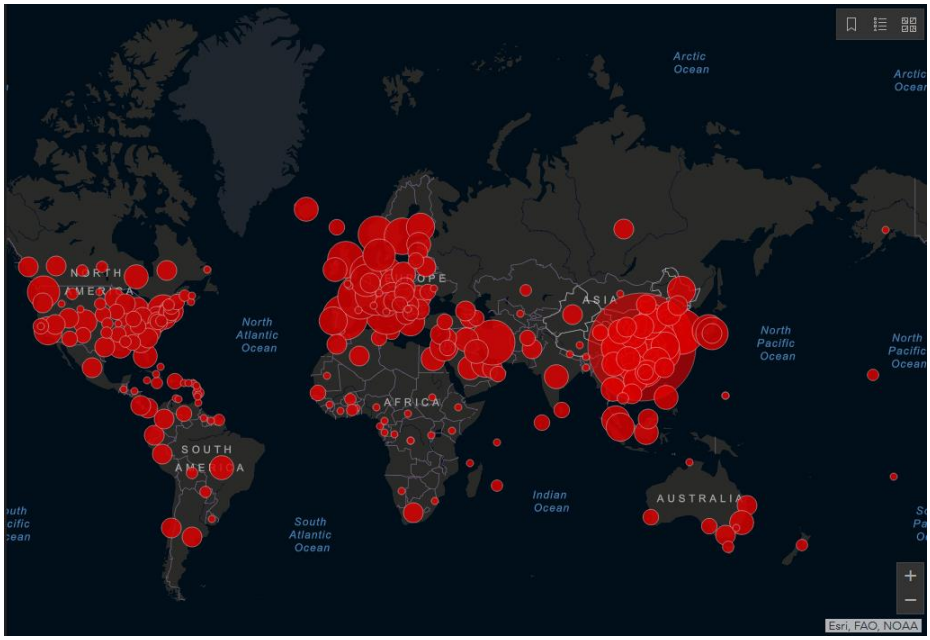


Source: OECD Economic Outlook database.

However, we note that using the medicinal properties of low interest rates for curing a Chinese virus that presents itself with pneumonia-like symptoms is somewhat dubious. As is the ability of low interest rates to force consumers to get out of their quarantined house, put on an N95 face mask and go and buy a new car, or a new TV, or a new house. We question the efficacy of low levels of interest rates in spurring the consumer to do something that was - relatively speaking - **almost** as attractive as what **yesterday's** interest rates offered! Perhaps central banks think that cutting interest rates will get 410 million quarantined Chinese workers back to assemble Apple hardware and Nike shoes faster? This is BOTH a supply side (firstly) and demand side issue.

"If you want to fix your health by going to a bank, you've got a problem."

The main issue is that central banks deal in interest rates not medicine, and interest rates do not cure people's medical conditions enabling them to get back to work faster. Enacting monetary policy loosening and then handing the job over to government for fiscal stimulus is similarly not capable of healing a worker and get them back into a factory, worksite or office. The Chinese virus cannot be cured by dollar bills.



But let's all attempt to maintain a positive frame of mind. Hey it could be worse. Christine Lagarde at the head of the ECB has no formal economics background – but she is a very competent lawyer [xi]. I really like lawyers and find them immensely useful. I use and recommend lawyers. When I have a legal issue that needs immediate remedy, I don't go and get a qualified economist to represent me. And even though Jay Powell similarly has no formal economics background (he is an ex private equity player – trained as a lawyer [xii]) he is far from the worst person you could have running the Fed at this time of world crisis. [xiii]

WHAT NOT TO DO RIGHT NOW – AND PAUSE FOR THOUGHT

Our hedge fund handled February's manifold dislocation well. It not only preserved capital, but also generated a positive return. For investors who may have large positions in pure equities markets, we would draw your attention at this difficult time to the below charts. We are often asked about holding periods. We reply with analogies about "competing vs surviving" and "sprints vs marathons". One of the most difficult choices for investors to make is what to do when volatility (unexpected returns – both positive OR negative) affects their investments.

The advent of being able to move millions around in a portfolio on one's mobile phone and therefore be able to check one's entire net worth by phone any given second of the day, can lead to periods of heightened investor discomfort when markets move the way have in February. Hence, when investors ask about holding periods, we often cite data from the world's best known "RISK ON" asset, US equities. This can also translate to other "risk" assets or strategies that have volatility higher than bond market volatility.

When the question is phrased such as ***"How long should I, as an investor, look to hold US equities for a maximum number of years before passing judgement?"*** We provide a small table below with our responses.

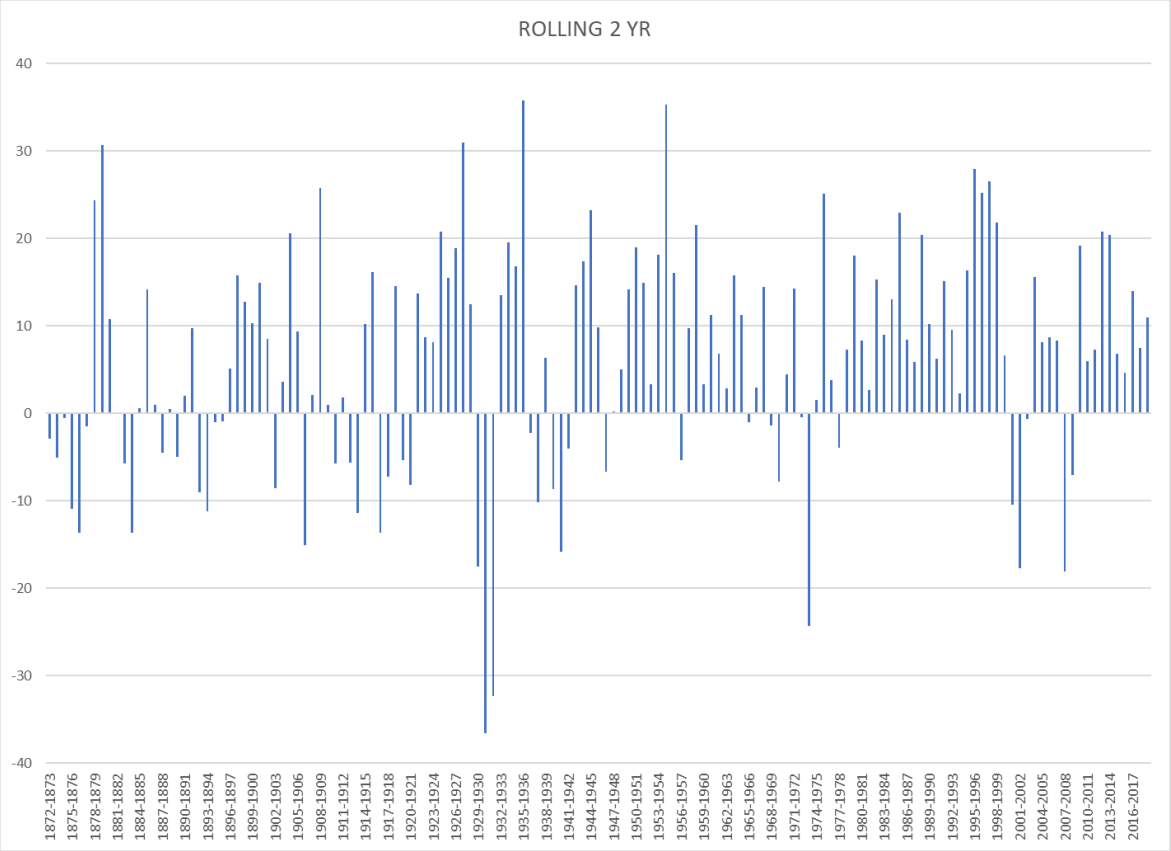
2 years?	Very, very unwise
5 years?	Very unwise
10 years?	Yeah, OK
20 years?	Got 148 reasons and a drawdown ain't one. (2019-1871=148)

The following graphs show 2, 10 & 20 year rolling holding periods for US equities.

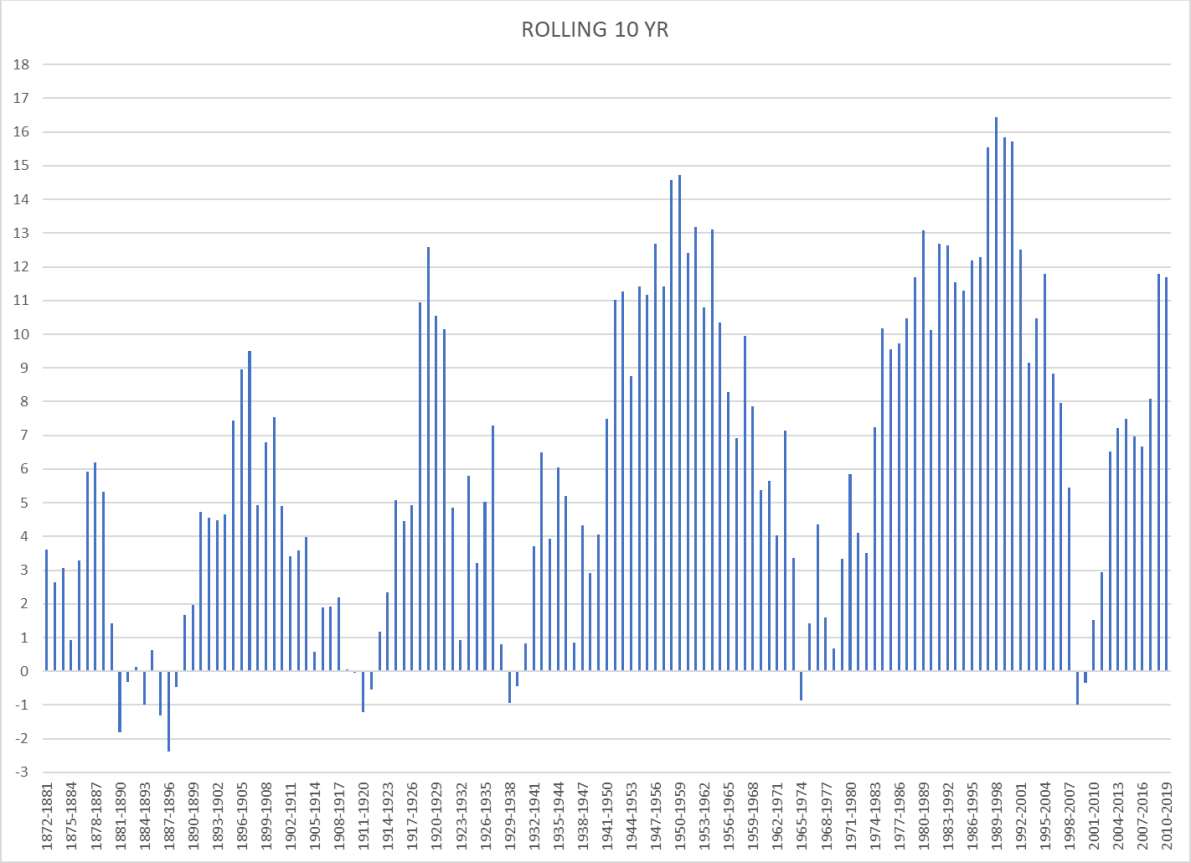
Investors making the decision to sell out of this asset class after holding for only 2 years face a very high probability of achieving a loss.

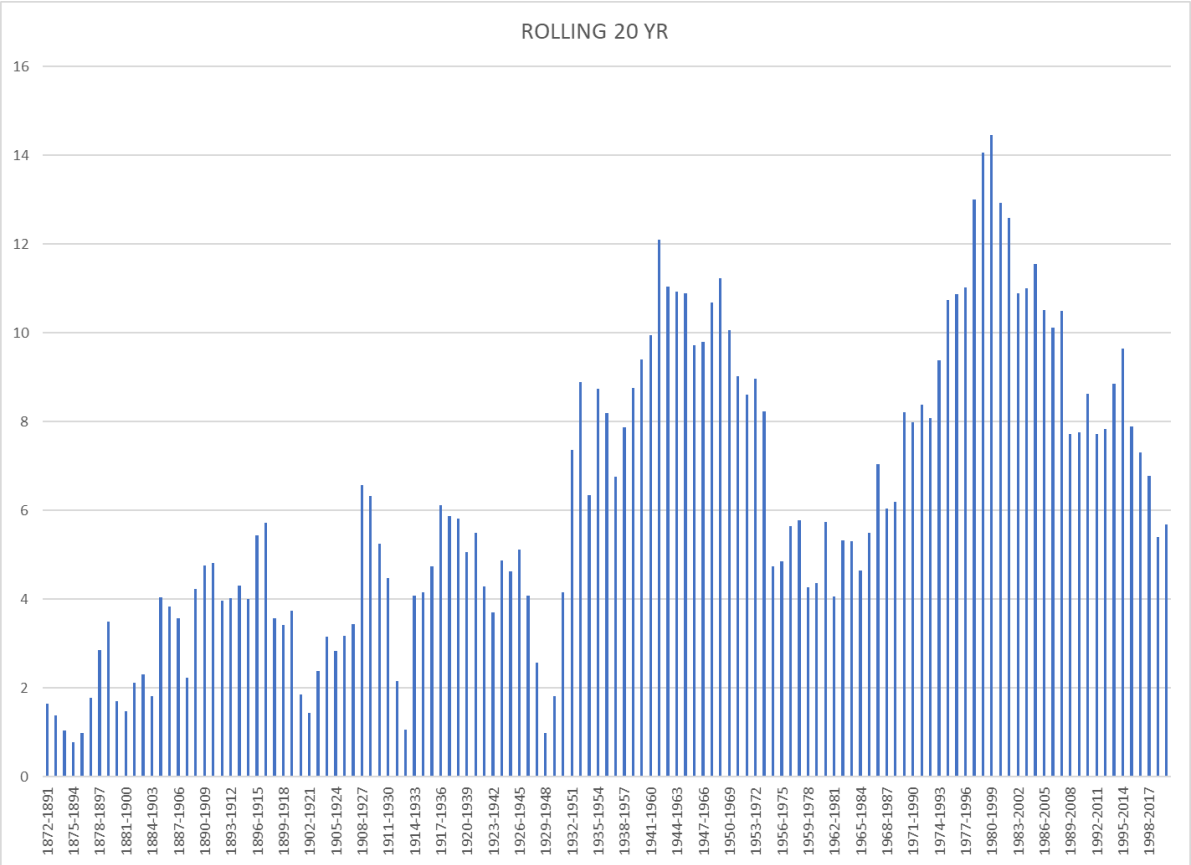
Those probabilities greatly reduce if the holding period is 10 years. And since 1871, if US equities have been held for a minimum of 20 years, in no rolling 20 year period have US equities lost money.

Statistically speaking, despite US equities returns' so far in 2020, even if you hold them for another 9 years, there is a high probability that you will have a pleasurable decade's investing experience.



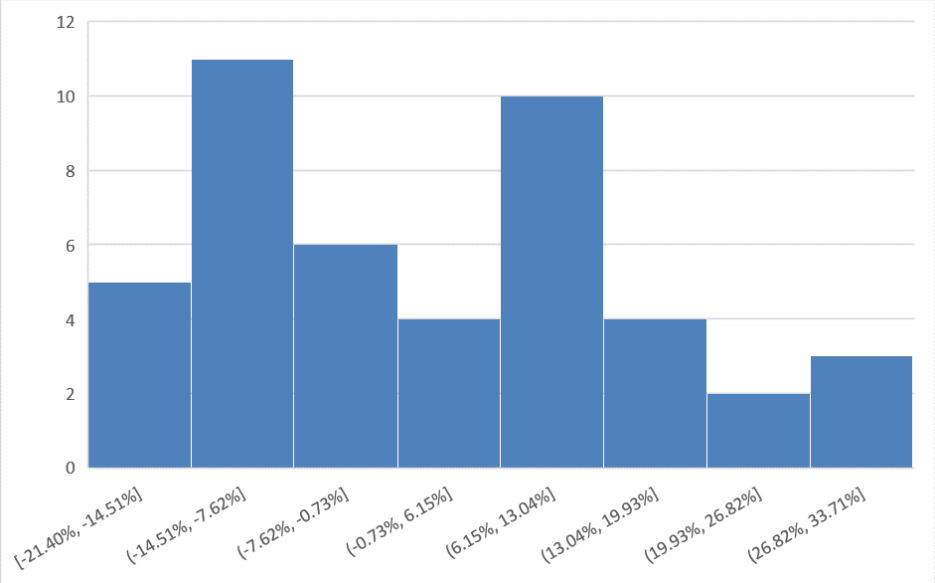
Rolling 10 & 20 year charts continued on following page…

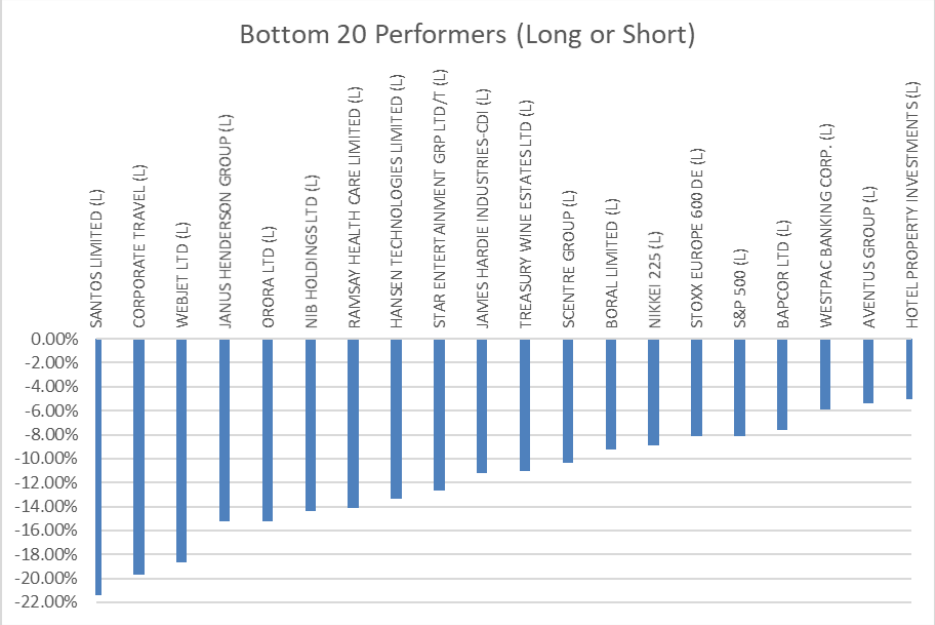


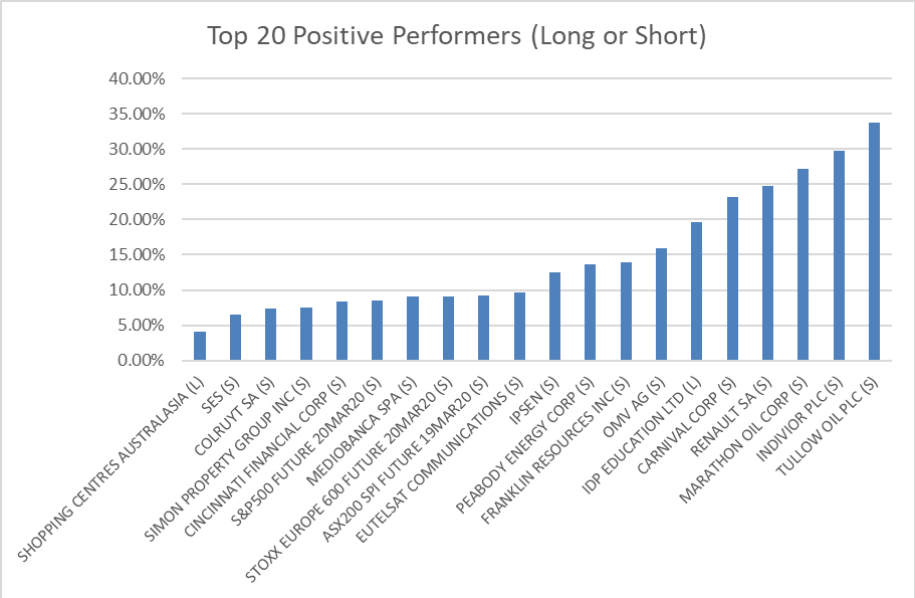


Source: Arminius Capital, US Federal Reserve, Robert Shiller

FUND PERFORMERS







CONCLUDING REMARKS

So in a month which will be remembered for the worst of reasons, we will leave you with a glimpse into the investors' mindset in the world most recognisable marketplace: the US' S&P500.

As this report went to print, the 3 best performing stocks month to date (+18%, +17%, +16%) for the first few ***days*** in March: [xiv]

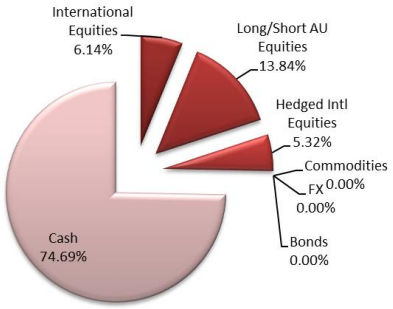
Ticker	Security Name	Last	VWAP	Open	Chg	%Chg	MTD %Chg	1Mo %Chg	3Mo %Chg	YTD %Chg	12Mo %Chg	Mkt Cap	Div Yld	EPS	PE	EPS FY1	PE FY1
KR	Kroger Co.	33.47	32.83	30.65	2.51	8.11%	18.98%	19.20%	24.89%	15.45%	15.73%	26,796	1.91	2.04	16.41	2.35	14.27
CPB	Campbell Soup Company	53.10	52.96	52.70	0.38	0.72%	17.69%	8.37%	11.48%	7.45%	47.09%	16,023	2.64	1.68	31.68	2.59	20.48
NEM	Newmont Corporation	52.08	51.79	51.21	1.08	2.12%	16.69%	17.32%	30.85%	19.86%	57.15%	42,059	1.08	3.81	13.68	2.00	25.98

1. Drugstores
2. Tinned Soup
3. Gold

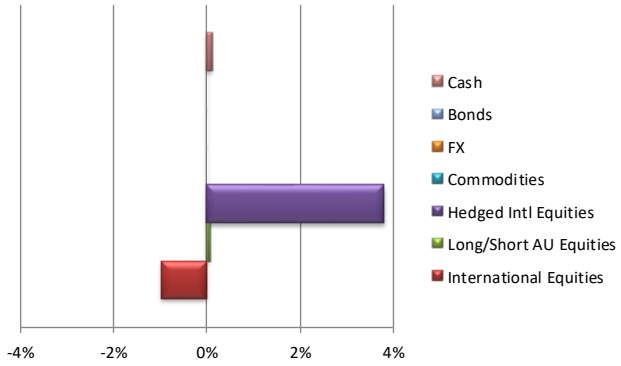
Q.E.D.

PERFORMANCE TABLES

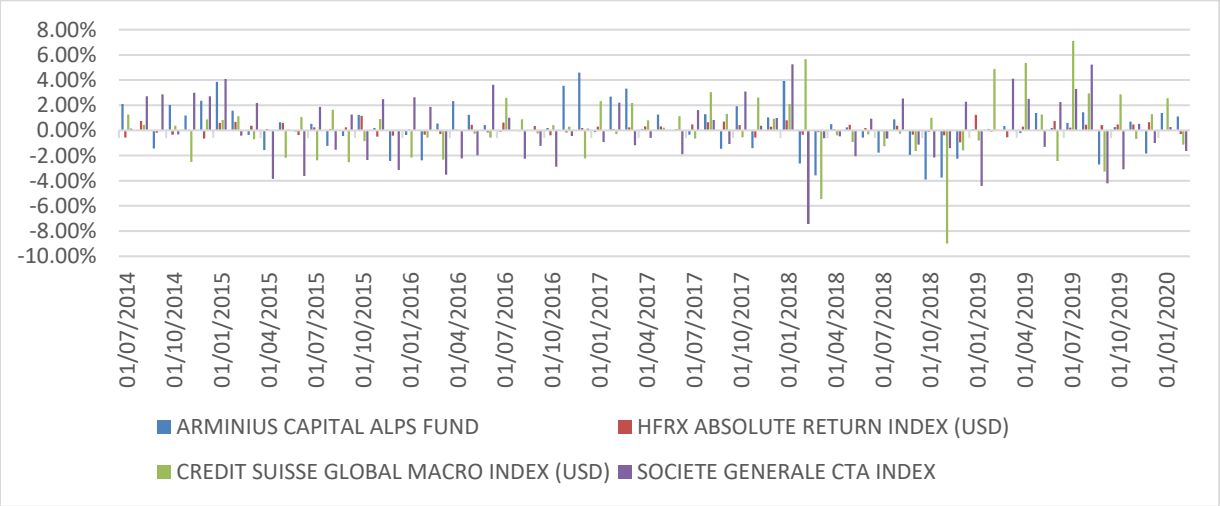
Exposure at month's end as % of NAV



Monthly Asset Class average returns of individual constituents per SAA held open at month's end (in domestic market currency)



Monthly Performance since Inception July 2014



Cumulative Performance since Inception (Base 100 = 30 June 2014)

GLOBAL FINANCIAL MARKETS – MONTHLY DATA

EQUITIES	31-Jan-20	28-Feb-20	ROR
EUROPE			
Germany DAX (TR)	12982.0	11890.4	-8.41%
Switzerland SMI (PR)	10627.9	9831.0	-7.50%
STOXX Europe 600 (EUR)	410.7	375.7	-8.54%
FTSE 100	7286.0	6580.6	-9.68%
France CAC 40	5806.3	5309.9	-8.55%
FTSE MIB	23237.0	21984.2	-5.39%
Netherlands AEX	589.5	539.4	-8.50%
Belgium BEL 20	3907.6	3488.6	-10.72%
OMX Stockholm 30	1783.3	1668.8	-6.42%
Norway Oslo All-Share	1011.7	912.8	-9.77%
Ireland ISEQ	6998.2	6397.4	-8.59%
Spain IBEX 35	9367.9	8723.2	-6.88%
Cyprus CSE General	67.0	64.3	-4.05%
AMERICAS			
S&P 500	3225.5	2954.2	-8.41%
DJ 30 Industrials	28256.0	25409.4	-10.07%
DJ 65 Composite Average	9370.3	8394.6	-10.41%
NASDAQ Composite	9150.9	8567.4	-6.38%
Russell 1000	1784.0	1635.2	-8.34%
S&P TSX	17318.5	16263.1	-6.09%
Brazil Bovespa	113760.6	104171.6	-8.43%
Mexico IPC	44108.3	41324.3	-6.31%
ASIA			
S&P ASX 200	7017.2	6441.2	-8.21%
Nikkei 225	23205.2	21143.0	-8.89%
Hang Seng	26312.6	26129.9	-0.69%
Korea KOSPI	2119.0	1987.0	-6.23%
FTSE Strait Times	3153.7	3011.1	-4.52%
Taiwan TAIEX	11495.1	11292.2	-1.77%
New Zealand NZX 50 (TR)	11717.4	11261.2	-3.89%
Shanghai SSE Composite	2976.5	2880.3	-3.23%
China Shenzhen A Share	1837.8	1885.1	2.57%
India S&P BSE SENSEX	40723.5	38297.3	-5.96%
FTSE Bursa Malaysia KLCI	1531.1	1482.6	-3.16%
Indonesia JSX	5940.0	5452.7	-8.20%

FOREIGN EXCHANGE	31-Jan-20	28-Feb-20	ROR
AUD/USD	0.670	0.652	-2.67%
EUR/USD	1.112	1.104	-0.71%
JPY/USD	108.114	107.735	-0.35%
GBP/USD	1.322	1.280	-3.17%
CHF/USD	1.041	1.037	-0.41%
USD/CAD	0.756	0.746	-1.27%
EUR/GBP	0.841	0.863	2.54%
EUR/AUD	1.659	1.692	2.01%
USD/CHF	0.963	0.965	0.19%
GBP/AUD	1.974	1.970	-0.22%
CBOE Volatility Index (VIX)	18.84	40.11	112.90%

COMMODITIES	31-Jan-20	28-Feb-20	ROR
Energy			
Crude Oil WTI (NYM $/bbl) Continuous	51.56	44.76	-13.19%
Brent Crude (ICE $/bbl) Continuous	56.62	49.67	-12.27%
NY Harbor ULSD (NYM $/gal) Continuous	1.63	1.48	-9.28%
NY Harb RBOB (NYM $/gal) Continuous	1.50	1.48	-1.42%
Natural Gas (NYM $/btu) Continuous	1.84	1.68	-8.53%
Precious Metals			
Gold (NYM $/ozt) Continuous	1587.90	1566.70	-1.34%
Silver (NYM $/ozt) Continuous	18.01	16.46	-8.63%
Industrial Metals			
Aluminum (LME Cash $/t)	1709.50	1663.00	-2.72%
High Grade Copper (NYM $/lbs) Continuous	5570.00	5573.00	0.05%
Nickel (LME Cash $/t)	12675.00	12160.00	-4.06%
Iron Ore 62% CN TSI (NYM $/mt)	92.44	86.46	-6.47%
Zinc (LME Cash $/t)	2219.00	2018.50	-9.04%
Agricultural			
Corn (CBT $/bu) Continuous	3.81	3.68	-3.41%
Soybeans (CBT $/bu) Continuous	8.73	8.93	2.32%
Wheat (CBT $/bu) Continuous	5.54	5.25	-5.19%
Cotton #2 (NYF $/lbs) Continuous	0.68	0.61	-8.90%
Sugar #11 (NYF $/lbs) Continuous	0.15	0.14	-3.22%
Indices			
GS Commodity (CME) Continuous	388.70	358.85	-7.68%
PowerShares DB Commodity Index Tracking Fund	14.58	13.61	-6.65%
db x-trackers SICAV - db x-trackers DB COMMODITY BO	13.30	12.56	-5.55%

10 YEAR SOVEREIGN YIELDS	31-Jan-20	28-Feb-20	Yield D
US	1.52%	1.14%	-0.37%
UK	0.54%	0.42%	-0.12%
Europe	-0.44%	-0.62%	-0.18%
Australia	0.95%	0.82%	-0.14%
Belgium	-0.19%	-0.24%	-0.05%
Canada	1.27%	1.10%	-0.17%
Denmark	-0.43%	-0.60%	-0.17%
France	-0.18%	-0.31%	-0.13%
Germany	-0.44%	-0.62%	-0.18%
Greece	1.16%	1.29%	0.13%
Ireland	-0.15%	-0.19%	-0.04%
Italy	0.93%	1.10%	0.16%
Japan	-0.07%	-0.14%	-0.07%
Netherlands	-0.34%	-0.49%	-0.15%
New Zealand	1.31%	1.06%	-0.25%
Norway	1.33%	1.17%	-0.16%
Portugal	0.26%	0.35%	0.09%
Spain	0.23%	0.28%	0.04%
Sweden	-0.06%	-0.29%	-0.23%
Switzerland	-0.74%	-0.79%	0.04%

ROR = Rate of Return
Yield D = Yield differential

[i] Paraphrased by Arminius Capital from the book by Peter L. Bernstein, "**Against the gods: The Remarkable Story of Risk**"
[ii] Financial Times
[iii] Wall Street Journal
[iv] Egon: Try to imagine all life as you know it stopping instantaneously and every molecule in your body exploding at the speed of light.
Raymond: Total protonic reversal.
Peter: That's bad. Okay. Alright, important safety tip, thanks Egon.
[v] Wall Street Journal & Financial Times
[vi] Financial Times
[vii] Financial Times
[viii] Financial Times
[ix] https://www.federalreserve.gov/newsevents/pressreleases/monetary20200303a.htm
[x] The OECD http://www.oecd.org/economic-outlook/
[xi] https://www.ecb.europa.eu/pub/conferences/ecbforum/previous_fora/2014/html/biographies/lagarde.en.html
[xii] https://www.federalreserve.gov/aboutthefed/bios/board/powell.htm
[xiii] Smith, Yves (2013) "**Why Larry Summers Should Not Be Permitted to Run Anything More Important than a Dog Pound**". https://www.nakedcapitalism.com/2013/07/why-larry-summers-should-not-be-permitted-to-run-anything-more-important-than-a-dog-pound.html
[xiv] FACTSET