MONTHLY PERFORMANCE REPORT
August 2020

The portfolio returned 3.59% for the month, compared with 2.94% 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 *	**3.59%**	2.94%
3 Months	**5.40%**	6.04%
Calendar YTD	**-12.70%**	-9.07%
1 Year	**-10.96%**	-5.05%
3 Years	**N/A**	N/A
5 Years	**N/A**	N/A
Cumulative since Inception July 2018	**-3.53%**	**3.01%**

All returns data for Arminius Capital ALCE Strategy and index data are sourced from the ***HUB24*** *platform, which ALCE is available upon.*
** 1 Month data taken from HUB24 which uses the COB value of the 1st calendar day of the month as the starting point.*

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%
2020	3.48%	-6.87%	-23.2%	7.05%	6.48%	1.08%	0.34%	3.59%					-12.70%

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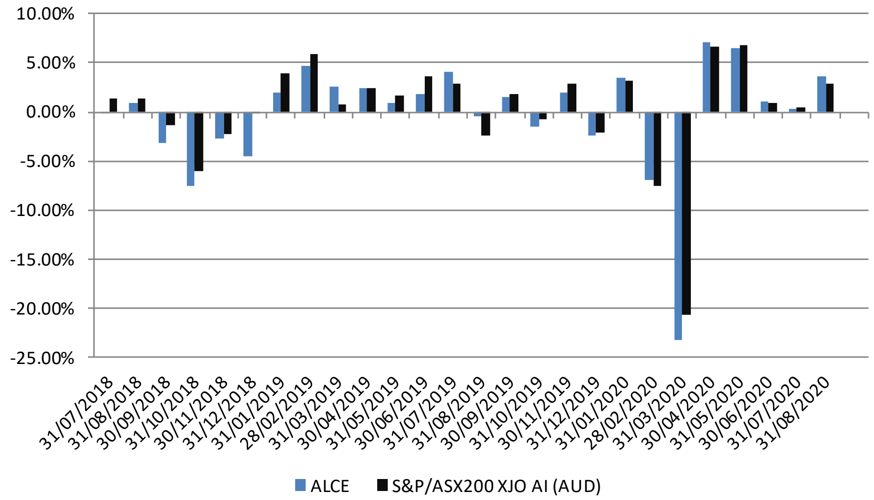
STRATEGY OBJECTIVES:
The aim of the ALCE (Australian Low Correlation Equities) portfolio is to outperform the S&P/ASX 200 (TR) Index over rolling 5-year periods. The portfolio will also aim to deliver above market dividend income and lower volatility than the S&P/ASX 200 (TR) Index. The investment process 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 returned 3.59% in August, 65 basis points above the 2.94% return from its benchmark, the S&P/ASX200 accumulation index.

The five largest positive movements in the ALCE portfolio during July were Nine Entertainment (+22.5%), Chorus (+11.8%), QBE (+7.5%), Steadfast (+7.2%), and ASX (+5.7%). The five largest negative movements were AGL (-7.9%), APA (-5.2%), Spark NZ (-2.9%), Orora (-2.6%), and Transurban (-2.5%). At month-end the Fund's five largest holdings were Wesfarmers, Macquarie, National Australia Bank, ANZ Bank, and Transurban. There were no changes to the portfolio during the month.

Global share markets enjoyed a strong August. The S&P500 price index led the way with a 7.2% jump and Japan's Nikkei 225 price index gained 5.4%. After month-end the news leaked out that much of the upward pressure had come from call option buying by Japanese tech investor Softbank. The Chinese tech sector also rose strongly: investors interpreted the Trump Administration's threats against Chinese tech stocks as a signal that the Chinese government would provide more support for the sector.

MARKET OUTLOOK

The FY20 earnings season was less disappointing than expected – but not by much. Earnings fell 20% and dividends were cut by 29%. Two-thirds of companies in the S&P/ASX200 are still paying dividends. A quarter have cancelled or "suspended" their dividends. The worst affected sectors were investors' favourites for income: the banks, the infrastructure stocks, and the property trusts.

Investors in Australia's banks can console themselves that their pain is part of a global phenomenon. As the chart below shows, banks throughout the world have fallen further than their home share markets because their medium-term outlook is perceived to be at risk from a flood of coronavirus-induced bad loans.

As we predicted, the August reporting season did not throw much light on the outlook for FY2021: most companies declined to give specific earnings guidance. The losers – such as the office trusts, the shopping centre landlords, and the infrastructure stocks – were downright gloomy. All the banks are wary of guessing what will happen to their loan books when the support programs like JobSeeker come to an end. Even the winners from COVID-19 – such as the online retailers and the supermarkets – were unwilling to assume that their success would last.

The companies in the ALCE portfolio remain strong. Several – e.g. APA, Amcor, BWP, Spark NZ, Steadfast, and Waypoint – have not been materially affected by the pandemic. Others – e.g. ASX, Coles, and Wesfarmers – have done very well in recent months. Their results are summarized in a special report entitled "The August 2020 Reporting Season", which is available on the Arminius Capital website www.arminiuscapital.com.au

For Australian investors, the uncertainties created by the coronavirus pandemic have been further complicated by the rise in the Australian dollar against the US dollar. This new trend has been triggered by the dramatic increase in the US Federal Government deficit to 17.9% of GDP and the probable surge in inflation, as detailed in a 22 July article on the Arminius website, "Will the US dollar become another casualty of COVID-19". https://arminiuscapital.com.au/will-the-us-dollar-become-another-casualty-of-covid-19/ We expect the US dollar to fall against the Australian dollar, the Euro, the Japanese yen, and other major currencies. The chart below shows that the trend is already in progress: the US dollar index measures the USD against major world currencies.

The expectation of higher US inflation was reinforced in a major policy speech by Federal Reserve Chair Jay Powell on 28 August. As part of its dual mandate to maintain price stability and maximize employment, the Fed has long had an inflation target of 2% per annum. This target meant that once inflation reached 2%, the Fed was likely to lift interest rates in order to prevent further rises in inflation. Powell's speech announced that the Fed would switch to a policy of "Flexible Average Inflation Targeting" (FAIT), which meant that inflation would be allowed to rise above 2% per annum for indefinite periods, in order to achieve an average rate of 2% per annum. Chair Powell also made it clear that interest rates would remain at their present near-zero level for several years (but not negative).

FAIT is an important change in US monetary policy, and investors have already begun to factor it into their forecasts. Because higher inflation in a country usually leads to a depreciation of that country's currency, holders of US dollars have started to re-balance their portfolios away from the USD and into currencies which are more likely to rise, such as the Euro (EUR), the Swiss franc (CHF), the Japanese yen (JPY), and the Australian dollar (AUD).

The yen and the Swiss franc have long been treated as "haven" currencies which rise in times of war, recession, and global turmoil. It is possible that the AUD is about to join this select group, on the strength of Australia's low level of government debt, significant overseas assets (via super funds), and relative success in controlling COVID-19. If so, the AUD could move back toward its July 2011 peak of USD110c ($1.10). At present we estimate the fair value of the AUD at USD84c, which means it could easily overshoot to USD90c.

We expect that the USD will fall over the next three years. It is, however, possible that near-term political and economic problems in the US could trigger a sharp rise in the AUD. One factor might be a winter resurgence of COVID-19. Another might be the failure of Congress to agree on a renewed stimulus package. A third is the possibility that the outcome of the 03 November Presidential election is contested, as it was in 1824 and 1876, when the selection of the President devolved to the House of Representatives for three months.

The ALCE portfolio remains defensively positioned. At end-August, the ALCE portfolio had a FY2021 forecast P/E of 17.6x and a dividend yield of 4.1%. By comparison, the consensus forecasts for the S&P/ASX200 imply a P/E of 18.8x and a dividend yield of 3.7%.