MONTHLY PERFORMANCE REPORT
October 2020

The portfolio returned 3.47% for the month, compared with 1.93% 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 *	**3.47%**	1.93%
3 Months	**2.82%**	-1.08%
Calendar YTD	**-11.21%**	-10.71%
1 Year	**-10.09%**	-8.49%
3 Years	**N/A**	N/A
5 Years	**N/A**	N/A
Cumulative since Inception July 2018	**-2.58%**	**1.99%**

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%	-1.70%	3.47%			-11.21%

INVESTMENT MANAGER

Arminius Capital Management Pty Ltd
AFSR 001244100
ACN 611519334
Licensed by:
Arminius Capital Advisory Pty Ltd
AFSL 461307
ACN 165509928

DISTRIBUTION DETAILS

Arminius Capital Management
115 Wickham St
Fortitude Valley
QLD 4006
AUSTRALIA
+61 7 3040 9104
info@arminiuscapital.com.au

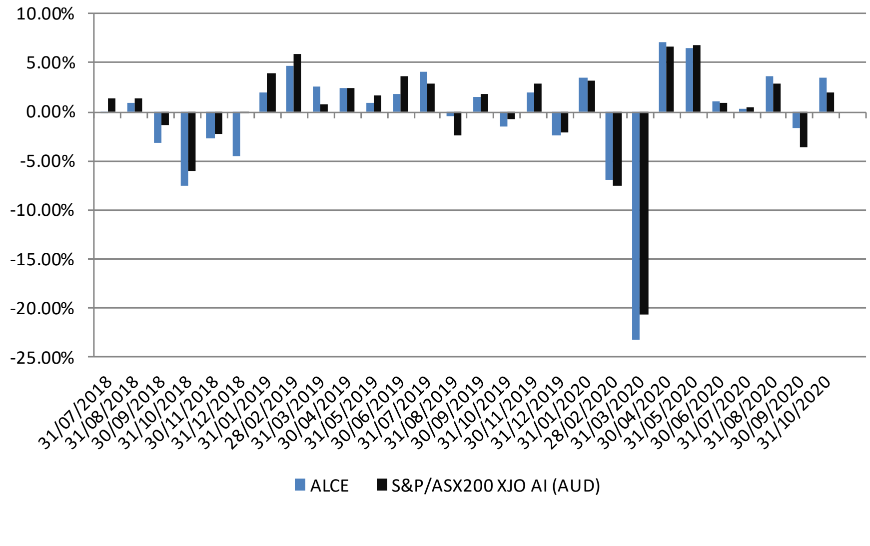
STRATEGY OBJECTIVES:

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 positive 3.47% in October, 154 basis points better than the return of positive 1.93% return from its benchmark, the S&P/ASX200 accumulation index.

The five largest positive movements in the ALCE portfolio during October were Nine Entertainment (+20.6%), GUD (+12.2%), Steadfast (+8.5%), ANZ Bank (+7.0%), and Ausnet (+4.4%). The five largest negative movements were Transurban (-7.8%), ASX (-5.2%), Waypoint (-3.6%), Chorus (-3.2%), and BWP (-2.9%). At month-end the Fund's five largest holdings were National Australia Bank, Wesfarmers, ANZ Bank, Macquarie, and Transurban. The composition of the ALCE portfolio was unchanged during the month.

October started with a bang and ended with a whimper. In the first half of the month, the S&P500 price index started to recover from its September correction, but soon lost momentum and ended the month 2.8% in the red. The Euro Stoxx 600 price index fell 5.2%. Investors saw that COVID-19 infections were continuing to rise in the US and Europe, and were also disheartened by the inability of the US Senate to agree on a renewed stimulus package. Strong third-quarter results from the big tech stocks failed to impress the markets.

The Japanese and Chinese markets were flat. Japan is still learning what its new Prime Minister has planned for it. One major surprise was a public commitment to carbon neutrality by 2050 – ten years earlier than Xi Jinping's commitment for China. Chinese investors were focused on the record IPO of Ant Financial, which will raise USD34bn on the Shanghai Exchange, valuing Ant at more than USD300bn (more than twice the size of Australia's largest company CSL) – until regulatory issues forced the postponement. Investors are also monitoring government statements on China's soon-to-be-announced Fourteenth Five-Year Plan, which will take effect next year.

Meanwhile, Australian investors were encouraged by the improving situation in Victoria, which has led to lifting lockdowns and allowing interstate travel. Statements from the big banks indicated that most of the residential and commercial borrowers who had asked for loan forbearance were now back to making payments. This suggests that the Australian economy is recovering reasonably well, and that the banks' bad loans will not be as bad as feared. Consequently, the banking sector gained 7% during the month.

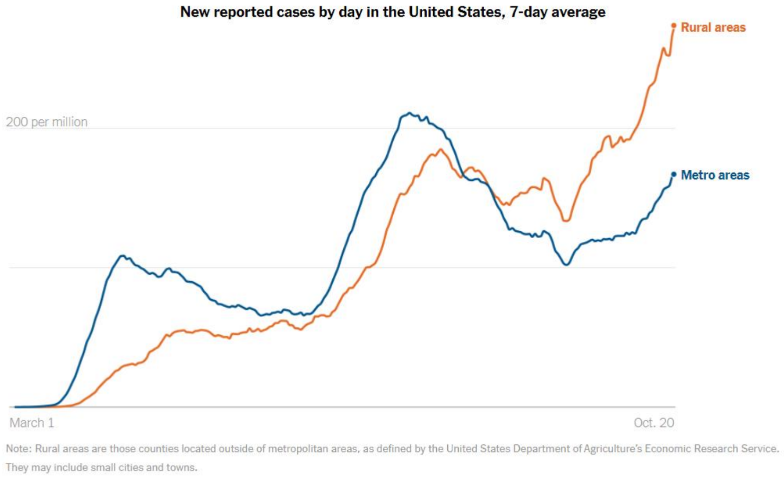
MARKET OUTLOOK

At the time of writing, it seems that the Democrats will control the Presidency and the House, while the Republicans will retain control of the Senate. This outcome is moderately positive for the US economy and sharemarket.

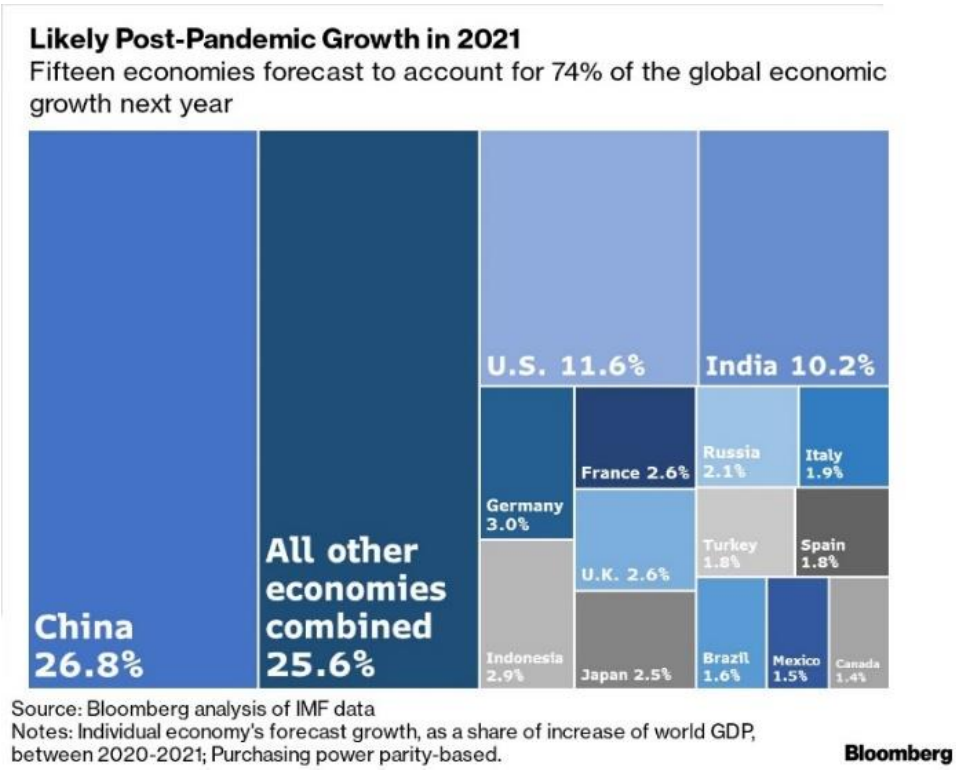
On 03 November the Reserve Bank set sail into the uncharted waters of Quantitative Easing. In addition to cutting the official cash rate from 0.25% to 0.10%, the RBA announced that it would purchase about $5bn worth of five- to ten-year government bonds over the next six months. The bonds bought would be about 80% Commonwealth and 20% State government bonds. The RBA said that its primary purpose was lower the cost of borrowing so as to stimulate the economy and boost jobs. The moves will also tend to lower the A$ against other currencies, helping the competitiveness of Australian exports.

The RBA has upgraded its forecasts for the Australian economy. Its central case expects GDP growth to reach 6% in FY21 and 4% in FY22, with inflation at 1.0% and 1.5% respectively. Unemployment is forecast to fall to 6% by end-2022.

Three of the Big Four banks reported for the half-year ended 30 September. Because this period included lockdowns, loan forbearance, and JobKeeper/JobSaver payments, there is an air of unreality about the actual numbers. What was important was management commentary on the emerging trends. All the banks cited detailed statistics which showed that loans deferrals were falling rapidly, and improving on the latest APRA figures to end-September. NAB had the best underlying earnings, in terms of a rising net interest margin and solid profits before provision charges. ANZ and Westpac met consensus forecasts for cash earnings because their provision charges were lower than expected. Unlike many other jurisdictions, Australian banks are "unquestionably strong" with Common Equity Tier 1 (CET1) ratios in the top quartile globally.



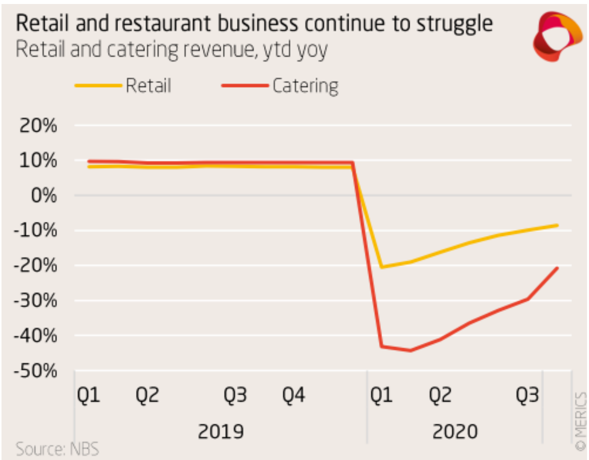
Meanwhile in the US the pandemic is clearly out of control. The New York Times chart above shows how the third wave of infections is spreading not only to more rural states such as Texas, Georgia, and Arizona, but also to rural areas in all States. According to the Johns Hopkins COVID-19 webpage, deaths in Texas have overtaken California, and are rapidly catching up to New York. The next President will face a plethora of problems – the coronavirus, the need to support people and businesses, the mounting State and municipal deficits, a manifestly inadequate healthcare system, and Federal Government debt which will soon exceed 100% of GDP. These are just some of the reasons why we expect US equities to underperform Australian equities over the next three years.



The abysmal US response to COVID-19 has pushed China to the forefront of the global economy. As the Bloomberg chart above shows, China will provide more than a quarter of world growth in 2021.

The key to the Chinese recovery was decisive (albeit belated) action to curb the pandemic, followed by selective stimulus. The map above shows that almost all China's provinces are back to positive growth for the first nine months of 2020 – the main exception being the virus epicentre of Hubei.

After a 6.8% fall in the March quarter, Chinese GDP grew by 4.9% in the September quarter, and is expected to come in close to 2% for 2020 – making it the only major economy with positive growth. We all know that China manipulates its GDP statistics, but in this case there is independent corroboration for the numbers: physical data such as mall footfall, electricity generation, and container shipments, plus the commentary of US and European companies operating in China.



This does not mean that the Chinese economy is fully recovered. As the MERICS chart above shows, the catering and retail sectors still have a long way to go. Perhaps a quarter of small businesses have not re-opened, millions of migrant workers stayed in their villages rather than go back to precarious jobs in the big cities, and most consumers have run down their savings. The Golden Week holiday in October saw extensive domestic tourism, but the total spend was only two-thirds of the 2019 figure.

The ALCE portfolio remains defensively positioned. At end-October, the ALCE portfolio had a FY2021 forecast P/E of 18.2x and a dividend yield of 3.7%. By comparison, the consensus forecasts for the S&P/ASX200 imply a P/E of 18.9x and a dividend yield of 3.5%.