MONTHLY PERFORMANCE REPORT
November 2020

The portfolio returned 6.49% for the month, compared with 10.21% 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.

PERFORMANCE (Inception JUL-2018)	Arminius Capital ALCE Strategy	S&P/ASX200 Accumulation Index (AUD)
1 Month *	**6.49%**	10.21%
3 Months	**7.77%**	8.11%
Calendar YTD	**-5.45%**	-1.59%
1 Year	**-6.14%**	-1.97%
3 Years	**N/A**	N/A
5 Years	**N/A**	N/A
Cumulative since Inception July 2018	**0.09%**	**6.12%**

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.*

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

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%	6.49%		-5.45%

INVESTMENT MANAGER

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

DISTRIBUTION DETAILS

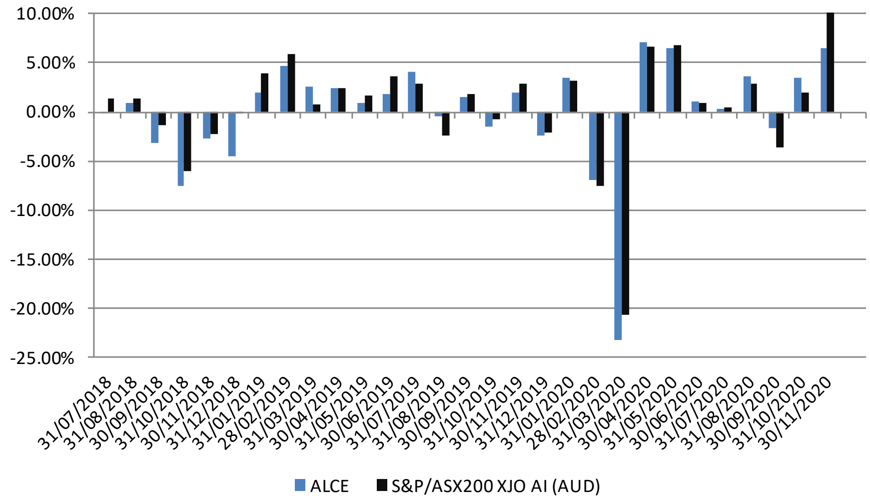
Arminius Capital Management
115 Wickham St
Fortitude Valley
QLD 4006
AUSTRALIA
+61 7 3040 9104
info@arminiuscapital.com.au

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 6.5% in November, 3.7 percentage points lower than the 10.2% return from its benchmark, the S&P/ASX200 accumulation index. The index return was the biggest one-month return since the 1980s, when share market volatility was much higher.

The main reason for the underperformance of ALCE in November was higher share prices for the Big Four banks, which all rose between 15% and 25% during the month, as investors digested their FY20 results and seemingly concluded that the worst was over. As we explained on the Arminius website (see https://arminiuscapital.com.au/geldzug-australias-banks-are-on-the-road-to-recovery/), the banks are on the road to recovery over the next two years, but we don't think they will ever return to their glory days before the GFC, because they are now held to (i) higher business standards (ii) lower operating leverage and (iii) bigger equity capital requirements.

Therefore the ALCE portfolio owns only two of the Big Four banks and is slightly underweight the financial sector. The Big Four are still 10% or more below their pre-pandemic peaks, and it is worth bearing in mind that they have been falling since 2015. (Macquarie is an exception.)

The Big Four Banks ***Index Base 100 = 2015***

Source: FactSet

After a volatile year, most markets recorded spectacular returns in November, thanks to the US election and the announcement of three COVID-19 vaccines. Japan was the strongest performer, with the Nikkei 225 price index leaping 15.0%. Europe's Stoxx 600 was not far behind, jumping 13.7%. The Australian S&P/ASX200 price index recorded its biggest monthly rise since the 1980s, with a 10.8% increase. The US S&P500 price index rose only 10.0%, being weighed down by the relentless rise in COVID-19 infections and deaths, but it did set a new historic all time high record. The Chinese share market was more subdued, with a 5.2% rise in the Shanghai Composite price index, partly because China has its own vaccine program, with lower efficacy rates than the West's candidate vaccines.

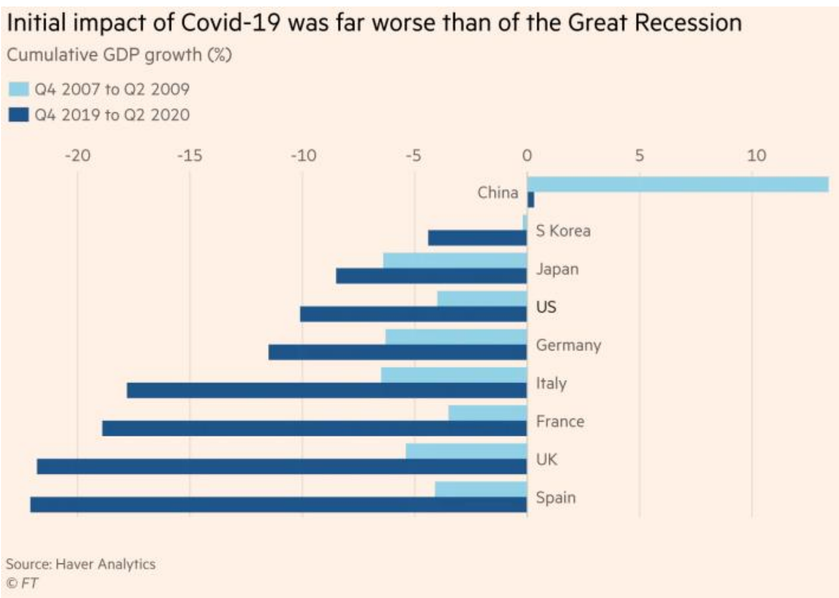
Joe Biden's clear majority in the Electoral College reassured investors who had feared that a disputed election would end up having to be resolved by the House of Representatives, as in 1824 and 1876. Professional investors usually keep their political views out of their decision-making: a clear Trump victory would have given them the same amount of reassurance. The failure of the Democrats to gain control of the Senate was seen as a "Goldilocks outcome", in the sense that the new Administration would be stimulatory but unable to pass radical legislation.

Much more important was the news that the Pfizer-BioNTech, Moderna, and Oxford-AstraZeneca vaccines had all performed well in clinical trials and would be rolled out in 2021. Investors immediately assumed that the rollout would proceed smoothly in rich countries, leading to herd immunity by end-2021. On the strength of this optimistic view, share prices in the most beaten-down sectors – retail, restaurants, hotels, tourism, energy – improved sharply. Share prices in the tech sector, by contrast, were more subdued, because many tech stocks will no longer profit from lockdowns and social distancing.

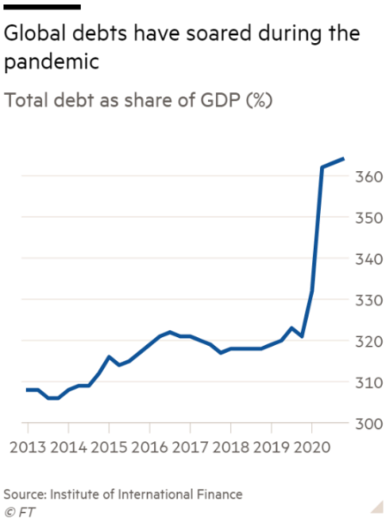
The five largest positive movements in the ALCE portfolio during the month were National Australia Bank (+24.7%), ANZ Bank (+22.2%), Domain (+13.7%), Charter Hall (+11.3%), and Nine Entertainment (+10.6%). The five largest negative movements were GUD (-11.1%), Ausnet (-4.9%), ASX (-3.2%), Chorus (-1.6%), and APA (-1.3%). 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.

MARKET OUTLOOK

The news of three effective COVID-19 vaccines means that the end of the pandemic is in sight. Mass immunizations in 2021 will restore the global economy to about 95% of normal over the next two years – fastest in those countries (like Australia) where the immunization program will be effective and vaccination will be compulsory. (Remember that, according to recent polls, >40% of Americans, >40% of English and 26% of Australians do not want to get vaccinated immediately.) Of course, there may still be delays and surprises on the road to herd immunity.

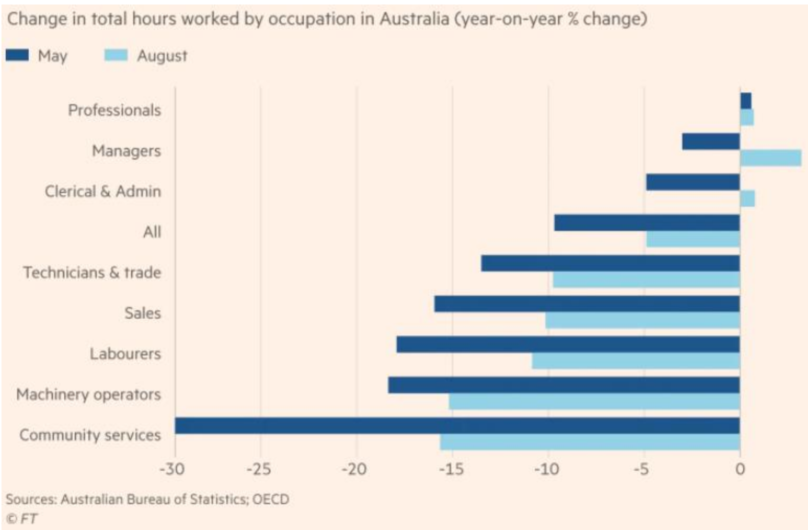


Even though we can see an end to the pandemic, investors need to understand that it will have lasting effects, just as the GFC did, and the pandemic has been more painful than the GFC. The chart above compares, for several countries, the GDP falls caused by the GFC (2007-2009) with the GDP fall caused by COVID-19 (2019-2020). In particular, most governments introduced stimulus measures to soften the blow of the lockdown recession, and this extra spending increased government deficits, causing a sudden leap in government debt, as the chart below shows.

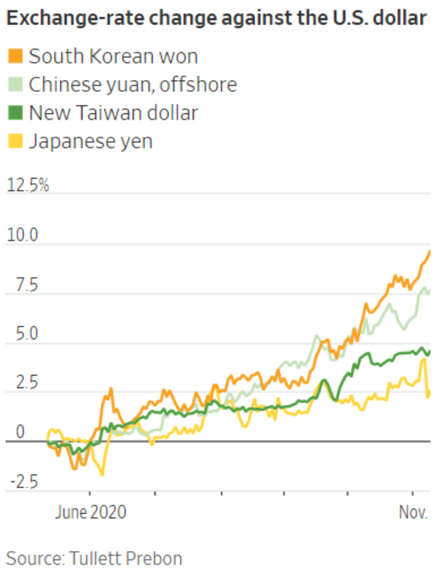


World economies and world share markets are currently floating on the high tide of money injected by governments. At some point, governments will reduce their spending, and the number of job losses, insolvencies, and bad loans will be revealed. To quote Warren Buffett: "it's only when the tide goes out that you see who has been swimming naked."

Australia, like the rest of East Asia, has handled the pandemic very well, so the permanent business closures and job losses will be modest, unlike the US and the UK. As the chart below shows, the effect of the pandemic on white-collar jobs has been minimal. The brunt of layoffs and reduced hours has been borne by blue-collar workers and the service industries.



In addition, the majority of Australian exports go to East Asia, so our economy will be boosted by the rapid recovery which is already evident in our neighbours. (Provided that the Federal Government can do some fence-mending with China!) Global investors are already re-directing their funds away from the US and into East Asian share markets. As the chart below shows, the main East Asian currencies have been rising since mid-year, which was when it became obvious the US had completely mishandled the pandemic.



The global economic recovery will be uneven, because COVID-19 is still raging in the US, the UK, Western Europe, Russia, Latin America and elsewhere. But the outlook for Australia is very positive: consensus forecasts for the S&P/ASX200 are looking for 5% EPS growth in FY21 and 12% in FY22, while upward earnings revisions are now twice as frequent as downward ones.

At end-November, the ALCE portfolio had a FY2021 forecast P/E of 20.1x and a dividend yield of 3.3%. For comparison, the consensus forecasts for the S&P/ASX200 imply a P/E of 21.0x and a dividend yield of 3.1%.

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