MONTHLY PERFORMANCE REPORT
December 2020

The portfolio returned 0.78% for the month, compared with 1.21% 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.

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 *	**0.78%**	1.21%
3 Months	**9.23%**	11.10%
Calendar YTD	**-4.68%**	-0.40%
1 Year	**-4.68%**	-0.40%
3 Years	**N/A**	N/A
5 Years	**N/A**	N/A
Cumulative since Inception July 2018	**0.40%**	**6.42%**

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%	6.49%	0.78%	-4.68%

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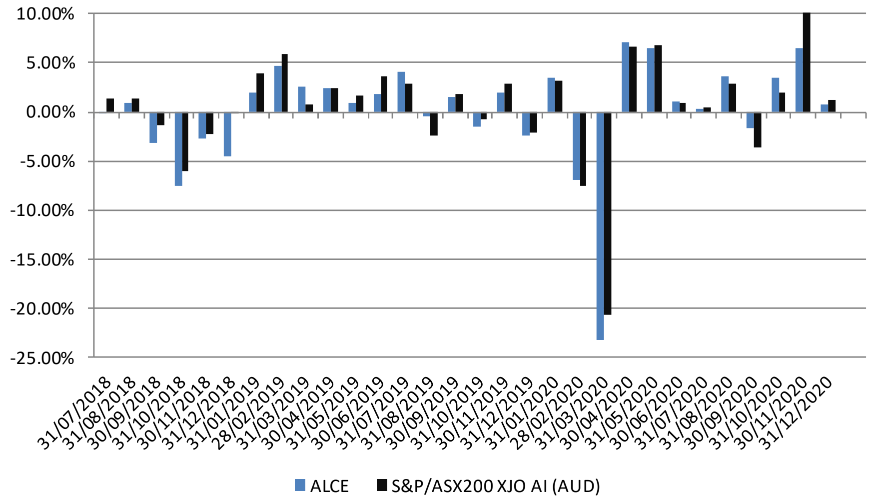
STRATEGY OBJECTIVES:
The aim of the ALCE (Australian Low Correlation Equities) portfolio is to outperform the S&P/ASX 200 (TR) Index over rolling 5-year periods. The portfolio will also aim to deliver above market dividend income and lower volatility than the S&P/ASX 200 (TR) Index. The investment process 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

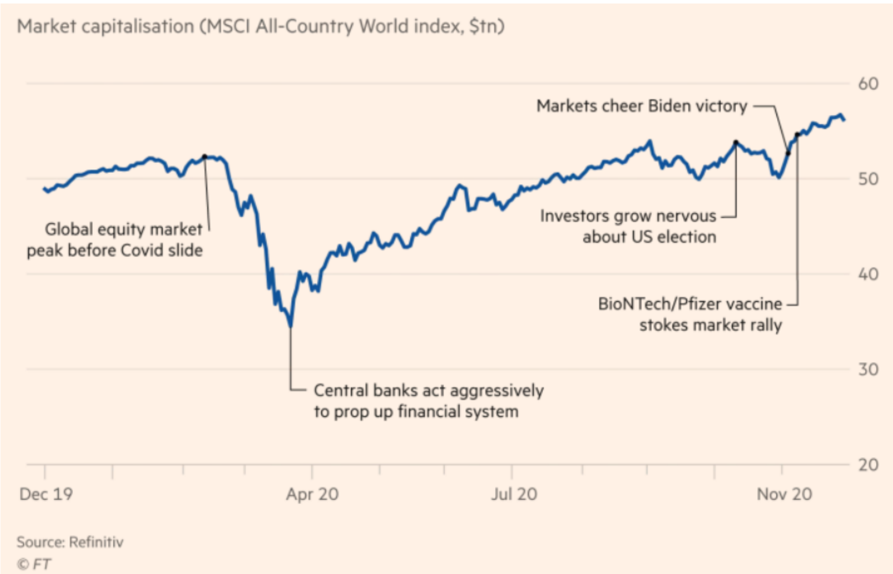
The ALCE portfolio returned +0.78% in December, 0.43 percentage points lower than the 1.21% return from its benchmark, the S&P/ASX200 accumulation index.

After November's "vaccine euphoria", December was a month of subdued optimism for global share markets. Investors realized that, although the vaccines were a light at the end of the tunnel, we were still in the tunnel, because distributing the vaccines around the world would be difficult and administering them to some 5 billion adults would be a very slow process. The US looked on as more than 90 US State and Federal judges dismissed the Trump team's repeated challenges to the Presidential election. The UK signed a Brexit agreement with the EU, only four years and six months (and three prime ministers) after the June 2016 vote.

December's best performer was Japan's Nikkei 225 price index, which rose 3.8%, giving it a calendar year return of 16.0%. (Arminius has argued for the last two years that Japan is undervalued and has excellent upside potential. This is still true.) All of Japan's 2020 return arrived in the December quarter, which recorded an 18.5% jump. The runner-up in December was the US S&P500 price index, which gained 3.7% during the month, meaning that it was up 16.3% for 2020.

The rest of the world did not do anywhere near as well. Europe's Stoxx 600 price index rose 2.5% in December, but was still down -4.0% for the year. China's Shanghai Composite price index advanced 2.4% in December, and was up 13.9% for the year. Unlike the capitalists of the West, Chinese investors had a fairly smooth ride in 2020 – the Shanghai Composite index fell less than -10% in the March quarter, compared to -24% in Australia and -20% in the US.

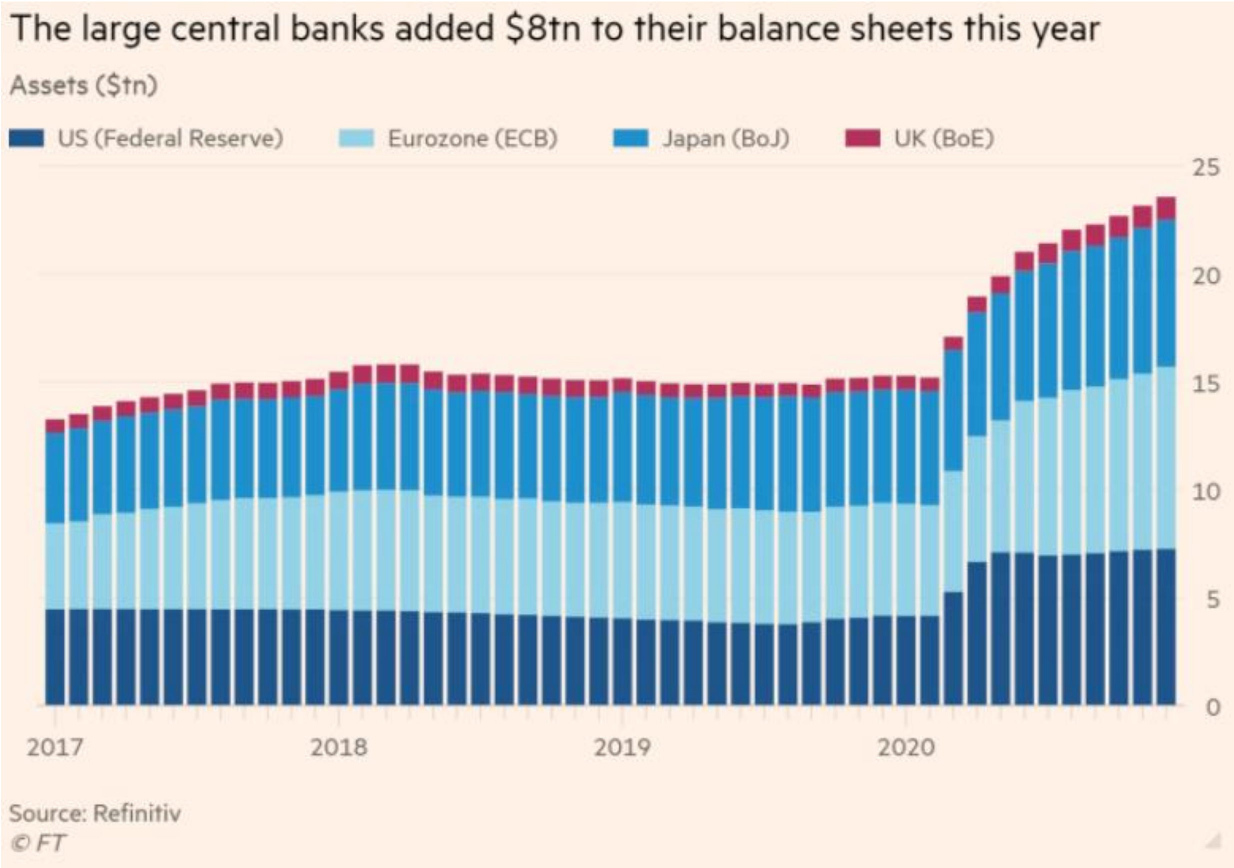
Australia's S&P/ASX200 price index rose 1.1% in December, giving it a 2020 return of negative 1.5%. But if you didn't sell down during the February-March crash, and you also re-invested all your dividends, the S&P/ASX200 accumulation index gave you a total return of negative 0.40%. This negative return was below the world average: the 2020 path of the MSCI All-Country World Index is shown in the chart below.



The five largest positive movements in the ALCE portfolio during the month were Charter Hall (+8.4%), BWP (+4.6%), GUD (+4.5%), Spark NZ (+4.2%), and Waypoint (+4.3%). The five largest negative movements were ASX (-5.3%), Ausnet (-4.8%), Stockland (-3.9%), APA (-2.4%), and Mirvac (-2.4%). At month-end the Fund's five largest holdings were National Australia Bank, ANZ Bank, Wesfarmers, Macquarie, and Nine Entertainment.

The regular quarterly re-balance saw the exit of Amcor, APA, Ausnet, ASX, Chorus, Spark NZ, Transurban and Waypoint, and the entrance of Ampol, Bluescope, LendLease, Mirvac, NIB, Sims, Stockland and Worley.

MARKET OUTLOOK



The chart above shows how the main central banks pumped USD $8 trillion into the global economy after the February-March collapse. This figure does not include the huge budget deficits which Western governments let loose at the same time. These deficits are already bigger than the response to the GFC, and they are still rising because the governments are still spending.

World share markets are currently afloat on a tsunami of money. The problems will start to appear when the various governments try to reduce their spending. Premature withdrawal could tip economies back into recession. Spending too much for too long could trigger a resurgence of inflation.

At present, it is too soon to predict the long-term outcome, and for the next six months the continuing tsunami of money should keep share markets buoyant. The second half of 2020 may see corrections in several markets – not only if the money taps are shut off, but also if the vaccination programs do not go as well as hoped.

The outlook for the Australian economy and share market is better than most countries. Like the rest of East Asia, we have handled the pandemic reasonably well. The number of fatally damaged businesses is relatively low, and – outside the travel, catering and entertainment sectors – the increase in the long-term unemployed is manageable.

In Australia as in most countries, the pandemic has made the rich richer and the poor poorer. We can see the differential effects in the chart below, which depicts the year-on-year change in hours worked by various occupations. The dark blue lines show the change between May 2019 and May 2020, and the light blue lines show the change between August 2019 and August 2020. The May changes are bigger, reflecting the temporary effect of the lockdowns. It is obvious from the light blue lines that professional, managerial and clerical workers have not been seriously affected. The burden of the coronavirus recession has fallen on salespeople, technicians, community services staff and blue-collar workers – i.e. the lower paid.

Therefore the net effect of the COVID-19 pandemic is made up of two opposite components. The first is negative: the lower-paid workers who lost their jobs and withdrew some super will be fairly frugal until they have made up their losses. The second component, however, is positive: the better-paid workers have been working from home and saving more of their income because they couldn't travel, go to bars and restaurants, etc. These better-paid workers constitute pent-up consumer demand – they will spend more as soon as they are allowed to do so. We expect the positive effect to outweigh the negative in Australia's 2021-2022 recovery.

At end-December, the ALCE portfolio had a FY21 forecast P/E of 23.6x and a dividend yield of 3.1%. For comparison, the consensus forecasts for the S&P/ASX200 imply a P/E of 21.0x and a dividend yield of 3.1%. The December re-balance has made the ALCE portfolio slightly more expensive than the market because it added a few high-P/E stocks such Ampol and Charter Hall. That said, forecasts for FY2021 are still very uncertain because of COVID-19, and many companies have not yet indicated how quickly they will restore dividend payments. Looking out to FY22, the ALCE portfolio has a prospective P/E of 18.2x and dividend yield of 3.6%, compared to consensus forecast P/E of 19.0 and dividend yield of 3.4%.

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