MONTHLY PERFORMANCE REPORT
May 2021

The portfolio returned 0.66% for the month, compared with 2.34% 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 *	**0.66%**	2.34%
3 Months	**9.35%**	8.48%
Calendar YTD	**6.61%**	8.83%
1 Year	**0.04%**	-0.25%
3 Years	**N/A**	N/A
5 Years	**N/A**	N/A
Cumulative since Inception July 2018	**3.15%**	**9.13%**

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%
2021	-0.72%	-0.17%	4.92%	3.54%	0.66%	-	-	-	-	-	-	-	6.61%

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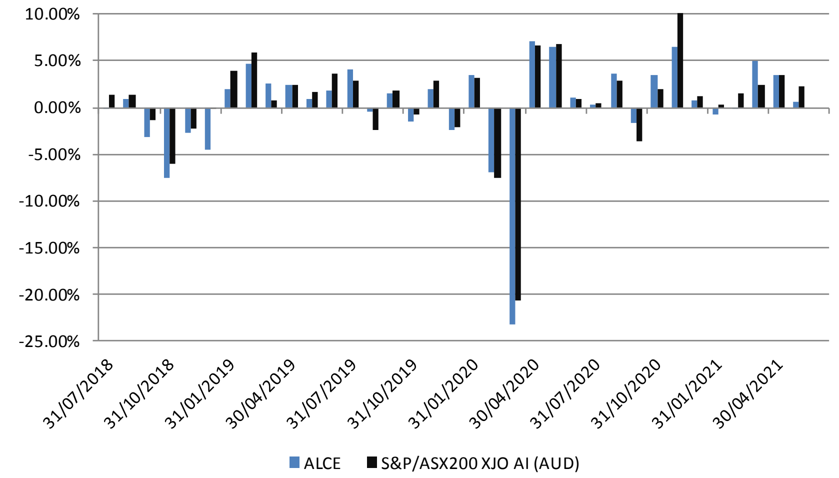
STRATEGY OBJECTIVES:
The aim of the ALCE (Australian Low Correlation Equities) portfolio is to outperform the S&P/ASX 200 (TR) Index over rolling 5-year periods. The portfolio will also aim to deliver above market dividend income and lower volatility than the S&P/ASX 200 (TR) Index. The investment process 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 positive 0.66% in May, 1.68 percentage points less than the 2.34% return from its benchmark, the S&P/ASX200 accumulation index. The portfolio underperformed this month because it cannot hold the volatile and speculative mining stocks which have outperformed the market this year as commodity prices rose strongly.

The uptrend in global equities continued in May. The US S&P500 price index set a new record of 4232 on 7 May, but then retreated slightly, returning only 0.5% for the month. Investors were encouraged by strong economic data and March quarter results, but worries about inflation grew as management after management commented on cost increases and supply chain disruption.

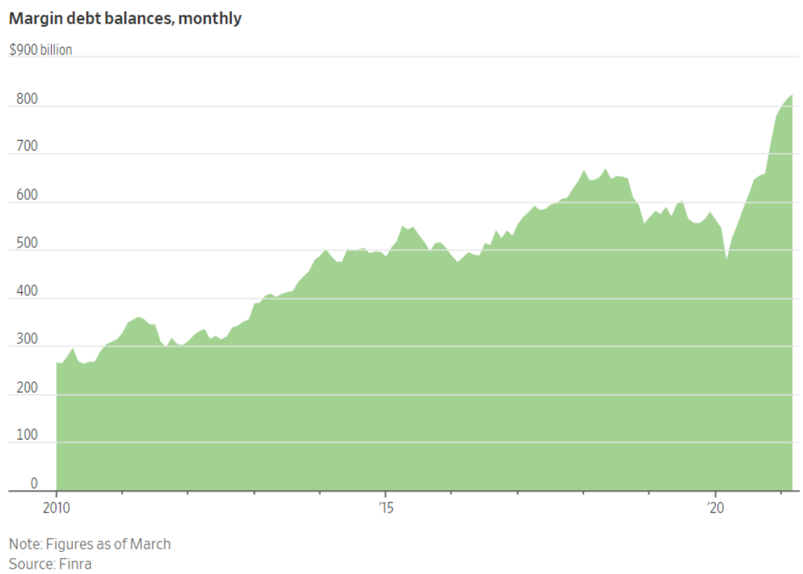
The Australian share market continued to be buoyed by strong commodity prices and numerous profit upgrades, setting a new record of 7172 on 10 May. Europe's Stoxx 650 price index reached a new record of 449 on 28 May, with a return of 2.1% for the month. Japan's Nikkei 225 price index returned only 0.2%, with the resurgence of coronavirus threatening the success of the Tokyo Olympics. China's Shanghai Composite price index jumped 4.9% on the strength of encouraging economic data and the June celebrations for the centenary of the Chinese Communist Party.

The five largest positive movers in the ALCE portfolio during May were Nine (+7.6%), Westpac (+7.2%), Mirvac (+5.7%), Fletcher Building (+4.8%), and Telstra (+3.8%). The five smallest contributors were GUD (-9.3%), Bega (-7.0%), Ramsay (+5.8%), Mirvac (+3.4%) and Sims (+3.4%). There were no portfolio changes during the month. At month-end the Fund's five largest holdings were Westpac, National Australia, ANZ Bank, Macquarie, and Telstra.

MARKET OUTLOOK

As markets around the world are setting new records, we are still positive on the medium term outlook, but a correction in the next few months seems inevitable. Many valuation measures are looking stretched, even though earnings upgrades are still outnumbering downgrades.

Of course, bull markets are notorious for their ability to remain over-priced longer than people expect, but there is one reliable indicator that a market is nearing its top. In the early stages of a bull market, most retail investors buy cautiously, but as the market keeps rising and they keep making money, they become more confident in their own abilities and start using leverage.

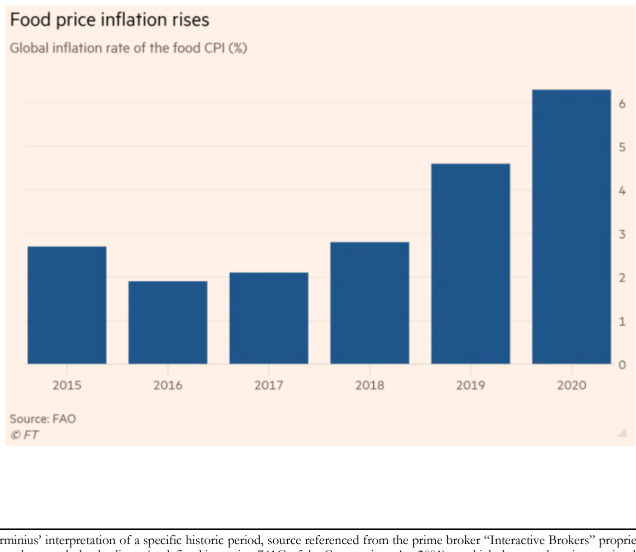


The chart above shows the amount of margin lending in the US share market on a monthly basis. The amount rises in a bull market, then falls abruptly when the market turns down. (Not because the average investor gets more prudent. Because his holdings are sold off at a loss when he can't meet a margin call.) It is easy to see how the February 2020 downturn reduced margin balances, and how they have recently set new records, along with the US market. This is why we expect a correction in the next few months.

Barring some major disaster (such as a Chinese invasion of Taiwan), global equity markets will recover from the next correction quite quickly. Corporate earnings are recovering strongly, fiscal and monetary policy is still highly supportive, and the vaccine roll-outs are slowly bringing US, European and Asian economies back to normality.

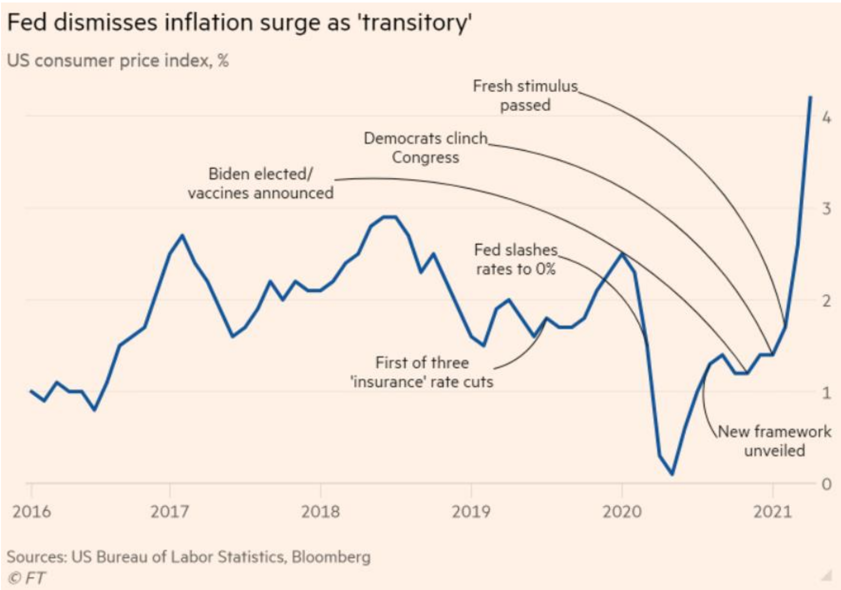
Although many supply disruptions will be rectified in coming months, resurgent demand will exceed current production capacity in key industries. The most important of these is computer chips, where the shortages will continue well into next year. US housing costs are under similar pressure, because a decade of low housing demand has shrunk the building industry: timber, bricks and other materials are subject to bottlenecks, and there is simply not enough skilled labour. Higher house prices will lead to higher rents, which are the biggest single component of the Consumer Price Index.

Inflationary pressures are not limited to the US: the chart above shows how producer prices in China have spiked in the last six months. More broadly, US companies are complaining that they can't hire enough workers, even though the US economy still has 7.6 million jobs fewer than it did before the pandemic. Management commentary on US March-quarter results and Australian half-year results has repeatedly warned of rising input costs, which will eventually flow through to higher product prices. The chart below shows how rapidly global food prices have been rising – up 6% last year.



It is now all but certain that the global economic recovery will bring with it global inflation. Recent economic data has strengthened our view since April, when we published a detailed analysis on the Arminius website: https://arminiuscapital.com.au/inflation-preparation-old-is-new-again/

The US Federal Reserve and the Reserve Bank of Australia both think that the current increase in inflation is "transitory", i.e. it will sink back down once the coronavirus-affected economies get back to normal. We disagree: not just because we can remember central banks saying the same thing in the late 1960s and early 1970s, but because the signs of rising prices are spread very broadly across sectors and countries. The only thing that would tame the inflationary spiral is an abrupt tightening of fiscal and monetary policy, which is not going to happen any time soon.



The chart above shows US consumer price inflation in the US over the last five years, plus a timeline of the recent events which have set the inflationary process in motion. This is not going to end well.

PORTFOLIO POSITIONING

The ALCE portfolio is currently positioned to benefit from Australia's strong economic recovery, particularly through its holdings in banks, building materials, steel, and scrap metal companies.

At end-May, the ALCE portfolio had a FY21 forecast P/E of 21.3x and a dividend yield of 3.4%. For comparison, the consensus forecasts for the S&P/ASX200 imply a P/E of 19.4x and a dividend yield of 3.5%. Looking out to FY22, the ALCE portfolio has a prospective P/E of 18.0x and dividend yield of 3.8%, compared to consensus forecast P/E of 18.0x and dividend yield of 3.6%.

Consensus EPS is about 15% in both FY21 and FY22, but the composition is very different. This year, most of the growth comes from the resources sector, but FY22 is much more broadly based, and resources EPS is forecast to be flat or down.

-ENDS-