ARMINIUS CAPITAL ALCE STRATEGY

MONTHLY PERFORMANCE REPORT
August 2021

The portfolio returned 3.81% for the month, compared with 2.50% 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 *	**3.81%**	2.50%
3 Months	**5.45%**	5.71%
Calendar YTD	**12.37%**	15.33%
1 Year	**23.99%**	27.92%
3 Years	**4.44%**	9.68%
5 Years	**N/A**	N/A
Cumulative since Inception July 2018	**4.62%**	**10.38%**

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%	0.78%	-4.68%
2021	-0.72%	-0.17%	4.92%	3.54%	0.66%	1.83%	-0.29%	3.81%	-	-	-	-	12.37%

INVESTMENT MANAGER

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

DISTRIBUTION DETAILS

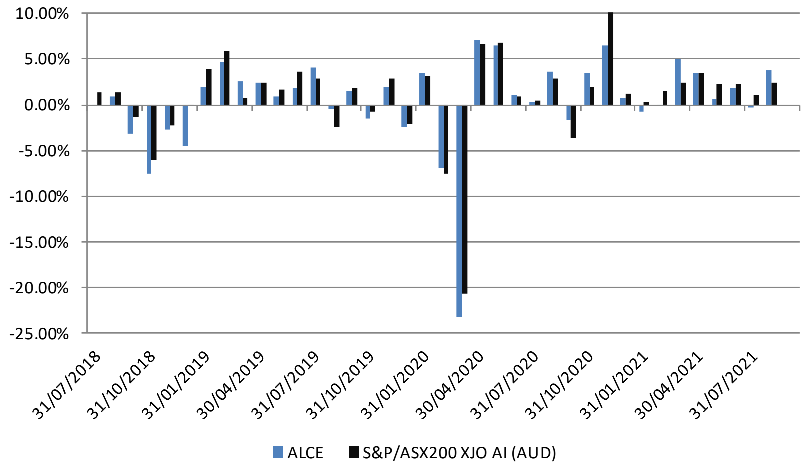
Arminius Capital Management
115 Wickham St
Fortitude Valley
QLD 4006
AUSTRALIA
+61 7 3040 9104
info@arminiuscapital.com.au

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

In August the ALCE portfolio returned 3.81%, 1.31 percentage points better than the 2.50% return from its benchmark, the S&P/ASX200 accumulation index. For the seven months of calendar 2021, ALCE has returned 12.37%.

The Afterpay takeover made the technology sector the leader of the Australian market in August. By contrast, falling iron ore prices pushed the resources sector into the red for the month, with an 8.8% loss. The weakness in in oil and metal prices (except aluminium) was triggered by the negative effects of the delta variant in Australia, China and the US.

Almost all the companies in the ALCE portfolio reported strong results for FY21. These are outlined in the article "The August 2021 Reporting Season" which is available to here on our website: https://arminiuscapital.com.au/the-august-2021-australian-reporting-season/

Japan's share market led the developed world in August. The Nikkei 225 price index rose 2.95%, in spite of rather than because of the Olympics. The Japanese market was doing well until investors began to worry that the Olympics – even if spectator-free – might trigger a new surge in COVID-19 deaths. When this did not eventuate, investors breathed a sigh of relief and went back to buying Japanese stocks.

The US share market was the runner-up with a broadly based gain of 2.90% in the S&P500 price index. Europe's Stoxx 600 price index and Australia's S&P/ASX200 price index both rose approx. +2%. All three markets set new records during the month.

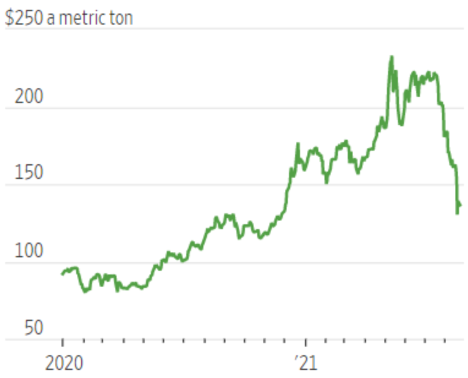
The Chinese market rebounded as investors decided that the authorities seemed to have the delta variant under control. China's tech sector bounced despite fresh measures to punish corporate misbehaviour: the smarter billionaires have hastened to align their companies with the new rules, and many have promised large contributions to worthwhile causes.

The portfolio's five best performers during August were Steadfast (+14.0%), Resmed (+11.4%), Charter Hall (+9.6%), Mirvac (+9.1%), and Computershare (+7.2%). The only negative returns came from Sims (-7.7%), Worley (-3.9%), and Wesfarmers (-2.0%).

There were no portfolio changes during the month. At month-end the Fund's five largest holdings were National Australia, Westpac, ANZ Bank, Wesfarmers, and Telstra.

MARKET OUTLOOK

Spot iron-ore price



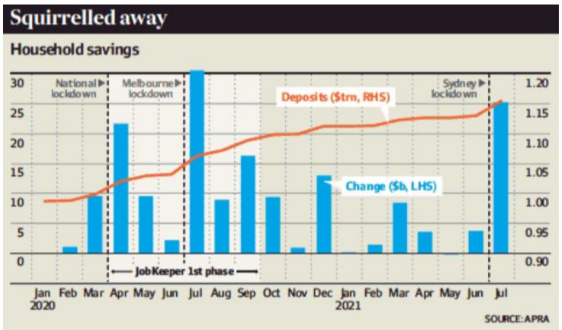
Note: Price for benchmark 62% iron-content fines
Source: S&P Global Platts

The iron ore price finally fell in August. Analysts and company management were surprised that it had stayed so high for so long, sustained by Brazilian incompetence and Chinese speculators. Australia's miners are still wildly profitable at the current level of USD135 per tonne, because their cash costs are less than USD20 per tonne.

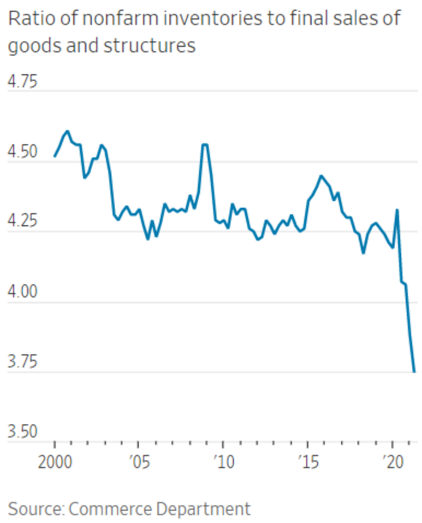
We still expect that Australia will enjoy a medium-term boom in strategic minerals – copper, nickel, lithium, and other inputs for batteries and renewable power generation. This is why BHP and Andrew Forrest are competing to acquire nickel assets.

What was really surprising in August is that, while bond markets and commodity markets took fright at the growing impact of the delta variant on global economic activity, share markets didn't. Equity investors looked through the discouraging economic data and treated the delta variant as a temporary disturbance on the global economy's road to full recovery.

We think that this is the correct approach. We have said since last year that the road to recovery will be W-shaped – the rollout of vaccinations takes us two steps forward, another lockdown takes us one step back.



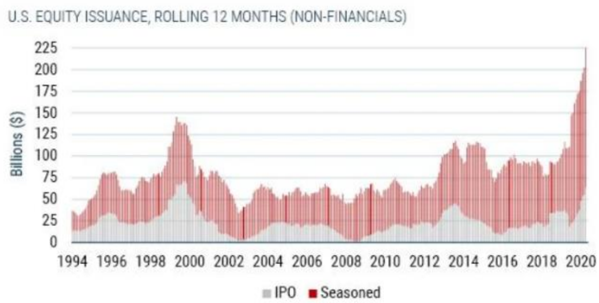
Consumers spend less in lockdowns, creating pent-up demand for later. The chart above from the Financial Review shows how the combination of lockdowns and Jobkeeper payments boosts household savings.



The combination of supply chain disruptions and pent-up demand have emptied shelves and warehouses, as the chart above shows. The US ratio of inventories to sales has dropped to unprecedented levels because re-stocking is taking too long. The chart below shows the six-fold increase in container freight rates from Shanghai to Los Angeles.

The delta variant has caused production cuts in Asian factories. Orders for the Christmas season have been brought forward, but cannot be filled or delivered. Delays will continue because there are not enough ships or containers, and even air freight is now near capacity. Increasingly, commentary from company management emphasizes supply chain problems, from higher freight costs to supply shortages to increased inventories of part-finished goods.

The net effect of all this disruption is to stretch the road to recovery out over many more months. This may lead to some disappointments in the next set of company results, if revenues or profits fall short of investor expectations.



Source: Federal Reserve.

The chart above shows the value of new equity issued in the US on a rolling 12-month basis, whether IPO or seasoned (rights issues and placements). It is obvious that the current bull market has set new records, even beating the mania of the dotcom boom. Eventually the supply of new equity will exceed the demand, bringing a market correction.

We continue to expect a correction in the next few months, whether from over-supply of shares, earnings disappointments, US political surprises, or the effect of COVID-19 variants on GDP growth. But our medium-term view remains positive.

The health of the Chinese economy always hangs over the Australian share market. We do not believe that the authorities' recent moves against the tech giants and other social evils will have a negative effect on the economy as a whole. China's tech companies have been just as eager as America's to exploit their customers and workers – not to mention misusing personal data – therefore tighter regulation is widely popular with the Chinese public.

Similarly, Xi Jinping's commitment to focus on "common prosperity" resonates strongly with the vast majority of Chinese (outside of the billionaire class). The visible evidence of inequality has become more and more obvious in recent years, leading to growing resentment. Readers may remember that, soon after taking office, Xi cracked down on corrupt officials. That campaign was also very popular with the masses.

In the midst of China's recent surprises, it is easy to forget that Japan is also a major buyer of Australian exports, so any improvement in Japan is a clear positive for the Australian economy. So it is an encouraging sign that the deeply unpopular Prime Minister Suga will be gone in a few weeks, and the ruling Liberal Democratic Party (LDP) will choose a new leader before November's general election.

There will be no major policy changes under the next Prime Minister, whoever he is. The LDP has been in power continuously since 1955, except for brief hiccups in 1993-1994 and 2009-2012. Japan will continue to be governed by the "iron triangle" of bureaucrats, businessmen, and LDP politicians. But it will reassure investors to see a moderately popular PM and a government which looks comparatively competent.

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-August, the ALCE portfolio had a FY22 forecast P/E of 18.8x and a dividend yield of 3.7%. For comparison, the consensus forecasts for the S&P/ASX200 imply a P/E of 18.6x and a dividend yield of 3.7%.

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