MONTHLY PERFORMANCE REPORT
September 2021

The portfolio returned -2.64%% for the month, compared with -1.85% 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 *	**-2.64%**	-1.85%
3 Months	**1.30%**	1.88%
Calendar YTD	**9.41%**	13.19%
1 Year	**21.43%**	27.49%
3 Years	**4.63%**	9.63%
5 Years	**N/A**	N/A
Cumulative since Inception July 2018	**3.65%**	**9.47%**

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%	1.83%	-0.29%	3.81%	-2.64%	-	-	-	9.41%

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

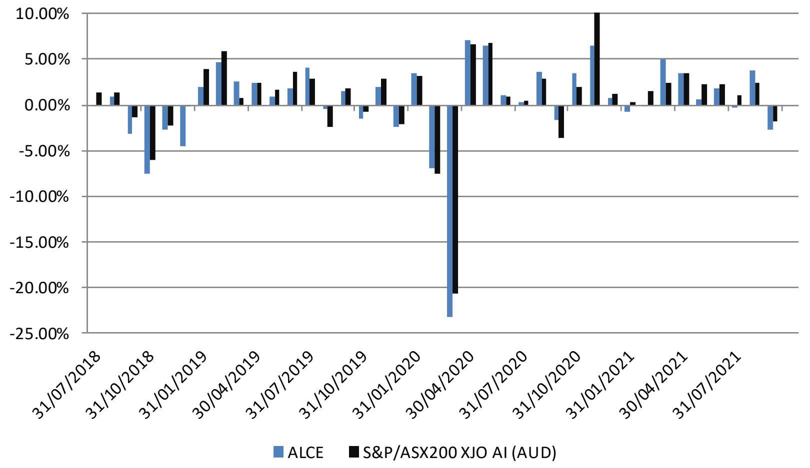
DISTRIBUTION DETAILS
Arminius Capital Management
115 Wickham St
Fortitude Valley
QLD 4006
AUSTRALIA
+61 7 3040 9104
info@arminiuscapital.com.au

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 September the ALCE portfolio returned negative 2.64%, 0.79 percentage points worse than the negative 1.85% return from its benchmark, the S&P/ASX200 accumulation index. For the seven months of calendar 2021, ALCE has returned 9.41%.

The correction we had been waiting for turned up in September as bad news flooded markets. The US Congress hit a roadblock with the Federal Budget and the Federal debt ceiling. Inflation indicators worsened in many countries. Oil prices spiked to USD80. The US S&P500 index fell 4.6%.

Europe's STOXX600 dropped 3.4%, mainly in reaction to soaring energy prices as a result of surging Asian demand. Many German companies are now in the unenviable position of having record orders but being unable to fill them because of supply chain disruptions, higher input costs, and higher freight costs.

The Australian share market did not correct as sharply as the rest of the world: the S&P/ASX200 price index fell only 2.7%. Higher oil prices lifted the energy sector 16.7% during September, but most other sectors fell. The materials sector dropped 9.3% as iron ore price continued to slide, and other metal prices also slipped back.

The departure of the unpopular Prime Minister Suga lifted the Nikkei 225 price index by 4.9% during September, even though the new PM, 64-year-old Kishida Fumio, is as bland and boring as his predecessor. Mr Kishida has called an election for 31 October, and the ruling Liberal Democratic Party is expected to retain power.

The Chinese market was flat as the authorities abstained from any new regulatory surprises and concentrated instead on reassuring investors of their commitment to a mixed economy (with the proviso "so long as the Party likes what the market does").

The portfolio's five best performers during September were South32 (+14.1%), GPT (+4.5%), Telstra (+2.3%), Stockland (+1.1%) and ANZ Bank (+1.1%). The five worst were Bluescope (-16.7%), Sims (-15.4%), Worley (-11.4%), Iluka (-8.0%) and Resmed (-6.9%).

The regular re-balance saw the departure of Computershare, Sims, Stockland, and Worley, and the addition of Brickworks, Graincorp, James Hardie, and Shopping Centres Australasia. At month-end the Fund's five largest holdings were Westpac, National Australia, ANZ Bank, Wesfarmers, and Telstra.

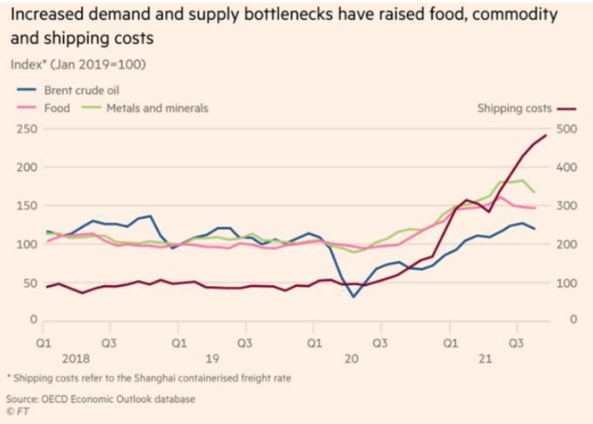
MARKET OUTLOOK

Natural gas prices in the UK and Europe rose fivefold because strong Asian demand (mainly China) caught local power companies with low inventories. Russia has committed to shipping more gas, so European prices will probably retrace part of their rise.

Electricity restrictions have been imposed in 19 Chinese provinces because the centrally planned economy failed to take into account the consequences of rising coal prices, fixed electricity prices, and emissions restrictions. India has managed to accomplish a similar mess without Communism: coal shortages have triggered electricity shutdowns.

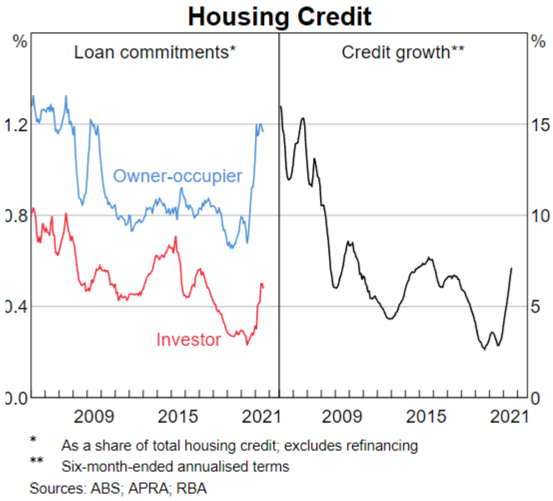
We discuss the coming "Winter of Discontent" on the Arminius website: https://arminiuscapital.com.au/the-winter-of-discontent/

Higher energy prices will of course flow into higher inflation. The chart below shows how supply chain disruption has already lifted the prices of food, metals, and freight, even before the latest spike in energy prices.

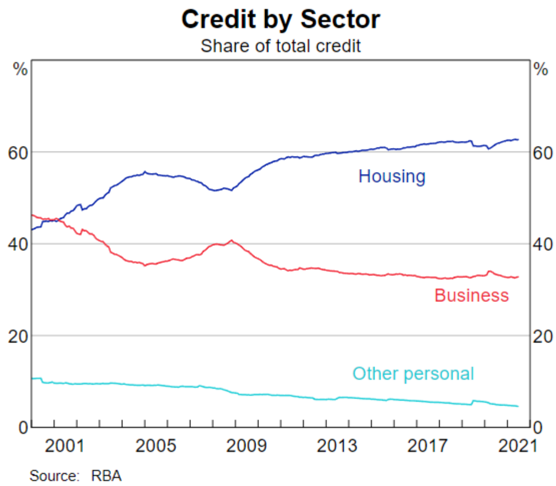


Inflation in Australia is likely to rise, but not as much as the rest of the world. As a resource exporter, we are a net beneficiary of higher commodity prices, and there is still very little upward pressure on wages. The chart below shows how the end of the pandemic has erased fears of deflation and caused a modest rise in inflation expectations.

To date, inflation in Australia is mostly visible in house prices, which rose 16.8% in the 12 months to June 2021. Similar rises are forecast for this year. APRA and the big four banks have begun to impose macroprudential restrictions, not only to contain price rises, but also discourage highly geared borrowers.



The chart below shows how housing credit spiked as buyers escaped from the pandemic. The chart below shows how housing loans have come to dominate bank balance sheets, so that they now make up more than 60% of total credit.



In the last 12 months Australian banks have enjoyed a golden run – rapid loan growth, fewer bad debts than feared, and profits boosted by writebacks of their pandemic provisions. Clearly, this will not last: FY22 is likely to bring lower loan growth, even without the macroprudential restrictions.

Another negative factor for Australia is the current slowdown in China. Arminius has been saying for months that the Chinese leadership has been trying to induce a slowdown – particularly in property prices – in order to increase affordability and keep total debt within manageable limits. Now the leadership has got what it wants. The collapse of Evergrande and other highly geared developers will see their assets move into stronger hands, while the Party oversees the repayment of homebuyers, contractors and suppliers on a city-by-city basis.

On top of the property collapses, planned electricity stoppages in half of China's provinces will reduce industrial production in order to assure power supply to households over winter. The slowdown will see China's GDP growth rate fall below 4% annualized in the next two quarters, resulting in lower demand for Australian exports (except coal!).

PORTFOLIO POSITIONING

The ALCE portfolio is currently positioned to benefit from Australia's strong economic recovery, particularly through its holdings in banks, steel, building materials, retailing, and retail property. The portfolio also has holdings in industries which will benefit from the global recovery, especially in grain, steel, minerals, and building materials.

At end-September, the ALCE portfolio had a FY22 forecast P/E of 17.7x and a dividend yield of 4.0%. For comparison, the consensus forecasts for the S&P/ASX200 imply a P/E of 18.0x and a dividend yield of 3.9%.

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