

# Monthly Fund Update

ARMYTAGE STRATEGIC OPPORTUNITIES FUND (ASOF)

DECEMBER 2022

## Fund Description

The Armytage Strategic Opportunities Fund mandate is to generate a 7.5% yield, with a lower than market volatility. The fund was developed after extensive consultation within the Australian IFA market. Lonsec 'recommended' since the funds inception in 2005 and has a 4 star rating with Morningstar. The recommended investment timeframe is 5 - 7 years.

## Key Facts

Inception Date	20 June 2005
APIR Code	ETL0139AU
Benchmark	All Ordinaries Accum Index
Pricing Frequency	Daily
Liquidity	T + 2 Business Days
Yield	Targeting 7.5% to 9.5% gross
Distribution	Semi Annual
MER	1.78%
Buy/Sell Spread	0.25%

## Service Providers

Investment Manager	Armytage Private Pty Ltd
Responsible Entity	Equities Trustees Limited
Fund Admin	Apex Group Ltd

## Holdings

#	Top 10 holdings	%
1	BHP Group Ltd	9.21
2	Commonwealth Bank of Aus	8.21
3	CSL Ltd	6.38
4	National Australia Bank Ltd	5.08
5	Macquarie Group Ltd	4.08
6	Westpac Banking Corp	3.74
7	ANZ Group Holdings Ltd	3.37
8	Woolworths Group Ltd	2.86
9	Wesfarmers Ltd	2.66
10	Aussie Broadband Ltd	2.28

## Performance

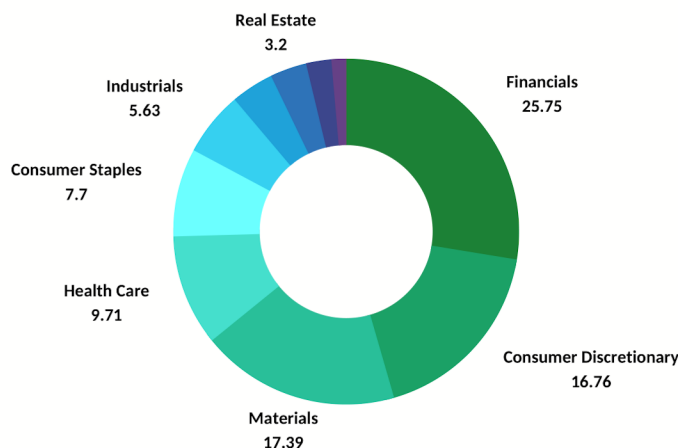
As at 31st December 2022

Performance	Since Inception	5 Years	3 Years	1 Year	6 Months	3 Months	1 Month
The Fund	9.84%	6.83%	3.48%	-9.26%	4.16%	5.84%	-4.42%
Benchmark (*)	8.15%	7.22%	5.79%	2.96%	9.65%	8.77%	-3.30%
<b>Difference</b>	<b>1.69%</b>	<b>-0.39%</b>	<b>-2.32%</b>	<b>-6.30%</b>	<b>-5.49%</b>	<b>-2.93%</b>	<b>-1.11%</b>

\* Performance benchmarked against the All Ordinaries Accumulation Index

## Sector Allocation (%)

As at 31st December 2022



## Market Commentary

Equity markets failed to manifest a Santa rally this year as fears of a global recession in 2023 returned to the central stage. Additionally, the FED's Jerome Powell indicated that officials were not close to ending their aggressive campaign of interest rate hikes, which added to the probability of a recession. Markets declined worldwide, with the Aussie market fared better than its US counterparts. The All Ords Accum Index declined 3.3% in December, as well as finishing FY23 slightly flat, whereas the SP500 and the NASDAQ both returned losses in the same period, -19.44% and -33.10% respectively.

The RBA delivered an unwanted Christmas gift to mortgage holders as the Bank lifted interest rates by another 25bps to 3.1%. The official cash rate has gone from 0.1% in April to 3.1% in December, the fastest tightening cycle on record. On the positive side, the Australian GDP expanded 0.6% QoQ and 5.9% YoY in the September quarter and the unemployment rate remained at a multi-decade low of 3.4%, which underpinned the economy and consumptions.

## Performance & Stock Review

The fund edged down 4.42% in December on the back of a weaker stock market. The 1st Half of Financial Year 2023 came in at 2 cents per unit, payable the 10th business day of January 2023.

The Materials sector stood out, supported by strong commodity prices (iron ore +14%, nickel +11%). BHP's takeover of **OZ Minerals (OZL)** became effective in December after 5 weeks of due diligence. OZL shareholders could receive a fully franked final dividend of up to \$1.75, which is the equivalent to an approx. 6% yield. Other iron ore stocks such as **RIO** and **FMG** also performed well, whereas Lithium producers **PLS** and **AKE** underperformed. We took the opportunity to top up our positions in both companies on price pullbacks.

Consumer staples, Telecommunication and Utilities all fared better than market, thanks to their defensive nature. **Woolworths (WOW)** has sold 5.5% of the issued shares in **Endeavour Group (EDV)** to fund its PET Inspiration (PETstock) acquisition. Post-sale, WOW will retain 9.1% interest in EDV with no intention of further selling in the immediate to medium term. The 2 supermarkets, **WOW** and **COL**, have consistently underperformed market in the past 6 months. We believe the dynamic for these stocks will soon change as the demand for recession proof stocks returned. **Treasury Wine (TWE)** performed well as the China/Australia relation improved. Shares in **Telstra (TLS)** firmed despite the ACCC opposing its regional tower sharing agreement with TPG. **Aussie Broadband (ABB)** also outperformed market.

On the stock front, Bendigo Bank (BEN) came out from left field with a profit upgrade and a better than expected exit NIM of 2.01%. We subsequently saw a rebound in share prices of the big 4 banks, and to a lesser extent, **Macquarie (MQG)**. Unfortunately for **Star Casino (SGR)** shareholders, the NSW's newly proposed casino tax regime sent the stock into panic mode, which saw Star's share price down nearly 35%. Nevertheless, we suspect this will attract a lot of attention from overseas Private Equity firms who would like to have an exposure in the Australian duopolistic casino industry.

## Outlook

Armytage forecast a soft-landing scenario for Australia where the RBA's ultra-fast tightened monetary policies will lead to a slowdown in economic activity. A tight labour market, huge long-term demand for commodities along with a reopening Chinese economy and strong household balance sheets will provide buffer. Armytage expects inflation has peaked and will start to normalise in 2023, as we are approaching the peak of the RBA tightening cycle. In the short to medium term, we prefer sectors & stocks that are non-cyclical and less sensitive to a recession. A few of our favourite picks include Endeavour (the BWS and Dan Murphy's owner), CSL (biopharma), the travel & tourism sectors such as Qantas (QAN) and nickel & lithium producers such as IGO and Pilbara (PLS).

Yield	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Distribution	3.3c	3.4c	3.9c	4.0c	4.4c	4.2c	4.2c	4.0c	4.1c	4.1c
Net Yield	7.1%	7.2%	7.4%	7.1%	8.8%	7.4%	7.0%	6.5%	7.8%	6.39%
Gross Yield	10%	8.5%	8.6%	8.4%	11.4%	10.6%	10.1%	7.8%	8.7%	7.87%

## GET IN TOUCH

31 December Unit Price: \$0.5780

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## About The Manager

Armytage Private is a boutique investment specialist majority owned by members of its investment team and key executives.

Founded in 1995, Armytage is a pioneer in Australia's investment industry, offering a suite of actively managed IMAs and managed funds.

Armytage is a Value manager with a fundamental investment approach designed to identify quality businesses trading at a considerable discount to valuation.

The process is guided by three fundamental beliefs:

- Markets are not perfectly efficient and the true value of a business is not always reflected in its share price;
- Undervalued companies can be identified through detailed and intensive research; and
- Capital preservation is critical to wealth creation.

## Investment Team

Armytage has a highly skilled and experienced team with proven investment management capabilities, and our success has been built on the strength and passion of our people.

**Lee laFrate** – Chairman/Portfolio Manager



- Lee has been in the financial industry for over 36 years, with broad experience ranging from stock broking and funds management to principle lecturer at the Securities Institute of Australia.

**Bradley King** – Director/Portfolio Manager



- Bradley has over 20 years experience in the financial services industry, working in a variety of roles in funds/portfolio management, company analysis, stock broking, wealth services and administration.

**Julian Mitchell** – Portfolio Manager



- Julian has been in the Investment Industry for over 30 years. Julian was the founder of DMP Asset Management. Prior to DMP, Julian has worked for large American banks in London and New York where he was a stock research analyst.

**Austin Ngo** – Portfolio Manager



- Austin is a qualified CPA who has previously worked in Public Practise accounting firms, specialising in Taxation and Financial Accounting. Austin integrates software such as Bloomberg and IRESS to support his qualitative & quantitative research.