

# Monthly Fund Update

ARMYTAGE STRATEGIC OPPORTUNITIES FUND (ASOF)

FEBRUARY 2023

## 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	10.1
2	Commonwealth Bank of Australia	7.72
3	CSL Ltd	7.14
4	National Australia Bank Ltd	4.86
5	Macquarie Group Ltd	4.15
6	Westpac Banking Corp	3.55
7	ANZ Group Holdings Ltd	3.35
8	Woolworths	3.07
9	Wesfarmers Ltd	2.96
10	Woodside Energy Group Ltd	2.83

## Performance

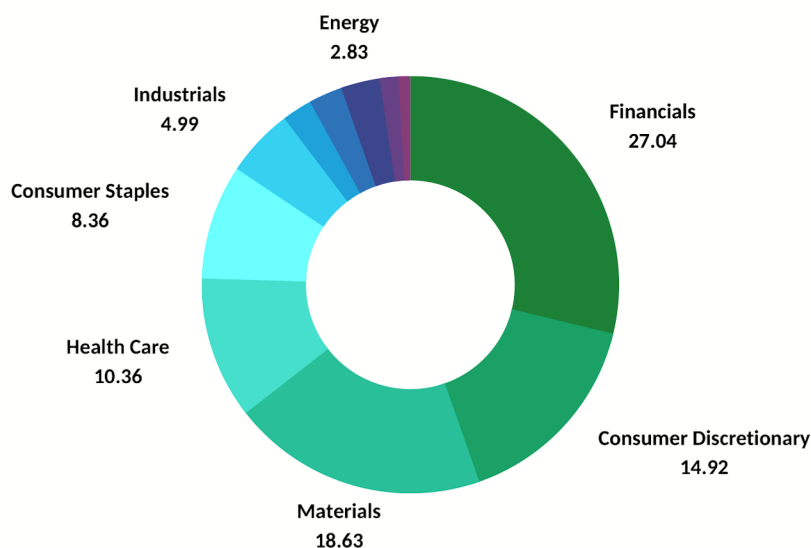
As at 28 February 2023

Performance	Since Inception	5 Years	3 Years	1 Year	6 Months	3 Months	1 Month
The Fund	10.12%	7.53%	6.78%	1.14%	2.40%	-0.68%	-2.34%
Benchmark (*)	8.42%	8.05%	8.50%	5.97%	5.67%	0.36%	-2.48%
<b>Difference</b>	<b>1.70%</b>	<b>-0.53%</b>	<b>-1.72%</b>	<b>-4.83%</b>	<b>-3.27%</b>	<b>-1.05%</b>	<b>0.14%</b>

\* Performance benchmarked against the All Ordinaries Accumulation Index

## Sector Allocation (%)

As at 28 February 2023



## Market Commentary

Equity markets edged lower in February as the RBA's hawkish stance weighed on sentiment. At the same time, the 1H23 reporting season wrapped up with the number of EPS beats and misses evenly balanced while dividends surprised to the upside. However, we noted a deterioration in outlook forecast, with EPS outlook downgrades outnumbered upgrades. Companies experienced an ongoing battle with costs, with issues such as wage inflation were expected to continue into the second half.

As the RBA lifted the official cash rate to 3.6%, the meeting minutes revealed that a pause was not considered. The wording of the minutes also suggested that unless there were significant deterioration in economic data, the tightening cycle would continue. However, with the unemployment rate ticked up for a 2nd consecutive month and a weaker Q4 GDP release, an argument for a more dovish interest rate move could be made.

Unit Price: \$0.7937 (as at March 10, 2023)

## Performance & Stock Review

The All Ords Accum Index retreated 2.48% in February. The fund fared slightly better.

Defensive and non-cyclical sectors outperformed as market positioned itself for an economic downturn. Endeavour Group (EDV) advanced 5% as its 1H23 result beat consensus forecast by 7%, specifically in the hotels & drinks (Dan Murphy's) segments. Moreover, trading during the first 5 weeks of CY2023 was also positive with hotels +31% vs pcp. Recession proof stocks such as The Lottery Corp (TLC) and the 2 supermarkets (COL and WOW) also outperformed market. Shares in Telstra (TLS) firmed 1.96% as the Telco reaffirmed guidance and commitment for its FY25 \$500m cost reduction target. Shares in Aussie Broadband (ABB) also performed well as the telco reported strong growth across all key metrics. Other performance contributors to the fund include gym operator Viva Leisure (VVA), +19.4%, who posted a profit for the first time since the pandemic lockdown disruption.

On the other end of the spectrum, Materials was the worst performing sector in February, crashing close to 7% on recession fears. BHP and RIO declined 8.45% and 7.83% respectively despite strengthened iron ore prices. Shares in lithium miners Pilbara (PLS) and Aikem (AKE) each declined 12% as lithium spot prices continued to drift from the peak. Market also speculated more downside to lithium prices this year due to expanding supply, slowing Chinese demand and the Chinese government's potentially imposing restrictions on mining projects amid environmental concerns.

Shares in the banks were weakened after CBA revealed that Australia #1 Bank's Net Interest Margin (NIM) has peaked in October 2022. The bank also indicated that home loan pricing across the industry is currently below cost of capital as lenders battled it out for market share. According to CBA, Australian homeowners to date have only felt about half of the impact from the current RBA tightening cycle, indicating more pain to come.

## 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 History

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

## GET IN TOUCH

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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.

Disclaimer: Equity Trustees Limited ("Equity Trustees") ABN 46 004 031 298 | AFSL 240975, is the Responsible Entity for the Armytage Strategic Opportunities Fund. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). This document has been prepared by Armytage Private Pty Ltd (Armytage) ABN 51 079 960 419, AFSL 238519, the investment manager for the Fund, to provide you with general information only. In preparing this document, Armytage did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither Armytage, Equity Trustees nor any of their related parties, their employees or directors, provide any warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should consider the Product Disclosure Statement ("PDS") before making a decision about whether to invest in this product."

# ARMYTAGE PRIVATE



Est. 1995

PROSPERITY THROUGH PRUDENCE AND PRESCIENCE

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Buy/Sell Spread	0.25%
Performance Fee	Nil
Blue Chip Companies	ASX All Ordinaries Universe
<b>Service Providers</b>	
Investment Manager	Armytage Private Pty Ltd
Responsible Entity	Equities Trustees Limited
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### Platform Availability

- mFund
- Navigator
- Hub24
- Direct with Armytage
- NetWealth

### Ratings



### Performance

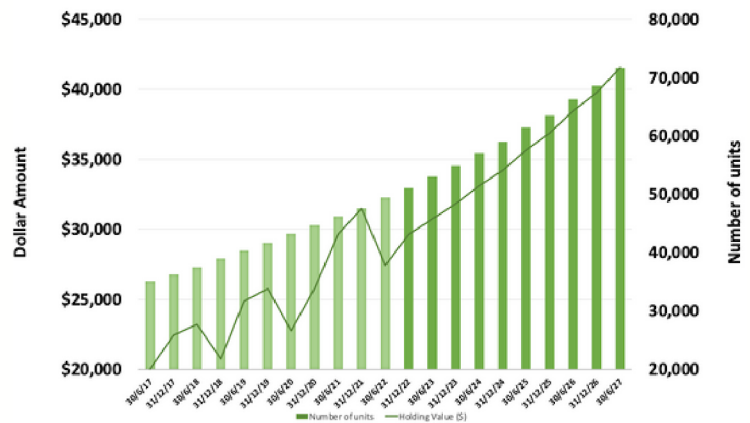
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### ASOF Investment Projection



\*Data shown following the 30/6/2022 is forecasted based on previous data

### Fund Objective

The Fund is managed with a purpose of offering investors long-term capital growth and a regular semi-annual income stream, from a portfolio of micro, small and large-capitalisation investments that Armytage considers to be of high quality and good value. The fund aims to provide a higher level of yield (2.5% above) than the S&P All Ordinaries, while matching or beating the total return of the index over the medium term.

### Fund Benefits

The investment style enables Armytage to take advantage of strategic or special opportunity investments. The investment process identifies listed companies which are being discounted by the market, but still retain an asset (tangible or otherwise) which in Armytage's view, is of significant value to one or more third parties. The Fund is income growth focused with exposure to small to mid-caps. As part of Armytage's active investment strategy, the Fund benefits from the use of Exchange Traded Options (ETOs) which under a non-leveraged Buy-Write, Sell-Put strategy, these securities are designed to help increase the yield of the portfolio, assist to reduce market volatility and along with dividend income, provide a stable platform for semi-annual distribution payments to investors.

## Investment Strategy

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.

The fund uses exchange-traded options to enhance the yield on the underlying physical investments through a Buy/Write and Sell/Put strategy. Options are not used for gearing or protection purposes and the Fund is never more than 100% exposed to the market. Additionally, the fund has the ability to invest in the mid cap and small cap sectors of the Australian market when the manager sees significant value in doing so.

## Suitable investors

This fund is designed for investors who seek an exposure in Australian equities that is able to generate income and capital growth from a mix of strategic opportunities identified.

## The Australian Economy

February 2023

RBA Cash rate 3.60%  
Unemployment 3.7%  
Retail sales 1.9% MoM  
Trade surplus \$11.68b  
Property -0.1% MoM  
CPI 7.4% YoY

AUD 0.6739  
Brent 82.34  
Gold 1,817.30  
Iron ore 125.75

## About Armytage Private

Established in 1995, Armytage is managed by highly experienced fund managers who specialize in portfolio construction, asset allocation and derivatives management.

Armytage was one of the first truly **Individually Managed Account (IMA)** focused managers, moving on from the traditional broker transaction-based model.

In 2005, Armytage broadened its product suite by offering managed funds to retail investors, via financial advisory relationships.

The core Managed Funds business focuses on Australian equities with income enhancement.

## Investment team

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**Louise Iozzi** – Partnerships Director



- Louise joins the Armytage team with 15 years of commercial experience. Committed to establishing trusting and collaborative relationships with her clients, Louise is driven towards positive commercial outcomes, business growth and personal financial gains.

## GET IN TOUCH

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