

Monthly Fund Update

ARMYTAGE STRATEGIC OPPORTUNITIES FUND (ASOF)

JUNE 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	%
BHP Group Ltd	10.49
Commonwealth Bank of Australia	7.79
CSL Ltd	7.18
National Australia Bank Ltd	4.1
Macquarie Group Ltd	3.68
Westpac Banking Corp	3.65
ANZ Group Holdings Ltd	3.44
Woolworths Group Ltd	3.29
Woodside Energy Group Ltd	3.21
Wesfarmers Ltd	3.07

Performance

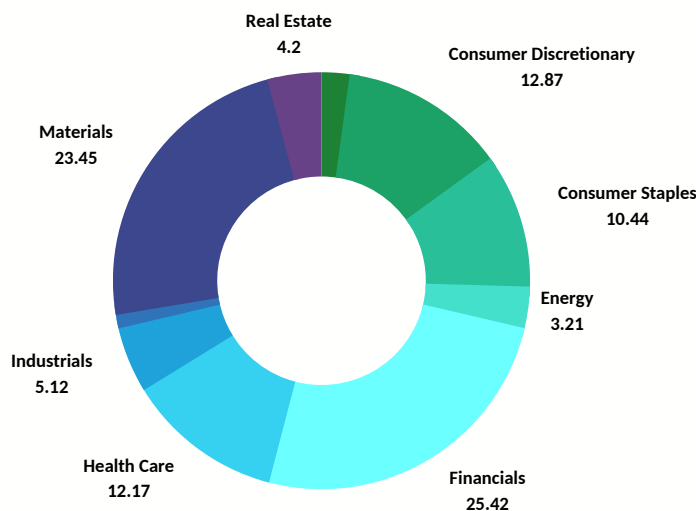
As at 30 June 2023

Performance	Since Inception	5 Years	3 Years	1 Year	6 Months	3 Months	1 Month
The Fund	9.51%	6.64%	9.19%	-3.81%	-4.28%	-3.62%	-3.39%
Benchmark (*)	8.09%	7.56%	11.57%	2.04%	-0.72%	-1.08%	-2.63%
Difference	1.42%	-0.92%	-2.38%	-5.84%	-3.55%	-2.54%	-0.76%

* Performance benchmarked against the All Ordinaries Accumulation Index

Sector Allocation (%)

As at 30 June 2023



Market Commentary

Equity markets rejoiced as the risk of a default crisis in the US was alleviated. Investors were betting on more profound stimulus from the Chinese government to support its ailing economy. After a disappointing 2022, the Australian equity market returned to growth despite interest rate is now 4% higher than the prior corresponding period. All major Aussie indices finished FY2023 in positive territory with the large cap indices outperformed their small and mid-cap counterparts. For instance, the All Ords Accum Index returned 14.75% in FY23 compared to a petite 4% performance of the Small Caps Accum Index. Moreover, Aussie stocks underperformed international peers as the RBA defied market expectations with another rate hike, bringing the official cash rate to 4.1%. The S&P500 beat the Aussie All Ords by almost 3%, returning 17.57% in FY23 while the NASDAQ returned 25.02%, thanks to the resurgence in popularity of Tech stocks.

During the month, the Fair Work Commission increased the FY24 award wage by 5.75%, after a 4.6% increase in FY23. The unemployment rate drifted back to 3.6% after the economy generated 75.9k jobs. We forecast a higher probability for a wage-price spiral scenario in Australia where inflation and interest rate remain elevated for longer.

Performance & Stock Review

The Fund distributed 1.3 cents per unit for the second half of FY2023, bringing the total FY2023 distribution to 3.3 cents per unit.

The Materials sector performed the best in June in anticipation of further stimulus from the Chinese government, particularly fiscal stimulus, after a few recent small symbolic short and medium term lending rate cuts. A virtually no inflation environment (0.2% YoY CPI) provides extra headspace for more profound stimulus. **FMG**, **BHP** and **RIO** advanced as iron ore surged 10%. We retained our market weight positions amongst those 3 iron ore stocks. Pure play lithium producer **Pilbara (PLS)** rallied 11% as the Australian government announced further investments in critical minerals, in a decarbonisation effort.

Financial stocks also performed well with the major banks recouped underperformances from previous months. At 10-11x PE (ex. **CBA**) and approx. 6% yield on average, the banks became attractive for value and yield hunters. Shares in **Insurance Group (IAG)** also traded higher after a positive update at its investor day, where the insurance company slightly lifted its forecast medium term ROE target.

Tech stocks also followed the NASDAQ higher with market favoured the likes of **Xero (XRO)** and **WiseTech (WTC)**. Previous month's winners NextDC (NXT) and Altium (ALU) pared gains, which might be due to profit-taking.

Healthcare was the worst performing sector of the month with the heavy-weight **CSL** to blame. Shares in **CSL** crashed 9.47% as market caught off-guard with a new FY24 NPATA guidance, an approx. 15% downgrade to consensus as well as accelerating FX pressure, which has risen to \$230m - \$250m (June) vs \$175m (Feb). Some positive news flows into **Ramsay Health (RHC)** as the private hospital operator's Sime Darby assets were up for sale.

Other outstanding performers of the month include **HomeCo (HMC)**, +15%, which own its first institutional mandate in form of a \$350m equity commitment from an Aussie superfund for its Last Mile Logistics fund. **Praemium (PPS)** rallied 10% as the group's bid to the regulator to reduce NTA requirement was approved, which was expected to provide PPS more efficiency and flexibility to pursue growth opportunities.

Outlook

Armytage predicts a higher chance for a mild recession in Australia and expects the RBA's terminal cash rate to be well and truly above 4.5% by the end of 2023. A dramatic increase in interest rates will reduce disposable income of mortgagees and slow down economic growth. Fortunately, our low unemployment rate and Australia's status as resource exporter will provide some buffer. Inflation has peaked but we remain alert that the chance of a wage price spiral in Australia remains med to high due to political influences. We forecast inflation to remain above the RBA's preferred bandwidth (2% - 3%) for the next 12 to 18 months. In the short to medium term, we prefer sectors & stocks that are non-cyclical and less sensitive to a recession. A few of our favorite picks include **Endeavour EDV** (the BWS and Dan Murphy's owner), **CSL** (biopharma), telco (**Telstra & Aussie Broadband**), the travel & tourism sectors such as **Qantas (QAN)** and nickel & lithium producers such as **IGO**, **Allkem (AKE)** and **Pilbara (PLS)**.

Yield History

Yield	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Distribution	3.3c	3.4c	3.9c	4.0c	4.4c	4.2c	4.2c	4.0c	4.1c	4.1c	3.3c
Net Yield	7.1%	7.2%	7.4%	7.1%	8.8%	7.4%	7.0%	6.5%	7.8%	6.39%	6.0%
Gross Yield	10.0%	8.5%	8.6%	8.4%	11.4%	10.6%	10.1%	7.8%	8.7%	7.87%	7.0%

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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.