



Monthly Fund Update

ARMYTAGE STRATEGIC OPPORTUNITIES FUND (ASOF)

SEPTEMBER 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	Equity Trustees Limited
Fund Admin	Apex Group Ltd

Performance

As at 30 September 2023

Performance	Since Inception	5 Years	3 Years	1 Year	6 Months	3 Months	1 Month
The Fund	9.34%	5.84%	8.10%	6.92%	-1.68%	-0.24%	-1.82%
Benchmark (*)	7.95%	6.81%	10.77%	13.09%	0.34%	-0.66%	-2.82%
Difference	1.39%	-0.97%	-2.67%	-6.17%	-2.02%	0.42%	1.01%

* Performance benchmarked against the All Ordinaries Accumulation Index

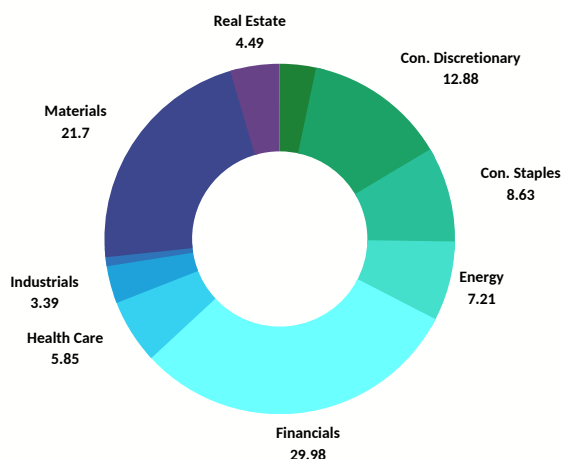
Yield History

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%

Top Holdings

1	BHP Group Ltd	6	Woodside Energy Group
2	Commonwealth Bank of Australia	7	Westpac Banking Corp
3	CSL Ltd	8	Wesfarmers Ltd
4	National Australia Bank Ltd	9	Macquarie Group Ltd
5	ANZ Group Holdings Ltd	10	Aussie Broadband Ltd

Sector Allocation (%)



"Wake me up when September ends"

Market Commentary

In September, global equity markets saw a decline due to the Federal Reserve's adoption of a more hawkish stance, leading to a worldwide sell-off of both equities and bonds. Federal Reserve officials indicated that the highest point for the US cash rate could reach 5.75% by the year's end, effectively eliminating any hopes of a future rate reduction. Consequently, the yield on the US 10-year Treasury note increased to 4.6%, with the Australian bond yield closely trailing at 4.5%. Towards the end of the month, the pressure on equity markets intensified as investors grappled with the potential repercussions of a forthcoming US government shutdown.

In Q2 of 2023, the Australian economy exhibited a quarterly growth of 0.4%. This positive performance defied the pessimistic predictions of economic downturn, as the Gross Domestic Product (GDP) showed a robust year-on-year increase of 2.1%, surpassing the consensus expectation of a 1.8% YoY growth. The unemployment rate remained stable at 3.7%, underpinned by a noteworthy addition of 62.1k part-time jobs and an all-time-high participation rate of 67%.

Performance & Stock Review

The fund outperformed the benchmark by 42bps, largely attributed to our defensive positions.

During the month, nearly every sector experienced losses, except for the energy sector, driven by Crude Oil prices surpassing US\$90 per barrel due to an extended OPEC production cut. In the portfolio, we maintained an overweight position in **Woodside (WDS)** due to its favourable valuation compared to peers, attractive dividend yield, and strong liquidity. Furthermore, we continued to favour **Ampol (ALD)** to gain exposure to convenience retail.

The **Financials** sector outperformed the market, driven by the major banks. **ANZ, NAB, and WBC**, along with **Macquarie (MQG)**, are set to report their full-year results in November 2023. Investors are optimistic about reduced bad debt provisions, given the better-than-expected performance of the property market and the absence of further interest rate hikes from the Reserve Bank.

Iron ore miners showed resilience compared to their counterparts, driven by market expectations of forthcoming economic stimulus measures from China following the conclusion of the Golden Week celebrations in October 2023. Consequently, the fund increased its allocation to **BHP** and held a slight overweight position in **RIO** and **FMG**. In a related Chinese context, **Treasury Wine (TWE)** defied the market's downturn, with its share price rising by 5.6% for the month. Investors were anticipating the removal of tariffs on Australian wine by the Chinese government, which is expected to boost earnings.

In other developments, the competition for critical mineral resources, especially in the lithium sector, intensified with mining mogul **Gina Rinehart** acquiring a blocking stake in **Liontown (LTR)**, a takeover target. This strategy echoes previous instances like **Mineral Resources (MIN)** obstructing **DVP's** takeover of **Essential Metals (ESS)**. These events reinforce our confidence in lithium investments, considering the ongoing shift toward renewable and clean energy. Our primary exposure to lithium remains **Pilbara (PLS)**, a dedicated lithium producer with robust cash flows to support its operations.

During the month, the fund started to accumulate shares in **Orora (ORA)** after its capital raise. The packaging company raised \$1.34 billion at \$2.7 per share (a 20% discount) to fund the purchase of Saverglass, a global manufacturer of premium and luxury wine and spirit bottles. This strategic move aligns with ORA's goal of establishing itself as a prominent global provider of sustainable packaging solutions.

In terms of stocks, **Aussie Broadband (ABB)**, +14.7%, was the star of the month after launching a competing bid for **Symbio (SYM)**, outbidding **Superloop (SLC)**, in an attempt to diversify business. Shares in **Viva Leisure (VVA)** rallied +13% as the health group operator returned to profitability after years of COVID lockdown aftermath.

Outlook

Armytage predicts a low chance for a mild recession in Australia and expects the RBA's terminal cash rate to be well and truly lower or equal to 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 favourite picks include **Woolworths (WOW)**, **CSL** (biopharma), telco (**Telstra & Aussie Broadband**), and nickel & lithium producers such as **IGO, Allkem (AKE)** and **Pilbara (PLS)**.

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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 – Director/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.

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