



## Armytage Private Funds Update - February 2022

Return (%)	1m	3m	6m	1yr	3yr (p.a.)	5yr (p.a.)	Inception (p.a.)
Armytage Australian Equity Income Fund (AEIF)	2.20%	-1.82%	-4.50%	11.58%	6.25%	7.16%	8.60%
Armytage Strategic Opportunities Fund (ASOF)	0.78%	-3.58%	-5.17%	11.04%	8.01%	10.58%	10.97%

AEIF	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Distribution	5.0c	5.2c	5.5c	5.5c	5.5c	5.5c	6.4c	5.1c	5.3c
Net Yield	7.5%	7.2%	7.2%	7.1%	7.7%	7.0%	7.7%	6.1%	7.5%
Gross Yield	8.7%	8.5%	8.5%	8.4%	8.8%	8.5%	12.0%	8.1%	8.4%
ASOF	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Distribution	3.3c	3.4c	3.9c	4.0c	4.4c	4.2c	4.2c	4.0c	4.1c
Net Yield	7.1%	7.2%	7.4%	7.1%	8.8%	7.4%	7.0%	6.5%	7.8%
Gross Yield	10.0%	8.5%	8.6%	8.4%	11.4%	10.62%	10.11%	7.82%	8.71%

Approx. Gross Yield

8.4%

Approx. Gross Yield

8.7%

*\*Past performance is not an indicator of future performance*

## Market Commentary

- February was an extremely volatile month for the Equity markets. Markets rallied during the first half of the month, recovering the losses from the January sell-offs. However, markets gave up majority of gains during the second half, due to a combination of a less than stellar reporting season and heated up geopolitical tensions, as Russia invaded Ukraine in late February. The US indices were deep in losses at the end of February while the Australian counterparts barely finished the month in the green.
- To cushion market volatility, both Armytage funds have moved to a more defensive stance by increasing cash holding and reducing exposure to speculative investments. The funds have also started to increase holdings in oversold quality names due to the War and the BHP unification, such as **Wesfarmers (WES)**, **Telstra (TLS)** and the 2 supermarkets **WOW** and **COL**.
- The **Energy** sector continued to outperform the market in February as the Russian invasion of Ukraine became a reality. Brent and WTI Crude prices surged over the \$100/barrel mark for the first time since 2012 on fears of supply constraints. **White Haven Coal (WHC)** topped the group, returning 22.8% while **Woodside (WPL)** came a close second, up 22.36%.
- Consumer staples** stocks also performed well in February as defensive places against a volatile market. **GrainCorp (GNC)** and **Endeavour (EDV)** soared as results beat market expectations. Shares in the supermarkets **Coles (COL)**, **Woolworths (WOW)** and **Metcash (MTS)** also firmed.
- Tech** stocks continued to stay under pressure, especially the non-profitable members. Non-profitable tech stocks in the US have had a shocking 4 months, down 45% since mid-November. Down under, tech stocks whose half yearly results did not meet consensus numbers, were mercilessly sold off in February. **Appen (APX)** crashed 27% while **Life360 (360)** tumbled 36%.
- Resource stocks had a reasonably good month as key commodities such as nickel and iron ore rallied. BHP returned to its pre ex-div price in 3 days. Gold miners led the sector as gold prices have broken out.

### The Portfolio is designed for investors who...

- Seek an above average yield with long term capital growth
- Expect consistent returns at below market volatility
- Have a long term investment horizon of at least five years

Fund	Distribution FY22	Upcoming distribution
AEIF	2 CPU	Mar22
ASOF	1 CPU	Jun22

## Investment Approach

### A Four Stage Investment Process

Intensive bottom-up research is the cornerstone of the entire process, supplemented by top-down economic and thematic views. The process is disciplined and consistently applied, using a number of proprietary qualitative and quantitative techniques to ensure that targeted companies have been thoroughly scrutinised.

The aim is to uncover undervalued businesses. The companies that Armytage typically invests in are those with strong and reliable management, good profit and dividend growth expectations, reasonably predictable future profits and cash flows, and a very clear business model.

### Stage 1: Defining the Investment Universe (Screening)

The first stage of the process is to narrow the number of stocks in the investment universe by applying a number of screens. This approach systematically eliminates companies that do not meet certain minimum standards, allowing the Investment team to focus more intensely on companies of potential interest.

### Stage 2: Bottom-up Fundamental Company Research

Armytage's research programme is focused on understanding the key drivers of business performance and returns, namely people, operations, products and services, and market dynamics.

For companies remaining in the Investment Universe, Armytage undertakes a detailed assessment of executive management, interviews competitors and suppliers, reviews financials, and forms a clear view on the outlook for the company's industry.

### Stage 3: Portfolio Construction

Risk management and capital preservation are key themes underlying the portfolio construction framework. With a focus on actively managing down-side portfolio risk for investors, Armytage constructs an efficiently diversified portfolio of high quality, undervalued companies, and invests for the long term (typically 3 to 5 years) in an effort to maximise after-tax returns.

### Stage 4: Income Enhancement (ETO Overlay)

After the portfolio of stocks has been selected, we then utilise Exchange Traded Options (ETOs) to enhance the portfolio's overall yield and reduce volatility relative to the market as part of the fund's active investment strategy. This provides a stable platform for the delivery of strong and consistent distribution payments to investors. Importantly, ETOs are not used to gear the Fund, but rather to enhance the portfolios ability to generate above market income through a conservative buy/write, sell/put strategy where all positions are cash or asset backed.

## 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.

## The Armytage Team

### Lee laFraté

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Portfolio Manager

### Bradley King

Director  
Portfolio Manager

### Julian Mitchell

Portfolio Manager

### Patrick Trindade

Investment Committee Member

### Olivia Setchell

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### Austin Ngo

Portfolio Manager  
Accounts Manager

### Chris Newman

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### David Green

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