



ARMYTAGE PRIVATE
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ARMYTAGE FUNDS UPDATE

July 2022 Edition



ARMYTAGE AUSTRALIAN EQUITY INCOME FUND (AEIF)

Performance	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Since Inception
The Fund	5.73%	-3.03%	4.61%	0.25%	3.75%	8.51%	8.54%
Benchmark (*)	5.31%	-5.70%	2.62%	-1.07%	4.70%	8.29%	8.18%
Difference	0.42%	2.68%	1.99%	1.32%	-0.95%	0.22%	0.35%

* Performance benchmarked against the ASX100 Accumulation Index

ARMYTAGE STRATEGIC OPPORTUNITIES FUND (ASOF)

Performance	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Since Inception
The Fund	6.45%	-5.13%	0.12%	-2.85%	4.87%	9.65%	10.48%
Benchmark (*)	6.34%	-6.62%	0.73%	-2.60%	4.93%	8.44%	8.18%
Difference	0.11%	1.50%	-0.60%	-0.24%	-0.06%	1.21%	2.30%

* Performance benchmarked against the All Ordinaries Accumulation Index



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Yield	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Distribution	5.0c	5.2c	5.5c	5.5c	5.5c	5.5c	6.4c	5.1c	5.3c	8.2c
Net Yield	7.5%	7.2%	7.2%	7.1%	7.7%	7.0%	7.7%	6.1%	7.5%	9.98%
Gross Yield	8.7%	8.5%	8.5%	8.4%	8.8%	8.5%	12.0%	8.1%	8.4%	11.35%

30 June Unit Price: \$0.7117

ARMYTAGE STRATEGIC OPPORTUNITIES FUND (ASOF)

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%

30 June Unit Price: \$0.5549

Fund Manager's Comments

Key Economic Releases

RBA Cash Rate: 1.85%
Unemployment Rate: 3.5%
Retail Sales: 0.2% MoM
Trade surplus: \$1.596b
Property Prices: -0.8% MoM
CPI: 6.1% YoY
PPI: 5.6% YoY

Commodities

AUD/USD: 0.70
Brent Crude Oil: \$103.97
Gold: \$1,765.94
Iron Ore: \$117.40

The Australian Equity market recouped a portion of the collapse recorded in June, which was amplified by tax loss selling. A lower than expected inflation print for the June quarter (6.1% vs 6.3% forecast) suggested a more benign interest rate hike by the RBA, which gave the market comfort. Additionally, the unemployment rate declined to 3.5%, hitting its lowest level in almost 50 years, indicating that Aussie households are generally well placed to absorb the impacts of rising interest rates. Last but not least, the reporting season has started on a strong note in the US and Australia, with major beats coming from the Tech sector.

Overall, the Australian **All Ords Accum Index** advanced 6.34% in July after falling over 9% in June, a solid rebound. In the US, the S&P500 rallied 9.11% while the Tech-heavy NASDAQ index rocketed 12.35% in July.

Both **AEIF** and **ASOF** outperformed their respective benchmarks in July. The fund manager was nimble in deploying cash to top up on oversold quality companies that could potentially deliver some upsides at the upcoming reporting season in August. We also took the opportunity to reduce our holdings in some of the defensive/staples names that have outperformed the market in the past few months due to high market volatility.

July saw a rotation from the defensive sectors such as **Utility** and **Consumer Staples** to growth. Aussie **Tech** stocks had a strong month, following the footsteps of international juggernauts **Microsoft** and **Alphabet**. **Megaport (MPI)** and **WiseTech (WTC)** full year results were met with generally positive reception from investors. We will be watching **NextDC (NXT)** and **Xero (XRO)** results closely in August, especially XRO as it will provide a glimpse into the financial health of small and medium businesses.

The **Real Estate** sector also stood out as fears of a hawkish RBA subsided. The A-REITs are highly susceptible to interest rate movements due to leverage. The Funds have holdings in **Goodman (GMG)**, **Vicinity (VCX)** and **Scentre (SCG)**, which all performed well in July. We expect these stocks to report well with a nice boost to dividend.

Perhaps the retailers are doing better than feared. **JB Hi Fi (JBH)** reported a strong preliminary earnings result which showed consumers' resilience amid rising living costs. **Kogan (KGN)** market update saw the company swung back to EBITDA positive, hinting the worst is behind.

On the other end of the spectrum, Agriculture stocks didn't fare very well in July. **Bega Cheese (BGA)** had another downgrade as the company fell victim to the logistics disruption, labour shortage and rocketing farm gate milk prices. A few other names were also under pressure for similar issues.

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 Team

Lee laFrate **Chairman/Portfolio Manager**

Bradley King **Director/Portfolio Manager**

Julian Mitchell **Portfolio Manager**

Olivia Setchell **Portfolio Manager**

Austin Ngo **Portfolio Manager/Accounts Manager**

Patrick Trindade **Investment Committee Member**

Chris Newman **Strategy & Analyst**

Louise Iozzi **Partnerships Director**

Hannah Nguyen **Accountant**

David Green **Marketing Consultant**

Emma Thornbrough **Digital Marketing Officer**

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