



ARMYTAGE PRIVATE

Est. 1995

PROSPERITY THROUGH PRUDENCE AND PRESCIENCE

Armytage Private Funds Update - December 2020

Return (%)	1m	3m	6m	1yr	3yr	5yr	Inception p.a
Armytage Australian Equity Income Fund	0.12%	10.98%	8.27%	-3.79%	3.33%	7.39%	7.87%
Armytage Strategic Opportunities Fund	0.78%	12.93%	13.34%	0.06%	4.71%	9.25%	10.58%

Armytage Australian Equity Income	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Distribution	5.0c	5.2c	5.5c	5.5c	5.5c	5.5c	6.4c	5.1c
Net Yield	7.5%	7.2%	7.2%	7.1%	7.7%	7.0%	7.7%	6.1%
Gross Yield	8.7%	8.5%	8.5%	8.4%	8.8%	8.5%	12.0%	8.1%

Armytage Strategic Opportunities	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Distribution	3.3c	3.4c	3.9c	4.0c	4.4c	4.2c	4.2c	4.0c
Net Yield	7.1%	7.2%	7.4%	7.1%	8.8%	7.4%	7.0%	6.5%
Gross Yield	10.0%	8.5%	8.6%	8.4%	11.4%	10.62%	10.11%	7.82%

Approx. Gross Yield

8.1%

Approx. Gross Yield

7.8%

Market Commentary

- The Australian market traded side-ways for the first half of December as the newly mutated COVID19 strain in the UK as well as the new COVID hotspots in NSW and VIC took the main stage, shrugging off better than expected job numbers. Fortunately, surging iron ore prices, a last minute Brexit deal and the US Congress passing a US\$900b stimulus deal were some positive catalysts that helped push the market slightly higher towards the end of the month.
- All the banks, with the exception of **Bendigo Bank (BEN)** and **Commonwealth Bank (CBA)**, failed to make an impact in December despite better than expected deferred home loan data and APRA no longer restricting the banks' dividend payout ratio.
- The Healthcare sector significantly underperformed the market in December. **CSL** plunged below \$280/share for the first time since July 2020 after announcing scrapping its COVID vaccine trial. Shares in **Mesoblast (MSB)** plummeted over 40% on disappointing updates.
- Iron ore price surpassed \$160/tonnes as Brazil's Vale announced it expected to produce between 300m-305m tonnes of iron ore this year, significant lower than last year. Shares in **BHP** and **RIO** each advanced over 11% for the month while pure iron ore play **Fortescue Metals (FMG)** rallied 28.52%. Gold stocks also performed well as the precious metal posted its first monthly gain since July.
- Crude oil prices plummeted leading up to Christmas following the discovery of the new strain of COVID19 virus. However, it pared back some of its losses after the US reported a larger than expected decrease in crude stockpile. The Energy sector performed in-line with the market. Surprisingly, **Whitehaven (WHC)** rose 24% on the back of its Winchester South's metallurgical mine upgrade amid the China's ban.

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 FYTD	Upcoming distribution
AEIF	2 CPU	Mar21, 1 CPU (est)
ASOF	2 CPU	Jun21, 2 CPU (est)



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

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Bradley King

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Julian Mitchell

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