



ARMYTAGE PRIVATE
Est. 1995
PROSPERITY THROUGH PRUDENCE AND PRESCIENCE

Armytage Private Funds Update - January 2021

Return (%)	1m	3m	6m	1yr	3yr	5yr	Inception p.a
Armytage Australian Equity Income Fund	0.62%	10.70%	10.37%	-7.64%	3.74%	8.54%	7.89%
Armytage Strategic Opportunities Fund	0.92%	13.95%	14.45%	-2.47%	5.16%	10.38%	10.61%

Armytage Australian Equity Income Yield (AEIF)	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 Fund Yield (ASOF)	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 strong momentum from November/December continued into January 2021 as the Biden administration commenced operation in the US. However, during the final week, an army of Robinhood Reddit traders started crowd trading and put share prices of some highly shorted stocks such as GameStop and Nokia on an upward spiral, as well as sending a few hedge funds into short-squeeze positions.
- The Consumer Discretionary sector had a stellar month, up 4.88% in January, backed by a surge in share prices of retailers. November retail sales data shows a 7% MoM (12% YoY) growth. Our overweight positions in key retailers such as **Baby Bunting (BBN)** and **Wesfarmers (WES)** (Bunnings, Officeworks) enhanced the funds' performance.
- The Financial sector rallied over 2% in January as the platform stocks led the pack. Major banks also performed well in January in anticipation of the interim reporting season which is due to take place in February 2021. Investors were expecting the banks to increase the dividend with the potential of a special dividend as APRA is no longer restricting the banks' payout capacity. **Westpac (WBC)** led big 4 banks, up 9.09%, while closing the valuation gap with **CBA** (+1.71%). **ANZ** and **NAB** each advanced approx. 4% for the month.
- The Material sector finished the month 1.32% lower as declining gold and iron ore prices weighed on the sector. **BHP** held on while **RIO** and **FMG** edged lower. Building material stocks however performed well, supported by strong housing data. **Fletcher Building (FBU)** and **CSR** both finished January in the positive territory.
- Technology stocks took a breather in January. Although the sector was up 0.97%, it was **Afterpay (APT)** doing the heavy-lifting as the rest of its members ended lower. We remained underweight the sector as they pay no to low dividend.

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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