

# Armytage Australian Equity Income Fund *(formerly the Armytage Enhanced Leaders Fund)*

## Investment Profile

### Investment Objective

The objective of the Armytage Australian Equity Income Fund is to provide investors with a consistent, tax-efficient and growing cash dividend yield, and long-term capital growth from a concentrated portfolio of blue-chip Australian shares.

### Enhanced Income

The fund targets above market income by combining high yielding equities with an exchange traded option exposure. The objective is to provide investors with a dividend yield that is at least 2.5% above the S&P/ASX 100 Accumulation Index.

### Lower Volatility

The Fund aims to deliver a return superior to that of the market over periods of five years or longer, while at the same time seeks to minimise the risk of investment capital loss by targeting below market Fund volatility.

Key Portfolio Features	
Responsible Entity	Equity Trustees Ltd
Custody/Admin	Linear Asset Management
Investment Style	Relative-value, income enhanced
Benchmark	S&P/ASX 100 Accumulation Index
Authorised Investments	<ul style="list-style-type: none"> <li>S&amp;P/ASX 100 companies</li> <li>Single stock ASX traded options</li> </ul>
Inception Date	6 August 2007
Number of stocks	20-35
Cash Allocation	0-30%
Time Horizon	At least 5 years



## Performance

Net Return %	1m	3m	1yr	3yrs pa	Incept.
Armytage	4.06%	-0.38%	-5.31%	6.92%	-8.52%
S&P/ASX100 Accum	4.88%	0.13%	-5.75%	10.93%	-10.65%
Difference	-0.82%	-0.51%	+0.44%	-4.01%	+2.13%

Approximate Gross Yield: **8.5%**

Portfolio Yield	FY09	FY10	FY11
Distribution	5.5c	4.3c	6.4c
Net Yield	6.3%	6.1%	8.7%
Gross Yield	7.5%	7.3%	11.0%

### 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

## Portfolio Structure

### Top 10 Holdings

No.	Company Name	ASX Code
1	BHP BILLITON	BHP
2	COMMONWEALTH BANK OF AUSTRALIA	CBA
3	ANZ BANK	ANZ
4	WESTPAC BANKING CORPORATION	WBC
5	NATIONAL AUSTRALIA BANK	NAB
6	RIO TINTO	RIO
7	TELSTRA CORPORATION	TLS
8	WESFARMERS	WES
9	NEWCREST MINING	NCM
10	TREASURY WINE ESTATES	TWE

### Industry Allocation (Effective Exposure)

GICS Sector	Fund	Index	+/-
Consumer Discretionary	3.7%	2.9%	+0.8%
Information Technology	0.0%	0.4%	-0.4%
Consumer Staples	15.7%	8.4%	+7.3%
Energy	3.0%	7.0%	-4.0%
Health Care	2.2%	3.4%	-1.2%
Utilities	2.3%	1.3%	+1.0%
Telecommunication Services	4.5%	4.5%	0.0%
Financials	35.3%	40.5%	-4.8%
Materials	23.6%	25.2%	-1.6%
Industrials	3.5%	6.2%	-2.7%
Total	100.0%	100.0%	0.0%

## Fund Commentary

- The S&P/ASX 100 Accumulation witnessed a dramatic lift in January after a negative December and calendar year 2011. The Index rallied strongly along with the Fund.
- Solid performances were delivered from the mining sector with the big houses all posting solid returns. FMG (+18%), RIO (+15%), NCM (+14%), BHP (+9%). The portfolio's overweight positions in Rio and NCM drove performance.
- Our asset allocation strategy has performed well for the fund, year to date. Three of our sector positions, overweight consumer staples, underweight industrials and a high cash position led to marginal underperformance vs. the market in January, however, they have contributed to driving our outperformance over the last 6-12 months.
- The option return in January was weaker due to lighter flows, volatility and a short month. As a percentage value the strategy added 0.25% of additional income. Our return generated from our strategy remains considerably above historical levels for this financial year.



## 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 1997, Armytage is a pioneer in Australia's investment industry, offering a suite of actively managed IMAs, SMAs 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 Investment Team

**Campbell McComb** *B.Econ, FFIN*

Portfolio Manager, Armytage Managed Funds

Campbell is the lead portfolio manager for the Armytage Funds. He is supported by a dedicated and highly experienced team of investment professionals each with an average 14 years investment experience. Campbell has developed his extensive investment management and research skills over the past 15 years, working both in Australia and the United Kingdom. He started his career with a smaller companies focus at Providence Funds Management Ltd. He then gained international experience as an investment manager in the asset management division of Greig Middleton Ltd, now a subsidiary of Barclays Plc.

**Andrew Stanley** *BEC, LLB, ACA, FFin, MA AppFin*

Portfolio Manager, Analyst

**Lee laFraté** *B.Bus, FCPA, FFIN* Portfolio Manager, Analyst

**Roger Walling** *BOptom, MBB* Portfolio Manager, Analyst

**Bradley King** *B.Bus (EcoFin), AFIN* Investment Analyst

**Peter Rudd** *BSc, MBA, SF Fin, MESAA* Min & Resources Consultant

## For Further Information

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