Blackwattle Large Cap Quality Fund

September 2023

Blackwattle Investment Partners

About the Fund

We aim to buy businesses with a competitive advantage and good corporate governance, priced below intrinsic value at the right price.

The fund aims to outperform the S&P/ASX200 Total Return Index (after fees and before taxes) over the long term. Fundamental research and sound risk management drives fund investments. Risk is managed through portfolio diversification, strict exposure limits and process discipline.

Blackwattle Investment Partners

Blackwattle is a new generation, highly aligned, Australian investment manager investing in quality businesses and people.

Alignment
Shared staff ownership, zero personal trading, profit and personal salary reinvestment, and most importantly significant personal investment alongside our clients.

Quality
We aim to buy businesses that have a forward advantage, trustworthy aligned management, priced below intrinsic value.

Trust
We believe that honesty and transparency builds trust with our clients, stakeholders, and community.

Invest Better. Live Well.

Key Information

Fund Name	Blackwattle Large Cap Quality
Inception Date	August 2023
Typical number of stocks	30-55
Cash limit	10% (typically +5% to -5%)
Cash Distributions	Semi Annually
Redemptions	Daily
Constrained Capacity	$5.0b
Objective	The Fund aims to outperform the S&P/ASX 200 Total Return Index (after fees and before taxes) over the long term.

Portfolio Managers

Ray David B.Eco, Gdip Fin
20+ years' investment experience. Previously Portfolio Manager Long-Short Schroders, and Director of Emerging Companies UBS.

Joe Koh B.Bus, CFA
25+ years' investment experience. Previously Portfolio Manager Long-Short Schroders, and for Regal across Absolute, Market Neutral and Long-short funds.

Fund Performance[1]

Blackwattle Large Cap Quality Fund Performance (net of fees) as at 30 September 2023

	1 month	3 months	1 Year	2 Years p.a.	5 Years p.a.	10 Years p.a.	Inception p.a[2]
Fund (Net)	-1.76%	-	-	-	-	-	-1.71%
Benchmark[3]	-2.84%	-	-	-	-	-	-2.21%
Active Return	1.08%	-	-	-	-	-	0.50%

[1] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance. Source: Apex.
[2] The inception date for the Fund is 8th August 2023.
[3] S&P/ASX200 Accumulation Index

Top 5 Holdings

Market Commentary

A higher-for-longer interest rate backdrop was the key concern for financial markets in September. Economic data releases showing continued strength in the underlying US economy, and US Federal Reserve commentary in response, drove market interest rates higher. 10-year US Treasury yields rose from 4.09% at the end of August to 4.57% by the end of September – and even higher into early October.

This headwind pushed the ASX 200 Gross Total Return Index (the Fund's benchmark) down almost 3% over the month. Health Care and Real Estate were the worst performing sectors, dragged down by long-duration stocks which are most affected by higher interest rates. The Energy sector was the sole positive contributor to the Index, supported by a resilient oil price.

Portfolio Commentary

The Blackwattle Large Cap Quality Fund outperformed its benchmark ASX 200 Total Return index in September by 1.08%.

The Materials sector was a significant source of performance in the month, with an overweight position in Deterra being a key contributor. Deterra is an iron ore royalty company, that primarily derives revenues from iron ore production at BHP's Mining Area C. As a royalty company, Deterra benefits from higher iron ore prices without the attendant production cost issues seen in other mining names.

During the month, we engaged with the WA Forest Alliance Organization to get a better understanding of the environmental issues being faced by miners in WA. Greater public sensitivity to forest logging, carbon emissions from refining and waste treatment means that permitting approvals will take longer and increase future remediation costs. This will continue to push up western world cost and capital curves, impacting returns to shareholders.

Fund performance was also aided by avoiding underperforming miners that grappled with a higher cost of capital and cost issues, particularly for high-cost producers that faced declining commodity prices (as seen in gold and lithium).

The Fund's underweight in the Real Estate sector also added alpha over the month. With US and Australian cash rates above 5% and 4% respectively, and little sign of them falling in the near term, REIT cap rates are still too low (and their valuations too high) in our view.

Overweight positions in Seven Group (SVW) and Computershare (CPU) in the Industrials sector also contributed to outperformance. Seven Group's Westrac business continues to benefit from strong volumes in the resource sector; its equipment hire business Coates is enjoying resilient infrastructure and construction activity, and Boral has seen improved operational performance following a renewal in leadership.

In contrast to the Real Estate sector, Computershare benefitted from the prospect of higher-for-longer interest rates, which boosts the margin income it earns from its client balances. This, together with a strong balance sheet, supported a $750m share buyback, with the potential for more to come following the recently announced sale of the US Mortgage Servicing business.

An overweight position in in EVT Ltd (EVT) detracted from fund performance. Market concerns over the actors and writers strike in the US and the potential impact on EVT's cinema offerings weighed on the stock. However, the recent agreement between Hollywood studios and the Writers Guild of America gives us confidence that the industry will promptly resolve outstanding issues.

Outlook

The resiliency of economies to date, both in Australia and overseas, has surprised many investors. While this would appear to be a positive development, it does have a downside – namely, higher-for-longer interest rates. Central banks no longer appear as acquiescent to financial market tantrums as a few short years ago. And governments have become less profligate after the largesse shown during the pandemic. Stock market exuberance, previously driven by the fear of missing out, is being replaced by conservatism driven by the fear of losing money.

While this would appear to provide a poor investment backdrop, there is an upside – especially for quality-focused investors. Well-managed companies with sound balance sheets will see weaker competitors struggle with cost inflation and higher debt servicing obligations. They will have the opportunity to extend their competitive advantage and compound superior returns. Meanwhile, a more sober equity market allows investors to acquire such quality companies at attractive prices.

How to Invest

To invest click on the link www.blackwattlepartners.com/invest/
or call 02 7208 9922.

Contact Details

Investor Services
Apex Fund Services
Ph: 1300 133 451
E: registry@apexgroup.com

Investment Enquiries
Maggie Mills (Head of Distribution, and Partner)
Ph: 0498 183 569
E: MMills@Blackwattlerpartners.com