Blackwattle Large Cap Quality Fund

March 2024

Blackwattle
Investment Partners

About the Fund

Our investment philosophy is to own businesses with a competitive advantage and good corporate governance, priced below intrinsic value.

The fund aims to outperform the S&P/ASX 200 Accumulation Index (after fees and before taxes) over the long term. Quality companies at low or reasonable valuations underpin overweight positions while poor quality companies with high valuations facing near-term pressures underpin underweight positions. Risk is managed through portfolio diversification, strict exposure limits and process discipline utilising our proprietary valuation and portfolio construction tools.

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 (or up to 25bps of the benchmark)
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 31 March 2024

	1 month	3 months	6 months	2 Years p.a.	5 Years p.a.	10 Years p.a.	Inception p.a[2]
Fund (Net)	3.94%	6.77%	13.97%	-	-	-	12.02%
Benchmark[3]	3.27%	5.33%	14.17%	-	-	-	11.64%
Active Return	0.67%	1.44%	-0.20%	-	-	-	0.38%

[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 Active Holdings

Market Commentary

The S&P/ASX 200 Total Return index returned 3.3% in March, setting a new all-time high – much like its US counterpart, the S&P500 index. Over the past 12 months, the Australian index is up 14.5%, a very creditable result against a backdrop of a higher level of interest rates, cost-of-living pressures, and global geopolitical tensions.

Broad-based equity market strength highlights the growing confidence in the economy, i.e. the soft to no landing scenario. In Australia, reported seasonally adjusted employment numbers grew in February by 117k month-on-month (compared to expectations of around +40 to 45k), pushing the unemployment rate down to 3.7%.

Meanwhile, inflation remained moderate, up +0.2% month-on-month and +3.4% year-on-year. This was in line, if a bit better, than market expectations of 3.5%. These latest statistics strengthened the case for the much-hoped-for Goldilocks economy that is neither too hot nor too cold.

Real Estate was the strongest performing sector in the S&P/ASX 200 index, returning over 9% in the month, aided by the prospect of lower interest rates in the near term and moderating vacancy rates and rental pressures.

Goodman Group (GMG.AX) was a major contributor to REIT index performance, up +13.1% in the month due to growing enthusiasm for its data centre pipeline, which is being driven increasing Artificial Intelligence adoption.

Energy was the next best performing sector, up over 6% in March, helped by a higher oil price (US WTI crude +6%). Meanwhile, the rest of the resource space was somewhat bifurcated: gold was +9% in March, lithium (Platts spodumene) recovered +32% to US$1,150/t, and base metals like aluminium and copper were +4-5%. But concerns over China property woes saw steel-related commodities sharply down, with iron ore -12% and coking coal -22%.

The worst performing sector in the month, and the only one that fell in value, was Communications. This sector is less homogenous than others in the index and tends to be driven by stock-specific issues. Higher bond rates in NZ (unlike Australia) saw pressure on NZ-based telco companies Spark and Chorus, which dragged the sector lower.

Takeover activity continued apace in March, including a counterbid for QANTM (QIP.AX), an upwardly revised bid for Pacific Smiles (PSQ.AX), a scheme of arrangement for the acquisition of McGrath (MEA.AX), and a preliminary agreement for the takeover of Virgin Money (VUK.AX) by Nationwide Building Society in the UK. It wasn't all one-way traffic, though, with some deals falling over in March – notably the independent directors rejecting Seven Group's (SVG.AX) takeover of Boral (BLD.AX), the withdrawal of the highly conditional, indicative proposal from Innondata to acquire Appen (APX.AX) and the withdrawal of the non-binding offer from CVC Asia Pacific to acquire APM Human Services (APM.AX).

Portfolio Commentary

The Blackwattle Large Cap Quality Fund returned 3.94% in March, net of fees, outperforming the S&P/ASX 200 Total Return benchmark by 0.67%. From a sector perspective, Fund positions in Industrials and Health Care sectors contributed the most to the fund's alpha over the month.

Within Industrials, ALS (ALQ.AX) was a strong performer in the Fund's holdings, benefitting from a higher gold price which is supportive of demand for the company's assaying services for gold mining.

Fund performance was also aided by not owning any shares in Transurban (TCL.AX), a sizeable index stock which lagged the broader market. While the release of the NSW Toll Review Interim Report did not contain anything particularly punitive to Transurban's existing toll concessions, it was another reminder of the political sensitivity to cost-of-living issues already seen in other areas such as the supermarket inquiries.

The Fund's long position in ResMed (RMD.AX) was the main driver of its outperformance in the Health Care sector. The stock had been sold down sharply on fears over the impact of GLP-1 weight-loss drugs on obstructive sleep apnoea (OSA) and the long-term demand for ResMed's CPAP devices. However, the market has started recognising the enduring need for ResMed's products, and the benefit of combining their use with weight loss rather than relying on weight loss alone to alleviate OSA. Resmed is also benefiting from a benign competitive environment given Phillips is still under the FDA consent decree.

Outside of these sectors, manganese producer Jupiter Mines (JMS.AX) was a significant contributor to Fund outperformance. South 32's (S32.AX) Groote Eylandt manganese mine (or 'Gemco') – one of the largest in the world, accounting for more than 10% of global manganese production – was hit by tropical cyclone Megan, disrupting operations, and damaging critical infrastructure. This is likely to place upward pressure on manganese pricing, to the benefit of Jupiter's Tshipi manganese mining operation.

While Gemco's supply issues are likely to be transitory, we believe Jupiter offers compelling long-term value. Jupiter owns 49% of Tshipi, one of the longest reserve manganese mines in the world, with over 100-year mine life. JMS has over 20% of its market value in cash (including its share in Tshipi), with Tshipi C1 cash costs being in the first quartile of the cost curve, at $2.00 FOB dmtu (37% grade). While S32's Gemco is higher grade, its mine life is only five years, with any extension likely to be at higher cost tonnes and adding only a few more years to the mine life.

We believe Gemco's eventual closure coupled with stable steel demand (both blast furnace and electric arc steel), and incremental demand from manganese used in cathode material for lithium-ion batteries should lead to higher long term manganese pricing. More importantly, a renewed JMS board and management have significant alignment with shareholders, which we believe should lead positive shareholder outcomes with respect to sector consolidation.

Premier (PMV.AX) also contributed to Fund outperformance, as the company announced the findings of its strategic review, which will see the spin-off of its strong growth brands – Smiggle and Peter Alexander – over 2024-2025. This was in line with the team's thesis for the stock, which we believe should lead to the market placing a greater value on Peter Alexander and Smiggle over time given their international growth opportunity. To date, the margins and profitability of these brands have not been disclosed separately from the rest of the more mature brands within Premier's retail portfolio, leaving their value under-appreciated by the market, in our view.

The Fund's underweight positions in Real Estate, the strongest performing sector in March, was the biggest sector detractor from the Fund's relative performance. As mentioned, the prospect of lower interest rates as well as moderating vacancy rates and rental pressures supported property valuations and corresponding share prices.

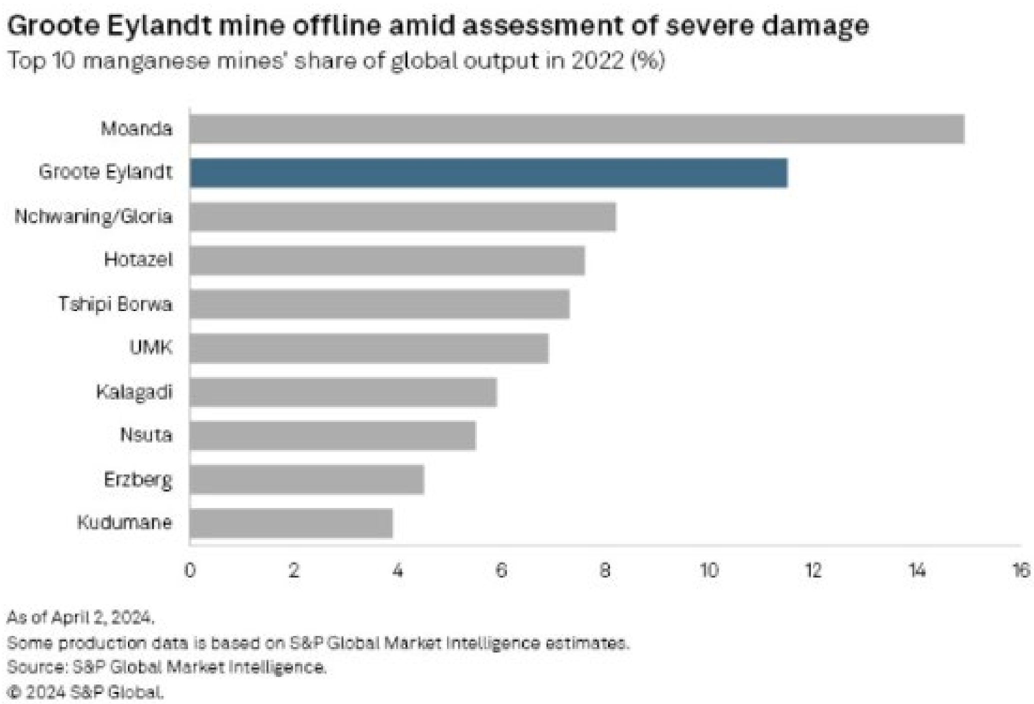
At a stock level, a long position in IGO was one of the biggest detractors for the fund. While IGO's Greenbushes lithium mine remains at the bottom end of the lithium cost curve, recent disclosures on mine metrics suggest recoveries and production volumes are likely to be lower than market expectations, and costs higher. Though disappointing, other lithium producers are facing similar issues, which should continue to support lithium prices. The Fund has recently increased its holding in the stock.

Outlook

The recent spate of M&A activity, as well as the recent failures to complete transactions, suggest an elevated level of volatility in the near term as excess capital waiting on the sidelines is tempered by caution. Ongoing geopolitical tensions, which has increasingly included Iran and has recently led to higher oil prices as conflict escalates in the region, only adds to cost pressures that businesses face in the aftermath of the COVID-19 pandemic. Political and regulatory scrutiny of companies and whole industries is also heightened as election cycles in multiple countries come to a head in 2024, as cost-of-living pressures continue to make headlines, and approval of various takeovers are considered in light of national interests.

With all that said, these factors are, ultimately, short-term in nature. We continue to believe that a disciplined, long-term investment approach will yield good returns, and we see both long and short investment opportunities.

Chart of the Month



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: 02 7208 9922
E: MMills@Blackwattlepartners.com