

# Blackwattle Mid Cap Quality Fund

March 2024



## About the Fund

The Blackwattle Mid Cap Quality fund is a concentrated yet diversified portfolio of some of the highest and most improving quality companies on the ASX. We believe that high quality companies have the potential to consistently outperform over the medium term, as their competitive advantages may allow for compounding shareholder returns through market cycles.

The fund is concentrated on the team's best ideas, driven by fundamental research to establish differentiated views on the outlook of company quality, valuation and earnings. The fund is targeting long term ownership of high-quality companies to generate a consistent outperformance profile, compounding shareholder returns through market cycles.

## 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.

Invest Better. Live Well.

### 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.

## Key Information

Fund Name	Blackwattle Mid Cap Quality Fund
Inception Date	August 2023
Typical number of stocks	20-35
Cash limit	10%
Cash Distributions	Semi Annually
Redemptions	Daily
Constrained Capacity	\$2.0b (or up to 25bps of the benchmark)
Objective	The Fund aims to outperform the S&P/ASX300 Accumulation Index - S&P/ASX20 Accumulation Index (after fees and before taxes) over the long term.

## Portfolio Managers



### Tim Riordan CFA, FRM

15+ years' investment experience. 5 years as Head of Direct Equities at Aware Super and Lead PM of the Aware Super Mid Cap Industrial Fund. Was Co-Head of Research and Portfolio Manager at Altair Asset Management.



### Michael Teran CFA

13+ years' investment experience. Associate PM of the Aware Super Mid Cap Industrial Fund. Also Long-Short Equities Analyst at Point72 Asset Management in Hong Kong. And Equities Analyst at Colonial First State Global Asset Management (now First Sentier Investors).

## Fund Performance<sup>1</sup>

Blackwattle Mid 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. <sup>2</sup>
Fund (Net)	4.52%	10.09%	21.82%	-	-	-	14.82%
Benchmark <sup>3</sup>	4.28%	8.31%	15.22%	-	-	-	10.11%
Active Return	0.24%	1.77%	6.61%	-	-	-	4.71%

<sup>1</sup> 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.

<sup>2</sup> The inception date for the Fund is 8<sup>th</sup> August 2023

<sup>3</sup> S&P/ASX300 Accumulation Index - S&P/ASX20 Accumulation Index

## Top 5 Holdings



## Market Commentary

The ASX300 ex-20 was up 4.28% in March, moving higher again from the strong rebound since October. Global markets were also strong with the S&P500 rising 3.1%, as financial markets look towards a global central bank easing cycle which is now being priced as most likely to begin in the 2H of 2024. The best performing sectors were REITS and Gold Stocks, driven by rate cut expectations. Communication Services was the key laggard, as some weaker results from February and M&A volatility impacted individual stocks.

## Portfolio Commentary

The Blackwattle Mid Cap Quality portfolio outperformed the ASX300 ex-20 benchmark by 0.24% during the month.

### Key Contributor – Resmed (RMD)

RMD was the largest positive contributor to performance during the month. RMD rose 13% in March, as the stock continues to climb the wall of worry around the concern from the potential impact of GLP-1 class of drugs. Further support came from RMD competitor Fisher & Paykel Healthcare, which showed no impact from GLP-1 drugs in their improved trading update. We expect the upcoming GLP-1/QSA study (SURMOUNT) from Eli Lilly (LLY, US listed) in May to further demonstrate that patients who use both GLP-1 and CPAP treatment tend to benefit from therapy in combination, not in competition, as the market assumed initially.

### Key Detractor – Arcadium Lithium (LTM AU)

LTM was the largest negative contributor to performance during the month. LTM fell 13% in March, with lithium stocks remaining very volatile as the commodity gets closer to a potential low. LTM is a new lithium stock on the ASX, formed from the merger of the previously ASX listed Allkem and US listed Livent. The merger has created a quality, vertically integrated global lithium chemicals producer with significant synergy & production growth upside.

We see significant upside for LTM outside any moves from the lithium price, as the new business looks to maximise the merger potential through synergies, driving cost & capex reduction as well as improved pricing. We view a potential rebound in lithium prices as free upside. While we do not have certainty on any timing, current prices are unlikely to allow for profitable investment in new lithium production, sowing the seeds of the next price cycle.

## Outlook

March was a quieter month after the volatile reporting season in February. Markets are grappling with the balancing act of improving economic outlook offset by potential interest rate cuts being pushed out to 2H 2024 or even beyond as inflation remains buoyant.

This uncertain environment remains highly conducive to actively managed portfolios. Following portfolio additions in February, we further evolved the portfolio in March. We realised profits in one holding after an overly generous rally, and increased positioning in WHC and TWE given significant catalysts ahead. We believe the market has not yet understood the underlying quality (improvement) of these businesses nor is it reflected in current stock prices or trading multiples. These portfolio changes are driven by our continuous tandem goals of improving the overall Quality Score of the portfolio whilst maintaining a highly attractive portfolio level risk/reward skew.

We continue to look forward to upcoming results as an opportunity for our high-quality companies to demonstrate their ongoing strength with March quarter end announcements due in April and May.

Thank you for investing alongside us, Mike & Tim.

## How to Invest

To invest click on the link [www.blackwattlepartners.com/invest/](http://www.blackwattlepartners.com/invest/) or call 02 7208 9922.

## Contact Details

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