

# Blackwattle Long-Short 130/30 Quality Fund



September 2023

## 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/ASX 200 Accumulation Index (after fees and before taxes) over the long term. Fundamental research and sound risk management drives fund investments. Quality stocks at low or reasonable valuations underpin long positions while poor quality stocks with high valuations facing near-term pressures underpin short positions. Risk is managed through portfolio diversification, pair trades, 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

<b>Fund Name</b>	Blackwattle Long-Short 130/30 Quality
<b>Inception Date</b>	August 2023
<b>Typical number of stocks</b>	35-55 Long, 15-25 short
<b>Cash limit</b>	30% (typically +10% to -10%)
<b>Cash Distributions</b>	Semi-Annually
<b>Redemptions</b>	Daily
<b>Constrained Capacity</b>	\$1.0bn
<b>Objective</b>	Outperform the benchmark (after fees) 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<sup>1</sup>

Blackwattle Australian Long-Short 130 30 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. <sup>2</sup>
<b>Fund (Net)</b>	-0.96%	-	-	-	-	-	-1.37%
<b>Benchmark<sup>3</sup></b>	-2.84%	-	-	-	-	-	-2.21%
<b>Active Return</b>	1.87%	-	-	-	-	-	0.84%

<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 August 2023. <sup>3</sup> S&P/ASX 200 Accumulation Index

## Track Record of Investment Strategy

Historical performance of the investment strategy applicable to the fund<sup>4</sup> (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. <sup>2</sup>
<b>Fund (Net)</b>	-0.96%	0.09%	16.86%	6.25%	-	-	13.32%
<b>Benchmark<sup>3</sup></b>	-2.84%	-0.77%	13.46%	2.34%	-	-	8.98%
<b>Active Return</b>	1.87%	0.86%	3.40%	3.90%	-	-	4.34%

<sup>4</sup> The Blackwattle Australian Long-Short 130/30 Quality Fund (Fund) has been operating since 8 August 2023. The Fund employs the same Long Short strategy, investment philosophy and investment universe that was used by Ray David and Joseph Koh who managed the Schroder Australian Equity Long Short Fund. To give a longer-term view of our performance using this investment strategy, we have shown longer returns for the Schroder Australian Equity Long Short Fund. Schroder Investment Management Australia Limited, ABN 22 000 443 274 was the responsible entity of the Schroder Australian Equity Long Short Fund and was managed by the investment team whilst they were part of the investment team at Schroder Investment Management Australia Limited. Returns shown for the period from 27 August 2020 to 31 March 2023 reflect the returns of the Schroder Australian Equity Long Short Fund calculated based on exit price with distributions reinvested, after ongoing fees and expenses but excluding taxation (historical performance). This historical performance has been provided for information purposes and has been adjusted to reflect the ongoing fees applicable to the Fund. Past performance is not a reliable indicator of future performance.

## 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 Long Short 130/30 Quality Fund outperformed its benchmark ASX 200 Total Return index in September by 1.87%.

The Materials sector significantly contributed to performance, with alpha generated from both long and short positions. A key long contributor was an overweight position in Deterra, 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. Short alpha generation in Materials came from a range of stocks spanning pre-production companies, existing producers, and downstream processors as companies grappled with a higher cost of capital and elevated operating costs.

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.

Shorts in Discretionary Consumer names, which had detracted from performance in August, saw significant reversals as the market once again considered the impact of higher interest rates on household spending and the excitement of recent better-than-feared results wore off.

Shorts in the Property sector also added alpha over the month, as did the overall portfolio underweight in REITs. 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 continues to benefit from strong volumes in the resource sector, to which it is leveraged via its Westrac business. SVW's Coates business also benefits from broader infrastructure and construction activity, which we expect will remain resilient in the medium term, and its investment in Boral continues to see improved operational performance following a renewal in leadership.

Computershare benefitted from the same factor that weighed against the Property sector – namely, the prospect of higher for longer interest rates, which boosts the margin income it earns from the company's client balances. Higher margin income and a strong balance sheet has enabled the announcement of \$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/](http://www.blackwattlepartners.com/invest/) or call 02 7208 9922.

## Contact Details

### Investor Services

Apex Fund Services

Ph: 1300 133 451

E: [registry@apexgroup.com](mailto:registry@apexgroup.com)

### Investment Enquiries

Maggie Mills (Head of Distribution, and Partner)

Ph: 0498 183 569

E: [MMills@Blackwattlepartners.com](mailto:MMills@Blackwattlepartners.com)



This document is issued by Blackwattle Investment Partners Pty Limited (ABN 24 663 839 094) (BIP) corporate authorised representative of Blackwattle Licensing Pty Limited (ACN 665 711 839 AFSL 547 617) (corporate authorised representative no. 001304362) the investment manager of the Blackwattle Long-Short 130/30 Quality Fund. Equity Trustees Limited (ABN 46 004 031 289, AFSL No. 240975) (EQT) is the responsible entity of the Fund. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). This document is intended to provide general information only and is subject to change. It does not constitute an offer to subscribe for units in the Fund. The information does not consider the investment objectives, financial situation, or particular needs of any individual. You should seek advice from your licensed financial adviser and read the product disclosure statement (PDS) before making an investment decision. The PDS and target market determination (TMD) for the Fund can be obtained for free by visiting our website [www.blackwattlepartners.com](http://www.blackwattlepartners.com). The Fund commenced on 8<sup>th</sup> August 2023. Returns shown for the Fund have been calculated using exit prices after taking into account fund ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation. Neither BIP, EQT or their related body corporates guarantee repayment of capital or any particular rate of return. An investment may achieve a lower-than-expected return and investors risk losing some or all of their principal investment. BIP has obtained information from sources it considers to be reliable but does not represent that such information is accurate or complete, or that it should be relied upon. Neither BIP nor EQT make any representations or warranties, express or implied, as to the accuracy or completeness of the information it provides and to the maximum extent permitted by law, neither BIP, EQT nor its directors, employees or agents accept any liability for any loss caused by using this information.