

Blackwattle Large Cap Quality Fund

November 2023



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.

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 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 Performance¹

Blackwattle Large Cap Quality Fund Performance (net of fees) as at 30 November 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)	4.06%	-1.81%	-	-	-	-	-1.76%
Benchmark ³	5.03%	-1.80%	-	-	-	-	-1.18%
Active Return	-0.97%	0.01%	-	-	-	-	-0.58%

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

November saw the announcement of a lower-than-expected inflation outcome for October in the US; the Personal Consumption Expenditures (PCE) price index was essentially flat compared to September, and +0.2% excluding food and energy. Minutes of the US Federal Reserve noted the unanimous view that the Committee should 'proceed carefully' in future rate decisions.

This led to market speculation that the US Federal Reserve may bring forward its easing cycle to March 2024, compared to prior expectations for cuts in 3Q24. Bonds rallied, with 10-yr US government bond yields falling more than 50 basis points in the month to 4.35% by the end of November. Lower rates also supported gold, which was up +2.7% in the month.

Equity markets also rallied with the US S&P 500 up 9.1% and the S&P/ASX 200 Index up 5.0%. Interest rate-sensitive and cyclical sectors like Real Estate, Information Technology and Consumer Discretionary were the best performing sectors in Australia, while Energy lagged in the wake of falling oil prices partly driven by doubts around OPEC+ output cuts.

Portfolio Commentary

While the Blackwattle Large Cap Quality Fund returned 4.06% during November, net of fees, it underperformed the ASX200 Gross Total Return Index which was up 5.03%.

The largest drags to the Fund's relative performance came from the Health Care and Real Estate sectors, while a modest cash balance of a little over 3% also dragged down relative performance given the very strong benchmark return.

In Health Care the lag in relative performance came in large part from an underweight position in CSL which, as a long-duration stock, benefitted significantly from lower interest rates. The stock was also supported by news that Argenx's VYVGART trial failed, removing a modest threat to part of CSL's immunoglobulin (IG) market, as well as strong updates from key plasma competitors which suggest an acceleration in plasma derived product growth.

In Real Estate, one of the biggest beneficiaries of lower interest rates in November, it was primarily the Fund's underweight position within the sector which hampered its relative performance rather than stock-specific developments.

On the positive side of the ledger, the Fund generated alpha from an underweight position in Utilities which, while normally a beneficiary of lower rates, was dragged lower as the chances of a successful takeover of Origin faded during the month. At the same time, a long position in ALS enhanced Fund returns, as the company's first half FY24 results showed it benefitting from the shift to higher value assay services in its Geochem division and volume improvements from what now seems to be a trough in May/June 2023.

Outlook

While the latest inflation numbers are encouraging, it should be noted that it was only about a month ago that financial markets were under pressure due to a higher-than-expected September inflation result in the US. Meanwhile there are still significant challenges for central banks and governments to navigate, including geopolitical tensions, the lagged impact of past rate hikes on household finances, and a costly energy transition towards renewables. Companies – and portfolios – that can navigate and even benefit from these challenges will provide investors opportunities for good risk-adjusted returns.

Though interest rates may have peaked, we believe maintaining our consistent approach to seeking companies with quality attributes, led by good stewards of capital on attractive valuations, will underpin returns over the long run. Often in strong market periods as we saw in November, these companies tend lag as the market chases riskier companies.

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@Blackwattlepartners.com

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