

Blackwattle Small Cap Long-Short Quality Fund

November 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.

We are fundamental investors, using deep bottom-up research to identify the best Small-Cap opportunities. Our process identifies both high/emerging quality companies underappreciated by the market for long positions, and low/declining quality companies overvalued by the market for short positions. Active risk management is a core part of our approach with capital preservation considered in every layer of our investment process.

Our process aims to provide the framework to outperform the benchmark throughout the economic cycle and under various factor leadership scenarios. Reflecting this, the fund aims to deliver lower volatility, smaller drawdowns, and higher risk-adjusted returns.

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 Small Cap Long-Short Quality Fund |
| Inception Date | November 2023 |
| Typical number of stocks | 30-60 Long, 10-30 Short |
| Cash limit | 50% (typically +10% to -10%) |
| Cash Distributions | Semi annually |
| Redemptions | Daily |
| Objective | The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index (after fees and before taxes) over the long term |

Portfolio Managers



Daniel Broeren

20+ years investment experience. Extensive long and short experience. Most recently Portfolio Manager, Watermark Funds Management (Australian Long/Short). Previously Portfolio Manager of the Invesco Small Companies Fund.



Robert Hawkesford

20+ years investment experience. Most recently in a small team at Ellerston Capital managing the institutional Australian Small Cap portfolio. Member of Ellerston's ESG and Broker Review Committees.

Fund Performance¹

Blackwattle Small Cap Long-Short 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) | -0.40% | - | - | - | - | - | -0.40% |
| Benchmark³ | 0.44% | - | - | - | - | - | 0.44% |
| Active Return | -0.84% | - | - | - | - | - | -0.84% |

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 21 November 2023. ³ Small Ordinaries Accumulation Index. The Fund will enter a six-month transition period beginning 21 November 2023 and ending 21 May 2024. During this transition period, the Fund Benchmark will be 50% cash rate as determined by the Reserve Bank of Australia and 50% S&P/ASX Small Ordinaries Accumulation Index

Top 5 Holdings



Market Commentary

The ASX Small Ordinaries Accumulation index rose 7.04% in November, led by Industrials which rose 8.56%, while Resources rose 3.09%. Growth stocks paced gains, driven by the decline in global bond yields. The US 10-year bond yield fell 60bps in November, which was the biggest monthly decline since the GFC. Growth stocks tend to outperform when bond yields are declining because lower interest rates increase the present value of future forecasted cash flows. The strongest performing sectors included Emerging Healthcare and Fintech. The worst performing sector was Strategic Minerals, driven by a decline in the price of lithium due to near-term oversupply.

Portfolio Commentary

Blackwattle Investment Partners took over management of the Watermark Absolute Return Fund on 21st November 2023. Our aim is to deliver investors outperformance through the economic cycle via exposure to some of Australia's best smaller companies. We are investing in high/emerging quality companies underappreciated by the market for long positions, and low/declining quality companies overvalued by the market for short positions. We look forward to sharing our thoughts and insights with you over the months and years to come via these monthly newsletters, regular website content and our investor webinars. Thank you for investing with us.

For the period of November with Blackwattle as manager, the key contributors to performance were in the Resources sector. Most notably Genesis Minerals (GMD) and Ramelius Resources (RMS), which are West Australian gold producers. The stocks rose 11.1% and 10.0% respectively, far outpacing the 1.9% rise in gold. Gold's appeal as a safe haven intensifies when central banks implement monetary easing measures, so with major economies contemplating interest rate reductions next year, the outlook for gold and gold producers is positive.

At a company specific level, Genesis Minerals is consolidating assets around Leonora in WA with the aim of building a 300koz producer. The company fits into our definition of "improving quality". The 1Q FY24 report released in October showed promising early data on production and costs at their newly acquired Gwalia mine, while the AGM in November provided additional detail on the company's growth strategy, with more to come at the 5-year investor day in March. Ramelius Resources is well-managed with a strong balance sheet and substantial free cash flow generation expected from the high-grade, low-cost Penny deposit which will be producing through FY24-26 and will help fund the company's longer-term growth strategy. We also had a key contribution in Resources from a short position in the iron ore sector, which we now see as fully valued.

Outlook

Market sentiment continues to be influenced by the outlook for inflation, employment, and bond yields. All eyes are on the Fed's ability to navigate a Goldilocks "soft landing" in the US economy – just enough tightness to take some heat out of the economy and slow inflation, but not enough to cause a recession which might ultimately lead to job losses and lower company earnings. Following a significant decline in bond yields and strong local and global equity market gains, we have reduced some of our overweight exposure in Growth stocks and deployed those funds into Defensives. With 5 Fed rate cuts priced in over the next 12 months (at the start of December) we have a higher exposure to REITS. REITS typically outperform equities during the contractionary phase of an economic cycle when rates are being cut.

Dan & Rob.

How to Invest

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

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