

Blackwattle Mid Cap Quality Fund

January 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
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 Performance¹

Blackwattle Mid Cap Quality Fund Performance (net of fees) as at 31 January 2024

	1 month	3 months	1 Year	2 Years p.a.	5 Years p.a.	10 Years p.a.	Inception p.a. ²
Fund (Net)	1.63%	19.09%	-	-	-	-	6.00%
Benchmark ³	0.44%	12.97%	-	-	-	-	2.11%
Active Return	1.19%	6.11%	-	-	-	-	3.89%

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/ASX300 Accumulation Index - S&P/ASX20 Accumulation Index

Top 5 Holdings



Market Commentary

The ASX300 ex-20 was up 0.4% in January, consolidating on the strong rebound since October. Global markets were also solid with the S&P500 rising 1.6%, as financial markets expect central banks globally to start an easing cycle in 2024. The best performing sectors were Energy, where both coal and uranium were strong; and Consumer Staples, interestingly the sector is dominated by Agricultural stocks in the ex-20, these did well as the agricultural cycle in Australia hasn't deteriorated as forecast. Materials (pressure in lithium and small resources) & Utilities (primarily AGL) were the key laggards.

Portfolio Commentary

The Blackwattle Mid Cap Quality portfolio outperformed the ASX300 ex-20 benchmark by 1.19% during the month. Catalysts during January were positive for a handful of our companies.

Key Contributor – Resmed (RMD AU)

Resmed rose 15% in January and was a key positive contributor to performance during the month. The company reported strong Dec Q results during the month which reinforced the company's ability to grow earnings with reasonable consistency in the face of the broadening GLP-1 class of drugs. RMD also showed data that demonstrates patients who use both GLP-1 and CPAP treatment tend to benefit from therapy in combination, not in competition as the market assumed initially. RMD key competitor in CPAP, Phillips (PHG EU), also continues to struggle with the repercussions of its highly damaging US recall, supporting our view that RMD will maintain higher market share levels the US.

Key Detractor- Neuren Pharmaceuticals (NEU AU)

Neuren was amongst a few small negative contributors to performance during the month. NEU fell 5% in January, which we saw as a pause for breath, after rising 115% over the previous 3 months. The rise over the previous 3 months was driven by the release of strong revenue growth from DAYBUE, their sole approved drug treating Rett Syndrome in the US and positive Phase 2 trial results for their new drug NNZ-2591. The Phase 2 results for NNZ-2591 were particularly exciting and provide strong confidence for NNZ-2591 to progress towards a Phase 3 trial. We continue to retain a large position in the company given the multiple value accretive upcoming catalysts in 2024.

Outlook

As we have been highlighting for regular readers, the key drivers for the portfolio tend to be fundamental company updates which give high quality companies the opportunity to demonstrate their ongoing strength and the market can reassess the outlook and what to pay for it. On balance these updates from high quality companies tend to be positive. Whilst we are very encouraged from these updates from the portfolio recently, August '23 through January '24 remains a very short period to assess the portfolio, so we caution reading too much into performance to date. Stock selection this month accounted for all of the portfolio attribution, continuing to show what we feel remains a reasonable balance between stock picking focusing on our best ideas and maintaining a diversified portfolio.

The uncertain environment we are wading through remains highly conducive to actively managed portfolios. Changes to the portfolio this month included adding a new holding in the energy space. The new position is a high-quality market leader with global scale that has recently agreed a company transforming acquisition. We believe this has not yet been understood, nor reflected in valuation by the market. This is another example of where we see an opportunity to earn alpha irrespective of the prevailing market environment. This move is additive to our goals of improving the overall Quality Score of the portfolio whilst maintaining a highly attractive portfolio level risk/reward skew.

Thank you for investing alongside us, Mike & Tim.

How to Invest

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

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