

# Blackwattle Small Cap Long-Short Quality Fund

January 2024

## 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

<b>Fund Name</b>	Blackwattle Small Cap Long-Short Quality Fund
<b>Inception Date</b>	November 2023
<b>Typical number of stocks</b>	30-60 Long, 10-30 Short
<b>Cash limit</b>	50% (typically +10% to -10%)
<b>Cash Distributions</b>	Semi annually
<b>Redemptions</b>	Daily
<b>Objective</b>	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 Performance<sup>1</sup>

Blackwattle Small Cap Long-Short 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. <sup>2</sup>
<b>Fund (Net)</b>	0.05%	-	-	-	-	-	3.63%
<b>Benchmark<sup>3</sup></b>	0.64%	-	-	-	-	-	4.94%
<b>Active Return</b>	-0.59%	-	-	-	-	-	-1.31%

<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 21 November 2023. <sup>3</sup> 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 0.90% in January, led by Industrials which rose 1.91%, while Resources fell 1.96%. Within Industrials, the leading sector was Agriculture aided by the outlook for weather conditions. In Resources, losses were dominated by Lithium, offset by gains in Uranium. Both are discussed in further detail below.

Globally, expectations for rate cuts in the US were pared back as Jerome Powell played down the likelihood of a move at the March meeting. Tensions in the Middle East increased as three U.S. soldiers were killed in a drone strike, and disruptions to shipping lanes created supply issues once more. Of particular interest to Australian investors will be the recent performance of China, which stands in stark contrast to the rest of the world, as evidenced by the Hang Seng Index's 9% decline during the month. Investor sentiment towards both China's stock market and the economy has been dampened by concerns for the heavily indebted real estate market.

**Portfolio Commentary**

The Blackwattle Small Cap Long-Short Quality Fund underperformed the ASX Small Ordinaries Accumulation index by 0.59% in January.

The key contributors to performance were Elders (ELD), Paladin Energy (PDN) and GQG Partners (GQG). Shares in Elders performed strongly in January as better-than-expected weather conditions drove a significant turn in sentiment towards the stock. The Elders share price had been sold down in early 2023 in anticipation of an El Nino weather event (drier than average), with a 12-month share price range from a high of \$13.40 to a low of \$5.50 in October. This created an opportunity to buy a high-quality cyclical business well below intrinsic value. Paladin Energy had a strong January, led by a rapid increase in the uranium price outlook. The market for uranium remains in a significant deficit and is expected to remain that way for the rest of the decade. This places re-start projects like Paladin in a great position to capitalize on the high prices that are needed to incentivize additional supply to enter the market. GQG rose 10.26% in January. A strong finish for equity markets at the end of the calendar year in combination with consistent inflows and fund performance led to Funds Under Management (FUM) upgrades. At 11x P/E paying a >7% dividend, GQG still screens cheaply vs the market and listed peers with less favorable business momentum.

The key detractors to performance were Latin resources (LRS), Gold Road Resources (GOR), and Patriot Metals (PMT). Lithium stocks had a challenging start to January as former Small Ords member, Liantown Resources (LTR), reported that its major funding partner had pulled a \$760m debt package over concerns of project sustainability. This resulted in the sell-down of shares for all Lithium developers still in need of capital. An important distinction, however, is that while Liantown has a large resource asset, it is a complex and high-cost project at around US\$750/ton. This compares to Latin Resources, for example, with a proposed cost base closer to US\$540/ton. In our view projects with superior economics like Latin Resources and Patriot Metals are well placed to ride out near-term volatility in the Lithium price. Gold Road Resources fell 22.6% in January following a poor December quarterly update, and a downgrade to CY24 guidance. Volumes unexpectedly fell in the final quarter of the year due to labour availability issues in drill and blast, resulting in higher costs and lower cash/earnings. While disappointing, the labour issues should be temporary, while the asset quality of Gruyere (long life, open pit, 300koz p.a. in a tier-1 jurisdiction) remains lasting.

**Outlook**

As Australia heads into the February reporting season, the strong market performance over recent months and heightened valuations have increased the susceptibility to a pullback for companies that disappoint. The guidance provided by companies will be crucial, especially given the weaker economic conditions. Cyclical in particular have performed strongly and are most exposed to risk of softening conditions.

Dan & Rob.

**How to Invest**

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

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