

May 2024

About the Fund

The Blackwattle Global Quality Fund is a high conviction long only fund that aims to provide exposure to the highest quality companies in the world, trading at attractive valuations. The fund adopts an 'All-weather Quality' approach for investing.

Our approach recognises a company's persistent competitive edge and the durability of earnings power allowing for the compounding of capital over the business cycle.

Risk is managed through portfolio and stock 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.

Key Information

Fund Name	Blackwattle Global Quality Fund
Inception Date	May 2024
Typical number of stocks	20-35
Cash limit	10%
Cash Distributions	Semi Annually
Redemptions	Daily
Constrained Capacity	\$10bn
Objective	The Fund aims to outperform the MSCI AC Net World (after fees and before taxes) over the long term. To deliver performance of 8-12% p.a over the long-term.

Investment Team



Sunny Bangia

18+ years' investment experience. Previously Co-Founder and Portfolio Manager of Antipodes Partners, and Co-Portfolio Manager of Antipodes Global funds and lead Portfolio Manager of Antipodes Asia Fund.



Edward Li

8+ years' investment experience. Previously Investment Analyst at Antipodes Partners (Global Strategies). Investment Associate at Colinton Capital Partners and Investment Banking Analyst at Macquarie Capital



Nicholas Tan

13+ years investment experience. Previously Senior Investment Analyst Antipodes (Global and Emerging Markets)

Fund Performance¹

Blackwattle Global Quality Fund Performance (net of fees) as at 31 May 2024

	1 month	3 months	6 months	2 Years p.a.	5 Years p.a.	10 Years p.a.	Inception p.a. ²
Fund (Net)	1.08%	-	-	-	-	-	1.08%
Benchmark ³	1.87%	-	-	-	-	-	1.87%
Active Return	-0.79%	-	-	-	-	-	-0.79%

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 2 May 2024

³ MSCI AC Net World (AUD)

Top 5 Holdings



Market Commentary

The MSCI AC World Index was 1.87% in May, as markets bounced back from the prior month. Global markets continue to reassess the balance between cooling economic growth in the major economies against the backdrop of inflation and central bank policy.

The best performing sectors were Semiconductors, Banks & Insurance and Mining
The worst performing sectors were Enterprise Software and Energy

Portfolio Commentary

The Blackwattle Global Quality portfolio underperformed the MSCI AC World Index (AUD) by 0.8% during the month.

Key Contributor – Fair Issac Corporation (FICO)

FICO was the largest positive contributor to performance during the month. The company held its annual investor day at FICO World where the FICO software platform was demonstrated with positive client feedback. While most of the attention gets spent on FICO scores business, which is a monopoly in the scoring of US consumer credit scores that has significant room for pricing power for the years ahead, the software business gets overlooked by investors. The software business has spent years re-investing and underlining profitably in FICO has been underappreciated by the market.

Key Detractor – Builders First Source

Builders FirstSource (BFS) negatively impacted performance this month. As the largest supplier of structural building products, value-added components, and services to professional homebuilders, BFS faced challenges due to higher interest rates and a weaker economic outlook, which have dampened short-term demand. However, the U.S. housing market remains undersupplied, and the labour market is tight. BFS offers value-added components that help professionals build faster with lower skilled labour, addressing these industry challenges. Looking ahead, we believe BFS will benefit from a shift towards higher-margin value-added components and gain market share through consolidation.

Outlook

Global reporting season concluded last month with mixed results from companies. For the Blackwattle Global Quality Fund companies, the results were strong across the board, supporting our investment hypothesis for many of our holdings. However, there were some notable observations worth highlighting.

The Federal Reserve adjusted its quantitative tightening, slowing it down faster than the market expected, which provided some relief to financial conditions. Despite this, Fed officials remain resolute on maintaining a higher-for-longer interest rate environment and require substantial evidence of cooling inflation before taking further action. As a result, US bond markets experienced a volatile month, with rates initially lowering but then sharply rising towards the month-end.

Following on from monetary policy, the higher-for-longer environment began to impact both US corporate earnings and economic data, confirming a cooling US economy. Consequently, sectors exposed to the US consumer and companies that reported softness in the quarter faced adverse reactions in their share prices. The Blackwattle Global Funds' exposure to key leaders in the US housing sector faced challenges, but we remain confident in these companies' outlook and their ability to grow through the cycle in what remains a housing market with undersupply.

Market rumors of China potentially acting swiftly to clear excess housing inventory helped the market bounce off oversold levels, but nothing concrete materialized. However, parts of the Chinese market benefited from a rebound in corporate earnings. The funds were exposed to Tencent, which reported resilient earnings driven by increased monetization of its digital assets, providing a sustainable driver for ongoing profit growth.

Broadly, semiconductor companies have continued to report robust earnings. Nvidia reported another solid quarter driven by demand for its core datacenter products. The semiconductor cycle continues to rebound from the 2022-23 slump, underpinned by several factors such as the replacement cycle in personal computers and mobile phones, and increased demand for accelerated computing chips for datacenters.

Since the ChatGPT moment in late 2022, the market has worried about the disruptive impacts of such transformative technology. Initially, concerns centered around its potential to disrupt search, particularly if answers could be delivered advertisement-free. Now, concerns have shifted to enterprise software. These concerns suggest that the barriers to creating software are now lowered, allowing technology start-ups or large incumbents to create low-to-no-cost software and disrupt existing players. Moreover, with a constrained software buying environment, IT budgets are limited, and any incremental dollars are directed toward experimenting with artificial intelligence products. This narrative led to a material correction in some large incumbent enterprise software companies.

However, concerns about disruption in software have arisen in past cycles. The rise of cloud computing and the increased usage of open-source software led to fears of disintermediation of software companies. Instead, leading enterprise software companies rapidly adopted open-source software and built high-quality applications. Many of the leading players are not standing still; they are building intelligence into their applications and allowing corporations to utilize their data to generate company-specific insights. Corporations will pay for value-adding software rather than merely using free software. As a result, we used the weakness to add further to our positions in some of the most dominant enterprise software companies.

Thank you for investing alongside us,

Blackwattle Global Team

How to Invest

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

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