

Blackwattle Mid Cap Quality Fund

February 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 29 February 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)	3.63%	14.00%	10.02%	-	-	-	9.85%
Benchmark ³	3.40%	10.72%	5.66%	-	-	-	5.59%
Active Return	0.23%	3.28%	4.35%	-	-	-	4.26%

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 3.4% in February, consolidating on the strong rebound since October. Global markets were also strong with the S&P500 rising 5.3%, as financial markets continue to anticipate a global central bank easing cycle arriving later in 2024. The best performing sectors were Technology, driven by the announced takeover of ALU; and Consumer Discretionary, which delivered significantly better February results than low market expectations. Energy and Materials were the key laggards, as the operating deleverage of falling commodity prices surprised investors at the February results. It was noticeable that mid-caps were the best performing part of the index by a margin, with the Small Ordinaries only up 1.5% while the ASX20 fell -0.4%.

Portfolio Commentary

The Blackwattle Mid Cap Quality portfolio outperformed the ASX300 ex-20 benchmark by 0.23% during the month.

Key Contributors – Reliance Worldwide Corporation (RWC AU) and Altium (ALU)

RWC rose 32% in February and was a key positive contributor to performance. The company reported strong 1H FY24 results during the month and announced the accretive bolt-on acquisition of Holman Industries. The market is rewarding the underlying quality characteristics of RWC, the owner of market leading plumbing brands that continue to grow market share, deliver strong cost management, high free cash flow generation & M&A consolidation opportunities, and led by an aligned and long-term focused management team.

ALU rose 31% in February and was a key positive contributor to performance during the month. ALU entered into a scheme implementation agreement for Renesas Electronics Corporation (6723 JPY) to acquire Altium for A\$68.50 per share or equity value of A\$9.1 billion. We have long viewed ALU as one of the highest quality companies in the ASX and we had expected it would have been a core long-term holding of the portfolio, and so it is a bittersweet moment to see it acquired at a 34% premium.

Key Detractor – Neuren Pharmaceuticals (NEU AU)

NEU was the largest negative contributor to performance during the month. NEU fell 19% in February, on the back of a short seller report aimed at NEU's US partner, Acadia Pharmaceuticals (ACAD). It is understandable that some market participants remain skeptical on Neuren/Acadia's early success in treating Rett Syndrome patients in the US. We disagree with many elements of the short thesis and see multiple quality facets to the company together with benefits to NEU from the burgeoning relationship with ACAD. While DAYBUE is not a wonder drug cure for Rett Syndrome, it does provide an improvement to the quality of life for many patients and side effects are manageable.

Whilst the market's focus is on the approved drug DAYBUE, with a promising drug pipeline, NEU has the makings of a highly profitable and sizable pharmaceutical company. We continue to retain a significant position in the company given the potential scale of unrealized value together with an attractive quality improvement trajectory.

Outlook

February was a volatile month for the market with 1H FY24 results, with large one-day moves as the market rewarded/punished beats/misses compared to expectations. Overall, we were pleased with our portfolio company earnings updates. We continue to look forward to upcoming results as an opportunity for our high-quality companies to demonstrate their ongoing strength with March year end announcements set to arrive in May.

An interesting theme since the start of the year is the significant pick-up in M&A activity, with notable takeovers of ALU, BLD, CSR and AWC. We expect this trend to continue as funding is plentiful (strong equity and credit markets, PE have raised significant FUM yet to be deployed) and corporates look for the next stage of growth. While we don't specifically focus on M&A targets, it is likely that some of our smaller high-quality businesses remain on the M&A radar, while our larger businesses continue to grow market share through organic growth as well as M&A consolidation. This broad M&A bid does provide some valuation support for the market.

The uncertain environment we are wading through remains highly conducive to actively managed portfolios. The volatile month provided significant opportunities to adjust the portfolio. We were able to harvest outsized profits in some of our large winners and redeployed into 4 new holdings across different sectors: Industrials, Financials and Materials. The new positions are a mix of high-quality and improving quality businesses, and we believe the market has not yet understood the underlying quality (improvement) of these stocks nor is it reflected in current stock prices or trading multiples. These portfolio changes are driven by our continuous tandem 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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