

# Blackwattle Small Cap Long-Short Quality Fund

February 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 29 February 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>	1.38%	5.49%	-	-	-	-	5.06%
<b>Benchmark<sup>3</sup></b>	1.06%	5.59%	-	-	-	-	6.06%
<b>Active Return</b>	0.32%	-0.11%	-	-	-	-	-1.00%

<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 1.72% in February, led by Industrials which rose 3.89%, while Resources fell 4.61%. Within Industrials, the leading sectors were IT, led by positive sentiment around the ongoing strength of the US Magnificent-7 and AI, and Consumer Discretionary, where results were – once again – better than feared and investors remain underweight the sector. In Resources, the laggards were Bulks (Coal and Iron Ore) and Energy.

## Portfolio Commentary

The Blackwattle Small Cap Long-Short Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 0.32% in February.

The key contributors to performance were GQG Partners (GQG), Temple & Webster (TPW), and a short in the media sector. GQG rose 16.5% during the month. The company released a FUM update alongside the 1H24 result in mid-Feb showing they had already received \$2.9bn of inflows for the first ~6 weeks of CY24 (vs consensus expectations for \$9bn for the full year). Leading indicators for inflows are excellent - with strong performance, an expanded distribution team, the impending launch of a new office in Abu Dhabi and the re-opening of the Emerging Markets fund. Management noted that recent investment in headcount is now largely done meaning that going forward we would expect to see greater levels of operating leverage in the business. At 11 P/E paying an >8% dividend, GQG still screens cheaply vs the market and peers. We note the 10-year average P/E multiple of comparable listed asset managers is 16x. Temple & Webster rose 39.1% in February following the release of a solid 1H24 result. Revenue increased 23% on pcp driven by strong Black Friday sales with the strength continuing through Christmas and into January. The company is executing well, taking market share and expanding margins, but the valuation is starting to look stretched, and we have taken some profits. One of the portfolio's key contributors in February was a short in the media sector. Traditional media, particularly free-to-air TV continues to see a contraction in viewership resulting in ongoing redirection of advertising spend to digital channels. This trend has been exacerbated in the last six months as advertisers also reduce advertising expenditure to manage a potentially softer demand environment. Other challenges facing the media sector include changes to allowable gambling advertising and reduced content payments from social platforms.

The key detractors to performance were Neuren Pharmaceuticals (NEU) and CSR Ltd (CSR). Neuren Pharmaceuticals was a detractor in February, after generating solid returns for the fund in 2023. The underperformance resulted from a 'short report' released on NEU's US distributor, questioning the efficacy of NEU's therapy and the retention rate of patients. While this view is at odds with trial data and the real-life experience of medical specialists, patients, and their carers, it has impacted sentiment towards the stock near-term. The other key detractor in February resulted from a takeover proposal for CSR from Saint Gobain at \$9/share, a 32% premium to the undisturbed price.

## Outlook

As we head out of reporting season with clearer view on company specific performance, focus shifts to the macro-outlook and valuations. The strong market performance over recent months has resulted in a market that is fully priced but not expensive. However, pockets of the market are trading at excessive valuations and are reliant on cyclical upside to stimulus to support those valuations. As positioning leaves little tolerance for any pivot or lag, we anticipate sector rotation to be a more significant driver of returns in coming months.

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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