

Blackwattle Mid Cap Quality Fund

April 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 (or up to 25bps of the benchmark)
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 30 April 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)	-2.73%	5.36%	25.47%	-	-	-	11.68%
Benchmark ³	-2.57%	5.06%	18.69%	-	-	-	7.28%
Active Return	-0.16%	0.30%	6.78%	-	-	-	4.40%

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 down 2.6% in April, as markets pulled back from the strong rally since the low in October last year. Global markets were also weak with the S&P500 falling 4.2%, as financial markets repriced expectations of an imminent global central bank easing cycle. The best performing sectors were Materials, given recent underperformance and repositioning towards reflation and cyclical exposure. REITs were the most significant underperformer given the high interest rate sensitivity of the sector.

Portfolio Commentary

The Blackwattle Mid Cap Quality portfolio underperformed the ASX300 ex-20 benchmark by 0.16% during the month.

Key Contributor – Newmont (NEM AU)

Newmont was the largest positive contributor to performance during the month. NEM rose 19% in April, on the back of recent rising gold prices and a solid quarterly result. NEM is the largest, lowest-cost and most diversified gold miner globally. NEM's 1Q24 result showed progression of the integration with Newcrest, delivering towards production & synergy targets as well as asset sales. Following a long period of underperformance, it appears investors remain highly skeptical on the stock, even after this recent quarterly result. This reinforces our view that we see significant upside for NEM as they execute on numerous multiyear internal levers to improve the business including: extracting Newcrest synergies, organic production expansion, operating cost reductions, asset sales, material debt reduction & finally capital to be returned to shareholders. We note that the recent spate of safety issues, resulting in 4 fatalities, needs to be monitored closely such that the previously strong safety record is reestablished.

Key Detractor – Orora (ORA AU)

Orora was the largest negative contributor to performance during the month. ORA fell 19% in April due to a weak trading update leading into their investor site tours in France. ORA is a diversified, global packaging business with key exposures to glass and aluminum can beverage manufacturing in Australia and France. While the update was disappointing, we believe the majority of the recent headwinds are cyclical rather than structural. We acknowledge the earnings turnaround will take longer than our best-case expectations, but with material valuation upside and a reasonable balance sheet, we remain patient that this 'improving quality' stock will deliver over time. We allow for this risk of failure by moderating our position size in this type of 'improving quality' investment at the outset. Improving quality opportunities can be highly rewarding, however in our experience have a wider range of potential outcomes and timeframes and forecast error is higher. We account for this in a more modest position sizing as a result, at least until evidence of success begins to be made clear, hence we continue to wait rather than increase the position at this point.

Outlook

April was a weaker month after equity markets finally caved-in on delayed central bank easing expectations. The series of higher inflation data globally since the start of 2024 just became too difficult for the financial markets to ignore. Bond markets expectations moved earlier, now pricing in less than 2 interest rate cuts by the US Federal Reserve in 2024, from 7 cuts at the start of the year. Equity markets had remained resilient in the face of these changing expectations until April. We expect further volatility given the interest rate uncertainty, with improving economic outlooks offset by higher inflation.

This uncertain environment remains highly conducive to actively managed portfolios. The small correction in April allowed us to increase positioning in some of our higher conviction names approaching fundamental catalysts. We removed one stock given our expectations for near term earnings have deteriorated significantly. We also started 2 new positions, both with significant, longer-term value creation potential. The first business is an innovative, global market leader that is not well known by the market. The business is branching out from 1 key product segment to multiple, larger TAM opportunities over the next few years, which could generate significant upside. The second business has an impressive track record of value creation through a private investment portfolio, we believe the market is underappreciating their outlook. 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.

We now look forward to upcoming results as an opportunity for our high-quality companies to demonstrate their ongoing strength with March period end earnings announcements due throughout May.

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.

Contact Details

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