

Blackwattle Small Cap Long-Short Quality Fund

April 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

Fund Name	Blackwattle Small Cap Long-Short Quality Fund
Inception Date	November 2023
Typical number of stocks	30-60 Long, 10-30 Short
Cash limit	50% (typically +10% to -10%)
Cash Distributions	Semi annually
Redemptions	Daily
Objective	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 Performance¹

Blackwattle Small Cap Long-Short 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)	-1.57%	3.83%	-	-	-	-	7.60%
Benchmark³	-1.47%	2.25%	-	-	-	-	7.30%
Active Return	-0.10%	1.58%	-	-	-	-	0.29%

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 21 November 2023. ³ 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 fell 3.06% in April, ending a five-month rally that saw the market rise more than 20%. The index was led lower by Small Industrials which fell 5.02%, while Small Resources rose 2.04%. Within Industrials, consumer facing sectors such as Leisure and Retail performed worst as investors re-adjusted to the prospect of higher interest rates for longer. Following an aggressive global interest rate “pivot” at the end of CY23 that saw markets pricing in 2 rate cuts by the RBA by September 2024, hot inflation data mid-month flipped the script entirely. For the first time in 6 months markets moved to price in a greater than 50% chance of a rate rise, with sectors that rely heavily on consumer spending, real estate, and companies with high levels of debt the most impacted. On the positive side, strength in Resources was driven by stocks with exposure to base metals and gold. Looking at base metals – nickel (+14.9%), copper (+12.7%) and aluminium (+10.9%) all rose materially as the US and UK introduced sanctions that effectively ban the trading of Russian imports on either the LME or CME. Russia is a key producer of all three metals. While gold rose 2.5%, posting another intra-month record high, with stubborn inflation, Middle East tensions and global central bank buying all contributing to the ongoing rally.

Portfolio Commentary

The Blackwattle Small Cap Long-Short Quality Fund underperformed the ASX Small Ordinaries Accumulation index by 0.10% in April.

The key contributors to performance in April were all short positions and included an e-commerce platform and an iron ore producer. The e-commerce platform disappointed investors with its March quarterly update which showed a decline in gross sales and weak membership growth. This validated our short thesis which is based on increasing competitive intensity, a degradation in the quality of earnings and ongoing management equity disposals. Another contributor to returns in April was our short position in the iron ore sector. As with most short positions in resources, we aim to short companies with high operating costs near the top of the relevant commodity cycle. The outlook for iron ore started deteriorating in late 2023 when we first initiated the position. As iron ore equities have fallen in early 2024, we have since reduced the position size.

The key detractors to performance for April were Beach Petroleum (BPT) and Elders (ELD). Beach Petroleum’s share price fell after the company announced further delays to its Waitsia project in WA. While the delay is disappointing, it doesn’t alter the investment case in our view. Incoming CEO Brett Woods (Ex-Santos) has been hand-picked by Kerry Stokes to drive a company-wide transition of Beach from an accident-prone explorer/developer to a lean, cash-generative producer. In our view, the ducks are lining up for this transition, but the alignment of major shareholder, board and management is the key enabler. We look forward to Beach’s upcoming strategy day where Woods will outline his plans forward. The other key detractor in April was a 10% share price drop in Elders as the company downgraded its FY24 earnings expectations given lower sales in the September quarter. We initiated our position in Elders in October last year as it became apparent to us that the Bureau of Meteorology (BOM) had incorrectly predicted an El Nino spring (drier than average) which resulted in Elders shares trading at a material discount to intrinsic value. The BOM’s subsequent reversal of its prediction was the catalyst that drove a re-rating in Elders shares back towards its typical mid-cycle valuation range. The recent downgrade relates to lost sales dating back to September where farmers reacted to the incorrect guidance by the BOM. Given the recent trading performance is not reflective of future demand we expect the Elders share price to again track back towards its mid-cycle value above \$10. The ‘Bunnings of the Bush’ is a quality business given its dominant position in rural Australia, its vertical integration strategies and its top-tier management.

Outlook

As investors digest the likelihood of fewer (if any) rate cuts in 2024, we expect equity markets to remain choppy. Many cyclical sectors have already seen meaningful corrections from the very elevated valuations at the end of February. We are now seeing opportunities to selectively increase exposure to good quality industrial businesses that are performing well. The portfolio maintains an overweight in Resources, however following a strong share price performance from sectors such as gold and copper we have taken the opportunity to bank some profits. As such, we would expect the portfolio settings to move towards a more balanced position.

Dan & Rob

How to Invest

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

Contact Details

Investor Services

Apex Fund Services
Ph: 1300 133 451
E: registry@apexgroup.com

Investment Enquiries

Maggie Mills (Head of Distribution, and Partner)
Ph: 02 7208 9922
E: MMills@Blackwattlepartners.com

