

# Blackwattle Mid Cap Quality Fund

June 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 Performance<sup>1</sup>

Blackwattle Mid Cap Quality Fund Performance (net of fees) as at 30 June 2024

	1 month	3 months	6 months	2 Years p.a.	5 Years p.a.	10 Years p.a.	Inception p.a. <sup>2</sup>
Fund (Net)	0.75%	-1.12%	8.85%	-	-	-	13.53%
Benchmark <sup>3</sup>	-0.85%	-4.30%	3.66%	-	-	-	5.38%
Active Return	1.59%	3.17%	5.19%	-	-	-	8.15%

<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 8<sup>th</sup> August 2023

<sup>3</sup> S&P/ASX300 Accumulation Index - S&P/ASX20 Accumulation Index

## Top 5 Holdings



## Market Commentary

The ASX300 ex-20 was down 0.85% in June. Global markets were stronger again with the S&P500 rallying a further 3.5%, bouncing over 8% from the small correction in April. The variance in the ASX compared to the S&P500 has been driven by diverging interest rate cycles between Australia and globally and the strong performance of US mega-cap technology stocks. Global economies have shifted from inflation concerns to a weakening economic growth outlook, as more moderate inflation and economic updates shift expectations back to central bank easing again in 2024. However, Australia is standing out globally with its inability to moderate inflation, with the most recent inflation surprise now shifting expectations to potential further rate increases. The ASX performance was also dampened by weak economic data from China. Materials was the worst performing sector, followed by REITs (interest rate sensitive). The best performing sector was Financials, being the main sector with positive interest rate sensitivity.

## Portfolio Commentary

The Blackwattle Mid Cap Quality portfolio outperformed the ASX300 ex-20 benchmark by 1.59% during the month.

### *Key Contributor – Light & Wonder (LNW AU)*

LNW was the largest positive contributor to performance during the month. LNW rose 12% in June, on a delayed move from a strong 1Q24 result in May together with strong game performance in recent months from industry data. LNW is a global, cross-platform gaming company, and is one of 3 dominant players (with Aristocrat and IGT). LNW is dual listed in the US, having listed on the ASX mid-2023.

LNW has been a core part of the portfolio since inception. We recognized significant upside potential from improving business quality. LNW has been a turnaround story from 2020, with a new board led by former Aristocrat executives (ex-CEO and ex-CFO) driving a simplification strategy. The board brought in new management (majority ex-Aristocrat), orchestrated asset sales and implemented cost reductions which led to material de-gearing. With improved incentive structures, the business has attracted leading creative talent and added significant investment to these design studios. LNW is only now beginning to realise the benefit of these changes, with exciting and popular new game titles allowing them to begin capturing material market share. We continue to see significant upside for LNW, as the reinvestment flywheel and scaling of the business continues to deliver strong and improving financial metrics.

### *Key Detractor – Arcadium Lithium (LTM AU)*

LTM was the largest negative contributor to performance during the month. LTM fell 26% in June, with lithium stocks remaining very volatile as the commodity price retests cyclical lows made earlier in the year. LTM is a new lithium stock on the ASX, formed from the merger of the previously ASX listed Allkem and US listed Livent. The merger has created a quality, vertically integrated global lithium chemicals producer with a significant synergy opportunity & production growth upside.

We see significant upside for LTM outside any moves from the lithium price, as the new business looks to maximise the merger potential through synergies, driving cost & capex reductions as well as improved pricing. We view a potential rebound in lithium prices at some point as option value. Whilst we have no certainty on timing, current prices are unlikely to allow for profitable investment in new lithium production, gradually sowing the seeds of the next price cycle. Our modest positioning size is appropriate given the substantial opportunity identified by the longer-term investment thesis. We note that the negative attribution from LTM was offset by not owning other lithium stocks in the ASX ex-20.

## Outlook

The portfolio performed well in June, as our portfolio names continued to outperform following strong earnings announcements or trading updates in May. July is usually a quiet month leading into August reporting season, which should again provide an opportunity for our high-quality companies to highlight their ongoing financial strength, incrementally driving outperformance towards longer-term investment theses.

Further inflation and economic updates in June continue to highlight softer global economic data as well as sticky inflation in Australia. This remains a highly uncertain economic environment, with potential interest rate rises in Australia, while globally the potential outcomes of a hard landing or stagflation over a soft landing are still possible. This mixed environment tends to be rewarding for high quality companies as earnings certainty becomes a rarer commodity. We believe our portfolio companies are well placed into this dynamic.

In June we started a new position, after exiting Altium and PSC Insurance, both having been recently acquired. This new position is an early-stage consumer business with significant, longer-term value creation potential. We are very excited about the outlook of the business as it profitably scales domestically with significant global optionality. The attraction on a portfolio basis is the earlier stage of this business means economic cycles have lower impact given its growth profile. 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/](http://www.blackwattlepartners.com/invest/) or call 02 7208 9922.

## Contact Details

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