Blackwattle Small Cap Long-Short Quality Fund

May 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.

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.

Invest Better. Live Well.

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 Performance[1]

Blackwattle Small Cap Long-Short Quality Fund Performance (net of fees) as at 31 May 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)	0.34%	2.77%	8.40%	-	-	-	7.97%
Benchmark[3]	-0.78%	0.38%	6.00%	-	-	-	6.46%
Active Return	1.13%	2.39%	2.40%	-	-	-	1.51%

[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

beach | PEXA | stanmore | Elders | SiteMinder

Market Commentary

The ASX Small Ordinaries Accumulation index was flat in May, down just 0.1%. Small Industrials fell 0.9% in the month, however this was largely offset by a 1.9% rise in Small Resources. The outperformance of Small Resource companies has been a strong dynamic for the last 3-months now, most recently aided by resilience in gold and an early recovery in bulk commodities. Within Industrials, consumer facing sectors continue to underperform as investors re-adjusted to the prospect of higher interest rates for longer. Several cyclical companies provided trading updates in May with evidence of slowing underlying conditions.

Portfolio Commentary

The Blackwattle Small Cap Long-Short Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 1.13% in May.

The key contributors to performance in May were Nuix (NXL), GQG Partners (GQG), and a short position in the media sector. Nuix is a provider of specialised software used to investigate and analyse large pools of data. Its share price rose 57% in May following the announcement of better-than-expected earnings guidance for FY24. Our position in the company is based on our expectation of 'improving quality', as the company emerges from a reputational rebuild. After a high-profile IPO in 2020, shares in Nuix fell significantly following governance issues with the management team at the time. However, in the last two years since being appointed, incoming CEO Jonathan Rubinsztein has rebuilt the senior leadership team and established a new approach to governance that matches the quality of the company's products. Nuix is a clear leader in its field, has an enviable blue-chip client base and it aided by strong sector tailwinds given the world's increasing data usage. Despite the recent share price run we see plenty more upside as the stock still trades at a significant discount to global peers. GQG rose 13.9% during the month as the company continued its' strong flows momentum with $1.7b of net inflows in April, accelerating to +$2.8b in May (data was released after the May month-end). Leading indicators for inflows are excellent - with strong performance and the re-opening of the Emerging Markets fund. At 12x P/E paying an >7% 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. A short position in the sector was also a key contribution in May as it became evident that the media market continues to deteriorate.

The key detractors to performance for May were Smartgroup (SIQ), and Flight Centre (FLT). Smartgroup provided a quarterly trading update with its AGM with earning trends slightly disappointing compared to consensus expectations, largely from higher expenses as the company provided cost estimates relating to the transition of the new South Australian Government contract which commences in July. In addition, electric vehicle penetration of new vehicle sales fell in April, impacted by abnormally low Tesla sales. Shares in Flight Centre were down 11% in May. Recent share price weakness in all travel stocks appears linked to the outlook being provided by Corporate Travel (CTD), however its issues seem somewhat self-inflicted. Flight Centre remains on track to deliver on its 2% PBT target in the FY25 year. Consensus still sits well below this target, so we see likely upgrades as the 'aspirational target' effectively turns into 12-month guidance at the FY24 result.

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 and 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.

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