# Blackwattle Small Cap Quality Fund

October 2023



#### **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 Quality and Emerging Quality companies underappreciated by the market. 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 Quality Fund                                                                                           |  |  |  |  |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------|--|--|--|--|
| Inception Date           | September 2023                                                                                                               |  |  |  |  |
| Typical number of stocks | 30-60                                                                                                                        |  |  |  |  |
| Cash limit               | 20% (typically 0-10%)                                                                                                        |  |  |  |  |
| Cash Distributions       | Semi annually                                                                                                                |  |  |  |  |
| Redemptions              | Daily                                                                                                                        |  |  |  |  |
| Constrained Capacity     | \$750m                                                                                                                       |  |  |  |  |
| 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**



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.



## Daniel Broeren

Robert Hawkesford

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.

### Fund Performance<sup>1</sup>

Blackwattle Small Cap Quality Fund Performance (net of fees) as at 31 October 2023

|                        | 1 month | 3 months | 1 Year | 2 Years p.a. | 5 Years p.a. | 10 Years p.a. | Inception p.a <sup>2</sup> |
|------------------------|---------|----------|--------|--------------|--------------|---------------|----------------------------|
| Fund (Net)             | -4.38%  | -        | -      | -            | -            | -             | -6.60%                     |
| Benchmark <sup>3</sup> | -5.45%  | -        | -      | -            | -            | -             | -7.26%                     |
| Active Return          | 1.07%   | -        | -      | -            | -            | -             | 0.66%                      |

<sup>&</sup>lt;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>&</sup>lt;sup>2</sup> The inception date for the Fund is 12 September 2023.

<sup>3</sup> Small Ordinaries Accumulation Index

## **Top 5 Holdings**











## **Market Commentary**

The ASX Small Ordinaries Accumulation index fell -5.45% in October, led by Industrials which fell -7.04%, while Resources fell -1.04%.

Gold stocks were the standout performer for the month, rising in unison with the underlying commodity. Gold tends to outperform during times of geopolitical uncertainty and was +7.3% in October as war broke out in the Middle East. Graphite stocks also outperformed as China announced it would introduce export controls from December 1st. China is the world's top producer and exporter of the electric vehicle battery ingredient and refines more than 90% of global supply.

Financials was the worst performing sector for the month, with stock-specific declines for Credit Corp and Tyro. While asset managers and platforms also fared poorly as bond yields continued to surge and equity markets sold off.

## **Portfolio Commentary**

The Blackwattle Small Cap Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 1.07% in October.

The key contributors to performance were Ramelius Resources (RMS), Telix Pharmaceuticals (TLX), and Light & Wonder (LNW). Ramelius Resources rose +15.3% in October on the higher gold price, and following completion of the acquisition of Musgrave Minerals, owner of the Cue gold project in Western Australia. We are attracted to Ramelius' strong balance sheet and substantial free cash flow generation from the high-grade, low-cost Penny deposit through FY24-26 which will help fund the company's longer-term strategy. Shares in Telix Pharmaceuticals fell 22.5% during the month following a lower-than-expected quarterly result and inconclusive data from its SELECT trial. The fund didn't own shares in Telix. Shares in Light & Wonder rose modestly during the month, up 2.6%, on improving expectations of a strong quarterly result following solid trading updates from large US customers.

The key detractors from performance were Bapcor (BAP) and Netwealth (NWL). Bapcor fell -21.5% in October following a weak trading update at the AGM. While the market was expecting some weakness in their Retail segment, the company also reported a moderation in Trade and Wholesale sales, leading to a mid-single digit NPAT downgrade for the first quarter, and calling into question the "defensiveness" of earnings. The company still expects a solid performance in FY24 and reiterated their 'Better Than Before' transformation targets, but the risks have increased, and we have adjusted our position size accordingly. Netwealth fell -15.9% in October following a weaker than expected first quarter FUA update, exacerbated by declining equity markets. Customers are currently chasing attractive yields available off-platform via term deposits, but Netwealth are implementing a range of initiatives to address this, and we remain confident that the long-term structural shift to quality, independent platform providers will continue playing out for years to come.

### **Outlook**

We expect the outlook for inflation and bond yields to continue driving market sentiment from a macro perspective. Following the peaking of yields in October and the significant correction experienced in recent weeks, we are now positioned for a reversal. Specifically, we are overweight growth and underweight defensives. We also believe that Resources and Energy have peaked near-term.

Dan & Rob.

# **How to Invest**

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

# **Contact Details**

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