

# Blackwattle Small Cap 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 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

<b>Fund Name</b>	Blackwattle Small Cap Quality Fund
<b>Inception Date</b>	September 2023
<b>Typical number of stocks</b>	30-60
<b>Cash limit</b>	20% (typically 0-10%)
<b>Cash Distributions</b>	Semi annually
<b>Redemptions</b>	Daily
<b>Constrained Capacity</b>	\$750m (or up to 25bps of the benchmark)
<b>Objective</b>	The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index (after fees and before taxes) over the long term

## Portfolio Managers



### 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.



### 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.

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

Blackwattle Small Cap Quality Fund Performance (net of fees) as at 30 April 24

	1 month	3 months	6 Months	2 Years p.a.	5 Years p.a.	10 Years p.a.	Inception p.a. <sup>2</sup>
<b>Fund (Net)</b>	-3.41%	4.89%	21.80%	-	-	-	13.76%
<b>Benchmark<sup>3</sup></b>	-3.06%	3.33%	19.66%	-	-	-	10.97%
<b>Active Return</b>	-0.35%	1.56%	2.14%	-	-	-	2.79%

<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 12 September 2023.

<sup>3</sup> 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 Quality Fund underperformed the ASX Small Ordinaries Accumulation index by 0.35% in April.

Key contributors to performance in April were Universal Store Holdings (UNI) and Life360 (360). Universal Stores is a leading youth apparel retailer, which has been held in the fund since launch. At the end of CY23 shares were trading at a significant discount to retail peers on sub-10x P/E, but with materially higher forecast earnings growth. A solid first-half result in February that showcased improving like-for-like sales, excellent cost control and clean inventory was the catalyst for consensus earnings upgrades and a multiple re-rate. The investment has returned over 40% since the end of January, including dividends, and is now trading at a more reasonable valuation, in line with the post-IPO average P/E of 13x. Another key contributor to returns in April was our position in Life360 which continued its strong rally (now +88% since its FY23 result) as the company released 1Q24 revenues. The company delivered a better-than-expected increase in active users, a key forward looking metric, further validating demand for the product. The company has since announced plans for a dual listing on the NASDAQ with the intention of seeing the company trade closer to its more highly valued peer set.

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 September trading performance is not reflective of typical 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 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/](http://www.blackwattlepartners.com/invest/) or call 02 7208 9922.

## Contact Details

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