

Blackwattle Small Cap Quality Fund

February 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

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



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 Performance¹

Blackwattle Small Cap Quality Fund Performance (net of fees) as at 29 February 2024

	1 month	3 months	1 Year	2 Years p.a.	5 Years p.a.	10 Years p.a.	Inception p.a. ²
Fund (Net)	1.86%	10.66%	-	-	-	-	10.48%
Benchmark³	1.72%	10.05%	-	-	-	-	9.24%
Active Return	0.14%	0.60%	-	-	-	-	1.24%

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 12 September 2023.

³ Small Ordinaries Accumulation Index

Top 5 Holdings



Market Commentary

The ASX Small Ordinaries Accumulation index rose 1.72% in February, led by Industrials which rose 3.89%, while Resources fell 4.61%. Within Industrials, the leading sectors were IT, led by positive sentiment around the ongoing strength of the US Magnificent-7 and AI, and Consumer Discretionary, where results were – once again – better than feared and investors remain underweight the sector.

In Resources, the laggards were Bunks (Coal and Iron Ore) and Energy.

Portfolio Commentary

The Blackwattle Small Cap Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 0.14% in February.

The key contributors to performance were GQG Partners (GQG), Light & Wonder (LNW) and Aussie Broadband (ABB).

GQG rose 16.5% during the month. The company released a FUM update alongside the 1H24 result in mid-Feb showing they had already received \$2.9bn of inflows for the first ~6 weeks of CY24 (vs consensus expectations for \$9bn for the full year). Leading indicators for inflows are excellent - with strong performance, an expanded distribution team, the impending launch of a new office in Abu Dhabi and the re-opening of the Emerging Markets fund. Management noted that recent investment in headcount is now largely done meaning that going forward we would expect to see greater levels of operating leverage in the business. At 11 P/E paying an >8% 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.

Light & Wonder was also a key contributor, with the 4Q23 result demonstrating ongoing momentum towards its medium-term EBITDA target (consensus expectations are lower than the target, providing room for earnings upgrades). The result was driven by market share gains and an improvement in revenue yield which we expect to continue with the release of the Dragon Train title (top performing game in Australia) in the North American market in the March quarter.

Aussie Broadband rose 18.5% following the release of the 1H24 result which showed strong growth in broadband connections across all segments (Residential +13%, Business +20%, Enterprise and Government +25% and Wholesale +62%). EBITDA for the full year was upgraded to the top end of guidance and a re-organisation of the management structure that suggested M&A was on the cards was quickly confirmed with Aussie Broadband acquiring a 19.9% stake and making an all-scrip indicative bid for competitor Superloop (SLC) just a few days later. Superloop has since rejected the bid and the ball is back in Aussie's court. From our perspective, a combination of the two businesses appears compelling with the potential for significant revenue and cost synergies.

The key detractors to performance were Neuren Pharmaceuticals (NEU) and CSR Ltd (CSR).

Neuren Pharmaceuticals was a detractor in February, after generating solid returns for the fund in 2023. The underperformance resulted from a 'short report' released on NEU's US distributor, questioning the efficacy of NEU's therapy and the retention rate of patients. While this view is at odds with trial data and the real-life experience of medical specialists, patients, and their carers, it has impacted sentiment towards the stock near-term.

The other key detractor in February resulted from a takeover proposal for CSR from Saint Gobain at \$9/share, a 32% premium to the undisturbed price.

Outlook

As we head out of reporting season with clearer view on company specific performance, focus shifts to the macro-outlook and valuations. The strong market performance over recent months has resulted in a market that is fully priced but not expensive. However, pockets of the market are trading at excessive valuations and are reliant on cyclical upside to stimulus to support those valuations. As positioning leaves little tolerance for any pivot or lag, we anticipate sector rotation to be a more significant driver of returns in coming months.

Rob & Dan.

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



This document is issued by Blackwattle Investment Partners Pty Limited (ABN 24 663 839 094) (BIP) corporate authorised representative of Blackwattle Licensing Pty Limited (ACN 665 711 839 AFSL 547 617) (corporate authorised representative no. 001304362) the investment manager of the Blackwattle Small Cap Quality Fund. Equity Trustees Limited (ABN 46 004 031 289, AFSL No. 240975) (EQT) is the responsible entity of the Fund. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). This document is intended to provide general information only and is subject to change. It does not constitute an offer to subscribe for units in the Fund. The information does not consider the investment objectives, financial situation, or particular needs of any individual. You should seek advice from your licensed financial adviser and read the product disclosure statement (PDS) before making an investment decision. The PDS and target market determination (TMD) for the Fund can be obtained for free by visiting our website www.blackwattlepartners.com. The Fund commenced on 12th September 2023. Returns shown for the Fund have been calculated using exit prices after taking into account fund ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation. Neither BIP, EQT or their related body corporates guarantee repayment of capital or any particular rate of return. An investment may achieve a lower-than-expected return and investors risk losing some or all of their principal investment. BIP has obtained information from sources it considers to be reliable but does not represent that such information is accurate or complete, or that it should be relied upon. Neither BIP nor EQT make any representations or warranties, express or implied, as to the accuracy or completeness of the information it provides and to the maximum extent permitted by law, neither BIP, EQT nor its directors, employees or agents accept any liability for any loss caused by using this information.