

# Blackwattle Small Cap Quality Fund

June 2024



**Blackwattle**  
Investment Partners

## 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.

### 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 June 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>	-0.45%	-1.98%	6.24%	-	-	-	15.45%
<b>Benchmark<sup>3</sup></b>	-1.39%	-4.46%	2.75%	-	-	-	9.37%
<b>Active Return</b>	0.95%	2.48%	3.49%	-	-	-	6.08%

<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 -1.39% in June, driven by Small Resources which fell -8.02%. Within Resources, the largest declines were in Uranium and Lithium companies. Small Industrials rose 1.43%, led by more defensive areas of the market including Financials, Staples, and Healthcare. The key economic data point for the month was Australian monthly inflation for May, which came in hotter than expected at 4.0%. This was the highest inflation print for six months and a reacceleration from 3.6% in April. In response, Australian government bond yields rose sharply and expectations for the direction of RBA rates over the next six months swung from cuts to hikes. Australia stands in contrast to other developed markets like the US, UK and Europe where rate cuts are still firmly on the agenda.

## Portfolio Commentary

The Blackwattle Small Cap Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 0.95% in June.

**Key Contributors** to performance in June were Guzman y Gomez Ltd (GYG), Botanix Pharmaceuticals (BOT), and Spartan Resources (SPR). Guzman y Gomez IPO'd on June 20 at \$22 and closed out the month up 24%. Our decision to participate in the IPO was underpinned by a top-tier management team and very strong unit economics being delivered by the company. These strong unit economics drive a very rapid payback period for franchisees and are likely to underpin ongoing demand for new franchises. We also see significant optionality for the business over time with expansion into new regions and concepts.

The share price of Botanix Pharmaceuticals rose 19% in June as the company announced FDA approval for Sofdra, a drug designed to address excessive sweating. Botanix will now move to commercialisation of the drug in the US, led by an experienced team. Sofdra has already been very successful in the Japanese market, which de-risks the investment case.

Spartan Resources is a gold company in the process of exploring and developing its flagship Dalgara Gold Project in WA's Murchison region. The project contains a collection of high-grade deposits, still open at depth and producing outstanding drill results, less than 1km from their existing processing plant and infrastructure. Spartan's share price rose 31.3% in the month as nearby ASX-listed Ramelius Resources built a 'strategic investment' of 17.9% in the company, highlighting the quality of Spartan's assets and raising the prospect that M&A could be on the cards.

**Key Detractors** to performance in June reflected the pullback in the resources sector and included Patriot Battery Metals (PMT), Metals Acquisition Ltd (MAC), and Latin Resources (LRS).

Metals Acquisition Ltd listed on the ASX in February and has a mandate to acquire and operate quality mines in quality jurisdictions that are critical to the electrification and decarbonisation of the global economy. Its first asset is the CSA copper mine in Cobar, NSW, which is one of the highest-grade copper mines in Australia. Management has a strategy to increase production and reduce costs, which will materially improve the profitability of the mine. The share price fell -12% in June in sympathy with copper prices, but we see this move as short-term volatility and remain positive on MAC's long-term outlook.

The other key detractors in June were lithium developers (PMT and LRS), as the lithium commodity price continue to follow a volatile trading pattern. Perversely, when considering investments in the resources sector, the risk is the lowest when commodity prices are falling toward the lower end of the cost curve for mining companies with tier-one assets. At current spodumene lithium prices, few hard rock miners are generating much free cash flow today.

As such, we continue to maintain modestly sized holdings in the lithium sector. In our view projects with superior economics like Latin Resources and Patriot Metals are well placed to ride out near-term volatility in the Lithium price.

## Outlook

The portfolio is currently very balanced with no large tilts or biases to any one sector. We remain overweight quality growth businesses with more defensive demand profiles. A recent peaking of US bond yields also supports valuations for long-duration assets. We have a mild bias towards defensives over discretionary in the Consumer sector where we are overweight Staples, driven by bottom-up ideas in Agriculture, and underweight Discretionary as we see increasing risks in consumer confidence driven by inflation and the threat of a new round of RBA rate hikes. The portfolio has an overweight position in Resources. The recent pullback in commodities has created opportunities to add to holdings in bulk resources and metals, in particular.

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

### Investor Services

Apex Fund Services

Ph: 1300 133 451

E: [registry@apexgroup.com](mailto:registry@apexgroup.com)



## Distribution and Sales Team

### Matt Dell

Executive Director

0423 793 456

[mdell@blackwattlepartners.com](mailto:mdell@blackwattlepartners.com)

### Maggie Mills

Head of Distribution

0498 183 569

[mmills@blackwattlepartners.com](mailto:mmills@blackwattlepartners.com)

### Nick O'Hare

Senior Account Director

0423 773 837

[nohare@blackwattlepartners.com](mailto:nohare@blackwattlepartners.com)

### Sid Cavallaro

Account Director

0409 405 617

[scavallaro@blackwattlepartners.com](mailto:scavallaro@blackwattlepartners.com)

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