

# Blackwattle Small Cap Quality Fund

March 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 31 March 2024

	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>	6.61%	8.38%	20.58%	-	-	-	17.78%
<b>Benchmark<sup>3</sup></b>	4.79%	7.55%	16.71%	-	-	-	14.47%
<b>Active Return</b>	1.82%	0.83%	3.87%	-	-	-	3.31%

<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 rose 4.79% in March, led by Small Resources which rose 8.48%, while Small Industrials rose 3.50%. Within Resources, equities leveraged to Base and Precious metals saw the greatest gains. LME Copper rose 4.34% to an 11-month high on news Chinese smelters are exploring options to reduce production due to overcapacity. This follows production cuts and mine shutdowns around the world in recent months, which have flipped supply expectations from surplus to deficit – all bullish for copper. Gold rose 9.08% during the month, hitting an all-time high on political uncertainty, global central bank buying, and continued investor expectations that the next move in interest rates will be lower. Energy stocks also performed strongly with oil rising 6.27%. Industrials were led by Financials and REITs.

## Portfolio Commentary

The Blackwattle Small Cap Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 1.82% in March.

The key contributors to performance were Life360 (360), Genesis Minerals (GMD) and Bellevue Gold (BGL). Life360 rallied 59% in March following guidance to higher long-term revenue targets and new plans to monetise users through advertising. We see potential for Life360 to continue to surprise to the upside as it further penetrates the market, adds new verticals and lifts margins. Genesis Minerals rose 21.2% in March on a higher gold price and in anticipation of the release of their 5-year strategy. While the market's initial reaction to near-term capex and costs in the strategy was underwhelming the stock has since recovered and focus has returned to the longer-term opportunity led by highly capable management. We attended a tour of the company's assets in Leonora during the month and the story of transition from quantity to quality, plus the optionality available to reach for the aspirational target of 400koz was clear. Bellevue Gold also benefitted from the higher gold price, rising 23.2% during the month. The company released a positive update regarding the commissioning of the Bellevue gold project, which is ramping up well with sequentially higher gold production and head grade each month and is on track to generate free cash flow for the half.

The key detractor to performance was Aussie Broadband (ABB) which fell 21.3% in March, immediately following an 18.5% rise in February. In a dramatic turn of events, Superloop (SLC) first rejected ABB's bid for the company and then announced they had won their Origin wholesale broadband contract from them (c.\$14m EBITDA or 13% of FY24 guidance). If that wasn't enough, Superloop then served a legal notice on ABB directing them to reduce their 19.9% holding in the company to below 12% within ten business days to comply with Singapore's telecommunications ownership regulations (where Superloop has a subsidiary). ABB have since complied with the notice and sold down their position to 11.9%, but it remains to be seen what they will do with the holding and if they still harbour intentions to acquire Superloop. ABB now screens as compelling value on 7x EBITDA.

## Outlook

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. The portfolio is currently overweight resources reflecting fundamental value in companies across a range of commodities including gold, copper and energy. If the outlook for Chinese credit risk were to improve, we see further upside potential.

Rob & Dan

## 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)

### Investment Enquiries

Maggie Mills (Head of Distribution, and Partner)  
Ph: 02 7208 9922  
E: [MMills@Blackwattlepartners.com](mailto:MMills@Blackwattlepartners.com)

