# Blackwattle Small Cap Quality Fund

November 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 30 November 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)	6.90%	-	-	-	-	-	-0.16%
Benchmark <sup>3</sup>	7.04%	-	-	-	-	-	-0.74%
Active Return	-0.14%	-	-	-	-	-	0.58%

<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.

Small Ordinaries Accumulation Index

### **Top 5 Holdings**











## **Market Commentary**

The ASX Small Ordinaries Accumulation index rose 7.04% in November, led by Industrials which rose 8.56%, while Resources rose 3.09%. Growth stocks paced gains, driven by the decline in global bond yields. The US 10-year bond yield fell 60bps in November, which was the biggest monthly decline since the GFC. Growth stocks tend to outperform when bond yields are declining because lower interest rates increase the present value of future forecasted cash flows. The strongest performing sectors included Emerging Healthcare and Fintech. The worst performing sector was Strategic Minerals, driven by a decline in the price of lithium due to near-term oversupply.

## **Portfolio Commentary**

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

The key contributors to performance were Neuren Pharmaceuticals (NEU), Genesis Minerals (GMD) and GQG Partners (GQG). Neuren shares had a strong month after the distributor of its key drug Daybue, reported record sales for the September quarter, well above expectations. This strong performance suggested early estimates of market size for this drug were likely too conservative. Also in the month, Daybue's only known competitor encountered trouble with its trial design, which may now see NEU have that enlarged market size all to itself. Genesis Minerals was the best performing Gold stock in the Small Ords in November, rallying 26.4% and far outpacing the 2.7% rise in Gold. Highly regarded management are consolidating assets around Leonora in WA with the aim of building a 300koz producer. The company fits into our definition of "improving quality". In terms of recent events, the 1Q FY24 report released in October showed promising early data on production and costs at Gwalia, while the AGM in November provided additional detail on the company's growth strategy, with more to come at the 5-year investor day in March. GQG Partners is a global equities manager headquartered in the US with over US\$100bn funds under management. The stock rose 16.2% in November driven by continued net inflows and strength in global equity markets. We believe GQG offers compelling value trading at only 10x 1-year forward P/E and paying a 9% dividend yield.

The key detractor from performance was Latin Resources (LRS). As mentioned above, the lithium price was under pressure for most of November driving this underperformance. Despite this, Latin remains one of the best and most prospective hard-rock lithium projects globally in our view. In early December Latin announced a 45% increase in its resource, taking it toward a size that would be considered 'globally significant', increasing its status as a desirable M&A target.

# **Outlook**

Market sentiment continues to be influenced by the outlook for inflation, employment, and bond yields. All eyes are on the Fed's ability to navigate a Goldilocks "soft landing" in the US economy – just enough tightness to take some heat out of the economy and slow inflation, but not enough to cause a recession which might ultimately lead to job losses and lower company earnings. Following a significant decline in bond yields and strong local and global equity market gains, we have reduced some of our overweight exposure in growth and deployed those funds into defensives. With 5 Fed rate cuts priced in over the next 12 months we have a higher exposure to REITS than we would normally expect to. REITS typically outperform equities during the contractionary phase of an economic cycle when rates are being cut.

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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