

Blackwattle Small Cap Quality Fund

September 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 provides 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 team of two 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 30 September 2023

	1 month	3 months	1 Year	2 Years p.a.	5 Years p.a.	10 Years p.a.	Inception p.a. ²
Fund (Net)	-2.32%	-	-	-	-	-	-2.32%
Benchmark³	-1.95%	-	-	-	-	-	-1.95%
Active Return	-0.37%	-	-	-	-	-	-0.37%

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 fell -4.04% in September, driven by Industrials which fell -5.04%, while Resources fell -1.21%.

Energy was the best performing sector for the month, led by strong gains in uranium, which rallied due to a fragile global supply/demand balance. On the demand side nuclear energy offers an increasingly attractive alternative base load power option for countries transitioning to green energy. While on the supply side the ongoing war in Ukraine and border closures in Niger are tightening supply.

Real Estate and Tech were the worst performing sectors, driven by the continued rise in global bond yields. The US 10-year bond yield hit 4.68% during the month, its highest level since 2007, which negatively impacted the valuations of property and long duration assets.

Portfolio Commentary

The Blackwattle Small Cap Quality Fund underperformed the ASX Small Ordinaries Accumulation index by 0.37% in September (since launching on 12th September).

The key contributors to performance were Stanmore Resources (SMR), Boss Energy (BOE) and Fletcher Building (FBU). Stanmore Resources rose 27.6% in September on higher coal prices and a site visit showcasing management's success in optimizing its 2022 acquisition of BHP's BMC asset. Stanmore remains well positioned to secure further assets from BHP, which could deliver significant synergies. Boss Energy rose 39.8% in September driven by strong gains in uranium. The Global Nuclear Symposium (London) was held in September and further emphasized the significant shortfall in uranium supply required to meet increasing demand for emission-free baseload energy. Fletcher Building fell 2.0% in September (but rose 6.4% since we launched the fund on 12th September). We are becoming more attracted to the building sector, particularly residential construction, which should continue to benefit from strong demand dynamics.

The key detractors from performance were Pro Medicus (PME), Paladin Energy (PDN) and Latin Resources (LRS). Pro Medicus rallied 13.7% in September on the announcement of a material contract win - we do not own the company. Paladin rose 30.2% in September due to the strong gains in uranium - we do not own the company, choosing Boss Energy (above) as our preferred uranium exposure. Latin Resources fell 26.9% in September reflecting a softening lithium price but has since rebounded following the release of a scoping study post month-end. The study demonstrated very attractive project economics reflecting the low costs of the region (Minas Gerais, Brazil). This is a good example of an attractive early-stage resource opportunity, with a high-grade, low-cost project in a friendly jurisdiction.

Outlook

We expect the outlook for inflation and bond yields to continue driving market sentiment from a macro perspective. Following the surge in yields in September and the resulting decline in global equity markets we are preparing for a potential reversal. September is seasonally one of the weakest months of the year for equity markets, while October to December is traditionally a stronger period.

In addition to deep bottom-up research and a belief that Quality businesses will outperform over the long-term, the Blackwattle Small Cap Quality fund employs factor analysis to optimize investor returns. We started October overweight Resources, predominantly in Energy for the reasons outlined above. With war breaking out in the Middle East at the time of writing, and the knock-on impacts this could have on commodity prices, it is likely that we will at least maintain our exposure in the short-term. Our key underweight in Cyclical is Retail, where we acknowledge the strength of the consumer since Covid has been quite remarkable but believe higher mortgage repayments and the dwindling household savings rate present a significant headwind to growth in consumer spending. We do not feel current valuations in Retail adequately reflect the risks in the sector and so, for the time being, are allocating funds to preferred investments elsewhere.

We would like to thank our investors and everyone on the team at Blackwattle for their support in launching the fund this month, Dan & Rob.

How to Invest

To invest click on the link www.blackwattlepartners.com/invest/ or call 02 7208 9922.

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