

Blackwattle Mid Cap Quality Fund

July 2024



About the Fund

The Blackwattle Mid Cap Quality fund is a concentrated yet diversified portfolio of some of the highest and most improving quality companies on the ASX. We believe that high quality companies have the potential to consistently outperform over the medium term, as their competitive advantages may allow for compounding shareholder returns through market cycles.

The fund is concentrated on the team's best ideas, driven by fundamental research to establish differentiated views on the outlook of company quality, valuation and earnings. The fund is targeting long term ownership of high-quality companies to generate a consistent outperformance profile, compounding shareholder returns through market cycles.

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 Mid Cap Quality Fund
Inception Date	August 2023
Typical number of stocks	20-35
Cash limit	10%
Cash Distributions	Semi Annually
Redemptions	Daily
Constrained Capacity	\$2.0b (or up to 25bps of the benchmark)
Objective	The Fund aims to outperform the S&P/ASX300 Accumulation Index - S&P/ASX20 Accumulation Index (after fees and before taxes) over the long term.

Portfolio Managers



Tim Riordan CFA, FRM

15+ years' investment experience. 5 years as Head of Direct Equities at Aware Super and Lead PM of the Aware Super Mid Cap Industrial Fund. Was Co-Head of Research and Portfolio Manager at Altair Asset Management.



Michael Teran CFA

13+ years' investment experience. Associate PM of the Aware Super Mid Cap Industrial Fund. Also Long-Short Equities Analyst at Point72 Asset Management in Hong Kong. And Equities Analyst at Colonial First State Global Asset Management (now First Sentier Investors).

Fund Performance¹

Blackwattle Mid Cap Quality Fund Performance (net of fees) as at 31 July 2024

	1 month	3 months	6 months	1 Year p.a.	2 Years p.a.	3 Years p.a.	Inception p.a. ²
Fund (Net)	3.42%	5.13%	10.77%	-	-	-	17.41%
Benchmark ³	3.85%	2.01%	7.17%	-	-	-	9.44%
Active Return	-0.42%	3.12%	3.60%	-	-	-	7.98%

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 8th August 2023

³ S&P/ASX300 Accumulation Index - S&P/ASX20 Accumulation Index

Top 5 Holdings



Market Commentary

The ASX300 ex-20 was up 3.85% in July. Global markets were stronger for the third month in a row, with the S&P500 up 1.1%. However, it was a volatile month driven by softer than expected June CPI in the US, the lowest level since January 2021, with the market pivoting to near term rate cut expectations. This triggered an aggressive rotation into value and small cap stocks at the expense of the US mega-cap technology stocks, with US small caps (Russell 2000) up 10.1% while the Nasdaq 100 fell 1.6%. At the other end of the spectrum Chinese equities sank 2.2% as economic weakness continues with minimal government stimulus, highlighting major disparities globally.

Australia is still behind most western economies in their fight against inflation, with June CPI showing minimal disinflation, and it appears the RBA is unlikely to reduce interest rates in the near term, like Canada and UK have already done and the Federal Reserve is expected to do in September. However, the ASX took its cues from offshore and the best performing ASX sectors in July were Consumer Discretionary and Real Estate, given their interest rate sensitivity. The weakest sectors were Utilities, Energy and Materials. Energy and Materials were weaker with concerns growing about China pressuring commodity prices, and the Bloomberg Commodities index fell by 4.5% during the month.

Portfolio Commentary

The Blackwattle Mid Cap Quality portfolio underperformed the ASX300 ex-20 benchmark by 0.42% during the month.

Key Contributor – Newmont (NEM AU)

NEM was the largest positive contributor to performance during the month. NEM rose 16% in July, on the back of rising gold prices and a strong quarterly result. NEM is the largest, lowest-cost and most diversified gold miner globally. NEM has a strong track record of delivering value from acquisitions, with the 2019 acquisition of Goldcorp in Canada creating significant shareholder value. We expect NEM to deliver similar upside from the recent Newcrest acquisition, and NEM's 2Q24 result showed further progression, delivering a second strong earnings result in a row, upgrading the asset sales target and starting an US\$1bn on-market buyback well ahead of the market's expectations.

We continue to see material upside for NEM as an 'enduring high-quality' business and view NEM as the highest quality gold miner globally. We expect NEM to execute on numerous multiyear internal levers to maintain and improve the business quality including: extracting Newcrest synergies, organic production expansion, operating cost reductions, portfolio high grading through asset sales, material debt reduction & further capital returns.

Key Detractor – Infratil (IFT AU)

IFT was the largest negative contributor to performance during the month. IFT fell 6% in July after an equity raising in late June. IFT is a NZ based, listed infrastructure investment vehicle with a primary NZ listing, and a secondary listing on the ASX. The company has a portfolio that focuses on quality growth investments in digital, renewables, healthcare and airports, with key exposure being Canberra Data Centres (CDC). The equity raise was to fund the surging demand for capacity at CDC driven by Generative AI. We view IFT as 'quality early', given the ASX is unfamiliar with IFT's quality attributes, which we expect will change with improved understanding of CDC's position and likely upcoming index inclusion into the ASX300.

We believe IFT is the best exposure to the AI thematic on the ASX. IFT owns 48.2% of CDC, the pre-eminent Data Centre operator in ANZ, providing highly secure data storage for both Australia and New Zealand governments. CDC is best placed to accommodate Generative AI in ANZ compared to competitors, given only CDC has the industry leading, liquid cooling technology able to cater for Generative AI. While the market digests the equity raise, we remain patient to realise the significant valuation upside as CDC's independent valuation implies an earnings multiple half of ASX listed Data Centre operator NextDC, even though CDC is growing earnings at twice the rate. Given IFT's outstanding long-term track record of shareholder value creation, we expect IFT to realise CDC's full value at the right time.

Outlook

The portfolio underperformed slightly in July, as lower quality, interest rate sensitive stocks outperformed strongly. This is not unexpected with a quality driven portfolio. The August reporting season should again provide an opportunity for our high-quality companies to highlight their ongoing financial strength, incrementally driving outperformance towards longer-term investment theses.

A continuing theme of recent commentary is that this remains a highly uncertain economic environment. Globally the potential outcomes of a hard landing or stagflation over a soft landing are possible, following recent updates, weaker growth is now very much in focus. This mixed environment tends to be rewarding for high quality companies as earnings certainty becomes a rarer commodity. We believe our portfolio companies are well placed into this dynamic.

There were no major portfolio changes in July. Fruitful research over recent periods has expanded our watchlist, these potential new names compete for portfolio capital, reporting season is often the trigger for change so as ever we look forward to August updates.

Thank you for investing alongside us, Mike & Tim.

How to Invest

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

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