

Blackwattle Small Cap Quality Fund

July 2024



Blackwattle
Investment Partners

About the Fund

The fund aims to deliver outperformance through the cycle, irrespective of market direction or factor leadership. Our goal is to achieve higher relative returns with lower volatility.

As fundamental investors, we employ in-depth bottom-up research to identify the best quality Small-Cap opportunities. We manage diversified portfolios, seeking returns from all sectors.

We prioritize active risk management and consider capital preservation at every stage of our investment process.

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

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 (or up to 25bps of the benchmark)
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 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 Performance¹

Blackwattle Small 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)	3.20%	4.74%	9.85%	-	-	-	19.15%
Benchmark³	3.49%	2.00%	5.39%	-	-	-	13.18%
Active Return	-0.29%	2.73%	4.46%	-	-	-	5.96%

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 rose 3.49% in July, led by Small Industrials which rose 5.13%, while Small Resources fell 0.92%. Within Industrials the market was led by Cyclical including Consumer, Financials and Real Estate as weak inflation prints in both the US and Australia triggered rotations into more interest-rate sensitive areas of the market. Weakness in Resources was led by Uranium and Base Metals.

Portfolio Commentary

The Blackwattle Small Cap Quality Fund underperformed the ASX Small Ordinaries Accumulation index by -0.29% in July.

Key Contributors to performance in July were Spartan Resources (SPR), Genesis Minerals (GMD), and Zip Co (ZIP).

Spartan Resources followed up a +31% move in June with a +29% move in July. The company is in the process of exploring and developing its flagship Dalgarranga 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, further evidenced by a 45% Mineral Resource Estimate (MRE) upgrade during the month. The project now boasts an MRE of 2.5Moz at 4.8g/t, located on existing mining leases and within 2km of existing mill and processing infrastructure.

Genesis Minerals rose 19.1% in July after delivering a solid June Quarterly update that was in-line with market expectations, while also flagging a potential acceleration of organic growth that could pull forward production ounces in the 5-year plan.

Zip Co rose 30.8% in the month after delivering a June Quarterly update that continued the company's recent track record of beats, while also announcing a \$267m capital raise to remove corporate debt. Zip's recent journey has been one of improving quality, with reduced industry competition, strong US growth (US 4Q24 Revenue +47% vs pcg) and retail partner validation – including Best Buy and Google Pay integration in the US – now supported by a \$100m annualized EBITDA run-rate, positive cash flow and a clean balance sheet.

Key Detractors to performance in July were Bellevue Gold (BGL), Paladin Energy (PDN), and Aussie Broadband (ABB).

Bellevue Gold fell 23.3% in the month following a \$150m capital raise and the release of a new 5-year mine plan. Bellevue's high-grade, low-cost mine, built on time and on budget by a well-regarded management team, had been ramping up production admirably, with future debt repayments and minimal capex required to fund growth expected to be funded by free cash flow. Hence, it came as an unwelcome surprise in the new plan that expectations for ~200koz of gold to be produced in FY25e were reduced to 165-180koz and that the company would be raising capital. While short term production guidance was downgraded, medium to longer term production guidance was upgraded and the company now expects to produce 250koz of gold in FY27, but it may take some time to win back investor sentiment.

The **Paladin Energy** share price dropped 9% over the month, largely in response to the uranium spot price. Having said that, at a PDN share price of \$10, the implied Uranium price is US\$65/lb, which is well below the current spot rate of US\$79/lb. This suggests the recent share price move is overdone. While PDN's share price is being led by the commodity price in the short-term, the company's long-term prospects have been improved greatly following its recently announced acquisition of Fission Uranium (FCU.TSX), a high-grade development project in Canada. The deal gives PDN a quality growth option, which it can fund via cashflow from its already producing Langer Heinrich asset. Because the project was unfunded under Fission's ownership, the deal unlocks significant value for PDN shareholders. We expect this to be fully appreciated as the uranium price settles.

Aussie Broadband fell 7.8% in July after delivering an upgrade to FY24e earnings, but also providing FY25e guidance that missed the market's expectations. The loss of the Origin white label contract earlier in the half appears to have created some operating leverage in the business that was not properly communicated. Aussie is also launching a digital-first residential challenger brand called "Buddy" that will target the value-conscious customer, complementing the premium 'Aussie Broadband' offer, which will attract \$10m in one-off upfront costs. Aside from this, the underlying business continues to track well with double-digit % subscriber growth across a diversified customer base (Residential, Business, and Enterprise & Government) with an increasing exposure to stickier, higher-margin E&G which improves the quality and predictability of earnings. The stock screens cheaply on only ~7x FY25e EV/EBITDA with growth levers and a strong balance sheet.

Outlook

The portfolio is currently positioned to be overweight quality cyclical and quality growth companies. Recent trading updates from several domestic cyclical companies have shown slowing momentum, but far less than some had feared. As such the Australian economy looks more likely than most to achieve the aspirational soft landing. While the New Zealand economy has landed hard, a monetary policy response is imminent and is likely to drive a share market response. The recent peak in US bond yields also supports valuations for long-duration assets. We continue to prioritise quality growth companies with defensive demand characteristics.

Dan & Rob

How to Invest

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

Contact Details

Investor Services

Apex Fund Services

Ph: 1300 133 451

E: registry@apexgroup.com



Distribution and Sales Team

Matt Dell

Executive Director

0423 793 456

mdell@blackwattlepartners.com

Maggie Mills

Head of Distribution

0498 183 569

mmills@blackwattlepartners.com

Nick O'Hare

Senior Account Director

0423 773 837

nohare@blackwattlepartners.com

Sid Cavallaro

Account Director

0409 405 617

scavallaro@blackwattlepartners.com

This document is issued by Blackwattle Investment Partners Pty Limited (ABN 24 663 839 094) (BIP) corporate authorised representative of Blackwattle Licensing Pty Limited (ACN 665 711 839 AFSL 547 617) (corporate authorised representative no. 001304362) the investment manager of the Blackwattle Small Cap Quality Fund. Equity Trustees Limited (ABN 46 004 031 289, AFSL No. 240975) (EQT) is the responsible entity of the Fund. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). This document is intended to provide general information only and is subject to change. It does not constitute an offer to subscribe for units in the Fund. The information does not consider the investment objectives, financial situation, or particular needs of any individual. You should seek advice from your licensed financial adviser and read the product disclosure statement (PDS) before making an investment decision. The PDS and target market determination (TMD) for the Fund can be obtained for free by visiting our website www.blackwattlepartners.com. The Fund commenced on 12th September 2023. Returns shown for the Fund have been calculated using exit prices after taking into account fund ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation. Neither BIP, EQT or their related body corporates guarantee repayment of capital or any particular rate of return. An investment may achieve a lower-than-expected return and investors risk losing some or all of their principal investment. BIP has obtained information from sources it considers to be reliable but does not represent that such information is accurate or complete, or that it should be relied upon. Neither BIP nor EQT make any representations or warranties, express or implied, as to the accuracy or completeness of the information it provides and to the maximum extent permitted by law, neither BIP, EQT nor its directors, employees or agents accept any liability for any loss caused by using this information.