

# Blackwattle Mid Cap Quality Fund

August 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

14+ 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 Performance<sup>1</sup>

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

	1 month	3 months	6 months	1 Year p.a.	2 Years p.a.	3 Years p.a.	Inception p.a. <sup>2</sup>
Fund (Net)	1.33%	5.58%	8.31%	19.16%	-	-	17.66%
Benchmark <sup>3</sup>	0.96%	3.96%	4.64%	10.56%	-	-	9.78%
Active Return	0.37%	1.63%	3.67%	8.60%	-	-	7.88%

<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 8<sup>th</sup> August 2023

<sup>3</sup> S&P/ASX300 Accumulation Index - S&P/ASX20 Accumulation Index

## Top 5 Holdings



## Market Commentary

The ASX300 ex-20 was up 0.96% in August. Global financial markets were extremely volatile in August but finished stronger, with the S&P500 up 2.3%. Global equity markets fell ~6% in the first few days of August, driven by the Japanese Yen carry trade unwind, which saw the JPY/USD appreciate 6% and the Nikkei fall 17% in 3 days. However, global markets quickly stabilized and recovered through the month, buoyed by cooling US inflation and increasing expectations for US interest rate cuts.

In the ASX, August reporting season saw higher stock specific volatility than average, with 35% of stocks moving by more than ±5% compared to only 26% historically. It was a weaker August reporting season on average, with the ASX200 only seeing a ratio with earnings beats to misses of 0.8x, well below the 1.4x historical average. The FY2025 outlook was also considerably weaker than expectations, with consensus FY25 EPS YoY growth for the ASX200 reduced from 3.7% to an anemic 0.4% YoY.

The best performing ASX sector in August was Information Technology which rallied close to 8%, led by Wisetech which jumped 25% after its solid FY24 result together with strong FY25 guidance. The weakest sectors were again Energy and Materials, with growing concerns about China's weakening property market conditions further pressuring commodity prices.

## Portfolio Commentary

The Blackwattle Mid Cap Quality portfolio outperformed the ASX300 ex-20 benchmark by 0.37% during the month.

### *Key Contributor – Orora (ORA AU)*

ORA was the largest positive contributor to performance during the month, rallying 25%. ORA is a diversified, global packaging business with key exposures to glass and aluminum can beverage manufacturing in Australia and France. It was an eventful month for ORA, firstly rejecting an indicative, non-binding bid from private equity. ORA then released a robust FY24 result with a solid FY25 outlook and announced the intention to divest their non-core US Packaging Distribution business, with the sale subsequently announced in early September.

We had previously mentioned ORA as an 'improving quality' business that would require patience but was still attractive given the material valuation upside and a reasonable balance sheet. As part of our engagement with the company, in early August we wrote a letter<sup>1</sup> to the Board of Orora to discuss available levers to restore the company to a position of strength. The sale of the US Packaging Distribution business was one of the key levers we identified. We are very pleased with the outcome, with a strong sale price allowing for significant debt repayment, continued investment into high returning growth projects together with capital management. We continue to see long-term upside in ORA, the business is now well placed to execute its strategy, and a significantly higher bid than the indicative \$2.55 offered in August would be required to acquire the company if private equity remain interested.

### *Key Detractor – Whitehaven Coal (WHC AU)*

WHC was the largest negative contributor to performance during the month. WHC fell 13% in August on weakening metallurgical coal prices. WHC is an Australian coal producer with thermal coal mines in NSW and recently acquired metallurgical coal mines in QLD. WHC delivered a strong FY24 result, but more importantly announced the sell-down of 30% of the recently acquired Blackwater Coal mine at a significant premium to the original acquired price from BHP. This sell-down places WHC in a net cash position, substantially reducing downside risk for the company.

However, China's weakening property market has started to pressure Chinese steel consumption, in which metallurgical coal is essential input for steel making. Metallurgical coal prices are still healthy compared to historical prices given tight supply and strong medium term demand outlook from India. We continue to see material long-term upside for WHC as an 'improving / enduring quality' business and view WHC as one of the highest quality mining companies on the ASX, with strong financials and a capital disciplined management team. We expect WHC to execute on numerous multiyear internal levers to maintain and improve the business quality including: cost reduction and production improvement in the acquired metallurgical coal mines, paydown of the deferred BHP acquisition payments, Vickery expansion & selldown, Daunia/Winchester South expansion & selldown and further disciplined capital management.

## Outlook

The portfolio outperformed in a volatile reporting season and macro backdrop. Several strong results for the portfolio were offset by weakness in resources positions. Unusual strength in several large index weights not owned by the portfolio also offset strength from portfolio positions. Reporting season provided another opportunity for our high-quality companies to highlight their ongoing financial strength, incrementally driving outperformance towards longer-term investment theses.

<sup>1</sup> <https://blackwattlepartners.com/letter-to-the-board-ora/>

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 several portfolio changes in August. As is often the case, opportunities presented through reporting season volatility, and the portfolio exited 3 positions and started 2 new positions. The 2 new positions are both quality technology businesses that appear underappreciated by the market. We see strong upside over the medium term as these businesses continue to execute and drive value creation. These portfolio changes are driven by our continuous tandem goals of improving the overall Quality Score of the portfolio whilst maintaining a highly attractive portfolio level risk/reward skew.

Thank you for investing alongside us, Mike & Tim.

## 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)



## Distribution and Sales Team

### Matt Dell

Executive Director  
0423 793 456  
[mdell@blackwattlepartners.com](mailto:mdell@blackwattlepartners.com)

### Maggie Mills

Head of Distribution  
0498 183 569  
[mmills@blackwattlepartners.com](mailto:mmills@blackwattlepartners.com)

### Nick O'Hare

Senior Account Director  
0423 773 837  
[nohare@blackwattlepartners.com](mailto:nohare@blackwattlepartners.com)

### Sid Cavallaro

Account Director  
0409 405 617  
[scavallaro@blackwattlepartners.com](mailto: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 Mid Cap Quality Fund. Equity Trustees Limited (ABN 46 004 031 298, 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](http://www.blackwattlepartners.com). The Fund commenced on 8<sup>th</sup> August 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.