Blackwattle Small Cap Long-Short Quality Fund

August 2024

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.

The fund offers high-conviction long exposure to the best quality Small Cap companies, and short exposure to low-quality companies, enabling investors to generate returns from a wider range of market opportunities.

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.

Invest Better. Live Well.

Key Information

Fund Name	Blackwattle Small Cap Long-Short Quality Fund
Inception Date	November 2023
Typical number of stocks	30-60 Long, 10-30 Short
Cash limit	50% (typically +10% to -10%)
Cash Distributions	Semi annually
Redemptions	Daily
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

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.

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.

Fund Performance[1]

Blackwattle Small Cap Long-Short Quality Fund Performance (net of fees) as at 31 August 2024

	1 month	3 months	6 months	1 Year p.a.	5 Years p.a.	10 Years p.a.	Inception p.a[2]
Fund (Net)	3.67%	4.79%	7.69%				13.14%
Benchmark[3]	-2.02%	-0.01%	0.37%				6.45%
Active Return	5.68%	4.80%	7.32%				6.68%

[1] Returns are calculated after fees have been deducted and assume distributions have been reinvested, Returns are normalised for the removal of unallotted applications, following the transition of Investment Manager of the Fund.. 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 21 November 2023. [3] S&P/ASX Small Ordinaries Accumulation Index. There was a six-month transition period beginning 21 November 2023 and ending 21 May 2024, following the transition of Investment Manager of the Fund. During this transition period, the Fund Benchmark was 50% cash rate as determined by the Reserve Bank of Australia and 50% S&P/ASX Small Ordinaries Accumulation Index. Returns are normalised for the removal of unallotted applications, following the transition of Investment Manager of the Fund.

Top 5 Holdings

Market Commentary

The ASX Small Ordinaries Accumulation index fell -2.02% in August. Small Cap Resources fell -2.24% while Small Cap Industrials fell -1.94%. Weakness in Resources was led by Energy, with uranium companies faring the worst, as utility buyers continue to delay purchases. Oil & Gas stocks were also sold off on concerns about slower global economic growth. Industrials fell in line with reporting season EPS revisions of around -2%, with the most significant falls seen in Industrials and Tech.

Portfolio Commentary

The Blackwattle Small Cap Long-Short Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 5.68% in August.

Key Contributors to performance in August were Nuix (NXL), a short in the Tech sector, and Regis Healthcare (REG).

Nuix is a provider of specialised software used to investigate and analyse large pools of data. Its share price rose 38% in August following the announcement of better-than-expected earnings guidance for FY25. Our position in the company is based on our expectation of 'improving quality', as the company emerges from an organisational rebuild. In the last two years incoming CEO Jonathan Rubinsztein has established a new senior leadership team and a new culture that matches the quality of the company's products. Nuix is a clear leader in its field, has enviable blue-chip clients and it aided by strong sector tailwinds given the world's increasing data usage. Despite the recent share price run we see plenty more upside as the stock still trades at a significant discount to global peers.

A key contributor this month was a short position in a technology company specializing in networking. Our position was based on the view the market was pricing blue-sky expectations for its new products that were still unproven in the marketplace. The company was also experiencing near-term softness in its core business, which was not reflected the high valuation.

Regis Healthcare rose 22% in August after delivering a solid but largely expected result. The share price move more reflects a significant change in the outlook for operators in the aged care industry. While the challenge of providing care for an aging population has been long known, governments have kicked the can down the road for the next government to deal with. But with the first baby boomers now moving into care the consequence of insufficient investment is upon us. The current government has no choice but to increase the funding of aged care operators to encourage the buildout of more beds. We believe the next decade is likely to be a golden era for aged care operators.

Key Detractors to performance in August were Siteminder (SDR), Paladin Energy (PDN), and Polynovo (PNV).

Siteminder shares fell 10% in the month despite the company delivering an in-line result. The fall in share price appears linked to the outlook for travel expenditure, as some global and domestic travel agents reported emerging softness in leisure demand. While this relationship between SDR and travel agent demand is sometimes made, the reality is that 90% of SiteMinder's demand is subscription driven (per hotel partner), and not linked to the hotel's underlying revenues.

Paladin Energy dropped 14% over the month, largely in response to a fall in the uranium spot price. Having said that, at a PDN share price of $8.50, the implied Uranium price is US$50/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.

Polynovo fell 13% in August after delivering an inline result. The reason for the share price drop is unclear as FY25 is shaping up as a good year for the company. PNV's Barda trial has completed recruitment and should be releasing data shortly. We expect these results to drive further adoption in the core US market. Competitor Integra continues to be impacted by product recalls. We understand inventories of Integra's products are only now being depleted, which should see PNV benefit more substantially.

Outlook

With August reporting season behind us, investors are now refocusing their attention on the health of the economy and the future direction of interest rates as the next driver for equities. In this regard, inflation is easing, and unemployment is gradually rising but still well below pre-Covid long-term averages, supporting the case for a soft landing and a gentle commencement of RBA rate cuts in the coming months. Given the strong share price performance of several companies within the portfolio during August, rising global volatility, and share market valuations sitting one standard deviation above long-term averages, we are taking the opportunity to rotate some of the portfolio into companies where we see more value. Importantly, the portfolio remains overweight quality cyclicals and quality growth companies with competitive advantages and superior management teams that can outperform regardless of the rates environment.

Dan & Rob

How to Invest

To invest click on the link www.blackwattlepartners.com/invest/
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