Blackwattle Global Quality Fund

Blackwattle Investment Partners

September 2024

About the Fund

The Blackwattle Global Quality Fund is a high conviction long only fund that aims to provide exposure to the highest quality companies in the world, trading at attractive valuations. The fund adopts an 'All-weather Quality' approach for investing.

Our approach recognises a company's persistent competitive edge and the durability of earnings power allowing for the compounding of capital over the business cycle.

Risk is managed through portfolio and stock exposure limits and process discipline.

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 Global Quality Fund
Inception Date	May 2024
Typical no. of Stocks	20-35
Cash Limit	10%
Cash Distributions	Semi Annually
Redemptions	Daily
Constrained Capacity	$10bn
Objective	The Fund aims to outperform the MSCI AC Net World (after fees and before taxes) over the long term. To deliver performance of 8-12% p.a over the long-term.

Investment Team

Sunny Bangia

18+ years' investment experience. Previously Co-Founder and Portfolio Manager of Antipodes Partners, and Co-Portfolio Manager of Antipodes Global funds and lead Portfolio Manager of Antipodes Asia Fund.

Edward Li

8+ years' investment experience. Previously Investment Analyst at Antipodes Partners (Global Strategies). Investment Associate at Colinton Capital Partners and Investment Banking Analyst at Macquarie Capital

Nicholas Tan

13+ years' investment experience. Previously Senior Investment Analyst at Antipodes Partners (Global and Emerging Markets) and at Platinum Asset Management

Fund Performance[1]

Blackwattle Global Quality Fund Performance (net of fees) as of 30 September 2024.

As at 30 September	1 month	3 months	6 months	1 Year	2 Years	3 Years	Inception p.a[2]
Fund (Net)	0.97%	1.33%	-	-	-	-	7.43%
Benchmark[3]	0.07%	2.63%	-	-	-	-	6.44%
Active Return	0.89%	-1.30%	-	-	-	-	0.99%

[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 2 May 2024

[3] MSCI AC Net World (AUD)

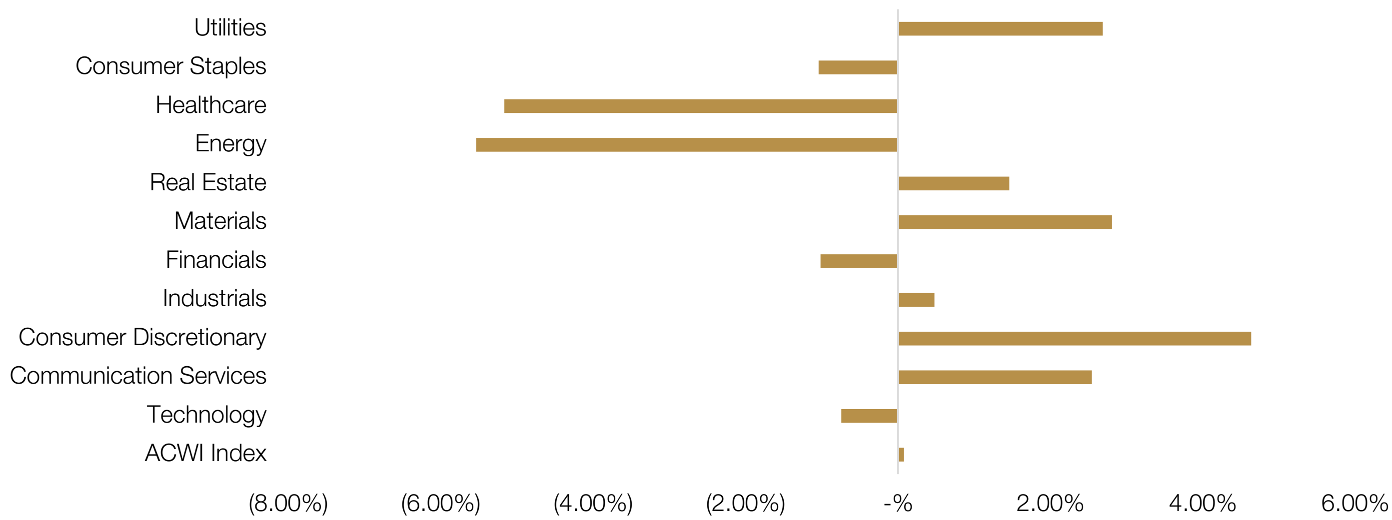
Top 5 Holdings

amazon | MSCI | Microsoft | Meta | ASML

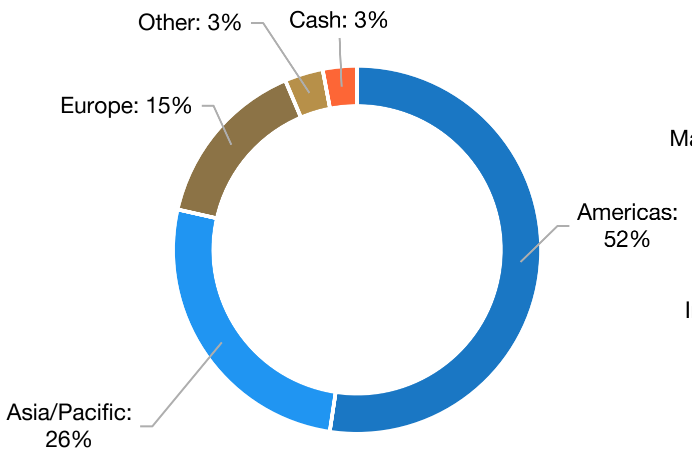
Market Commentary

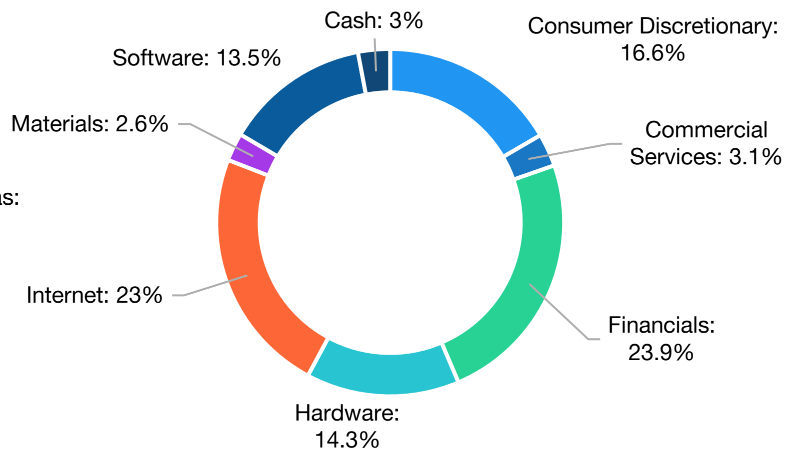
In September 2024, the MSCI AC World Index (AUD) saw an increase +0.08% of primarily driven by the weakness in Energy & Healthcare. While Consumer Discretionary, Materials and Utilities contributed positively. The rotation was influenced by the beginning of global monetary policy easing and fiscal stimulus.

MSCI ACWI 1 Month Returns (AUD) (%)



Geographic Revenue Exposure





Portfolio Commentary

The Blackwattle Global Quality portfolio outperformed the MSCI AC World Index (AUD) by 0.89% during the month.

Key Contributor – Fair Isaac
FICO was the largest positive contributor to performance during the month.

As mortgage rates in the United States decline from near 15-year highs, the market is anticipating a rebound in credit origination volumes over the coming period which boosted sentiment on the company. Following nearly 30 years of flat pricing on the FICO mortgage score, FICO lifted pricing sharply in 2023 and 2024, despite mortgage volumes having fallen sharply. A recovery in the mortgage market presents a nice tailwind, but the driver of long-term profits remains the price of the score. Despite raising pricing at double-digit rates, the cost of a FICO mortgage score is only approximately 20 basis points on the average cost of closing a US mortgage, highlighting the long runway at FICO.

Key Detractor – ASML
ASML has continued to be a key detractor in the portfolio, with several sell-side analysts downgrading the stock this month. Despite this, we remain confident in ASML's strong fundamentals, particularly as we anticipate an inflection point in bookings and revenue with the upcoming 2 nanometre semiconductor buildout. TSMC has indicated that the 2 nanometre buildout will be significant, driven by multiple AI companies moving from the previous generation to now developing on the leading-edge node. This shift will require additional tools from ASML, a factor we believe the market is currently underestimating.

Portfolio Commentary and Outlook

In September, market dynamics shifted as central bank policy easing and fiscal stimulus supported advances across global markets. Asset prices rose, and perceived risk measures declined as markets traded in a "risk-on" environment for much of the month, largely driven by the Federal Reserve's decision to shift focus toward growth following Jackson Hole symposium in the previous month.

U.S equity markets rose to all-time highs as volatility receded and market breadth broadened. Global bond yields fell to anticipate global central bank rate cuts, with equities adjusting based on the anticipated rate cuts' impact on asset pricing. The Federal Reserve's commitment to supporting U.S. growth was supported by a 50-basis point cut.

European equities and the broader economy faced challenges in contrast to the U.S. While U.S. growth remained robust at around 3%, the Eurozone struggled with minimal growth. The ECB's cautious approach, with 25 basis point rate adjustments, contrasted with the Federal Reserve's bolder moves. Poor PMI data underscored Europe's fragility, though some indices, such as Germany's DAX, showed resilience, remaining near all-time highs. Investors are closely monitoring potential ECB policy responses to reinvigorate economic growth.

China's People's Bank of China (PBoC) took significant steps to support its economy. The PBoC cut the 7-day reverse-repo rate by 20 basis points to 1.50% and reduced the reserve requirement ratio (RRR) by 50 basis points, releasing approximately RMB 1 trillion in bank liquidity to boost lending. Not common practise, but the PBoC provided forward guidance, by indicating for potential further cuts in RRR by the year end to cement its commitment to boost bank lending.

Additionally, the PBoC introduced liquidity-supporting tools for the stock market, including a RMB 500 billion swap facility for financial institutions to buy stocks and a RMB 300 billion re-lending facility for stock buybacks by listed companies. Further measures were announced to support the housing market, including unified mortgage lending standards and extended support for developers and social housing projects. These moves aim to stabilize financial markets and revive investor confidence, though long-term growth prospects remain uncertain.

Global markets maintained positive momentum, driven by central bank easing and supportive fiscal measures. Looking ahead, divergent economic conditions between the U.S. and Europe will remain key drivers of market sentiment as investors anticipate further central bank actions, particularly from the ECB.

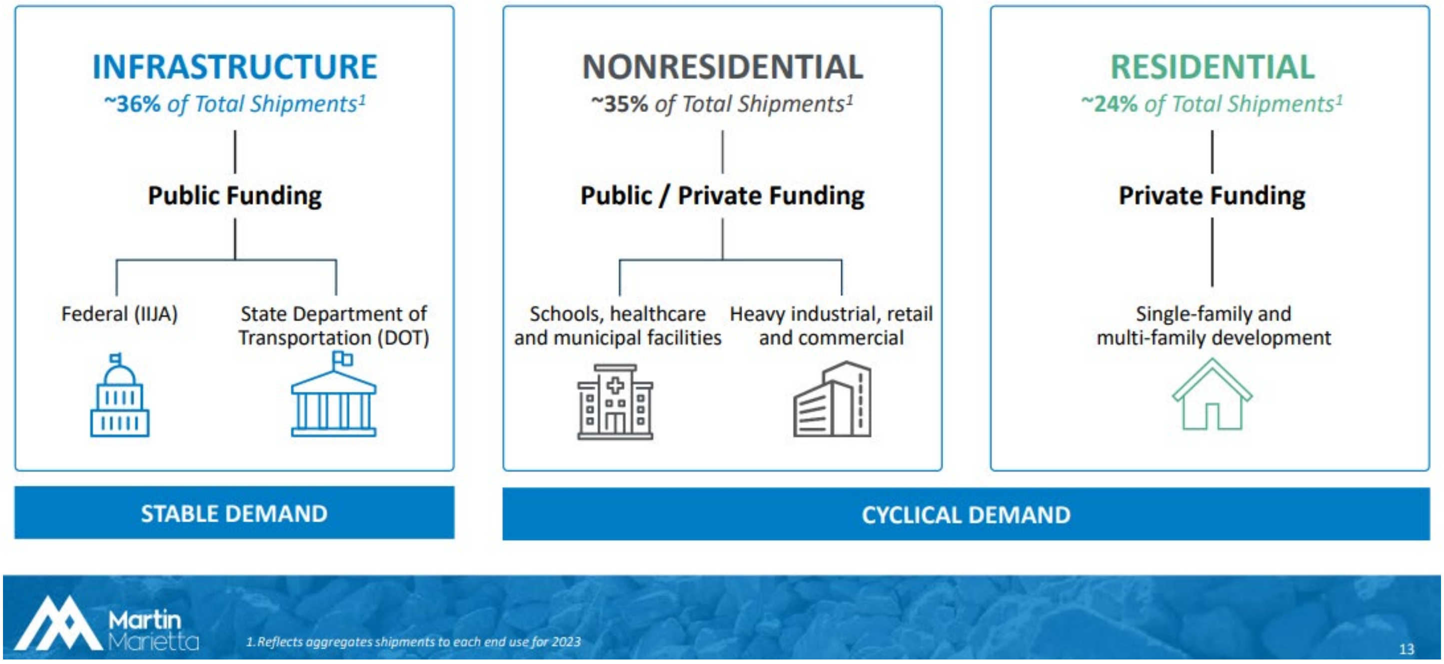
Feature Stock – Martin Marietta and Rock Pits

"*If you're in the jewellery business, you're competing with other jewellers from across town, across the state, and even abroad, since vacationers can buy jewellery anywhere and bring it home. But if you've got the only gravel pit in Brooklyn, you've got a virtual monopoly, plus the added protection of the unpopularity of rock pits*". – Peter Lynch

Rock pits are as simple as they come. The term aggregates refer to crushed rocks used in cement, asphalt, and construction fill. Aggregate suppliers mine and crush rocks, producing a low-cost commodity. Normally, commodity suppliers are low-quality business locked into perpetual price wars with limited differentiation. Yet, aggregates business has proven to have strong pricing power and produced excellent returns for investors over long periods.

Industry Demand Drivers

Demand for aggregates comes from two key sectors: publicly funded infrastructure projects (roads, bridges, water infrastructure) and private construction (residential and non-residential). Non-residential construction often involves a mix of public and private funding.

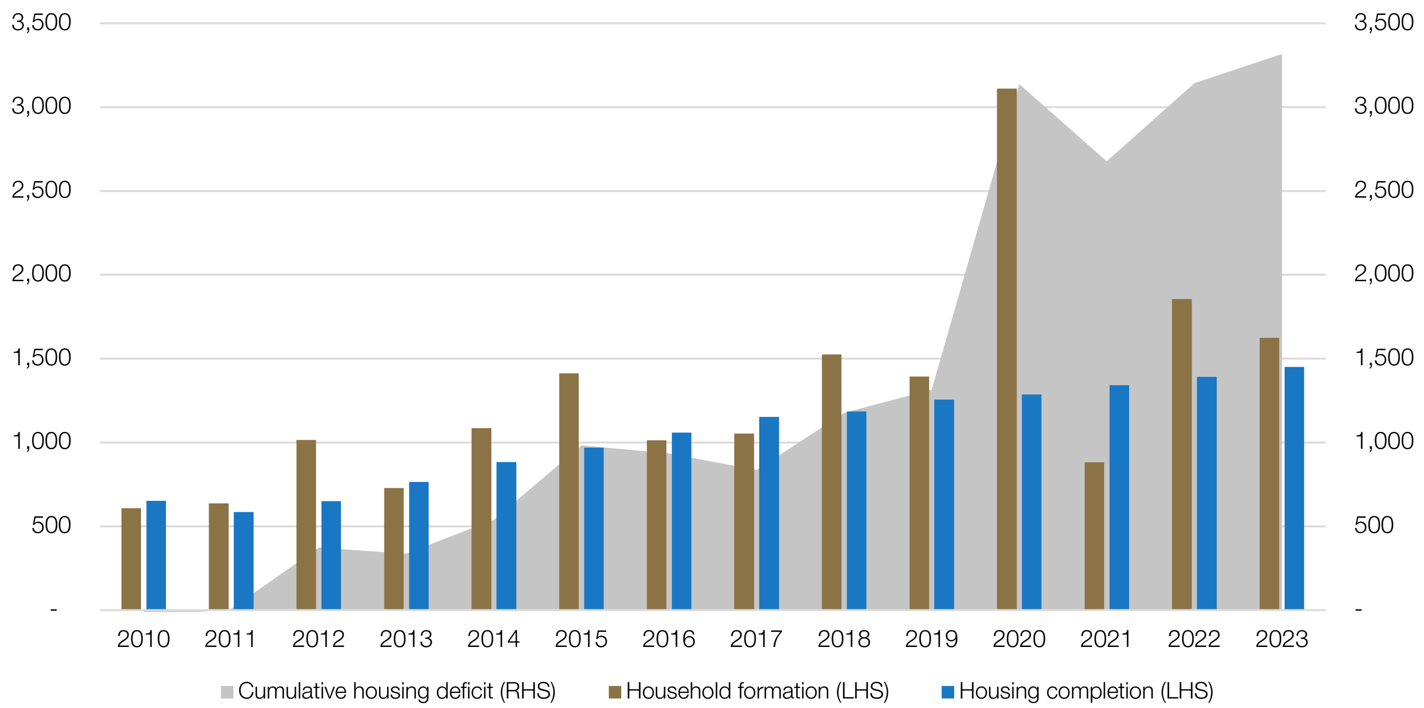


Source: Martin Marietta May 2024 Investor Update

While demand can be cyclical, public projects provide more stability. Most infrastructure demand relates to maintenance of roads and waterways, which tends to be less cyclical. Programs like the Infrastructure Investment and Jobs Act (IIJA), which allocated $1.2 trillion for transportation and infrastructure, are also boosting incremental demand.

Private demand, including housing and commercial facilities, is more sensitive to economic factors such as interest rates. However, policies like the CHIPS Act, Inflation Reduction Act (IRA), and manufacturing-related tax credits are incentivising manufacturing investment in the U.S. Furthermore, recent interest rate cuts and ongoing housing shortages are driving new construction, which will likely increase aggregate demand.

US Housing Cumulative Deficit 2010-23 ('000)



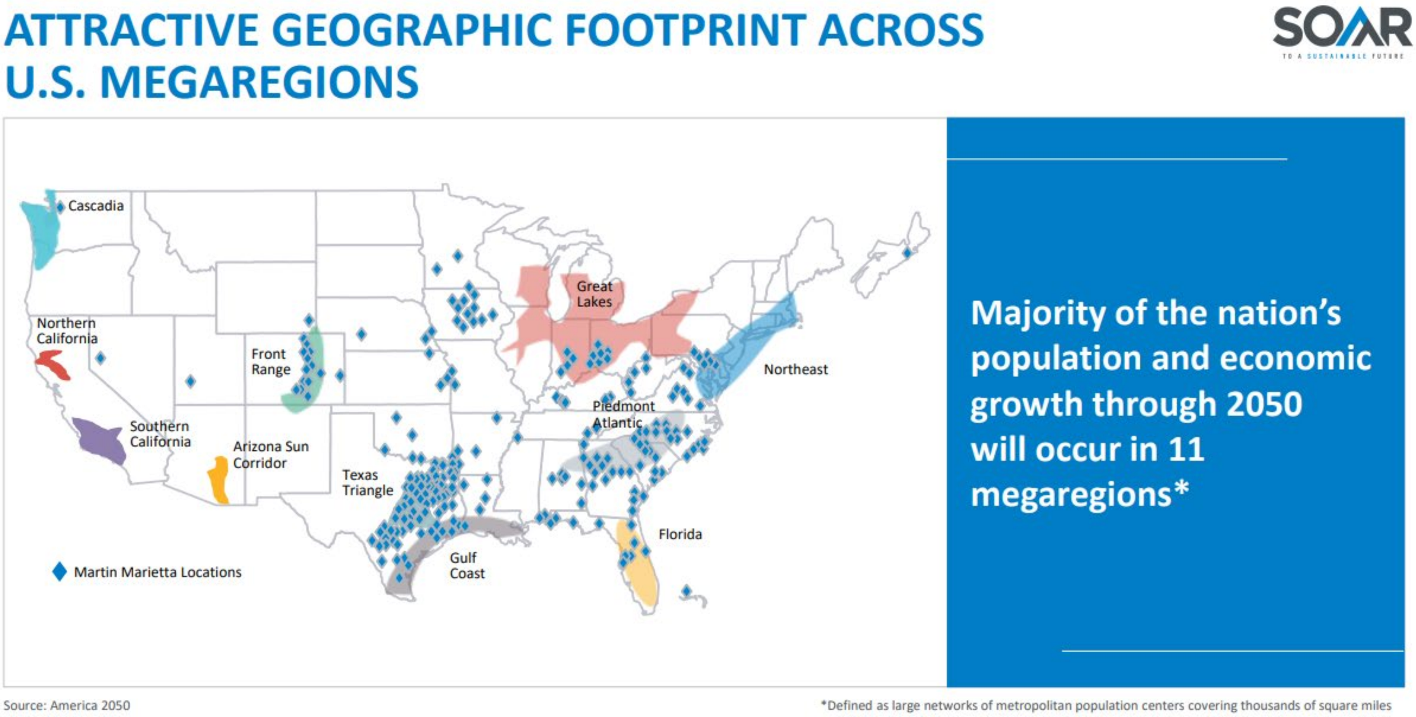
Source: Census Bureau, National Association of REALTORS, Blackwattle Partners Analysis

Martin Marietta Materials

Martin Marietta Materials (MLM) is a leading supplier of aggregates and building materials in the U.S. Its aggregates business enjoys significant competitive advantages from local market dominance, high entry barriers and limited substitutes.

Local market dominance

Rock pits operate like local monopolies. The pricing power arises from the high weight-to-value ratio of crushed rocks, making shipping over long distances prohibitively expensive. It doesn't make sense for a distant quarry to undercut in price as the higher shipping cost will erode most of the margin. Over decades, larger players have consolidated the market to become local monopolies across the United States. Today, MLM is typically the top 2 player in most local markets, particularly in the fastest-growing regions in the southwestern states.



Source: Martin Marietta

High Entry Barriers

The industry also benefits from high barriers to entry. Strict zoning and permitting laws make it difficult to open new quarries, reinforcing MLM's market dominance and pricing power. Additionally, the long approval time and construction timeline required to establish quarries and logistical networks further discourages new entrants. These barriers to entry (and barriers to expansion) create a positive feedback loop, leading to existing reserves becoming more valuable over time. As supply is constrained and demand continues to grow, the existing players enjoy stronger pricing power.

Limited Substitutes

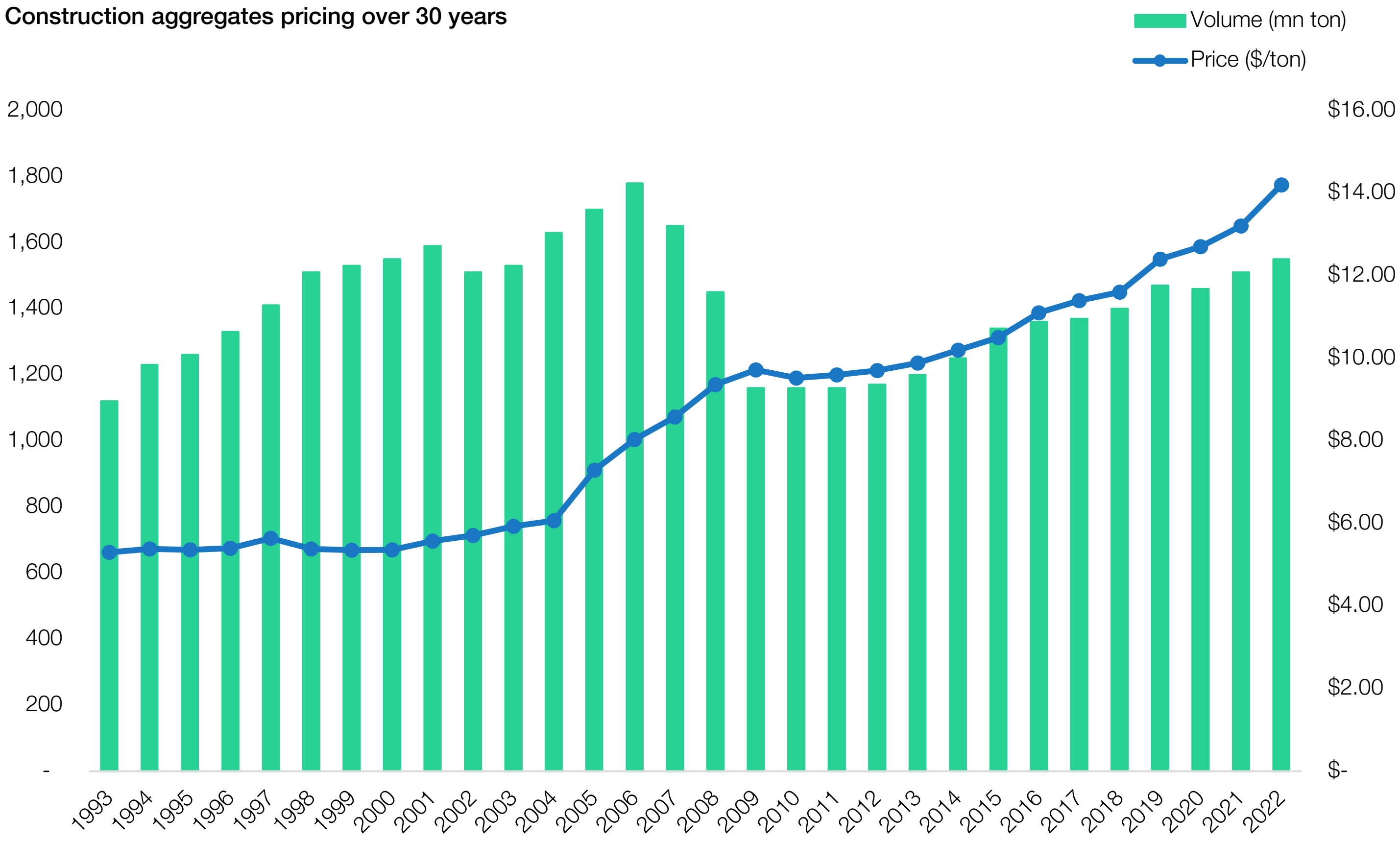
Aggregates have limited substitutes. Recycled material can serve as substitutes for limited applications, but majority of these need further processing to meet performance criteria for durability. Given the low cost of the aggregates at $14-15 per tonne, it only represents a small portion of construction costs, yet they' re essential for nearly every major project. The risk of project delays far outweighs a modest increase in aggregate prices. With no substitutes for aggregates in construction, infrastructure, and road building, these companies maintain strong pricing power throughout economic cycles.

Unit Economics – 30 years of pricing power.

"The single-most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business." – Warren Buffett

Over the last 30 years, aggregate companies have increased pricing at around 3.5% annually. In fact, even though volumes are yet to recover to pre-2007 period, the leading players have seen a step up in pricing power. Aggregate companies have raised prices consistently, and now doing so at a faster pace due to the favourable competitive dynamics. Yet demand still has a lot more to recover over the years ahead.

Construction aggregates pricing over 30 years



Source: U.S. Geological Survey

In 2024, as interest rates reached 15-year highs, the US housing market slowed significantly. The housing slowdown, coupled with project delays due to heavy rainfall in many of MLM's key regions, resulted in a single digit fall in volumes. Typically, a commodity where demand falls 10% would lead to an even larger price decline. However, as shown in the following chart, the aggregate companies, such as MLM, raised prices despite weaker volumes, highlighting their dominant position following years of industry consolidation.

In our view, the volume decline is temporary, while pricing power remains intact. This is because the undersupply of US housing remains a structural demand driver, alongside publicly funded investments in infrastructure and strategic industries. Pricing strength is likely to continue as volumes recover.

MLM Price and Volume trends

Source: Martin Marietta financial disclosures, Blackwattle Partners Analyst

How to Invest

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

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