

# Blackwattle Small Cap Long-Short Quality Fund



September 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.

## Key Information

|                              |  |
|------------------------------|--|
| <b>Fund Name</b>             | Blackwattle Small Cap Long-Short Quality Fund  |
| <b>Inception Date</b>        | November 2023  |
| <b>Typical no. of Stocks</b> | 30-60 Long, 10-30 Short  |
| <b>Cash Limit</b>            | 50% (typically +10% to -10%)   |
| <b>Cash Distributions</b>    | Semi annually  |
| <b>Redemptions</b>           | Daily  |
| <b>Objective</b>             | 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<sup>1</sup>

Blackwattle Small Cap Long-Short Quality Fund Performance (net of fees) as at 30 September 2024

| As at 30 September 2024      | 1 month | 3 months | 6 months | 1 Year | 2 Years | 3 Years | Inception <sup>2</sup> |
|------------------------------|---------|----------|----------|--------|---------|---------|------------------------|
| <b>Fund (Net)</b>            | 9.02%   | 15.79%   | 12.83%   | -      | -       | -       | 23.34%                 |
| <b>Benchmark<sup>3</sup></b> | 5.06%   | 6.53%    | 2.69%    | -      | -       | -       | 11.84%                 |
| <b>Active Return</b>         | 3.96%   | 9.26%    | 10.14%   | -      | -       | -       | 11.50%                 |

<sup>1</sup> 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. <sup>2</sup> The inception date for the Fund is 21 November 2023. <sup>3</sup> 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 rose 5.06% in September, led by Small Resources which rose 7.22%, while Small Industrials rose 4.32%. The month saw some significant events including a 50bp interest rate cut by the US Federal Reserve, and the announcement of significant economic stimulus measures by the Chinese Government. Both events contributed to what was the strongest September quarter for the ASX in several years. Generally, investors have been underweight resources exposure, so the developments in China were significant for many market participants.

## Portfolio Commentary

The Blackwattle Small Cap Long-Short Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 3.96% in September.

**Key Contributors** to performance in August were Nuix (NXL), Regis Healthcare (REG), and Paladin Energy (PDN).

**Nuix** is a provider of specialised software used to investigate and analyse large pools of data. Its share price rose 38% in September following a similar 38% increase in August as the company announced better-than-expected earnings guidance for FY25. As the size of the company increases (now greater than A\$2bn), more investors are becoming aware of the transformation that has taken place under CEO Jonathan Rubinsztein. 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. NXL is arguably the best exposure to the AI thematic on the ASX given its capital-light growth and recurring revenues. Despite the recent share price run we see plenty more upside as the stock still trades at a significant discount to global peers.

**Regis Healthcare** rose 21% in September after the Federal Government announced the new Aged Care Bill 2024, having garnered bipartisan support from the Coalition. While the challenge of providing care for an aging population has been long known, past 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 new Aged Care Bill increases the funding of aged care operators to encourage the buildout of more beds. With funding security now in place, we also anticipate a ramp-up in consolidation activity within the sector in coming years as corporate operators mop up what is a highly fragmented industry. We believe the next decade is likely to be a golden era for aged care operators.

**Paladin** shares rose 18% in September as the uranium price found support after a sustained period of weakness. The commodity price weakness largely reflected a lack of contracted volume for physical uranium as utility buyers held back. However, as was the case in 2023, most of the contracted volume was transacted in the back end of the calendar year after the annual World Nuclear Symposium (September), which brings together the largest buyers and sellers. We anticipate the same trend in 2024 and have used the recent weakness in PDN's share price to increase our position size.

**The Key Detractors** to performance in September were Genesis Minerals (GMD) and short positions in the Consumer Discretionary sector.

**Genesis Minerals** fell 9% during the month despite announcing that the Laverton mill will restart in October, six months earlier than previously flagged in the March 2024 five-year plan. FY25 gold production guidance was increased from 162-188koz to 190-210koz, and the price of gold itself rose 5.2% to US\$2,635/oz. Genesis was one of several gold stocks that underperformed the underlying commodity during the month, but we remain positive on its organic growth profile and high-quality management team, noting Genesis still outperformed over the September quarter, rising 17.4% vs gold +13.2%.

The two other key detractors during September were shorts in the Consumer Discretionary sector, which rose single-digit percent for the month in-line with the market. Neither company had any new news flow and our short thesis remain intact for both.

## Outlook

October is often a volatile month for equities, especially in the lead up to a US Presidential Election. Rising tensions in the Middle East add further spice. Given the strong share price performance of several portfolio companies over recent months, rising global volatility, and share market valuations sitting one standard deviation above long-term averages, we have taken 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 outperform regardless of the rates environment. The fund is also positioned to benefit from an improved outlook for hard commodities with positions across bulk materials, metals and energy.

Dan & Rob

## How to Invest

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

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