

Blackwattle Small Cap Quality Fund

September 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 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)	8.55%	12.83%	10.60%	33.36%	-	-	28.49%
Benchmark³	5.06%	6.53%	1.78%	18.79%	-	-	15.59%
Active Return	3.49%	6.30%	8.82%	14.57%	-	-	12.90%

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. Returns greater than 1 year are annualised' or "calculated on an annualised basis.

³ Small Ordinaries Accumulation Index

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 Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 3.49% in September.

Key Contributors to performance in September 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 potential 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 Detractor to performance in September was Genesis Minerals (GMD).

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%.

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 are likely well positioned to 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/ or call 02 7208 9922.

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