

Blackwattle Small Cap Long-Short Quality Fund



October 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

Fund Name	Blackwattle Small Cap Long-Short Quality Fund
Inception Date	November 2023
Typical no. 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 Performance¹

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

	1 month	3 months	6 months	1 Year	2 Years	3 Years	Inception ²
Fund (Net)	2.51%	15.85%	17.51%		-	-	26.44%
Benchmark³	0.80%	3.77%	5.06%		-	-	12.74%
Active Return	1.71%	12.08%	12.45%		-	-	13.70%

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 rose 0.8% in October, led by Small Resources which rose 6.1%, while Small Industrials fell 1.1%. Strength in Resources was fuelled by gold miners – driven by global interest rate cuts and increasing geo-political tensions. Bulk commodity stocks were weaker, giving back some of the gains achieved following the China stimulus rally in September. Weakness in Industrials was led by the Consumer Discretionary sector – including travel agents and retailers – as post-Covid spending continued to normalise, and strong employment data released mid-month pushed out expectations for the first RBA rate cut from February to May. REITs also underperformed on the changing view on rates.

Portfolio Commentary

The Blackwattle Small Cap Long-Short Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 1.71% in October.

Key Contributors to performance in October were short positions in the Consumer Discretionary sector, and long positions in Vault Minerals (VAU) and Nuix (NXL).

In the **Consumer Discretionary sector**, two short positions delivered strong alpha contributions in the month. The first was a leisure-focused travel company, where we observed that elevated "revenge travel" volumes seen post-Covid were returning to more typical levels, prompting an earnings downgrade. The second was a retailer facing relatively low growth and increasing governance issues, which we felt were not adequately reflected in its valuation. It was pleasing to see a continuation of strong alpha contributions from the short portfolio.

Vault Minerals is a gold producer that was formed in the recent merger of Red 5 (RED) and Silver Lake Resources (SLR) and is a relatively new addition to the portfolio. The combination of RED's new, long-life, King of the Hill operation and SLR's strong balance sheet created a well-capitalised, diversified >400koz p.a. producer with established infrastructure in a Tier 1 jurisdiction (Western Australia). Post a successful merger in June VAU's share price declined ~30% while the gold price rose ~10% providing us the opportunity to build a position while the company was trading at a significant discount to peers on numerous measures including EV/Resource, EV/Reserve, EV/Production, and EV/EBITDA. Vault was one of the best performing gold companies on the ASX in October, rising 22%.

Nuix is a provider of specialised software used to investigate and analyse large pools of data. Its share price rose 18% in October following a 38% increase in September. As the size of the company increases (now greater than A\$2.4bn), 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 is 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.

The Key Detractors from performance in October were OFX Group (OFX), Arcadium Lithium (LTM), and Paladin Energy (PDN).

OFX Group is a global FX and payments platform for SMB's and Consumers. Its share price fell 32% in October following a downgrade to the growth outlook caused by weakness in activity in September. While disappointing, volatility in FX markets is to be expected, especially in the current macro environment, and we used the weakness as an opportunity to increase our position. Importantly, management provided a positive update on the rollout of their new technology platform, which has the potential to transform the business and is our primary reason for being invested. OFX is trading at only ~10x P/E at the start of a transformative technology rollout vs its historical average of 18x.

Arcadium Lithium was a recent entrant to the fund's benchmark (it dropped out of the ASX100), and saw its share price rise 94% in October following a bid from Rio Tinto. While the fund unfortunately did not hold a position in Arcadium, it did hold shares in hard rock lithium developer Latin Resources which received a bid from Pilbara Minerals earlier in the quarter. Our approach to investing in small-cap resource companies is to focus on quality assets which are high grade, low cost, and within a mining-friendly jurisdiction. We are looking for assets that can prosper through the commodity cycle, and which are attractive to potential acquirers, even in cyclical troughs.

Paladin Energy is the fund's primary exposure to the structural tailwinds for nuclear base load power needed to support the world's growing fleet of intermittent renewable generators. The uranium commodity price has seen a strong recovery in recent weeks following a series of announcements from large energy users such as Amazon and Google, that intend to invest in nuclear capacity to power their data centres. While speculators might drive short-term moves in U308 pricing, there is a chronic undersupply of the material needed to support projects that have already been announced. As Paladin is a uranium producer (not developer), it is best placed to capitalise on this near-term shortfall and the high 'incentive pricing' needed to encourage further supply investment. PDN is well placed to leverage its cashflow generation into becoming a consolidator/leader in uranium supply. Shares in the company fell 12% over the month, largely in response to its September quarterly, where production from its Langer Heinrich mine came in lower than expected. This was the first full quarter of production since reopening the mine, so teething issues are not uncommon in this phase.

Outlook

We anticipate heightened volatility in equities in November as markets brace for the outcome of the U.S. Presidential Election, with additional instability driven by ongoing tensions in the Middle East. With strong recent performance in several portfolio holdings, increased global volatility, and market valuations currently one standard deviation above historical averages, we have raised our cash allocation to retain flexibility. Additionally, we rotated some top performers into positions where we see greater value. While our factor and sector exposures are now more constrained than in previous months, our core strategy remains focused on companies with competitive advantages and excellent management teams positioned to excel in any macro environment.

Dan & Rob

How to Invest

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

Contact Details

Investor Services

Apex Fund Services

Ph: 1300 133 451

E: registry@apexgroup.com



Distribution and Sales Team

Matt Dell

Executive Director

0423 793 456

mdell@blackwattlepartners.com

Maggie Mills

Head of Distribution

0498 183 569

mmills@blackwattlepartners.com

Nick O'Hare

Senior Account Director

0423 773 837

nohare@blackwattlepartners.com

Sid Cavallaro

Account Director

0409 405 617

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 Small Cap Long-Short Quality Fund. Equity Trustees Limited (ABN 46 004 031 289, 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. The Fund commenced on 21 November 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.