

# Blackwattle Small Cap 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.

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

<b>Fund Name</b>	Blackwattle Small Cap Quality Fund
<b>Inception Date</b>	September 2023
<b>Typical number of stocks</b>	30-60
<b>Cash limit</b>	20% (typically 0-10%)
<b>Cash Distributions</b>	Semi annually
<b>Redemptions</b>	Daily
<b>Constrained Capacity</b>	\$750m (or up to 25bps of the benchmark)
<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



### 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 Performance<sup>1</sup>

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

	1 month	3 months	6 Months	1 Year	2 Years	3 Years	Inception p.a <sup>2</sup>
<b>Fund (Net)</b>	0.85%	10.27%	15.49%	40.66%	-	-	27.05%
<b>Benchmark<sup>3</sup></b>	0.80%	3.77%	5.84%	26.65%	-	-	15.15%
<b>Active Return</b>	0.05%	6.50%	9.64%	14.01%	-	-	11.90%

<sup>1</sup> 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.

<sup>2</sup> The inception date for the Fund is 12 September 2023. Returns greater than 1 year are annualised' or "calculated on an annualised basis.

<sup>3</sup> Small Ordinaries Accumulation Index

## 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 Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 0.05% in October.

**Key Contributors** to performance in October were Vault Minerals (VAU), Nuix (NXL), and Qualitas (QAL).

**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.

**Qualitas** is a founder-led alternative real estate investment manager focused on private credit and equity across the Commercial Real Estate sector and is the only pureplay in the Australian market. Its share price rose 17% in October as the outlook for residential lending improved with the Victorian government announcing a one-year stamp duty exemption for off-the-plan purchases and 50 higher density "activity centres" around Melbourne's high frequency train lines, in addition to green shoots of apartment pricing escalation which supports project feasibility. Despite the recent share price run, we still see plenty more upside as QAL capitalises on the structural tailwinds of ongoing penetration of private credit and the housing undersupply in Australia.

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

**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.

**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.

**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/](http://www.blackwattlepartners.com/invest/) or call 02 7208 9922.

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