Blackwattle Large Cap Quality Fund

November 2024

Blackwattle Investment Partners

About the Fund

Our investment philosophy is to own businesses with a competitive advantage and good corporate governance, priced below intrinsic value.

The fund aims to outperform the S&P/ASX 200 Accumulation Index (after fees and before taxes) over the long term. Quality companies at low or reasonable valuations underpin overweight positions while poor quality companies with high valuations facing near-term pressures underpin underweight positions. Risk is managed through portfolio diversification, strict exposure limits and process discipline utilising our proprietary valuation and portfolio construction tools.

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 Large Cap Quality
APIR	ETL7350AU
Inception Date	August 2023
Typical no. of Stocks	30-55
Cash Limit	10% (typically +5% to -5%)
Cash Distributions	Semi Annually
Redemptions	Daily
Buy Sell Spread	0.25% upon entry and 0.25% upon exit
Fees	Management 0.72%*
Constrained Capacity	$5.0b (or up to 25bps of the benchmark)
Objective	The Fund aims to outperform the S&P/ASX 200 Total Return Index (after fees and before taxes) over the long term.
Research Ratings	Zenith - Recommended Lonsec - Recommended

Portfolio Managers

Ray David B.Eco, Gdip Fin
20+ years' investment experience. Previously Portfolio Manager Long-Short Schroders, and Director of Emerging Companies UBS.

Joe Koh B.Bus, CFA
25+ years' investment experience. Previously Portfolio Manager Long-Short Schroders, and for Regal across Absolute, Market Neutral and Long-short funds.

Recommended Lonsec Research

Zenith RECOMMENDED

Fund Performance[1]

Blackwattle Large Cap Quality Fund Performance (net of fees) as at 30 November 2024.

	1 month	3 months	6 months	1 Year	2 Years p.a.	3 Years p.a.	Inception p.a2
Fund (Net)	3.64%	4.18%	9.71%	22.59%	-	-	15.15%
Benchmark3	3.79%	5.47%	11.53%	23.42%	-	-	16.26%
Active Return	-0.15%	-1.29%	-1.81%	-0.83%	-	-	-1.11%

[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 8th August 2023. Returns greater than 1 year are annualised' or "calculated on an annualised basis.
[3] S&P/ASX200 Accumulation Index

*Inclusive of Goods and Services Tax (GST) and net of any Reduced Input Tax Credits (RITC).

Top 5 Active Holdings

carsales ALS RioTinto ResMed News Corp

Market Commentary

The S&P/ASX 200 Total Return index +3.8% in November, bringing cumulative returns for the 11 months to date to +15.1%.

Equity markets were buoyed by Trump's US presidential election victory, which also came with the Republican party retaking control of the Senate and maintaining control of the House. Markets cheered a more pro-business attitude from Trump and the Republicans, which is expected to play out through corporate tax cuts and reduced bureaucracy. Oil and gas companies were seen as significant beneficiaries of the latter, with expectations of easier approval processes and lower costs for future fossil fuel developments. Similarly, banks rallied on the prospect of reduced capital requirements and other regulatory restrictions coinciding with a more vibrant economy boosted by tax cuts. US optimism saw a broad strengthening of the US$, which gained about +1% against the A$.

Nevertheless, there were some potential losers from the change in government. The threat of significant US tariffs, particularly on China but also on Mexico and Canada, have both direct, immediate consequences for certain companies and their sourcing arrangements, as well as more indirect, longer-term implications affecting whole industries and economies. Globalisation, while having its challenges and drawbacks, has generally brought with it disinflationary forces as goods were increasingly manufactured in low-cost jurisdictions. The imposition of tariffs, particularly if they escalate into trade wars, threatens to usher in a period of higher prices, jeopardising the prospect of lower interest rates. Trump's promise to reduce government spending is another source of risk for companies reliant on such expenditure. This risk saw the S&P 500 Health Care sector underperform the broader S&P 500 index by 5.6% in November alone.

In Australia, the IT sector was the strongest performer in November, benefitting from various US exposures and broader market confidence that was supportive of growth stocks despite higher valuation multiples. The sector was also propelled by positive, company-specific updates from names such as Technology One and Xero.

The Materials sector, by contrast, was the weakest sector in the month which, along with Energy, was one of only two sectors to record a negative return. China-directed tariffs from the US pose additional headwinds to an already weak Chinese economy and, in turn, impacts the global demand for resources. Producers of 'green' materials such as lithium were also weak on the prospect of a slower green energy transition under Trump.

Portfolio Commentary

The Blackwattle Large Cap Quality Fund returned 3.64% in November, broadly tracking the S&P/ASX 200 benchmark's 3.79% return.

The Materials sector was the largest positive contributor to the Fund's relative monthly performance. This was mostly driven by stock-specific factors, supplemented by the Fund's small underweight exposure to this market-lagging sector. In contrast, exposures in the Healthcare sector detracted from Fund performance, driven by concerns over US government spending cuts (in the case of CSL), as well as strong performance in growth names such as Pro Medicus (PME), which the Fund did not own.

Seven Group (SGH) was the largest contributor to the fund's performance in November. SGH's main businesses include WesTrac, Coates, Energy, and Boral. While Seven Group is often mistaken for a cyclical or unremarkable industrial conglomerate, the company has demonstrated an impressive track record of disciplined capital allocation and operational excellence under the leadership of Ryan Stokes. This is evident in WesTrac's EBIT growth from $205 million in 2011 to $623 million in 2024, and Coates' EBIT increase from $200 million in 2019 to $326 million in 2024. Seven's culture of an "Owner's Mindset" is a key driver of this operational excellence, which empowers executives while holding them accountable for delivering strong performance.

We believe SGH's recent acquisition of 100% of Boral could potentially be its most value-accretive deal to date. Prior to the acquisition, Boral was severely mismanaged—relying on property sales to bolster earnings, exhibiting poor discipline in pricing and execution, and suffering from weak capital allocation. However, since the appointment of CEO Vik Bansal, Boral has shown improvements driven by disciplined pricing, a focus on operational excellence, and efforts to unlock the full value of its extensive land bank.

While the construction market is currently softening, we anticipate that the benefits of these operational improvements will become fully evident as the cycle rebounds.

James Hardie Industries (JHX) was another contributor to Fund performance last month. It reported its 2Q25 results, which showed steady revenues in its Asia Pacific and European operations aided by robust price increases. In North America, the company demonstrated good cost discipline and margin management in a challenging market environment, which saw revenues fall by 5% compared to the prior year. Given the chronic underbuild of new housing in the US, the continuing market share gains that fibre cement makes against vinyl and other cladding substrates, and JHX's dominance in fibre cement products, we remain confident of JHX's longer-term growth prospects, particularly as interest rates normalise. With an average adjusted return on capital employed of 45% in the last 5 years, such growth should translate to significant shareholder value creation over time.

Commonwealth Bank (CBA) was the largest detractor, given the Fund's underweight position. The stock continues to re-rate in the absence of new material developments, and trades at a forward Price / Earnings ratio of about 26x, making it one of the most expensive banks in the world. With a market cap of around $263bn, CBA's valuation is 12% greater than NAB ($120bn) and Westpac ($114bn) combined, while having a 39% smaller loan book and generating 30% less profits. Its historical advantage of a large branch network originating mortgages and handling deposits is being eroded by the move towards mortgage brokers (who now write more than 70% of home loans) and the ongoing migration towards digital banking.

IGO (IGO) also detracted from Fund performance in November, with lithium prices remaining weak and risks around medium-term demand under a Trump administration. Nevertheless, the company's low-cost, long-life resources in Greenbushes should see this company weather the near-term weakness; with an estimated life-of-mine spodumene production cost of <$500/t, Greenbushes is still profitable at currently depressed prices of below $800/t. Meanwhile, higher-cost producers are shutting down or cancelling expansion plans in this environment.

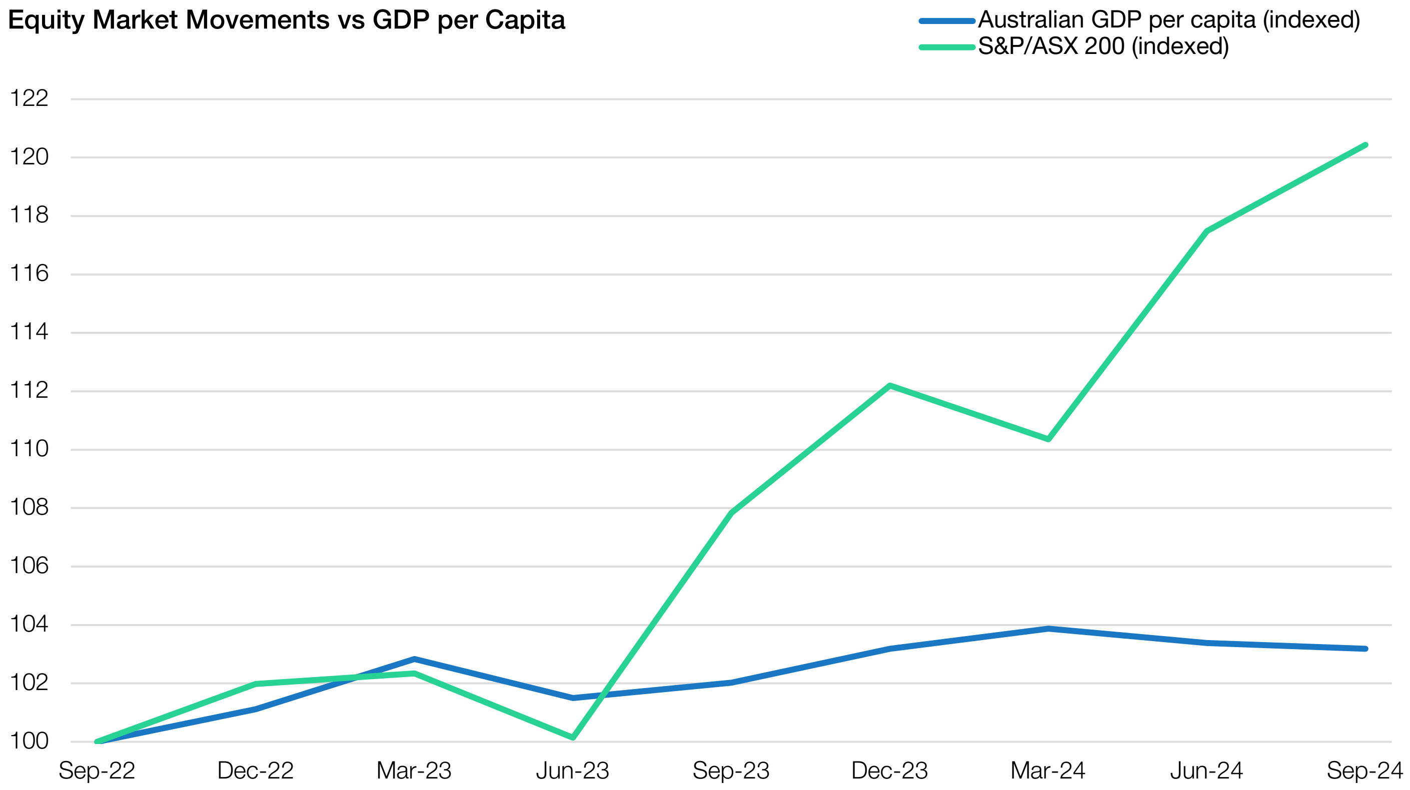
Outlook

The continued strength in the equity market has seen the valuations of some stocks become stretched. Risks around geopolitical tensions remain, and the Chinese economy – a major destination for Australia's resource exports – requires ongoing government stimulus. At the same time, prospects have improved for some Australian stocks with exposure to the US, which stands to benefit from lower tax rates, a more buoyant consumer and a stronger currency.

As always, the better-managed companies with healthier balance sheets are likely to navigate these uncertainties (and opportunities) better than most. A diversified portfolio of such companies will soften the impact of heightened market volatility that may accompany a new US government and subsequent policy actions.

Chart of the Month

While Australian GDP per capita has been essentially flat over the last 2 years (with a decline in the last 6 months despite a boost from government spending), the S&P/ASX 200 benchmark has increased 20% (or 30%, including dividends).



Source: Australian Bureau of Statistics; Refinitiv; Blackwattle Investment Partners

As always, we are invested alongside our clients.

Ray David

Joseph Koh

David Meehan

How to Invest

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

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