

Blackwattle Mid Cap Quality Fund

November 2024



About the Fund

The Blackwattle Mid Cap Quality fund is a concentrated yet diversified portfolio of some of the highest and most improving quality companies on the ASX. We believe that high quality companies have the potential to consistently outperform over the medium term, as their competitive advantages may allow for compounding shareholder returns through market cycles.

The fund is concentrated on the team's best ideas, driven by fundamental research to establish differentiated views on the outlook of company quality, valuation and earnings. The fund is targeting long-term ownership of high-quality companies to generate a consistent outperformance profile, compounding shareholder returns through market cycles.

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 Mid Cap Quality Fund
APIR	ETL1479AU
Inception Date	8 August 2023
Typical no. of Stocks	20-35
Cash Limit	10%
Cash Distributions	Semi Annually
Redemptions	Daily
Buy sell spread	0.25% Upon entry and 0.25% upon exit
Fees	Management 0.92%* Performance 15.38%*
Constrained Capacity	\$2.0b (or up to 25bps of the benchmark)
Platforms	HUB24 IDPS & Super, Netwealth IDPS, BT Panorama IDPS & Super
Ratings	Lonsec - Recommended Zenith - Approved
Objective	The Fund aims to outperform the S&P/ASX300 Accumulation Index - S&P/ASX20 Accumulation Index (after fees and before taxes) over the long term.

Portfolio Managers



Tim Riordan CFA, FRM

15+ years' investment experience. 5 years Head of Direct Equities at Aware Super an Lead PM of the Aware Super Mid Cap Ind Fund. Was Co-Head of Research and Por Manager at Altair Asset Management.



Michael Teran CFA

14+ years' investment experience. Associ PM of the Aware Super Mid Cap Industria Fund. Also Long-Short Equities Analyst at Point72 Asset Management in Hong Kong Equities Analyst at Colonial First State Glo Asset Management (now First Sentier Investors).



Fund Performance¹

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

	1 month	3 months	6 months	1 Year	2 Years	3 Years	Inception p.a ²
Fund (Net)	4.88%	8.75%	14.82%	34.28%	-	-	21.59%
Benchmark ³	4.26%	6.89%	11.12%	23.83%	-	-	13.45%
Active Return	0.62%	1.86%	3.70%	10.44%	-	-	8.14%

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.

²The inception date for the Fund is 8th August 2023, returns greater than 1 year are annualised' or "calculated on an annualised basis.

³S&P/ASX300 Accumulation Index - S&P/ASX20 Accumulation Index

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

Select Top Holdings



Market Commentary

The ASX300 ex-20 rallied 4.26% in November. Global financial markets bounced back strongly in November from a weak October, with US markets again leading the pack. The S&P500 rallied 5.7%, the best monthly performance of 2024. The comprehensive US election victory for Trump and the Republican party unleashed strong animal spirits for expectations of growth focused policies. The higher the risk spectrum, the stronger the November performance, with risk proxies such as Russell 2000 Small Caps (+11%) and Bitcoin (+38%) the strongest outperformers. Other global equity markets were less bullish given potential Trump tariff policies, while bond markets were flat but volatile as markets digest inflationary policies offset by focus on improving the US budget deficit. The US Federal Reserve continued its rate cutting cycle with a 0.25% cut in November, and while a further December 0.25% rate cut is expected, expectations of further cuts in 2025 have become more muted given stronger economic data. The Chinese equity market was again the weakest globally, down over 4%. There were no further large nor definitive fiscal announcements in November, again disappointing the market.

On the ASX, Technology stocks were the clear outperformers, driven by strong results in November and the bullish tilt of global markets. On the other side, Materials continue to see an unwind of their strong, Chinese-stimulus driven September performance to be the weakest sector in November.

Portfolio Commentary

The Blackwattle Mid Cap Quality portfolio outperformed the ASX300 ex-20 benchmark by 0.62% during the month.

Key Contributor – Xero Limited (XRO AU)

XRO was the largest positive contributor to performance during the month. XRO rallied 16% in November on the back of a strong 1H25 result. XRO is a market-leading, global accounting SaaS platform. XRO's 1H25 result continued to showcase the benefits of the cultural change brought in by CEO Sukhinder Singh-Cassidy in early 2023, balancing top-line growth with profitability. XRO delivered 25% revenue growth, an EBITDA margin of 31% and free cash flow growth of over 95%, again beating market expectations. The market's expectations continue to be conservative with consensus expecting revenue growth to fade significantly over the next few years, even though revenue growth has reaccelerated on increasing pricing power, momentum in payments and continued subscriber growth.

We continue to see strong upside for XRO, as they continue their journey to being the market-leading, global accounting software for SMEs, while delivering strong financial metrics. We view XRO as one of the highest quality companies on the ASX with a significant long-term, compounding growth profile.

Key Detractor – Newmont Corporation (NEM AU)

NEM was the largest negative contributor to performance, falling 8% in November after a weaker outlook at their 3Q24 result. NEM is the largest, lowest-cost and most diversified gold miner globally. NEM disappointingly reduced their 2025 outlook on the back of softer production and increased investment for the legacy Newcrest portfolio. However, NEM continues to progress with asset sales, delivering US\$3.9b compared to initial guidance of US\$2b, increasing the on-market buyback by US\$2b and progressing their significant organic growth capex phase. This should allow NEM to deliver a higher quality, lower cost, diversified asset base in 2026-2027.

We continue to see material upside for NEM as an 'enduring high-quality' business and view NEM as the highest quality gold miner globally. We expect NEM to execute on numerous multiyear internal levers to maintain and improve the business quality including organic production expansion, operating cost reductions, portfolio high grading through asset sales, material debt reduction & further capital returns.

Outlook

The portfolio outperformed a strong market in November, with the portfolio's high-quality, growth exposures offsetting underperformance from the high-quality but more defensive and value orientated stocks. This is the key balance we have constructed in the portfolio: a focus on the highest quality stocks across industries to build a bottom-up, high-quality, diversified portfolio which can perform through most phases of the market cycle.

A continuing theme of recent commentary is that this remains a highly uncertain economic environment, a 2nd Trump presidency, US fiscal and debt issues, stubborn global inflation, continued China and EU economic weakness and geopolitical risk in the Middle East. However, equity markets are at all-time highs, appearing to be pricing strong economic growth together with more rate cuts in 2025. While bond markets have shown more volatility flipping between hard-landing, soft landing and fiscal vigilance in the space of a few months. The market also continues to wait impatiently for further Chinese fiscal stimulus, especially post Trump's election with talk of increased tariffs. This mixed environment tends to be rewarding for high quality companies as earnings certainty becomes a rarer commodity. We believe our portfolio companies are well placed into this dynamic.

There was one portfolio change in November, with a new position in a quality consumer technology business. We have previously owned the stock but had exited some time ago on weak risk/reward outlook. Following a long period of underperformance the stock now has a materially more attractive risk/reward skew. This portfolio change is driven by our continuous tandem goals of improving the overall Quality Score of the portfolio whilst maintaining a highly attractive portfolio level risk/reward skew.

Thank you for investing alongside us, Mike & Tim.

How to Invest

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

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