

Blackwattle Small Cap Quality Fund

November 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
APIR	ETL0788AU
Inception Date	12 September 2023
Typical number of stocks	30-60
Cash limit	20% (typically 0-10%)
Cash Distributions	Semi annually
Redemptions	Daily
Buy Sell Spread	0.25% upon entry and 0.25% upon exit
Fees	Management 1.13%* Performance 20.5%*
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 November 2024

	1 month	3 months	6 Months	1 Year	2 Years	3 Years	Inception p.a ²
Fund (Net)	-0.64%	8.77%	12.56%	30.74%	-	-	24.37%
Benchmark³	1.32%	7.29%	7.28%	19.88%	-	-	15.29%
Active Return	-1.96%	1.47%	5.27%	10.87%	-	-	9.07%

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

Top 5 Holdings



Market Commentary

The ASX Small Ordinaries Accumulation index rose 1.32% in November led by Small Industrials which rose 3.92%, while Small Resources fell 5.38%. Within Industrials there were solid gains for Healthcare, Financials and IT, as cyclical and longer duration equities were buoyed by the decisive election of Donald Trump and a retreat in bond yields. Resources were almost universally weak as investors considered the impact that Trump's victory and trade tariffs would have on China, the world's largest buyer of raw materials. Gold (USD/oz) also had its worst month since September 2023, falling 3.7% on a stronger US dollar and expectations that geopolitical tensions will ease during Trump's term.

Portfolio Commentary

The Blackwattle Small Cap Quality Fund underperformed the ASX Small Ordinaries Accumulation index by 1.96% in November.

Key Contributors to performance in November were WEB Travel Group (WEB), Pinnacle Investment Management (PNI), and Resolute Mining (RSG).

WEB Travel Group is the new WebBeds hotel distribution pure-play created post demerger of the company's online travel agency assets (including the Webjet website) in September. The demerger took place so management (and the market) could focus solely on the significant opportunities available to the hotel business. The fund initiated a position in the company post a downgrade to the near-term earnings outlook in October. The share price was down 50% from its July highs where the stock had rallied post a March strategy day where highly regarded CEO John Gusic outlined his long-term plans for the business including growth in Total Transaction Value (TTV) from \$4bn this year to \$10bn in 2030. The softness in near-term trading outlined in October gave cause for the market to question the viability of management's long-term targets. However, at the company's recent interim result announcement in November Gusic reaffirmed his commitment to the long-term targets. While time will tell if these are achievable, with stock trading at 17x FY26 EPS, investors almost have a free option. Gusic's stellar track record suggests he deserves a better probability than that.

Pinnacle Investment Management rose 16.4% in November continuing its strong performance for the year. The stock has only had one negative month in the last 12 months (-2.6% in April), benefitting from strong global equity and credit markets and an expansion of its multi-affiliate strategy into Europe and the US. During the month, Pinnacle undertook a \$400m cap raise (+\$25m SPP) to acquire two new affiliate stakes, seed affiliate strategies and provide 'dry powder' to support further acquisitions in the future. While the stock now appears expensive on forward looking P/E measures, the growth opportunity has never been better and the prize for replicating their domestic success offshore is substantial.

Resolute Mining fell 47.0% in November after key executives including the CEO were detained by Mali authorities on matters including a tax dispute and potential renegotiation of the company's mining contract. The fund does not hold shares in Resolute, nor any other West African miners.

The Key Detractors from performance in November were Paladin Energy (PDN), GQG (GQG), and Nuix (NXL).

Paladin Energy is the fund's primary exposure to the nuclear demand thematic and the need for base load power to support the world's growing fleet of intermittent renewable generators. The uranium commodity price has seen a strong recovery in recent months following a series of announcements from large energy users such as Meta, 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. Despite strong structural tailwinds, shares in the company fell 25% over the month, largely in response to the downgrade of FY25 production guidance from its Langer Heinrich mine. This followed a soft September quarterly announcement in October where the early ramp-up teething issues were initially discussed. The share price reaction in November was strange as the company had only 15 days earlier reported the September quarterly where most market participants had already concluded that guidance was unachievable. With the stock now trading at a material discount to its peer group, substantial share price upside is possible if the company works through its ramp-up teething issues successfully.

GQG fell 15.8% in November following news that the US attorney's Office and the US SEC were bringing charges of bribery against Guatam Adani and other executives of Adani companies in which GQG is invested. We estimate that the negative impact to GQG's Funds Under Management (FUM) from the decline in value of Adani shares is only ~1%, but the news follows a period of weak relative performance for GQG and, together, these events appear to be impacting fund flows. GQG trades on ~9x P/E and pays a 10% dividend yield.

Nuix is a provider of specialised software used to investigate and analyse large pools of data. The stock has been the top contributor to performance for the fund in 2024, however its share price declined 17% in November after the company suggested its forecast revenue growth for FY25 would be skewed to the second half of the year given some contracting delays. In early December the company announced the renewal of a sales contract with ASIC which will see revenue drop into the second half. The securing of this customer reminds investors 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.

Outlook

Post the Republican victory in the US election the market has reacted strongly, with valuations for some stocks now appearing stretched. Interestingly, we have noted a significant increase in sell-downs by founders and long-term 'strategic holders' in early December (PME, ZIP, HSN, 360, AIA), seemingly happy with the valuations on offer. We have also been taking profits in some investments where individual stock valuations have reached our target prices.

However, while valuations are high, they can get higher, and we are reticent to make too many changes to overall portfolio settings while the market continues to adjust to the Trump pro-growth outlook. We remain fully invested and have largely balanced positioning at a factor level. 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.

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