

Blackwattle Mid Cap Quality Fund

December 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
Application/Redemption	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, Expand
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 as Head of Direct Equities at Aware Super and Lead PM of the Aware Super Mid Cap Industrial Fund. Was Co-Head of Research and Portfolio Manager at Altair Asset Management.



Michael Teran CFA

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

Ratings



Fund Performance¹

Blackwattle Mid Cap Quality Fund Performance (net of fees) as at 31 December 2024.

	1 month	3 months	6 months	1 Year	2 Years	3 Years	Inception p.a ²
Fund (Net)	-4.17%	1.41%	9.21%	18.88%	-	-	16.57%
Benchmark ³	-3.87%	-1.25%	7.73%	11.68%	-	-	9.47%
Active Return	-0.31%	2.66%	1.48%	7.20%	-	-	7.10%

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 fell 4.17% in December. Global financial markets reversed November's gains, with the S&P500 dropping 2.3%. Whilst the Federal Reserve cut US interest rates by another 25bps in December, completing a full percentage point cut from the peak, the Federal Reserve signaled fewer cuts in their forecast, with only 2 more rate cuts forecast for 2025. This has been a large change from previous forecasts of up to 5 rate cuts in 2025 and signals an end in sight to this easing cycle. In addition, financial markets continued to digest potential inflationary Trump policies and widening US budget deficit. Bond markets responded rapidly, with the US 10-year bond yield lifting from 4.2% to 4.6% in December. The increase in bond yields and lower expectations of rate cuts in 2025 pressured global equities, reversing November's post-election euphoria. Of note, the Chinese equity market flipped from one of the weakest over the last quarter to be the strongest globally, up 2.7%.

On the ASX, outright defensive sectors including infrastructure, staples and utilities were the only absolute positive performers. On the downside, REITs performed worst, and then technology sectors, both pressured by higher bond yields. Materials also continued to see strong selling pressure with gold the weakest subcomponent.

Portfolio Commentary

The Blackwattle Mid Cap Quality portfolio underperformed the ASX300 ex-20 benchmark by 0.31% during the month.

Key Contributor – Beach Energy (BPT AU)

BPT was the largest positive contributor to performance during the month. BPT rallied 13% in December on the back of positive feedback from a site visit together with stronger oil prices during the month. BPT is an Australian focused oil and gas player with assets on both east and west coasts. BPT site visit took investors (which we attended), to the much-anticipated Waitsia gas field and plant in WA. BPT and their operating partner Mitusi have struggled to deliver this project, however after multiple delays and cost overruns the project has reached mechanical completion. After significant disappointment and underperformance in the last 6 months, the stock had a modest relief rally from this update.

We still see upside for BPT as an 'improving quality' cyclical business, as they continue their journey to being the leading mid-sized oil and gas business in Australia. BPT is close to the end of its multi-year, capital intensive growth journey to develop high value gas assets such as the Waitsia field. This should allow BPT to generate improved financial metrics and strong cashflow and creates material capital management optionality. We view BPT as strategically well placed to participate in continued consolidation of the Australian gas sector under the guidance of strong leadership.

Key Detractor – Seek Limited (SEK AU)

SEK was the largest negative contributor to performance, falling 14% in December as technology stocks came under pressure during the month. SEK is the largest online employment classifieds business in Australia. At the AGM in late November, SEK reiterated revenue guidance for FY25 and slightly reduced their cost guidance range. SEK has been a significant underperformer in 2024 compared to technology peers on the back of cyclical volume headwinds (reversing COVID gains) and disappointing cost control.

We see 2025 as a potential turning point for SEK. The November AGM update is the first in a few years that has not resulted in an earnings downgrade, and this increases our conviction that SEK management have finally shifted to improved cost control and shareholder return focus. Over the next couple of years, SEK has the potential to improve earnings with strong pricing power, cost control and listing volume growth (cycling 2 years of negative 15-20% listing volume CAGR). SEK also has the ability to improve the capital structure with a potential partial monetization of the SEEK Growth Fund in 2026. We see strong upside for SEK as an 'improving quality' business with significant earnings and capital optionality combined with a materially cheaper valuation multiple to peers.

Outlook

The portfolio modestly underperformed a weak market in December, with weakness in the portfolio's high-quality, growth exposures offsetting outperformance 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. In the absence of stock specific news flow the portfolio should tend to track the market and with no results in December, this was another example of this eventuality.

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. Bond markets have been volatile and appear to be warning of inflationary risk and/or fiscal vigilance in 2025. Equity markets at all-time highs are more sanguine, looking towards a 'Goldilocks scenario' of strong economic growth together with more rate cuts in 2025. 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 were no major portfolio changes during the month. Changes are generally 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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