Blackwattle Long-Short 130/30 Quality Fund

Blackwattle Investment Partners

January 2025

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 short 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 Long-Short Quality Fund
APIR	ETL3029AU
Inception Date	8 August 2023
Typical no. of Stocks	30-55 Long, 15-25 Short
Cash Limit	30% (typically +10% to -10%)
Cash Distributions	Semi Annually
Redemptions	Daily
Buy Sell Spread	0.25% upon entry and 0.25% upon exit
Fees	Management 0.92% | Performance 17.94%
Constrained Capacity	$5.0b (or up to 25bps of the benchmark)
Platforms	BT, Netwealth, HUB24, Macquarie, Expand
Objective	The Fund aims to outperform the S&P/ASX 200 Total Return Index (after fees and before taxes) over the long term.

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.

Ratings

Recommended Lonsec Research

Zenith RECOMMENDED

Fund Performance[1]

Blackwattle Australian Long-Short 130 30 Quality Fund Performance (net of fees) as at 31 January 2025

	1 month	3 months	6 months	1 Year	2 Years	3 Years	Inception p.a[2]
Fund (Net)	4.73%	3.69%	4.23%	14.64%	-	-	14.51%
Benchmark[3]	4.57%	5.11%	7.32%	15.17%	-	-	15.26%
Active Return	0.15%	-1.42%	-3.09%	-0.53%	-	-	-0.75%

[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 8 August 2023, Returns greater than 1 year are annualised' or "calculated on an annualised basis. [3] S&P/ASX 200 Accumulation Index. *Inclusive of Goods and Services Tax (GST) and net of any Reduced Input Tax Credits (RITC).

Track Record of Investment Strategy

Historical performance of the investment strategy applicable to the fund[4] (net of fees) as at 31 January 2025

	1 month	3 months	6 months	1 Year	2 Years	3 Years	Inception p.a[2]
Fund (Net)	4.73%	3.69%	4.23%	14.64%	11.96%	12.16%	14.61%
Benchmark[3]	4.57%	5.11%	7.32%	15.17%	11.05%	11.44%	11.98%
Active Return	0.15%	-1.42%	-3.09%	-0.53%	0.90%	0.72%	2.63%

[4] The Blackwattle Australian Long-Short 130/30 Quality Fund (Fund) has been operating since 8 August 2023. The Fund employs the same Long Short strategy, investment philosophy and investment universe that was used by Ray David and Joseph Koh who managed the Schroder Australian Equity Long Short Fund. To give a longer-term view of our performance using this investment strategy, we have shown longer returns for the Schroder Australian Equity Long Short Fund. Schroder Investment Management Australia Limited, ABN 22 000 443 274 was the responsible entity of the Schroder Australian Equity Long Short Fund and was managed by the investment team whilst they were part of the investment team at Schroder Investment Management Australia Limited. Returns shown for the period from 27 August 2020 to 31 March 2023 reflect the returns of the Schroder Australian Equity Long Short Fund calculated based on exit price with distributions reinvested, after ongoing fees and expenses but excluding taxation (historical performance). This historical performance has been provided for information purposes and has been adjusted to reflect the ongoing fees applicable to the Fund. Past performance is not a reliable indicator of future performance.

Top 5 Active Holdings

ALS
CAR Group
News Corp
ResMed
RioTinto

Market Commentary

After a weak December, the S&P/ASX 200 Total Return index added 4.57% over January.

Much of the strength may be attributed to a good inflation print in the month; the trimmed mean rose 0.5% quarter-on-quarter for December, lower than both consensus and RBA expectations (at 0.6% and 0.7% respectively). This has paved the way for potential cuts in official cash rates by the RBA starting as early as February, which would support both equity valuations and general economic activity. We note, however, that producer price inflation was more stubborn, particularly in the services sector where inflation was +4% yoy, up from 3.9% in 3Q24. This reflects the continuing, tight labour market, with unemployment averaging 4.0% in the December quarter (lower than RBA expectations of 4.3%).

Credit growth in Australia has also remained robust, even without the help of interest rate cuts; at 6.5% in December 2024, it is not far from the pace in 2014 when APRA introduced macro-prudential rules to slow bank lending growth.

Against this backdrop of strong credit growth and the prospect of lower interest rates, the Consumer Discretionary sector within the ASX 200 was the strongest performer in January, returning 7.1% - followed by Property up 4.7%. The Utilities sector was the worst performing sector, down 2.4%, though this was more stock-specific, driven by a weak production report from Origin Energy. Consumer staples was the next weakest sector, up 0.7%

Internationally, the inauguration of Trump has focused investor attention on US policy risk (and opportunity). US tariffs have been particularly topical and have proven to be somewhat of a moving target. So far, the main implications for Australia have largely been either indirect (via impacts on China, Australia's largest trading partner) or specific to companies with operations in the US. While trade barriers and de-globalisation are inflationary, it remains to be seen whether targeted countries like Canada, Mexico and China are willing and able to placate, or successfully negotiate with, Trump to avoid threatened tariffs.

The other surprise development in late January was the unveiling of DeepSeek, China's low-cost (more efficient) AI answer to Chat GPT and other AI models. The DeepSeek development team claims to have used 2,000 Nvidia H800 GPUs and spent $5.6m to train its V3 foundational model, compared to estimates of 25,000 of Nvidia's more advanced H100 GPUs and more than $100m for OpenAI's chatbot GPT-4. The potential for GenAI training to have orders of magnitude lower computing requirements saw Nvidia's stock price down 17% and the NASDAQ down 3%; locally, data centre exposures were impacted, with NextDC down 7%, Infratil down 4% and Goodman Group down 8% immediately following the news. While questions remain about the veracity of DeepSeek's claims, the large stock price moves are a reminder of high expectations priced into many technology stocks, in our view, and the resulting vulnerability to any bad news.

With equity markets in Australia, the US and other countries at PE multiples significantly higher than their 10-year averages (despite higher bond rates), the risk of stock price declines driven by earnings multiple contraction is elevated going into the February reporting season.

Portfolio Commentary

The Blackwattle Long Short Quality Fund returned 4.73% in January, slightly outpacing the S&P/ASX 200 benchmark's 4.57% return.

With Consumer Staples being one of the worst-performing sectors in the ASX 200, the fund's underweight exposure saw this sector generate the most alpha for the fund. In contrast, stock-specific developments in the Fund's Industrials exposure – including a long position in Infratil – led to that sector being the largest detractor of performance. Short positions once again contributed positively to Fund performance, as certain Consumer Discretionary stocks that ran up on little news in December reversed their gains in January, partly driven by a poor trading update in one of the names.

Carsales (CAR) – the leading online vehicle marketplace in Australia, the US and other countries – was the largest contributor to the fund's performance in January. Much of this is arguably a reversal of December's poor performance that, in the absence of meaningful news, appears to have been driven by technical factors around index changes. An update from the company in the month reiterated expectations of 'good growth' in revenue and profits, with steady margins, as well as the sale and exit of its Australian tyre business, which has historically struggled to achieve consistent profitability (and is not material to the group).

The company continues to extend its dominant positions in Australia, the US, South Korea and Brazil, where its market shares are multiples the size of the next closest competitor. Ongoing re-investment and innovation is driving greater take-up of premium depth products and online penetration, cementing and increasing CAR's competitive advantage – in many ways reminiscent of Realestate.com.au's success in the property market.

Newmont (NEM) was another material contributor to fund performance in January. Continued geopolitical uncertainties and the risk of higher inflation from tariffs and trade wars have propelled the gold price to new highs, up 7% in the month. Newmont is arguably the highest quality gold producer in the ASX, with lower production costs and longer mine lives than peers. A recent re-basing of production expectations late last year saw some share price weakness, but an elevated gold price and a weaker A$ are significant tailwinds for the company's cash flows and profitability, which will offset the lower-than-expected near-term volumes.

Infratil (IFT), down 11% over January, was a significant detractor to fund performance, driven by the sector-wide sell-off of AI-related technology stocks following the Deep Seek revelations. We note that IFT's exposure to data centres (via a 48% stake in CDC) only represents about one-third of the company's valuation, and the implications of Deep Seek on IFT's portfolio of existing and future data centres are far from certain – not least because lower cost, more efficient AI models are likely to accelerate their take-up, potentially mitigating volume headwinds.

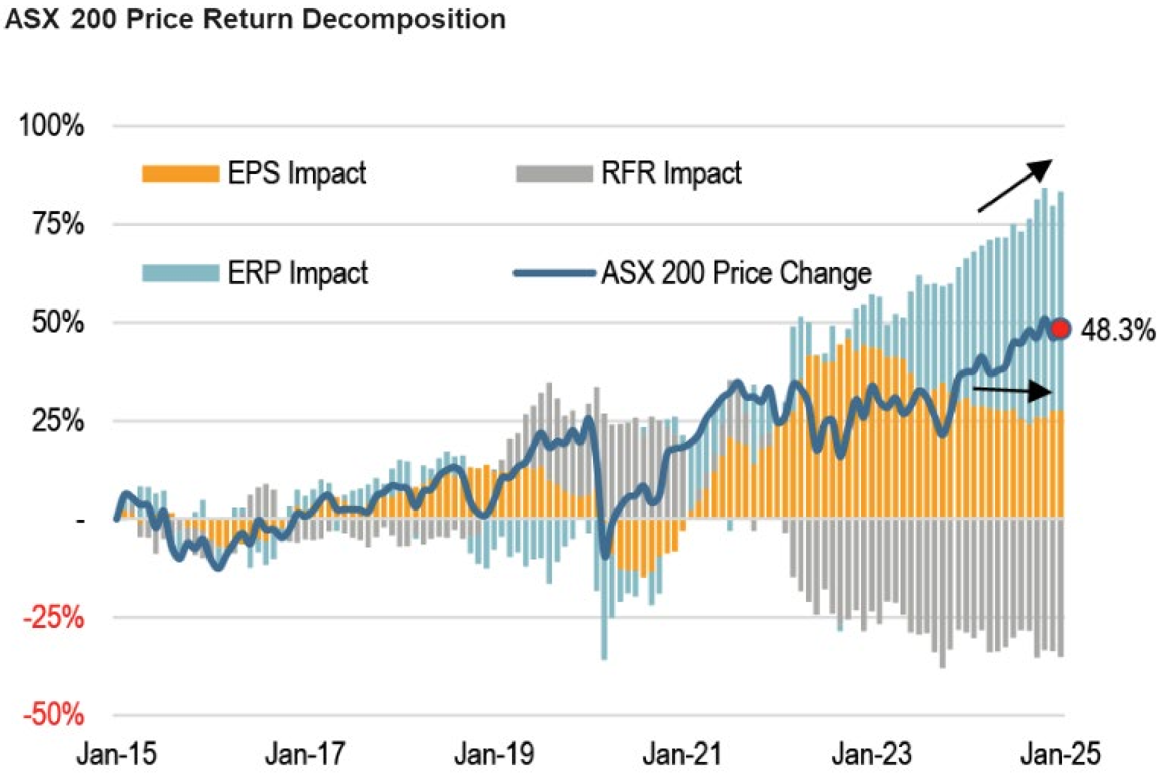
Orora (ORA) was another detractor to performance in January, down 4% over the month due to concerns around US tariffs and particularly their potential impact on tequila sales volumes from Mexico (for which ORA provide the bottles via the acquired Saverglass business). Across the company, about 10% of group volumes could be affected by US tariffs on Mexico, so even a 20% impact on these volumes would only represent about a 2% volume headwind. While risks remain around the broadening of US tariffs to include EU countries (which would be more meaningful to ORA), such risks are not one-way, as evidenced by a 30-day stay on Mexican product tariffs following concessions by Mexico on border enforcement.

Outlook

Higher equity market valuations, unpredictable US policy manoeuvring, and the upcoming reporting season in February are likely to drive greater volatility in the near term. For investors with a longer-term perspective, we expect such volatility to throw up good investment opportunities in higher quality companies. In the meantime, the fund's diversified portfolio should help soften the potential turbulence from current market uncertainty.

Chart of the Month

Equity market strength in 2024 and into January 2025 has not been driven by earnings per share (EPS) growth, but by expanding PE multiples – even as government bond rates (the 'risk-free rate', RFR) have risen. This implies a very significant fall in Equity Risk Premium – the additional returns offered by equities to compensate for their higher risk relative to government debt.



Source: J.P. Morgan, Bloomberg

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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