

Blackwattle Mid Cap Quality Fund

January 2025



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, Netwealth, BT Panorama, Expand, Praemium
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 January 2024.

	1 month	3 months	6 months	1 Year	2 Years	3 Years	Inception p.a ²
Fund (Net)	5.32%	5.85%	11.22%	23.19%	-	-	19.65%
Benchmark ³	5.23%	5.47%	9.17%	17.00%	-	-	12.70%
Active Return	0.09%	0.37%	2.05%	6.20%	-	-	6.95%

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



Newmont

ORORA



Market Commentary

The ASX300 ex-20 rallied 5.23% in January. It has been an extremely volatile few months for global financial markets since the November US election of Donald Trump, with the S&P500 rising 2.7% in January, after falling 2.5% in December and rallying 5.7% in November. January was a relatively quiet month, with the market waiting for more detail on potential Trump policies. Global economic data was relatively robust, with strong employment data in the US and Australia. US and Australian inflation data was also more controlled, keeping a lid on global bond yields which finished relatively unchanged for the month of January. The Chinese equity market continues to trade as a polar opposite to most global equity markets, falling 4.1% after rallying 2.7% in December. Market patience is wearing thin waiting for further Chinese stimulus and US tariff saber-rattling over January added more pressure on the struggling Chinese economic outlook.

In the ASX, economically sensitive sectors including Consumer Discretionary and Financials outperformed on firming expectations of the RBA cutting interest rates in February for the first time since mid-2020. On the downside, last month's defensive outperforming sectors of Infrastructure, Consumer Staples and Utilities all underperformed significantly as the market rotated into more cyclically sensitive sectors.

Portfolio Commentary

The Blackwattle Mid Cap Quality portfolio outperformed the ASX300 ex-20 benchmark by 0.09% during the month.

Key Contributor – Arcadium Lithium (LTM AU)

LTM was the largest positive contributor to performance during the month. LTM rallied 12% in January on the back of regulatory and shareholder approvals for the proposed US\$6.7b acquisition by Rio Tinto (RIO). LTM is a vertically integrated global lithium chemicals producer, formed from the merger of the previously ASX listed Allkem and US listed Livent. LTM was trading well below RIO's US\$5.85 offer on concerns of regulatory approvals in late 2024, but with all regulatory approvals almost completed (with the US CFIUS approval the largest hurdle to be cleared), LTM is now trading at a narrow discount to RIO's offer.

While we are still disappointed with the valuation negotiated by the LTM board for this unique and strategic asset base, with almost all approvals completed, LTM will almost certainly be acquired by RIO in the next couple of months. With bid value now almost fully reflected in LTM trading prices, we are now recycling our position into new ideas, with February reporting season an opportune time to take advantage of any result driven volatility.

Key Detractor – Infratil (IFT AU)

IFT was the largest negative contributor to performance during the month. IFT fell 11% in January impacted by sentiment, with potential changes to US renewables policies under President Trump compounded by AI model developments causing concern for data centre demand. IFT is a NZ based, listed infrastructure investment vehicle with a primary NZ listing, and a secondary listing on the ASX. The company has a portfolio that focuses on quality growth investments in digital, renewables (Longroad Energy), healthcare and airports, with key exposure being Canberra Data Centres (CDC).

We believe IFT is the best exposure to the AI thematic on the ASX. IFT owns 48.2% of CDC, the pre-eminent Data Centre operator in ANZ, providing highly secure data storage for both Australia and New Zealand governments. We remain constructive on the AI driven demand profile for data centres following initial concerns from the new DeekSeek AI model, with several major industry participants confirming continued significant investment in AI capacity. President Trump's policy shift away from renewables front is focused on wind projects while Longroad is exposed to solar and batteries. We continue to see strong upside for IFT given the current trading discount to Net Asset Value with near-term valuation re-rate catalysts, combined with IFT's outstanding long-term track record of shareholder value creation.

Outlook

The portfolio performed essentially in line with a solid market in January. January was the opposite of December, with strength in the portfolio's high-quality, growth exposures offset by weakness in 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 January, this was another example of this outcome as expected.

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 form of trade wars. This

mixed environment tends to be rewarding for high quality companies as earnings certainty becomes a rarer commodity. The additional challenge with equity markets at highs will be surpassing investor expectations this February which we anticipate are highly elevated. We believe our portfolio companies are well placed into these dynamics.

January saw one addition to the portfolio together with several positioning shifts ahead of February reporting. The new stock into the portfolio is an emerging communications business. With the founder at the helm, we are attracted to the business model which has grown market share, offering a simple, low-cost service off the back of a conservative capital investment plan coupled with a highly constrained operating cost profile. Ongoing efficiency savings are reinvested into low prices for customers from which the business has continued to win yet more market share. We are attracted to the opportunity for this circular scaling process to continue and broaden across both segments and markets. Changes to the portfolio continue to be 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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