

Blackwattle Small Cap Long-Short Quality Fund



January 2025

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.

The fund offers high-conviction long exposure to the best quality Small Cap companies, and short exposure to low quality companies, enabling investors to generate returns from a wider range of market opportunities.

We prioritise 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 Long-Short Quality Fund
APIR	ETL5025AU
Inception Date	November 2023
Typical no. of Stocks	30-60 Long, 10-30 Short
Platforms	Netwealth, HUB24
Cash Limit	50% (typically +10% to -10%)
Cash Distributions	Semi-annually
Redemptions	Daily
Buy Sell Spread	0.30% upon entry and 0.30% upon exit
Fees	Management 1.60% Performance 20.5%
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



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.



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.

Fund Performance¹

Blackwattle Small Cap Long-Short 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)	2.36%	-3.96%	11.27%	17.18%	-	-	17.61%
Benchmark³	4.59%	2.70%	6.57%	10.33%	-	-	13.02%
Active Return	-2.23%	-6.66%	4.70%	6.85%	-	-	4.59%

¹ Returns are calculated after fees have been deducted and assume distributions have been reinvested, Returns are normalised for the removal of unallotted applications, following the transition of Investment Manager of the Fund.. 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 21 November 2023. ³ S&P/ASX Small Ordinaries Accumulation Index. There was a six-month transition period beginning 21 November 2023 and ending 21 May 2024, following the transition of Investment Manager of the Fund. During this transition period, the Fund Benchmark was 50% cash rate as determined by the Reserve Bank of Australia and 50% S&P/ASX Small Ordinaries Accumulation Index. Returns are normalised for the removal of unallotted applications, following the transition of Investment Manager of the Fund. *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 4.59% in January, driven by an 8.29% gain in Small Resources, while Small Industrials advanced 3.27%.

Resource stocks were led by gold miners, benefiting from record-high gold prices amid concerns over Trump's political agenda and potential trade wars. Uranium stocks also surged following Kazatomprom's announcement that it would miss its 2024 production guidance, tipping the market into deficit (Kazatomprom is the world's top uranium producer).

Industrial gains were broad-based, with Healthcare, Real Estate, and Consumer Discretionary leading as weaker inflation data increased expectations of an RBA rate cut in February (with market pricing reflecting a 93% probability, followed by another cut in May). Meanwhile, Technology underperformed for the second consecutive month after strong gains in 2024.

Portfolio Commentary

The Blackwattle Small Cap Long-Short Quality Fund underperformed the ASX Small Ordinaries Accumulation index by 2.23% in January.

Key Contributors to performance in January were Paladin Energy (PDN), Genesis Minerals (GMD), and Vault Minerals (VAU).

Paladin Energy is the fund's key exposure to the nuclear demand thematic and the need for baseload power to support the growing fleet of intermittent renewable generators. As a uranium producer (not a developer), Paladin is well-positioned to benefit from the near-term supply shortfall and the high incentive pricing required to stimulate further uranium production. In January, PDN shares rose 10% following the release of its December quarterly update, which highlighted progress in resolving previously disclosed ramp-up issues at the Langer Heinrich mine. While such challenges are common during ramp-up phases, PDN shares experienced a significant sell-off in late 2024. With the company expected to reach full production over the next six months, we see potential for material share price outperformance.

Genesis Minerals rose 29.2% in January on continued strength in the gold price and following delivery of the December quarterly, which beat consensus expectations on all fronts – including record gold production, lower costs and higher cash generation. The Laverton mill was re-started during the quarter and is already running ahead of its 3.0Mtpa nameplate. The company appears on track to achieve the top end of its already upgraded FY25 guidance.

Vault Minerals rose 18.2% in January on continued strength in the gold price and following delivery of the December quarterly, which displayed solid production of 97koz and strong cash flow generation. Vault was formed in the merger of Red 5 (RED) and Silver Lake Resources (SLR) in June 2024. The combination of RED's new, long-life, King of the Hill (KOTH) operation and SLR's strong balance sheet created a well-capitalised, diversified ~400koz p.a. producer with established infrastructure in a Tier 1 jurisdiction (Western Australia). The new combined balance sheet is paving the way for exploration drilling, and a fully funded 20% expansion to the KOTH plant. Despite the rally, the company still trades at a significant discount to peers on multiple measures including EV/Resource, EV/Reserve, EV/Production, and EV/EBITDA.

Key Detractors from performance in January were Nuix (NXL), Zip Co (ZIP) and a short in the healthcare sector.

Nuix is an Australian technology company that provides specialized software for investigating and analysing large data sets. It was the fund's top performer in 2024, though its share price has declined from its highs in recent months (-29.0% in January) after the company indicated that FY25 revenue growth would be lower than initially expected. The delay stems from an extended sales cycle as Nuix launches an AI-enhanced version of its software at a significant price premium. In our experience, such conversion delays are common in software sales, as vendors need time to demonstrate the value of new features. With NXL's share price having retraced significantly, we have increased the size of our position seeing compelling value as the company nears commercialization of this higher-margin product. Given its capital-light growth and recurring revenue model, NXL remains one of the strongest AI exposures on the ASX.

Zip Co fell 17.6% in January as the company's December quarterly update disappointed the market. We remain attracted to the huge opportunity in the US, where the company reported 39% TTV growth, rising active customer numbers and net bad debts below expectations at only 1.5%. At a group level the business generated \$35m in Cash EBTDA for the quarter (+50% on pcp). Market disappointment appeared to focus on a rise in opex, and a decline in revenue margin. But the company reaffirmed their existing opex growth guidance for the year, and December quarter margins are always seasonally lower due to high holiday season TTV, with the revenue (i.e. customer repayments) not being booked until the following half. The strong growth outlook for Zip has not changed and the company now trades on only 25x FY26e P/E (with >40% EPS growth). We have used the weakness to add to our position.

The fund holds a short position in an eyecare pharmaceutical company nearing the readout of two long-running clinical trials. This position was a detractor to the fund in January. Our short thesis is based on flaws in the trial design, given significant market changes that have taken place since their inception four years ago. Additionally, the drug provides only modest patient benefits while carrying a high potential cost to the healthcare system, which may limit funding approval. The recent share price increase following an investor roadshow is, in our view, likely positioning for a capital raise, as the company's cash reserves are expected to be exhausted within six months.

Outlook

As noted in previous newsletters, leadership within the Small Cap index has been driven by a concentrated group of high-quality growth companies and the gold sector. This has widened the valuation gap between the most expensive and cheapest stocks, setting the stage for a pivotal reporting season, with many widely held names now 'priced for perfection.'

January pre-reports have already shown how the market penalises highly valued companies that miss expectations. While we maintain exposure to select high-quality, high-growth names, we have been actively recycling profits into new opportunities—both to safeguard prior gains and position the fund for its next phase.

Given heightened market volatility, our factor settings remain largely neutral. However, our core strategy continues to prioritize companies with strong competitive advantages and exceptional management teams, well-positioned to perform across different macro environments.

Dan & Rob

How to Invest

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

Contact Details

Investor Services

Apex Fund Services
Ph: 1300 133 451
E: registry@apexgroup.com



Distribution and Sales Team

Matt Dell

Executive Director
0423 793 456
mdell@blackwattlepartners.com

Maggie Mills

Head of Distribution
0498 183 569
mmills@blackwattlepartners.com

Nick O'Hare

Senior Account Director
0423 773 837
nohare@blackwattlepartners.com

Sid Cavallaro

Senior Account Director
0409 405 617
scavallaro@blackwattlepartners.com

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