

# Blackwattle Small Cap Quality Fund

January 2025



**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 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

<b>Fund Name</b>	Blackwattle Small Cap Quality Fund
<b>APIR</b>	ETL0788AU
<b>Inception Date</b>	12 September 2023
<b>Typical number of stocks</b>	30-60
<b>Cash limit</b>	20% (typically 0-10%)
<b>Cash Distributions</b>	Semi-annually
<b>Redemptions</b>	Daily
<b>Buy Sell Spread</b>	0.25% upon entry and 0.25% upon exit
<b>Fees</b>	Management 1.13%   Performance 20.5%
<b>Constrained Capacity</b>	\$750m (or up to 25bps of the benchmark)
<b>Platform</b>	Netwealth, HUB24
<b>Objective</b>	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 Performance<sup>1</sup>

Blackwattle Small Cap 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 <sup>2</sup>
<b>Fund (Net)</b>	3.55%	-0.10%	10.15%	21.01%	-	-	21.57%
<b>Benchmark<sup>3</sup></b>	4.59%	2.70%	6.57%	12.32%	-	-	14.42%
<b>Active Return</b>	-1.03%	-2.81%	3.58%	8.68%	-	-	7.15%

<sup>1</sup> 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. <sup>2</sup> The inception date for the Fund is 12 September 2023. Returns greater than 1 year are annualised' or "calculated on an annualised basis. <sup>3</sup> Small Ordinaries Accumulation Index. \* Inclusive of Goods and Services Tax (GST) and net of any Reduced Input Tax Credits (RITC).

## Top 5 Holdings



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 Quality Fund underperformed the ASX Small Ordinaries Accumulation index by 1.03% 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) and Zip Co (ZIP).

**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 EBITDA 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.

## 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/](http://www.blackwattlepartners.com/invest/) or call 02 7208 9922.

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