

# Blackwattle Large Cap Quality Fund

March 2025



**Blackwattle**  
Investment Partners

## 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 underweight 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 Large Cap Quality
APIR	ETL7350AU
Inception Date	August 2023
Typical no. of Stocks	30-55
Cash Limit	10% (typically +5% to -5%)
Cash Distributions	Semi Annually
Redemptions	Daily
Buy Sell Spread	0.25% upon entry and 0.25% upon exit
Fees	Management 0.72%
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.
Research Ratings	Zenith - Recommended Lonsec - Recommended

## Portfolio Managers



**Ray David** B.Eco, Gdip Fin  
20+ years' investment experience. Previously Portfolio Manager Long-Short Schrodgers, and Director of Emerging Companies UBS.



**Joe Koh** B.Bus, CFA  
25+ years' investment experience. Previously Portfolio Manager Long-Short Schrodgers, and for Regal across Absolute, Market Neutral and Long-short funds.

## Ratings



## Fund Performance<sup>1</sup>

Blackwattle Large Cap Quality Fund Performance (net of fees) as at 31 March 2025.

	1 month	3 months	6 months	1 Year	2 Years p.a.	3 Years p.a.	Inception p.a. <sup>2</sup>
Fund (Net)	-4.11%	-3.13%	-5.40%	0.13%	-	-	7.21%
Benchmark <sup>3</sup>	-3.39%	-2.80%	-3.57%	2.84%	-	-	8.74%
Active Return	-0.72%	-0.33%	-1.82%	-2.71%	-	-	-1.53%

<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 8<sup>th</sup> August 2023. Returns greater than 1 year are annualised' or "calculated on an annualised basis.

<sup>3</sup> S&P/ASX200 Accumulation Index \*Inclusive of Goods and Services Tax (GST) and net of any Reduced Input Tax Credits (RITC).

## Top 5 Active Holdings



News Corp



RioTinto



## Market Commentary

The S&P/ASX 200 Total Return Index declined by 3.4% in March, following on from a weak February reporting period.

Ongoing uncertainty around US tariff policies weighed on market sentiment in the US and abroad – which, in hindsight, looks justified. Tariffs are a double-edged sword: they reduce trade volumes and income for exporting countries whose products become more expensive to the end consumer. However, they also raise domestic prices in the country imposing them, crimping real household disposable incomes. At a broader level, less trade is a headwind for global economic growth and productivity all around, which is being reflected in financial market valuations.

In Australia, hawkish comments from the RBA following the February cash rate cut cooled expectations of a tailwind from lower interest rates, at least in the near term. Among economic data released in the month, employment statistics in Australia surprised on the downside. While the unemployment rate held steady at 4.1%, this reflected a lower participation rate; employment levels fell by almost 53k jobs on a seasonally adjusted basis, or about -0.4%, compared to expectations of growth at +30k jobs. While these monthly statistics are subject to noise, the magnitude and direction of the surprise indicated some unexpected economic weakness.

A pre-election federal budget saw government generosity on display, with across-the-board income tax cuts flagged on top of already announced cost-of-living relief. In response, the Coalition offered a 12-month subsidy on fuel should they be elected. Australia's public debt to GDP (at around 40%) is still materially lower than similar developed economies (many at 100% or more), which affords some flexibility on government spending and fiscal deficits, which both sides of government appear eager to utilise. However, it should be noted that higher household debt in Australia, relative to peers, limits the country's excess debt capacity – as always, it is hard to be precise. But just as Australian bank capital levels need to be 'unquestionably strong', some caution on large and increasing fiscal deficits is warranted, and the call for fiscal discipline is slowly getting louder.

In a weak equity market, the IT sector – which skews towards higher PE stocks – was once again the worst-performing sector, falling almost 10% in March and down 17.5% since the start of 2025. Pessimism around economic growth led to the Consumer Discretionary sector being the next weakest sector, down 6.3%. On the other end of the spectrum, more defensive sectors such as Utilities (the best-performing sector, up 1.5%) and Consumer Staples (down 1.5%) outperformed the broader market, along with Materials (down 0.3%).

## Portfolio Commentary

The Blackwattle Large Cap Quality Fund underperformed the S&P/ASX 200 Total Return benchmark by 0.72% during the month.

Much of the underperformance came from stock-specific rather than sector-driven developments.

Light & Wonder (LNW), a significant positive contributor to fund performance in February, reversed, falling 21% in March. An expanded lawsuit from Aristocrat saw LNW offer to replace Jewel of the Dragon gaming machines and cancel another game in the development pipeline, which had yet to be released. While disappointing, we note that the number of units in question is far smaller than the number of Dragon Train units that were withdrawn from the market last year in response to an injunction related to the Aristocrat lawsuit. LNW withdrew 2,200 Dragon Train units last year in the US, of which 95% were converted to alternative leased games. Through it all, LNW managed to grow its North American installed base of leased machines by 9% over the year, to over 34k. Jewel of the Dragon only represents about 150 units.

In addition to this issue, the risk of a US recession (partly driven by tariffs) has weighed on US consumer discretionary stocks in general, including LNW. However, the longer-term prospects remain sound, and the stock's PE is around 35% lower than Aristocrat, which has similar US consumer exposure.

James Hardie (JHX), down 24%, was another material detractor to performance in March. The stock's decline was, unfortunately, somewhat self-inflicted. The company bid for AZEK, a composite (synthetic) decking, railing and exteriors provider. Composite material has steadily taken market share from wood in the outdoor living market over the years, driven by composite's longer-lasting and lower maintenance characteristics. At 24% market share, the substrate arguably still has a significant growth runway ahead, and AZEK is one of two leading companies (the other being Trex). Investor hesitation over JHX's acquisition is not around the quality of AZEK, but rather around:

- The price paid: at time of deal, around 36x PE for AZEK (compared to JHX at 18x), representing a 31.5% premium to the last traded AZEK price before the bid (and a 26% premium to the 30 day average).
- The questionable synergies: of a total estimated \$350m of synergies, almost two-thirds are revenue synergies, which generally have a poor track record of realisation.
- The size of the acquisition: at US\$8.75bn at time of deal, the acquisition represented about two-thirds of JHX's market cap. And despite the size of JHX scrip issuance, there is no shareholder vote to be held on the transaction.
- Other concerns: including leveraging up the JHX balance sheet at a time when US housing is weak and a potential move to Delaware in the US (where corporate governance requirements are more lax)

(Many of the deal metrics are moving with the JHX share price, as half of the consideration is in JHX scrip, with the rest in cash).

While we share many of the market's concerns over the deal, it should be noted that the JHX market cap fell by approximately US\$2.25bn by the end of March (and a little further since then), and the consideration to about US\$7.4bn given the lower JHX share price. The mark-down by the

market is roughly the premium offered by JHX at time of deal, implying little confidence in synergy targets and matching the market-set price of AZEK before the deal.

Newmont (NEM) was one of the largest positive contributors to fund performance, with the gold price continuing to strengthen amid financial market uncertainty and central bank purchases. The company benefits from much longer average mine life than many of its gold company peers, and at lower production costs, marking it as a higher quality company within the sector.

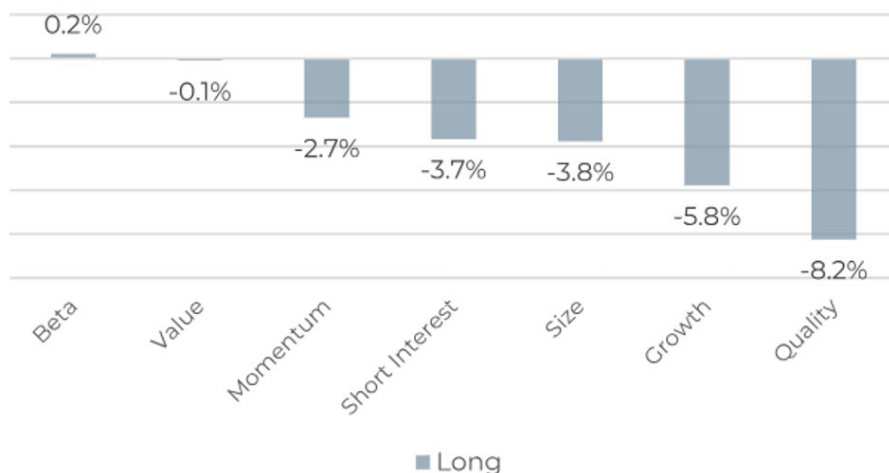
Goodman Group (GMG), where the fund is underweight, also positively contributed to performance as the long-term growth of data centres is being reassessed by investors, and high PE multiples are questioned. More efficient AI models and greater corporate scrutiny of IT spending in a weaker economy pose the risk of a lower growth rate than previously assumed for developers such as Goodman and potentially lower profit margins as the value chain contracts. Demand for GMG's core industrial property offerings is also subject to the economic cycle, which is now facing the headwinds of US tariff policy.

### Outlook

Equity markets are likely to see continued volatility. Companies exposed to tariffs will clearly face significant headwinds, but there are other significant flow-on effects on various sectors, including economically sensitive, cyclical stocks (such as retailers and travel-related businesses), financial market-facing companies (such as asset managers, investment banks and wealth platforms), and interest-rate sensitive stocks (some of which may be hurt by falling interest rates, such as long-tail insurers, with others benefitting, such as bond-like infrastructure owners). Downside risks are likely to be amplified in companies with high debt levels, which compound near-term cash flow pressures resulting from trade wars and a more cautious consumer. However, with Quality being the worst-returning factor in March (see Chart of the Month below from Barrenjoey), attractively priced investment opportunities in great companies are being thrown up amid the current turmoil, which should provide good long-term returns for the astute (and disciplined) investor.

### Chart of the Month

March 2025 Long Style Performance

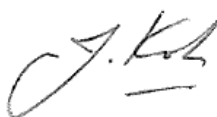


Source: Barrenjoey Research, Bloomberg, FactSet

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

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