Blackwattle Global Quality Fund

Blackwattle Investment Partners

March 2025

About the Fund

The Blackwattle Global Quality Fund is a high conviction long only fund that aims to provide exposure to the highest quality companies in the world, trading at attractive valuations. The fund adopts an 'All-weather Quality' approach for investing.

Our approach recognises a company's persistent competitive edge and the durability of earnings power allowing for the compounding of capital over the business cycle.

Risk is managed through portfolio and stock exposure limits and process discipline.

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 Global Quality Fund
APIR	ETL1392AU
Inception Date	May 2024
Typical no. of Stocks	20-35
Cash Limit	10%
Capacity	$12.5bn (or a capacity where 80% of the Fund can be liquidated within 5 trading days)
Cash Distributions	Semi Annually
Redemptions	Daily
Buy Sell Spread	0.25% upon entry 0.25% upon exit
Fees	Management 0.90% | Performance 12.5%
Objective	The Fund aims to outperform the MSCI AC Net World (after fees and before taxes) over the long term. To deliver performance of 8-12% p.a over the long-term.

Lead Portfolio Manager

Sunny Bangia
18+ years' investment experience. Previously Co-Founder and Portfolio Manager of Antipodes Partners, and Co-Portfolio Manager of Antipodes Global funds and lead Portfolio Manager of Antipodes Asia Fund.

Trustee
Equity Trustees

Administration
APEX

Platform Access
netwealth
HUB24

Fund Audit
EY

Fund Performance[1]

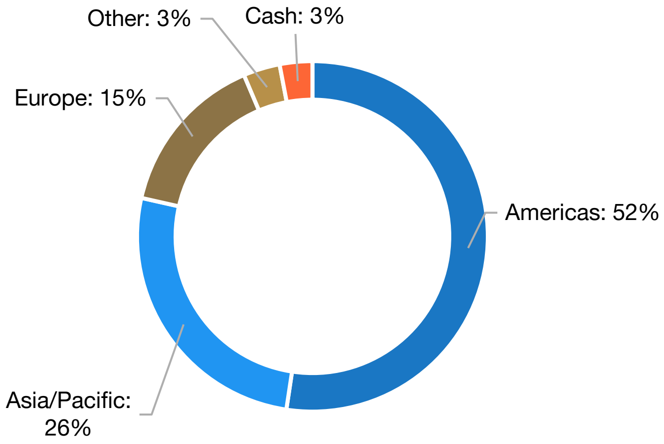
Blackwattle Global Quality Fund Performance (net of fees) as of 31 March 2025.

	1 month	3 months	6 months	1 Year	2 Years	3 Years	Inception p.a[2]
Fund (Net)	-6.74%	-4.86%	7.77%	-	-	-	15.78%
Benchmark[3]	-4.15%	-1.96%	8.77%	-	-	-	15.77%
Active Return	-2.59%	-2.90%	-1.00%	-	-	-	0.01%

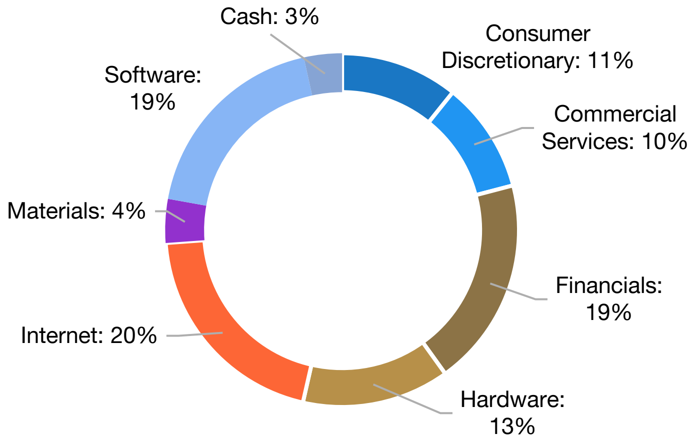
[1] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. **Past performance is not a reliable indicator of future performance**. Source: Apex.
[2] The inception date for the Fund is 2 May 2024
[3] MSCI AC Net World (AUD)
*Inclusive of Goods and Services Tax (GST) and net of any Reduced Input Tax Credits (RITC).

Top 10 Holdings

Geographic Revenue Exposure



Sector Exposure



Portfolio Commentary

The Blackwattle Global Quality portfolio underperformed the MSCI AC World Index (AUD) by 2.59% during the month.

Key Contributor – AutoZone

AutoZone operates one of the largest retailers and distributors of automotive aftermarket parts and accessories, with more than 6,000 stores in the United States. Autozone is a highly resilient business model with over 80% of revenue is tied to non-discretionary spending.

The company benefited from the 2022 pricing environment but 2023 and early part of 2024 were transition period in the business model as they pivoted the business towards commercial segment (garages/workshops) and balanced revenue against their “do-it-yourself” segment. The company further came off their Covid sales boom and valuation de-rated by mid-2024 and we started accumulating the position in this high-quality compounder.

The company has invested significantly in densifying its retail/warehouse network to serve the garage repair shops that value speed and breadth of auto-parts. AutoZone’s investments have started to bear fruit with a pickup in sales in the professional category which only represent less than 30% of total sales and over time will migrate towards 50%+ of sales.

AutoZone remains a well-positioned business given the after-market repair market remains a $150-160 billion opportunity with the company holding around 14-15% market share but with an advantaged business model to continue to take share from players that have not invested in densification of their networks. Finally, the company has demonstrated over decades the ability to raise price and maintain stability in gross margins as we believe it remains well positioned in the uncertain pricing environment.

Key Detractor – ServiceNow

ServiceNow has come under pressure over the last month as during its fourth quarter 2024 earnings results, it guided for 2025 subscription revenue of 19.5-20% y/y constant currency growth below market expectations. Secondly, the fourth quarter 2024 subscription revenue also came in below market expectations, after 8 consecutive quarters of beats.

The AI story however remains intact, with deal growth in their AI offering increasing 150% quarter on quarter. ServiceNow also has over 1,000 customers adopting their AI offering (out of 8,400 customers). AI agents though are priced on a consumption basis, with revenue only being recognized as consumption increases. This means AI is less likely to offset the revenue headwinds in the core business in the near term.

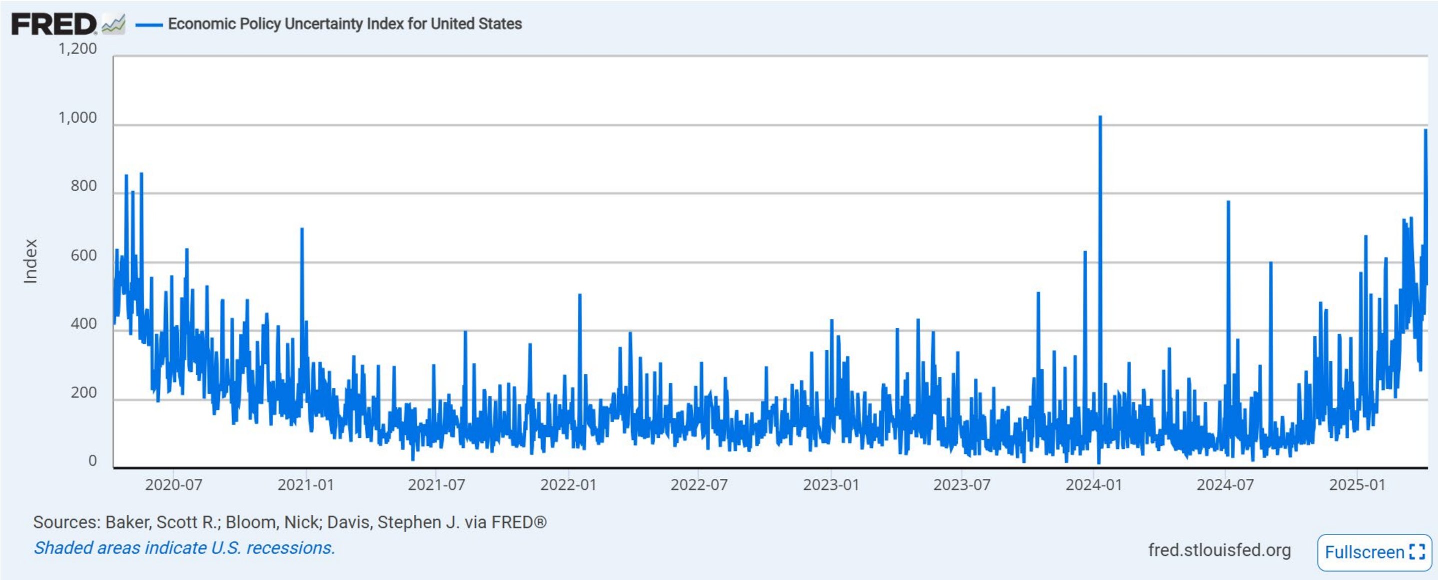
Macro uncertainty has also stemmed cautiousness on large software projects, which likely also impacts ServiceNow in the near term. ServiceNow also has a material portion of revenue from US government, which is coming under pressure due to initiatives from the Department of Government Efficiency (DOGE).

Portfolio Update

“People who succeed in the stock market also accept periodic losses, setbacks, and unexpected occurrences. Calamitous drops do not scare them out of the game.” Peter Lynch

The events of the past several weeks (March and April) have seen some very extreme movements in the price of securities and the overall markets. Many markets entered a bear market which is technically defined as a drop of 20% from the peak but many securities across many global markets have dropped further than this level. Global markets are on edge as can be seen by the economic uncertainty index leading into April 2 and economic policy uncertainty worsened post US tariff announcements.

In these short periods, the markets attempt to discount the worst and subsequently stocks fell. The United States is attempting to change the global trade world order, but the brute force has troubled markets. Peter Lynch sums this up well this was an unexpected occurrence. American based capitalism over the past 40-50 years has allowed American companies to optimise their global supply chains/operations unwinding that will take time. United States has taken a major step towards isolation. Even if the rules of the game are changing, companies will adapt with more clarity in policy settings and adjust to the new outcome. Change always creates uncertainty and fear but likewise can generate opportunities.



A core tenant of the Blackwattle Global fund is to companies whose earnings durability can persist over the long run but only possible because the company has built a structural competitive advantage around the business. Companies operate in a complex economic environment where the environment will always be subjected to change whether it be economic, political or technological we look for the companies that are able to have the resiliency, adaptability and build in optionality into their business models.

FICO maintains a dominant monopoly position with 90%+ of all scores running off FICO scoring system in the US. FICO has ended up becoming the default operating system for US consumer credit scoring, financial institutions, Regulators, Fixed Income Investors and Consumers all are so heavily entrenched using FICO that it becomes a significant impediment to switch off. FICO as a result has maintained a steady path of increasing the price per score on mortgages over the years which has underpinned its earnings durability. FICO mortgage pricing has risen to $4.95 a score but only still represents around 20-25 bps of the total cost of closing a mortgage – significant pricing power remains on mortgage pricing. Further, non-mortgage pricing has not risen much at all and still represents a great opportunity ahead. Despite these tailwinds and structural advantages, there has been a significant headwind in the total amount of credit originations in the US economy, mortgage, credit card and auto loan volumes are down between 20-50% from peak and remain a free option should rates come lower. FICO has significant resiliency embedded into its business model, it has adapted to the environment by focusing on what it can control versus what it cannot – that is price of the scores and finally, it has built optionality into the business model by building a mission critical software business that has added a new driver of growth.

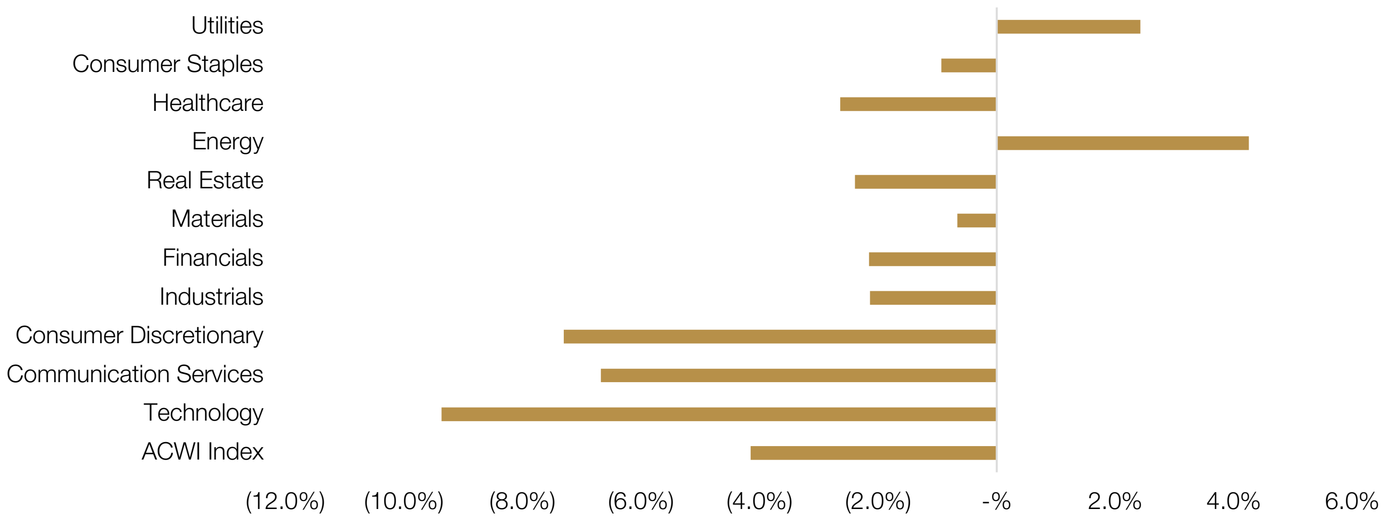
As the market has fallen, it has given our fund an opportunity to purchase some of the most durable earnings compounders in the world which we like to classify as enduring quality. The fund has initiated positions in companies such as American Express (a more detailed writeup on this in a future update) and Mercardo Libre. All three business have demonstrated a tremendous track record of success over decades of execution and have built significant competition advantages inside their business models. The pull-back in the market has allowed valuations to become extremely compelling in all three companies.

Market Commentary

"I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody." James Carville

In March 2025, the MSCI AC World Index (AUD) declined by 4.2%, driven primarily by weakness in Technology & Consumer Discretionary. In contrast, defensive sectors such as Utilities advanced. Equities remained under pressure amid a reasonably broad sell off as investors assessed global policy uncertainty and the implications for economic growth.

MSCI ACWI March returns (AUD) (%)



March was a challenging month for global equities, as markets grappled with escalating trade tensions and policy uncertainties. The MSCI AC World Index (AUD) declined, reflecting widespread risk aversion among investors. Defensive sectors such as Utilities and Consumer Staples outperformed, while Technology and Industrials faced significant headwinds amid concerns over supply chain disruptions and tariff implications.

U.S. equities experienced notable volatility in March. The S&P 500 declined by 5.75% for the month, bringing its year-to-date return to -4.59%. This downturn was largely attributed to the Trump administration's announcement of new tariffs, which heightened fears of a global trade war. Technology stocks were particularly weighed down by the market. The Federal Reserve maintained its current interest rate stance, expressing concerns over inflation and economic growth amid the prevailing trade uncertainties.

European markets also faced headwinds in March. The STOXX Europe 600 Index recorded its first monthly decline of the year, as looming U.S. tariffs cast a shadow over corporate earnings prospects. Sectors with significant exposure to international trade, such as Automobiles and Luxury Goods, were particularly vulnerable. The European Central Bank acknowledged the potential economic impact of escalating trade tensions but refrained from altering its monetary policy stance during the month.

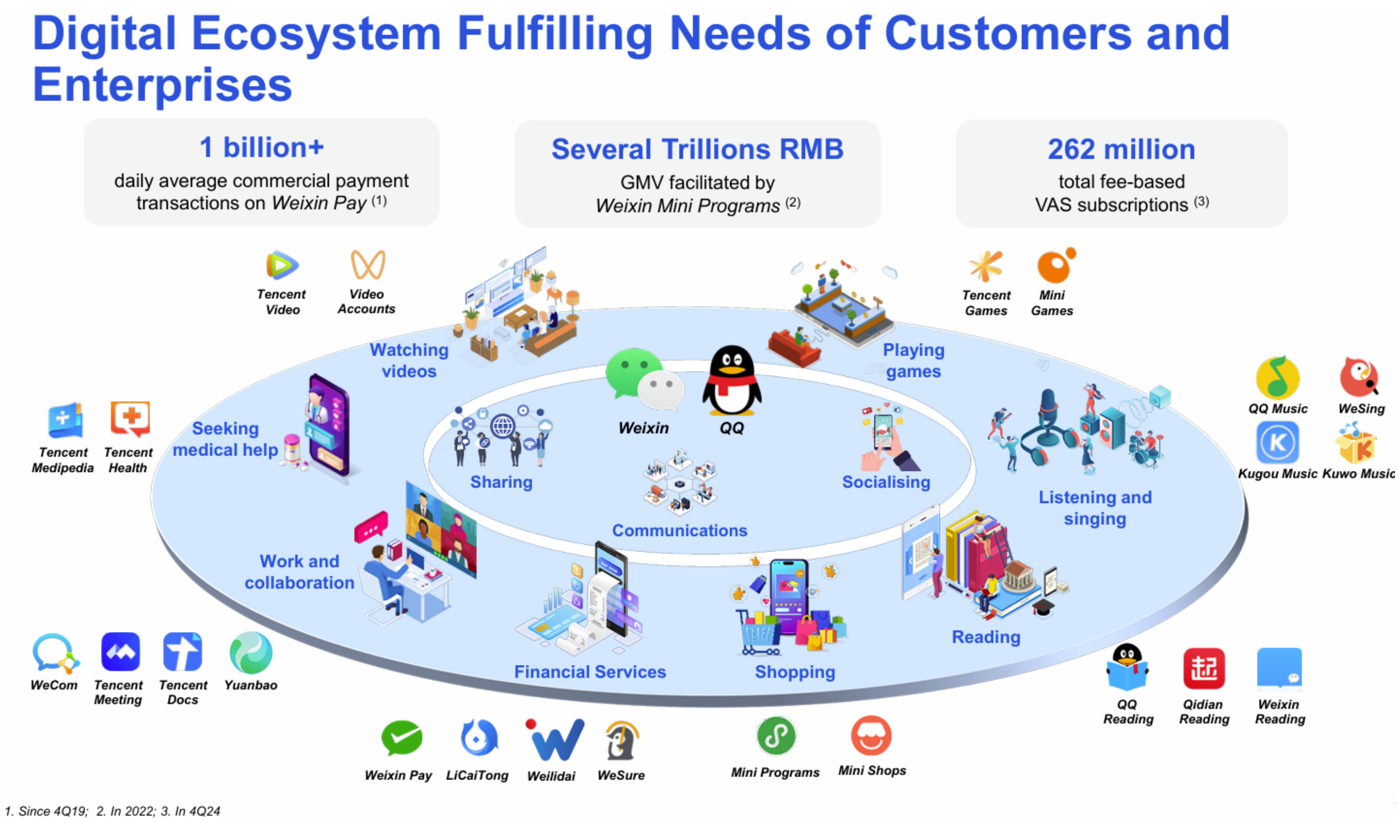
In China, the Shanghai Composite Index faced downward pressure, reflecting investor concerns over the potential impact of U.S. tariffs on the Chinese economy. Despite government efforts to stabilize the market, including targeted stimulus measures, sentiment remained cautious. The technology sector, a significant component of China's equity market, was notably affected by fears of supply chain disruptions and reduced export demand.

Overall, March underscored the fragility of global markets in the face of escalating trade disputes and policy uncertainties. As April unfolds, investors are closely monitoring developments in trade negotiations, corporate earnings reports, and central bank communications to gauge the potential trajectory of the markets in the coming months.

Feature stock – Tencent

At Blackwattle, we seek to invest in exceptional businesses: high-quality, durable franchises with predictable cash flows, strong competitive moats, and management teams with a history of compounding value over time. These are companies such as Tencent, that can deliver consistent returns and thrive through economic cycles.

Tencent is a large internet platform company in China. Over the years, Tencent has constructed a vast digital ecosystem encompassing social media, the world's largest gaming business, leading digital financial services, and rapidly expanding cloud computing and AI ventures. Its platforms, particularly the ubiquitous super-app WeChat, forms the backbone of China's digital economy.



Source: Tencent Investor Presentation

Tencent's journey began with PC era messaging app QQ but soon evolved into much more with the advent of smartphones. The mobile messaging app WeChat (or Weixin in China) is Tencent's crown jewel. This is an operating system for 1.3 billion users which integrates chat, social networking (Moments), content (Newsfeed, Official Accounts, Video Accounts), services (Mini Programs, Mini Shops), search, and payments (Weixin Pay, consumer loans, wealth management).

Each additional functionality increased the value of the WeChat ecosystem to its users. For example, Mini Programs facilitated trillions of RMB in e-commerce sales, while Weixin Pay processes over a billion commercial transactions per day. Their Video Accounts has become a leading short-form video platform in China, rivalling Douyin (TikTok of China).

Tencent also built the world's largest gaming empire by leveraging its vast social media traffic and shrewd early investments in the ecosystem. They were behind blockbuster games such as Honor of Kings and PUBG Mobile. They have also invested heavily in global studios such as Riot Games (League of Legends) and Epic Games (Fortnite). For the casual gamers, Mini Games on Weixin is China's largest casual game platform with over half a billion monthly players.

Competitive Moats

Tencent's moats include:

- Integrated Digital Platform: Tencent's primary competitive advantage lies in its deeply integrated digital ecosystem. WeChat, QQ, gaming, payments, cloud, and content platforms are fully integrated in the ecosystem, creating high user engagement and retention. In turn, the highly engaged userbase offers numerous monetisation avenues like advertising, subscriptions, and transaction fees.

- Global Gaming Leadership: Tencent owns many of the leading games developers and distribution channels for games in China. Their strategic investments and ownership of top global game studios provide significant international revenue to mitigate any domestic regulatory risks.

- **Enterprise Solutions Infrastructure**: Tencent has built formidable digital infrastructure that enhances productivity of business customers. Their Business Services segment encompasses cloud computing (Tencent Cloud) and SaaS offerings like WeCom (connecting 15+ million enterprises) and Tencent Meeting (over 400 million registered users). Tencent Cloud is a major player, particularly strong in video cloud solutions and databases, with infrastructure spanning 21 regions. Their heavy investments in R&D, particularly in AI, cloud computing, and emerging technologies, keeps it at the forefront.
- **Fortress Balance Sheet**: Tencent maintains a resilient, profitable, and cash-generative business model. Tencent has significantly increased returns to shareholders through distributions of stakes in investees, cash dividends and share repurchases. Prudent capital management is reflected in solid credit metrics. Their robust financial position allows for continued strategic investments and capital return.

Runway For Growth & AI Value Proposition

Tencent has demonstrated resilient growth through economic cycles and possesses multiple vectors for future expansion, with Artificial Intelligence (AI) acting as a key growth multiplier. AI is central to Tencent's strategy, enhancing efficiency, user engagement, and creating new revenue streams across its ecosystem. By strategically deploying AI across its vast userbase, Tencent is starting to realise significant value across its existing businesses:

For Tencent's core businesses, AI allows:

- **New interaction patterns:** Tencent's consumer-facing AI apps like the Yuanbao assistant is experiencing rapid user growth. China's content is mostly secured behind walled gardens controlled by the large internet platforms such as Tencent. Hence the quality of AI search results varies based on the content it has access to. Tencent's platform is the ideal place to develop agentic AI applications given it is seamlessly linked to much of the digital economy and has access to widest audience.
- **More efficient marketing:** Tencent has been infusing AI capabilities in their ad platform since 2015. Recent advances in larch language models (LLMs) improved user behaviour analysis, ad ranking, click-through rates, content approval speed, and automates ad creation. These leads to higher ROI for advertisers and drove the 20%+ revenue growth in ads.
- **More engaging games**: AI optimizes player matching and game balance. Integrating AI models to increase 3D content production efficiency and LLMs produces realistic in-game chatbots to increase user engagement.
- **Better content production**: AI improves production productivity for animation, video, and music, while also providing intelligent recommendations and enhancing content discovery through intelligent recommendations.

For Enterprise solutions, AI has the potential to revolutionise the landscape of enterprise software in China. We've already seen higher cloud adoption of enterprises, and many are choosing to partner with Tencent to rapidly deploy consumer facing solutions given its dominance. This leads to:

- **Faster cloud growth:** Tencent's AI cloud revenue doubled in FY24. Tencent provides AI infrastructure (HCC, HAI) and platforms (TI Platform, LLM Knowledge Engine) enabling enterprises to build, iterate, and deploy AI solutions rapidly. Their increased GPU purchases are also expected to accelerate overall Cloud Services revenue growth.
- **SaaS Enhancement:** AI also improves adoption of Tencent's software applications such as Tencent Meeting (which provides AI transcription and summaries) and Tencent Docs (AI content creation to boost productivity).

Thank you for your ongoing support.

Sunny Bangia and the Global Team

How to Invest

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

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