Blackwattle Small Cap Long-Short Quality Fund

Blackwattle
Investment Partners

March 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 Performance[1]

Blackwattle Small Cap Long-Short Quality Fund Performance (net of fees) as at 31 March 2025

	1 month	3 months	6 months	1 Year	2 Years	3 Years	Inception p.a[2]
Fund (Net)	-3.30%	-9.75%	-13.19%	-2.06%	-	-	5.15%
Benchmark[3]	-3.60%	-2.00%	-2.99%	-0.38%	-	-	6.18%
Active Return	0.30%	-7.75%	-10.20%	-1.68%	-	-	-1.03%

[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 declined 3.60% in March. Sector returns were highly bifurcated, with Small Resources *rising* 4.59%, while Small Industrials *fell* 6.66%. Within Resources gold stocks were the standout performers as investors sought safety amid geopolitical tensions and tariff risk, while China-facing bulks and base metals underperformed. Within Industrials growth stocks underperformed, with broad-based double-digit declines across Financials, Healthcare, Tech and Consumer.

On the monetary policy front, the Reserve Bank of Australia (RBA) maintained the cash rate at 4.1% at its April 1st meeting, following a 0.25 percentage point cut in February—the first reduction since November 2020. Markets are pricing in *four* further rate cuts by the RBA over the rest of the 2025 calendar year.

Portfolio Commentary

The Blackwattle Small Cap Long-Short Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 0.30% in March.

The Key Contributors to performance were short positions across a range of sectors including Consumer, Tech and Financials, and long positions in gold miners, including Spartan Resources (SPR), Pantoro (PNR) and Genesis Minerals (GMD). Gold prices rose sharply during the month, climbing above the milestone levels of US$3,000/oz and A$5,000/oz for the first time, buoyed by persistent geopolitical tensions and tariff uncertainty. The current environment favours gold as a safe-haven asset, attracting increased investment in gold equities, especially those with strong growth profiles and strategic positioning. We conducted site visits to the major assets of all three of the gold companies detailed below in March.

Spartan Resources surged 44.7% in the month, firstly in anticipation of – and then following confirmation of – a bid for the company from Ramelius Resources (RMS). Ramelius had already established a 19.9% holding in Spartan prior to the bid, so the expectation was more when, not if, they would make a move to acquire the rest of the business. Our Small Cap funds have been invested in Spartan since December 2023 (at $0.49, vs last price of $1.90), supporting each capital raise along the way. The combination of Spartan and Ramelius makes sense for many reasons, and we intend to roll our holding into the combined entity, which will boast strong cash flow, an excellent management team, and now – with Spartan – material production growth.

Pantoro Gold (+21.4%) is a relatively new addition to the portfolio and meets our definition of 'improving quality'. Its Norseman Gold Project has is now producing around 100koz of gold annually. Visiting Norseman in early March, we witnessed multiple high-grade opportunities across highly prospective tenements and a clear pathway to scale production to 150koz per year—and potentially beyond. While Pantoro's deposits have some complexity, its valuation for a ~1 million ounce reserve / ~100koz per annum producer stands out as anomalous in the sector – trading at *half* the enterprise value of similar sized peers. The team now just have to deliver the higher grade feed.

Genesis Minerals rose +16.7% in the month. Astute M&A in 2022-23 (just before AUD gold doubled!) laid the foundations for an impressive growth trajectory. In just a few months, the Genesis team has restarted the Laverton mill and ramped it back up to nameplate capacity with production set to climb from 50koz today to 135koz by FY29. Combined with the Leonora operations, Genesis now has a fully funded 10-year plan to produce 3 million ounces of gold, with 91% of ounces already in reserve—an enviable level of certainty. Not to mention assets like the Westralia pit, which aren't even included in the mine plan yet. But beyond the numbers, what stands out most is the fantastic team behind this growth – passionate, focused, and demonstrating owner mentality throughout the business.

The Key Detractors from performance in March were Zip Co (ZIP) and Paladin Energy (PDN).

Zip Co fell 34.6% in the month as expectations of a recession in the U.S. – where Zip is expected to generate most of its future growth – rose amid tariff uncertainty. Over the medium to long term, penetration of BNPL products in the U.S. has a significant runway, sitting at only ~2% today, vs ~15% and ~20% in Australia and Europe respectively. Concerns over bad debts are largely misplaced as BNPL credit turns over every ~28 days, allowing Zip to reduce risk quickly. Trading at only 16x FY25f P/E with a huge TAM and structural tailwinds, Zip presents one of the most compelling valuation opportunities on the ASX. However, in the short-term it is also one of the most obvious routes for investors to express a negative view on tariffs and the U.S. consumer, and it will likely require greater certainty on the U.S. economic outlook for the stock to regain its positive momentum.

Paladin Energy dropped 25.7% in March, driven by the disruption from a '1-in-50 year' flood event to its Langer Heinrich mine. The company has since provided more clarity on the extent of damage, and while production will only be impacted for a small number of weeks, the delays have pushed out the timeline to reach nameplate capacity, which remains a key milestone. This ramp-up delay combined with continued softness in the spot price and general equity market uncertainty has seen Paladin's share price continue to fall. As such we have reduced the size of the position and await more clarity from management regarding the timing of the Langer Heinrich ramp-up. We expect some commentary on the March quarterly investor call later this month.

Outlook

As we discussed in our last monthly report, the extent of damage being inflicted on the US economy by government policy is the key risk. US economic uncertainty has now spread to global economic uncertainty as many countries reliant on US exports are faced with a challenging outlook. Australia on the other hand has come away relatively unscathed. While certain industries and companies may experience headwinds from US demand, these impacts are at the margin. Ironically, the outcome of dislocated global trade is that inventory originally destined for the US will now be looking for a new home, and the Australian consumer is likely to be a beneficiary. Faster than expected alleviation of sticky inflation would remove the RBA's key obstacle to lowering interest rates. As such, the Australian equity market is likely to be seen as a safe harbour as global investors manage through a difficult period. While it won't make the Australian market immune from emerging risk, it will cushion the blow.

As with many market downturns, the biggest risks are the ones that you don't see but are brewing in the background. The most recent example of this was the abrupt closure of Silicon Valley Bank (SVB) as many of its early-stage technology clients saw their access to equity funding close in the 2022 bear market. Investors need to be wary that similar 'black swan' events may be at play and that it's time to remain cautious, despite what might appear a bargain hunter's paradise.

In our last monthly we called out that valuations still appeared stretched. While that is no longer the case, they are sitting in the 'normal' range (on average). While some stocks are cheap, these are also the ones with the most obvious exposure to US demand or Chinese supply chains. If a US/global recession eventuates valuations will trade below the 'normal' range, so there is still downside risk from current levels.

We have positioned the portfolio cautiously with the above considerations in mind. The fund was holding a cash balance near 10% for most of March and early April, as well as holdings in gold equities of around 15%. This has insulated the portfolio and will continue to do so. Our core strategy is to prioritise 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

Justin Carroll
Senior Account Director QLD
0410 403 608
jcarroll@blackwattlepartners.com

Nick O'Hare
Senior Account Director VIC
0423 773 837
nohare@blackwattlepartners.com

Sid Cavallaro
Senior Account Director NSW
0409 405 617
scavallaro@blackwattlepartners.com