Blackwattle Mid Cap Quality Fund

April 2025

Blackwattle
Investment Partners

About the Fund

The Blackwattle Mid Cap Quality fund is a concentrated yet diversified portfolio of some of the highest and most improving quality companies on the ASX. We believe that high quality companies have the potential to consistently outperform over the medium term, as their competitive advantages may allow for compounding shareholder returns through market cycles.

The fund is concentrated on the team's best ideas, driven by fundamental research to establish differentiated views on the outlook of company quality, valuation and earnings. The fund is targeting long-term ownership of high-quality companies to generate a consistent outperformance profile, compounding shareholder returns through market cycles.

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 Mid Cap Quality Fund
APIR	ETL1479AU
Inception Date	8 August 2023
Typical no. of Stocks	20-35
Cash Limit	10%
Cash Distributions	Semi Annually
Application/Redemption	Daily
Buy Sell Spread	0.25% Upon entry and 0.25% upon exit
Fees	Management 0.92% | Performance 15.38%
Constrained Capacity	$2.0b (or up to 25bps of the benchmark)
Platforms	HUB24, Netwealth, BT Panorama, Expand, Praemium, Macquarie
Ratings	Lonsec - Recommended Zenith - Recommended
Objective	The Fund aims to outperform the S&P/ASX300 Accumulation Index - S&P/ASX20 Accumulation Index (after fees and before taxes) over the long term.

Portfolio Managers

Tim Riordan CFA, FRM
15+ years' investment experience. 5 years as Head of Direct Equities at Aware Super and Lead PM of the Aware Super Mid Cap Industrial Fund. Was Co-Head of Research and Portfolio Manager at Altair Asset Management.

Michael Teran CFA
14+ years' investment experience. Associate PM of the Aware Super Mid Cap Industrial Fund. Also Long-Short Equities Analyst at Point72 Asset Management in Hong Kong. And Equities Analyst at Colonial First State Global Asset Management (now First Sentier Investors).

Ratings

Recommended
Lonsec Research

Zenith
RECOMMENDED

Fund Performance[1]

Blackwattle Mid Cap Quality Fund Performance (net of fees) as at 30 April 2025.

	1 month	3 months	6 months	1 Year	2 Years	3 Years	Inception p.a[2]
Fund (Net)	2.52%	-7.14%	-1.71%	8.58%	-	-	11.78%
Benchmark[3]	3.24%	-3.72%	1.55%	7.22%	-	-	8.42%
Active Return	-0.72%	-3.42%	-3.26%	1.36%	-	-	3.36%

[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 8th August 2023, returns greater than 1 year are annualised' or "calculated on an annualised basis.
[3]S&P/ASX300 Accumulation Index - S&P/ASX20 Accumulation Index
*Inclusive of Goods and Services Tax (GST) and net of any Reduced Input Tax Credits (RITC).

Select Top Holdings

Newmont ResMed seek The Lottery Corporation xero

Market Commentary

The ASX300 ex-20 rose 3.24% in April. April was a highly volatile month for global equities, intra-month the S&P500 fell ~12% in the first week of April before recovering to end almost flat. This significant volatility was driven by Trump tariff policies, with the 'Liberation Day' tariff announcement catching the market off guard by the size and scope of tariffs on all US imports. This escalated tensions with China through April, with US tariffs currently sitting at 145% on Chinese imports. The Trump administration attempted to backdown on global reciprocal tariffs ex-China with a 90 day pause to allow for trade deals, which gave the market hope that this extreme policy setting would be removed. To add another layer of volatility, bond markets were also highly volatile, with US 10-year bond yield bouncing between 4% and 4.5% and the USD dollar index falling over 4% as financial markets struggle to understand the potential implications of the US economy decoupling from the global economy.

The extreme volatility was also reflected in the ASX in April. Sector performance was mixed, with structural growers and defensive sectors outperforming more cyclical sectors. The TMT sectors (Technology, Media, and Telecom) were the best performing sectors, closely followed by more defensive sectors such as Consumer Staples, Financials and REITs. On the downside, Energy was the clear laggard on weak oil prices, followed by Materials which were also very weak except for gold stocks. The global economic uncertainty combined with increased supply quotas from OPEC caused global oil prices to fall 18% in April, to prices not seen since 2020 amidst the COVID shock. The Growth factor was the best performing factor in April given the exposure to TMT, while the Value factor was the main laggard given the exposure to Energy and Materials. It is also interesting to note that there was a large skew towards size, with the ASX50 earning double the return of the ASX Small Caps in April, and within sectors, generally the more defensive, larger stocks outperformed.

Portfolio Commentary

The Blackwattle Mid Cap Quality portfolio underperformed the ASX300 ex-20 benchmark by 0.72% during the month.

Key Contributor – The Lottery Corporation (TLC AU)
TLC was one of the largest positive contributors to performance during the month. TLC rallied 10% in April as the market sought more defensive growth that would be resilient in an uncertain economic environment. TLC is the monopoly lottery operator of the state lottery concessions in Australia (except WA). TLC has become a somewhat forgotten stock on the ASX after being spun out of Tabcorp in 2022, only periodically entering the news cycle when there is a record-breaking lottery jackpot. The stock has struggled recently from a poor run of jackpot luck and was only trading mid 20s PE multiple for FY26 for a high quality, defensive compounder.

We continue to see material upside for TLC as an 'enduring high-quality' business. We believe TLC is one of the highest quality franchises on the ASX, as a defensive, compounding monopoly business with pricing power, product innovation, structural digital tailwinds, strong cash generation and capital optionality.

Key Detractor – Whitehaven Coal (WHC AU)
WHC was one of the largest negative contributors to performance during the month. WHC fell 9% in April as part of a broad sell off in mining stocks during April, on increased concern that a trade war would significantly impact an already weakening Chinese economy. Commodity prices in general were soft in April, and thermal coal was one of the weakest commodities after oil, falling 9% in April. However, WHC has greater exposure to metallurgical coal, which one was one of the few commodities that rallied in April, increasing 13%.

WHC also delivered another solid quarterly production at the end of April which helped offset some of the underperformance. WHC is tracking at the upper end of production guidance and lower end of cost guidance for FY25. We continue to see material long-term upside for WHC as an 'improving / enduring quality' business. We view WHC as one of the highest quality mining companies on the ASX, with strong financials and a capital disciplined management team. While coal prices have been volatile in recent months, the longer-term supply/demand dynamics remain favourable, and WHC continues to generate free cash flow at current coal prices with a net cash balance sheet. We back WHC to execute on numerous multi-year internal levers to maintain and improve the business quality beyond commodity prices; including cost reduction and production improvement in their metallurgical coal mines, paydown of the deferred BHP acquisition payments, Vickery expansion & sell down, Daunia/Winchester South expansion & sell down and further disciplined capital management.

Outlook

April was another frustrating month for performance. It appears that the market is cautious about the recent recovery, as the rally in April was led by generally more defensive, larger market capitalization stocks, with the current portfolio owning only 4 of the largest 20 stocks in the benchmark. Our focus on Quality across industries, balancing exposure to Growth as well as Value, and skew to mid-to-small-cap over large cap stocks drove the underperformance. Encouragingly, even though the market continues to respond in a highly agitated manner to small earnings changes, we have not seen material earnings downgrades from our Quality companies. Indeed, Quality tends to outperform through most market phases, given the underlying company attributes of stronger margins, cash generation and balance sheets.

The past 3 months have been disappointing for performance, as the portfolio was caught in the middle of extreme shifts in positioning, which has disproportionately impacted the Quality factor as markets have sold off and then rebounded in rapid succession, moving through two market phases withing the space of 12 weeks, quite a remarkable period. We have taken advantage of this volatility to high grade the overall Risk/Reward and Quality of the portfolio, redeploying capital into high Quality businesses that were more aggressively oversold than warranted, especially at the peak point of uncertainty in early-mid April. Over the course of the last quarter, February to April, we have had the opportunity to high grade 25% of the portfolio, a large shift in the context of our ongoing portfolio rotation. Changes to the portfolio are driven by our continuous tandem goals of improving the overall Quality Score of the portfolio whilst maintaining a highly attractive portfolio level Risk/Reward skew.

We remain focused on owning the highest quality stocks across industries to build a bottom-up, high-quality, diversified portfolio. This bottom-up, quality focus, creates a balanced portfolio between growth, more defensive and value-orientated stocks, which tends to perform through most phases of the market cycle. Our past experience the Quality factor does not tend to underperform for more than several months. Our conviction with our current portfolio companies has increased significantly given the attractive valuation and lower expectations starting point, and we are very excited about the combined outlook for the next 12 months and beyond.

Thank you for investing alongside us,

Mike & Tim.

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