Blackwattle Small Cap Quality Fund

April 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

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

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[1]

Blackwattle Small 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)	0.50%	-8.65%	-8.75%	5.39%	-	-	11.73%
Benchmark[3]	1.84%	-4.58%	-1.99%	3.73%	-	-	8.98%
Active Return	-1.34%	-4.08%	-6.75%	1.66%	-	-	2.75%

[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 12 September 2023. Returns greater than 1 year are annualised' or "calculated on an annualised basis. [3] Small Ordinaries Accumulation Index. * Inclusive of Goods and Services Tax (GST) and net of any Reduced Input Tax Credits (RITC).

Top 5 Holdings

AFG | Aussie Broadband | Hansen Technologies | MAAS | Vault Minerals

Market Commentary

The ASX Small Ordinaries Accumulation Index rose 1.84% in April with Small Resources rising 1.73% and Small Industrials gaining 1.89%. A Herculean effort, considering the intra-month low was down more than -8%. Within Resources, gold stocks were the standout performers as investors continued to seek safety amid geopolitical tensions and tariff risk, while the China-facing bulks and base metals, energy and strategic minerals underperformed. Within Industrials, defensive stocks broadly outperformed, led by REITs, Financials and Telecom. Growth stocks also outperformed however performance was mixed with outperformance from Fintech and Technology while Consumer and Emerging Healthcare lagged.

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. With the March quarterly CPI coming in slightly ahead of expectations, markets are now pricing in almost *three* further rate cuts by the RBA over the rest of the 2025 calendar year, one less compared to the prior month.

The big news for the month was obviously the introduction of 'Liberation Day' tariffs by US President Trump on April 2nd, and the subsequent backflip a few days later, leading to enormous shifts in investor sentiment and market volatility. Going into May, all eyes remain on US and China tariff negotiations.

Portfolio Commentary

The Fund performed strongly in calendar year 2024, achieving a return of 16.6% after fees and outperforming the benchmark index by 8.3%. However, performance so far in CY25 has been below our own expectations. This is partly attributable to a portfolio rotation in late 2024 towards defensive and value-oriented positions, as we observed stretched valuations in many sectors, both within our portfolio and the broader Small Cap index. While we believed this shift was prudent, it proved to be premature, with equity markets continuing their upward momentum into January and early February.

In addition, the February reporting season presented challenges around stock selection. A number of our defensive holdings, including Integral Diagnostics (IDX) and Kelsian (KLS), underperformed following results that we believe only represented shorter-term disappointment. Despite the market's reaction, our review of these positions has reaffirmed our confidence in their long-term investment cases.

Whilst markets remain volatile - sensitive to daily headlines and fluctuations in sentiment - we believe the recent period has laid important building blocks for future success. Market volatility has created opportunities to initiate or add to positions in high-quality businesses at valuations we haven't seen in some time. We believe that these actions position the fund well for medium- to long-term outperformance, as we continue to construct a resilient portfolio focused on sustainable value creation.

The Blackwattle Small Cap Quality Fund underperformed the ASX Small Ordinaries Accumulation index by 1.34% in April.

The Key Contributors to performance in April were Australian Finance Group (AFG), De Grey Mining (DEG), and Hansen Technologies (HSN).

Australian Finance Group is one of Australia's largest mortgage aggregators and securitised home loan lenders. Shares rose 14.1% in April as national house prices gained (and accelerated) for the second consecutive month after a couple of months of price declines supported by expectations of RBA cash rate cuts. AFG also released its March quarterly mortgage index with ongoing strength in mortgage lodgment volume growth. We still see plenty more upside for AFG with RBA rate cuts expected near-term, which should drive increased mortgage activity and strengthen AFG's competitiveness on mortgage lending relative to the banks. AFG's valuation is compelling, trading on 12x P/E compared to a peak of 17x P/E in the last rate cutting cycle and offering a >5% fully franked dividend yield.

De Grey Mining (+15.5%) ceased trading on the ASX on 23rd April following its acquisition by Northern Star Resources (NST). This investment was a strong contributor to the fund's performance and a clear example of our disciplined, research-driven approach. Early in the fund's life, we identified De Grey as a unique opportunity for small-cap investors to gain exposure to a globally significant, Tier 1 gold asset. We initiated our position in the low $1 range and steadily built conviction as the investment thesis played out. We exited the position in its final days of trading, at levels in the mid to high $2 range, realising a substantial gain. While De Grey is no longer part of the portfolio, it reflects the kind of opportunity we seek: high-quality assets with long-term potential, identified early through deep fundamental research.

Hansen Technologies rose +8.2% in the month reflecting the defensiveness of its earnings profile to economic instability. Hansen is likely entering a period of stronger organic growth with its largest business development pipeline in some years. We also expect Hansen to conduct M&A activity in 2025 having successfully integrated its Powercloud acquisition.

The Key Detractors from performance in April were Nuix (NXL), Beach Energy (BPT) and Stanmore Resources (SMR).

Nuix fell 20.8% in the month as the company announced that it would likely report FY25 revenues towards the lower end of its 11%-16% growth target for the year. While this is a relatively small change from the original revenue target of 15% growth set in August 2024, it creates some uncertainty around the ability of Nuix's sales team to monetise its new Nuix NEO product release in the current economic climate. While Nuix's revenue base is defensive like Hansen's in many respects (sticky, low churn, largely recurring), the market is not valuing those attributes at this time.

Beach Energy dropped 18.1% in early April in line with the timing of overall market softness as tariffs were initially announced. This came at a similar time to the announcement by the Coalition that it would pursue a new energy strategy whereby it would cut LNG exports to increase supply of East coast gas. This was labeled by the industry as an 'own goal' as it would reduce profitability of new domestic gas projects and further exacerbate a chronic supply shortfall. Thankfully the election of the Labor party sees this risk pass. Also since month-end, BPT has flowed gas into its Waitsia gas plant project, a key catalyst for the stock. We expect the ramp-up of the plant to drive a re-rating of the stock as the company moves ex-capex and into a strong cashflow generation phase.

Stanmore Resources dropped 8.4% in April, reflecting the introduction of tariffs to many Asian countries that consume Australian metallurgical coal, and a view that they might experience some economic softness. The company continues to operate strongly having delivered a strong production result for the March quarter. Shares in SMR are extremely cheap, and a great entry point as the best resources investments are counter-cyclical. There has been very little new coal supply coming to the market for many years now, so deficits are likely to be a feature of the market in coming years.

Outlook

The rally in equity markets in the second half of April has been strong, triggered by President Trump's decision to delay tariff implementation by 90 days. This has paved the way for markets to price in a resolution on tariffs and what appears a look-through on likely softness of the US economy. The rapid recovery in equity markets globally has meant that valuations are again stretched in aggregate, however some segments of the market remain discounted owing to direct exposures to tariff risk.

Given the pending economic risks, and high valuations, stock picking is likely to be a key driver of returns in coming months. We reinstated neutral settings to the portfolio through the month, given the aforementioned risks, aiming to deliver outperformance via stock selection. Our cash holding is back within our targeted range of 0-5%. Our core strategy is to prioritise high and improving quality 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/
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