



December 2025

Market Insights

Australian equity markets finished the year on a stronger note, with the traditional “Santa rally” delivering a +1.3% gain for the S&P/ASX 200 in December, taking full-year returns to approximately +10%. While headline performance was constructive, market dynamics beneath the surface remained fragmented, continuing the theme rotations that characterised much of 2025.

Macroeconomic data releases were lighter through the month, but commentary from the RBA reinforced a more cautious policy stance. The Bank left the cash rate unchanged at 3.60%, citing a still-tight labour market and stronger-than-expected business investment. Importantly, the RBA pushed back against expectations of near-term rate cuts, leaving investors with a more asymmetric outlook in which policy easing appears distant, and the risk of higher-for-longer settings remains possible.

Sector performance told a clear story. Materials was the standout in December and for the year as a whole, benefiting from tailwinds across commodities. Gold prices surged above US\$4,300/oz, copper rose sharply, and lithium prices continued their recovery from mid-year lows. These moves drove strong relative performance across gold producers, base metals, and select bulk commodity exposures.

In contrast, Technology and Healthcare were among the weakest sectors, reflecting a continued de-rating of higher-multiple growth stocks amid a less supportive interest-rate backdrop and a stronger Australian dollar. The Quality factor, which dominated returns in earlier phases of the cycle, remained under pressure as momentum and value continued to lead.

Encouragingly, small and mid-cap equities showed greater resilience, supported by, in our opinion, more attractive starting valuations, stock-specific catalysts, and ongoing corporate activity. The dispersion between winners and losers remained wide, reinforcing the importance of active management and bottom-up research.

Moving to global markets, December was more balanced. U.S. equity markets advanced modestly, supported by cooling inflation data and expectations for further Federal Reserve rate cuts following the December easing. In contrast to Australia, the U.S. policy trajectory appears more clearly biased toward gradual easing, which has supported equity multiples and earnings sentiment.

Europe remained steady but subdued, while Japan continued to stand out as a relative outperformer, driven by earnings momentum and ongoing governance reform. China’s market was mixed, with targeted stimulus measures providing some support, but property-sector weakness continuing to weigh on confidence.

Outlook

As always, we premise our views with: We do not attempt to forecast markets, as we do not believe this possible. However, we do apply stringent risk and macroeconomic overlays to our investments. We train ourselves to think long-term and not be distracted by short-term thinking or market fluctuations.

We believe that investors should focus on high-quality companies with resilient business models, strong balance sheets, and a proven ability to navigate complex environments.

Looking ahead, we expect 2026 to remain a year of opportunity, but one requiring discipline and selectivity. The domestic economy is trending well in our view, however policy settings will likely be tighter than many investors anticipated earlier in the year. As a result, stocks exposed to the Australian economy will increasingly need to rely on self-help, operational execution, and balance-sheet strength to deliver returns.

We continue to remain constructive on Resources, particularly where supply discipline, long-dated demand drivers, and improving cost structures intersect. A weaker U.S. dollar, ongoing global rate-cut cycles, and upside surprises to global growth would further reinforce this theme.

At the same time, the sharp underperformance of many growth companies over recent months has improved risk-reward profiles across parts of the market. With reporting season approaching, earnings delivery will be critical. Historically, periods of aggressive factor rotation have often been followed by a re-rating of companies able to demonstrate earnings certainty and cash-flow durability.

Globally, we think the backdrop appears supportive for equities, with the Federal Reserve on a clear easing path and corporate earnings remaining resilient. That said, policy divergence between regions, ongoing geopolitical risks, and currency movements are likely to continue driving volatility.

Commentary on Blackwattle's Funds

We will make mistakes and missteps. But rather than hide from our mistakes, as an investment team we strive to learn from them. This is one of our unwavering commitments.

This month, three of our Funds outperformed, and two Funds underperformed their respective benchmarks.

Fund Performance (Net of fees)	1 month	3 months	6 months	1 Year	Since Inception ¹
Blackwattle Small Cap Quality Fund	-1.39%	-0.43%	18.43%	20.95%	20.34%
Blackwattle Small Cap Long-Short Quality Fund ²	-2.02%	-2.44%	17.33%	16.66%	16.28%
Blackwattle Mid Cap Quality Fund	-0.44%	-3.37%	8.17%	10.02%	13.80%
Blackwattle Large Cap Quality Fund	1.34%	-2.07%	4.15%	11.12%	11.06%
Blackwattle Long-Short 130/30 Quality Fund	1.66%	-2.27%	4.77%	14.28%	12.77%

Fund Relative Return vs Benchmark (Net of fees)	Since Inception ¹	Benchmark ³	Value Add	Inception Date
Blackwattle Small Cap Quality Fund	20.34%	17.17%	3.17%	12-Sep-23
Blackwattle Small Cap Long-Short Quality Fund ²	16.28%	16.61%	-0.32%	21-Nov-23
Blackwattle Mid Cap Quality Fund	13.80%	11.72%	2.08%	08-Aug-23
Blackwattle Large Cap Quality Fund	11.06%	11.65%	-0.59%	08-Aug-23
Blackwattle Long-Short 130/30 Quality Fund	12.77%	11.65%	1.12%	08-Aug-23

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1: The Blackwattle Mid Cap Quality Fund, Large Cap Quality Fund, and Long-Short 130/30 Quality Fund's inception dates are 8 August 2023. The Blackwattle Small Cap Quality Fund's inception date is 12 September 2023. The Blackwattle Small Cap Long-Short Quality Fund's inception date is 21 November 2023. 2: Small Cap Long-Short Quality Fund Returns are normalised for the removal of unallotted applications, following the transition of Investment Manager of the Fund. 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 3. Benchmark: Long-Short 130/30 Quality Fund and Large Cap Quality Fund is S&P/ASX 200 Accumulation Index, Mid Cap Quality Fund is S&P/ASX300 Accumulation Index-S&P/ASX20 Accumulation Index, Small Cap and Small Cap Long-Short Quality Fund is Small Ordinaries Accumulation Index. All 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.

Blackwattle Large Cap Quality Fund

The fund returned +1.34%, outperforming the benchmark by 0.04% net of fees.

Key Contributors: Electro Optic Systems (EOS) was a significant contributor after announcing three new contracts (North America and South Korea), which accelerated momentum and improved confidence around future profitability. Virgin Australia (VGN) rebounded as short-term concerns about jet fuel costs faded, and investors refocused on the longer-term duopoly dynamics supporting profitability.

Key Detractors: Life360 (360) detracted as investors focused on slightly weaker-than-expected monthly active user growth, despite strong subscriber growth and multiple long-run monetisation pathways. Car Group (CAR) also detracted, largely in line with the broader sell-off in high P/E names, even though the company continues to execute on proven offshore growth opportunities.

Blackwattle Long-Short 130/30 Quality Fund

The fund returned +1.66%, outperforming the benchmark by 0.36% net of fees.

Key Contributors: Electro Optic Systems (EOS) contributed strongly following new contract wins and an improving outlook for profitability as counter-drone demand rises globally. Virgin Australia (VGN) rebounded as near-term fuel cost concerns eased and the market again recognised structural support from the domestic airline duopoly.

Key Detractors: Life360 (360) detracted on continued investor focus on MAU moderation, despite strong paying subscriber growth and future advertising upside. Car Group (CAR) detracted, consistent with the broader de-rating of high multiple equities through the month.

Blackwattle Mid Cap Quality Fund

The fund returned -0.44%, outperforming the benchmark by 0.31% net of fees.

Key Contributors: Dalrymple Bay Infrastructure (DBI) rallied +14% after refinancing its USPP notes at a materially improved interest rate, reducing interest expense and driving broker valuation upgrades.

Key Detractors: Life360 (360) fell -17%, driven by continued rotation out of growth into value and investor focus on a small MAU miss, despite the team retaining conviction in long-term monetisation and advertising upside.

Blackwattle Small Cap Quality Fund

The fund returned -1.39%, underperforming the benchmark by 2.81% net of fees.

Key Contributors: Rox Resources (RXL) rose +19.3% as investor confidence increased around its transition to production and the Youanmi project development timeline. Broken Hill Mines (BHM) gained +33.0% on broad strength across base metals and silver, with the company providing rare ASX exposure to silver production. Ramelius Resources (RMS) rose +13.7% on stronger gold and positive capital management actions including a \$250m buyback and dividend floor increase.

Key Detractors: HealthCo REIT (HCW) fell -11.6% as the market waited for completion of the Healthscope sale process and greater tenant certainty. Catapult (CAT) fell -22.7% after its result guided to near-term EPS impacts from acquisitions despite strong operational performance. Not owning DroneShield / EOS (DRO/EOS) detracted, with DroneShield rebounding +55.6% following its sharp November fall.

Blackwattle Small Cap Long-Short Quality Fund

The fund returned -2.02%, underperforming the benchmark by 3.44% net of fees.

Key Contributors: The key contributors were again resources exposures: Rox Resources (RXL), Broken Hill Mines (BHM) and Ramelius Resources (RMS), supported by strong performance across gold, base metals and silver.

Key Detractors: HealthCo REIT (HCW) and Catapult (CAT) were key detractors as above. Not owning DroneShield / EOS (DRO/EOS) detracted as the defence complex rebounded sharply.

Gratitude and Commitment

To our clients and partners - Thank you.

It is a privilege to represent your capital and hold your trust. We remain committed to investing alongside you, ensuring our interests are always aligned with your own. We re-iterate the commitments to our investors:

- We will always commit our own capital alongside your own.
- We will never allow personal trading.
- We will always constrain the capacity of our Funds.
- We will learn and improve from our mistakes.
- We will act with transparency.

Kind regards,

Michael Skinner CIO and Managing Director, and the entire Blackwattle Team

How to Invest

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