

A Strategic Milestone - Equity Income Fund Launch

In January Blackwattle announced the launch of the Blackwattle Equity Income Fund, led by one of Australia's most experienced equity income teams. This represents an important milestone in broadening our platform and deepening our capability in delivering high-quality equity solutions across client objectives.

The team, comprising Rudi Minbatiwala, Jason Moodie, and Marlon Chan, brings a combined 70 years of investment experience and a 17+ year history of working together managing a highly regarded Equity Income strategy since 2008.

Leaders in Equity Income:

- **A Track Record of Delivery:** The team has delivered 10.4% p.a. income (including franking credits, after fees) over 16 years since 2008.
- **Specialist Expertise:** Pioneers of objectives-based, retirement income strategies with a focus on high-quality equities and downside risk management.

The fund focuses on, what we believe to be, the highest quality companies in Australia whilst utilising options to diversify income streams and actively manage downside risk.

For more information, please visit www.blackwattlepartners.com or email us at info@blackwattlepartners.com

Market Insights

Australian equity markets began 2026 with continued divergence beneath the surface. The S&P/ASX 200 rose +1.78% in January, supported primarily by a powerful rally in Materials, while growth-oriented sectors and the Quality factor remained under pressure.

The defining feature of the month was commodity strength. Gold rose approximately +13% in USD terms, extending what has now been one of the strongest multi-year advances in decades. Central bank gold purchases, which according to the World Gold Council reached record levels in 2024 and remained elevated through 2025, continue to provide structural support. Copper also firmed, metallurgical coal rallied, uranium strengthened, and spodumene prices surged sharply.

In contrast, Technology stocks declined heavily as global markets grappled with the accelerating pace of AI development. Several new large language model releases in December and January heightened concerns about disruption risk for incumbent software businesses. The result was a rapid compression in valuation multiples globally, particularly across high-duration growth equities.

We highlight caution when assessing any new technology investment given the current pace of distribution and supersession.

From a macro perspective, Australian inflation data for the December quarter surprised modestly to the upside, with headline CPI at 3.8% year-on-year and trimmed mean inflation remaining, in our opinion, sticky. Producer price inflation also remained firm. As a result, expectations for the RBA cash rate target have been repriced materially, and the RBA subsequently raised the cash rate by 25bps in early February to 3.85%.

The divergence between Australia and the United States remains noteworthy. While the Federal Reserve is broadly expected to continue its easing cycle, Australia's policy stance is more neutral to mildly restrictive. This interest rate differential, combined with strong commodity prices, saw the Australian dollar rally approximately +4.4% in January to around US\$0.70.

Globally, equity markets were constructive. Emerging markets outperformed (+8.8%), Japan remained firm, and the S&P 500 advanced modestly. However, beneath headline returns, sector rotation has intensified. The dispersion between winners and losers, both across sectors and within them, continues to widen.

In our view, this environment reinforces the importance of disciplined active management. Markets are increasingly differentiating between balance sheet strength and leverage, genuine cash-flow durability and narrative growth, structural advantage and commoditised exposure.

Outlook

January reinforced a key lesson: markets rarely move in straight lines, and factor leadership can rotate violently.

We are observing three structural themes:

1. **Commodities & Real Assets:** Gold's strength reflects a combination of central bank diversification, geopolitical risk, and currency volatility. Broader resource markets are benefiting from supply discipline and long-dated demand drivers such as electrification and energy transition.
2. **AI Acceleration & Valuation Compression:** The pace of AI model development has accelerated faster than many anticipated. While this creates extraordinary opportunity, it also increases uncertainty for incumbent software businesses. In our view, this environment will reward companies with genuine network effects, pricing power, and entrenched ecosystems, and penalise those without durable moats.
3. **Policy Divergence:** With Australia more hawkish than the United States, domestic rate sensitivity matters. Higher rates compress valuations of long-duration assets and bond-like earnings streams, while benefiting deposit franchises and certain cyclical exposures.

We enter February reporting season expecting continued volatility. Historically, such periods create both opportunity and risk.

Our focus remains consistent:

1. Strong balance sheets
2. Enduring competitive advantages
3. Aligned management teams
4. Buying at Fair prices, i.e. attractive valuation entry points

When markets become broad-brush and indiscriminate, disciplined investors are often rewarded.

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, our 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	0.55%	-1.79%	16.08%	17.43%	19.82%
Blackwattle Small Cap Long-Short Quality Fund ²	0.98%	-2.59%	15.19%	15.01%	16.11%
Blackwattle Mid Cap Quality Fund	-0.66%	-2.20%	2.03%	3.78%	13.00%
Blackwattle Large Cap Quality Fund	1.05%	-0.14%	1.18%	7.51%	11.13%
Blackwattle Long-Short 130/30 Quality Fund	1.45%	-0.07%	1.99%	10.71%	12.96%

Fund Relative Return vs Benchmark (Net of fees)	Since Inception ¹	Benchmark ³	Value Add	Inception Date
Blackwattle Small Cap Quality Fund	19.82%	17.84%	1.99%	12-Sep-23
Blackwattle Small Cap Long-Short Quality Fund ²	16.11%	17.35%	-1.25%	21-Nov-23
Blackwattle Mid Cap Quality Fund	13.00%	12.16%	0.84%	08-Aug-23
Blackwattle Large Cap Quality Fund	11.13%	12.02%	-0.89%	08-Aug-23
Blackwattle Long-Short 130/30 Quality Fund	12.96%	12.02%	0.94%	08-Aug-23

31 January 2026

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 +1.05%, underperforming the benchmark by 0.73% net of fees.

Key Contributors: Newmont (NEM) benefited from the strong gold price. We continue to view it as one of the highest quality global gold producers, with low-cost, long-life reserves and capital discipline. Bluescope Steel (BSL) rallied following a non-binding takeover proposal at a material premium to its prior share price.

Key Detractors: Life360 (360), despite delivering operational upgrades, was sold down alongside global technology stocks amid AI-related fears. Key Detractors: Life360 (360), despite delivering operational upgrades, the stock was sold down alongside global technology stocks amid AI-related fears. Car Group (CAR) and other communication exposures experienced multiple compression despite broadly tracking to expectations operationally.

We have seen similar episodes in prior cycles where perceived disruption risks temporarily overwhelmed fundamental delivery. History suggests that companies with genuine network effects and entrenched competitive advantages tend to endure.

Blackwattle Long-Short 130/30 Quality Fund

The fund returned +1.45%, underperforming the benchmark by 0.33% net of fees.

Key Contributors: Newmont (NEM) contributed strongly as gold prices rallied. Bluescope Steel (BSL) also added to performance following takeover interest. The Fund's underweight in Commonwealth Bank (CBA) contributed positively as the valuation gap between CBA and the other major banks narrowed.

Key Detractors: Life360 (360) detracted alongside broader technology sector weakness. Communication sector holdings including Car Group (CAR) also detracted. Absolute losses in the short book were recorded during the strong January market rally, although the short book continued to support overall portfolio construction.

Blackwattle Mid Cap Quality Fund

The fund returned -0.66%, underperforming the benchmark by 2.59% net of fees.

Key Contributor: Newmont Corporation (NEM AU) was the largest positive contributor as gold prices reached record highs during the month.

Key Detractor: Xero (XRO AU) was the largest detractor, falling materially amidst global software de-rating driven by heightened AI disruption concerns.

Blackwattle Small Cap Quality Fund

The fund returned +0.55%, underperforming the benchmark by 2.20% net of fees.

Key Contributors: Stanmore Resources (SMR), Ramelius Resources (RMS), and Rox Resources (RXL) contributed positively as resources exposures benefited from strength across gold, coal and base metals.

Key Detractors: Zip Co (ZIP), Catapult (CAT), and Temple & Webster (TPW) detracted as growth-oriented stocks remained under pressure following the shift in RBA rate expectations and broader global technology sector weakness.

Blackwattle Small Cap Long-Short Quality Fund

The fund returned +0.98%, underperforming the benchmark by 1.76% net of fees.

Key Contributors: Stanmore Resources (SMR), Ramelius Resources (RMS), and Rox Resources (RXL) were key contributors, supported by strong commodity price performance.

Key Detractors: Growth exposures including Zip (ZIP), Catapult (CAT), and Temple & Webster (TPW) detracted as market leadership continued to rotate away from higher multiple equities.

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

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

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