

Blackwattle Small Cap Quality Fund

December 2023



Blackwattle
Investment Partners

About the Fund

We aim to buy businesses with a competitive advantage and good corporate governance, priced below intrinsic value at the right price.

We are fundamental investors, using deep bottom-up research to identify the best Small-Cap opportunities. Our process identifies both high quality and emerging quality companies underappreciated by the market. Active risk management is a core part of our approach with capital preservation considered in every layer of our investment process.

Our process aims to provide the framework to outperform the benchmark throughout the economic cycle and under various factor leadership scenarios. Reflecting this, the fund aims to deliver lower volatility, smaller drawdowns, and higher risk-adjusted returns.

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.

Invest Better. Live Well.

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
Inception Date	September 2023
Typical number of stocks	30-60
Cash limit	20% (typically 0-10%)
Cash Distributions	Semi annually
Redemptions	Daily
Constrained Capacity	\$750m
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 Performance¹

Blackwattle Small Cap Quality Fund Performance (net of fees) as at 31 December 2023

	1 month	3 months	1 Year	2 Years p.a.	5 Years p.a.	10 Years p.a.	Inception p.a. ²
Fund (Net)	8.84%	11.25%	-	-	-	-	8.67%
Benchmark³	7.23%	8.52%	-	-	-	-	6.44%
Active Return	1.61%	2.73%	-	-	-	-	2.23%

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.

³ Small Ordinaries Accumulation Index

Top 5 Holdings



Market Commentary

The ASX Small Ordinaries Accumulation index rose 7.23% in December, led by Industrials which rose 8.54%, while Resources rose 3.68%. Returns were broad-based with gains across Cyclical, Growth and Defensives. Of particular note was strength in Healthcare, driven by Neuren Pharmaceuticals and Sigma Healthcare, discussed in further detail below. We also saw an uptick in corporate activity in December with bids for Link Administration, Adbri Ltd, and Azure Minerals plus Sigma's reverse takeover of Chemist Warehouse. Gold and graphite stocks were a drag on the index following outperformance in prior months.

Portfolio Commentary

The Blackwattle Small Cap Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 1.61% in December.

The key contributors to performance were Neuren Pharmaceuticals (NEU), Sigma Healthcare (SIG) and IPD Group (IPG). Shares in Neuren rose 61%, reflecting several significant catalysts over recent weeks, including the promising Phase 2 trial results for its NNZ-2591 drug. We see potential for NEU to continue its run of performance into 2024 as several key catalysts over the next six months could see its addressable market multiply. We continue to hold a significant position in the company. The fund's holding in Sigma Healthcare delivered strong returns in December (+45%), as it announced a reverse takeover of Chemist Warehouse. While our position in SIG was not based on a merger with Chemist Warehouse, a tie-up was a potential scenario and ultimately a welcomed outcome for investors. However, we believe there still are several issues for investors to understand with this deal, including potential stakeholder conflict, the completion timeline, and the ultimate governance regime. As such, we have used the significant premium in SIG shares to take profits. Shares in IPD Group delivered a strong outcome for investors as the company announced a 30% accretive acquisition of CMI Operations. Aside from the significant accretion, the deal is strategically significant as it improved supplier diversity, increases IPD's relevance for customers and strengthens its position as the leading independent nationwide distributor of electrical equipment.

There were no notable detractors for the month.

Outlook

The surge in equity markets over November and December aided by Fed's "dovish pivot" and a seasonal "Santa rally" leaves the market appearing over-bought in early January and potentially due for a pullback. We have been using the recent strength to take some profits in Cyclical, namely reducing our exposure to Asset Managers and Builders, while increasing our exposure to Agriculture, which can perform counter-cyclically, and Cash. We also continued to reduce our exposure to Tech during December, which will perform poorly in the event of a reversal in bond yields, which is eminently possible should US data not support the six rate cuts that are currently priced in for CY24 – a marked increase from expectations for only two rate cuts at the end of October. Within Resources we have rotated some exposure from Gold to Energy.

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

Investment Enquiries

Maggie Mills (Head of Distribution, and Partner)
Ph: 0498 183 569
E: MMills@Blackwattlepartners.com

