

Blackwattle Small Cap Long-Short Quality Fund

December 2023

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/emerging quality companies underappreciated by the market for long positions, and low/declining quality companies overvalued by the market for short positions. 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 Long-Short Quality Fund
Inception Date	November 2023
Typical number of stocks	30-60 Long, 10-30 Short
Cash limit	50% (typically +10% to -10%)
Cash Distributions	Semi annually
Redemptions	Daily
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



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.



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.

Fund Performance¹

Blackwattle Small Cap Long-Short 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)	3.99%	-	-	-	-	-	3.49%
Benchmark³	3.80%	-	-	-	-	-	4.25%
Active Return	0.19%	-	-	-	-	-	-0.76%

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 21 November 2023. ³ Small Ordinaries Accumulation Index. The Fund will enter a six-month transition period beginning 21 November 2023 and ending 21 May 2024. During this transition period, the Fund Benchmark will be 50% cash rate as determined by the Reserve Bank of Australia and 50% S&P/ASX 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 Long-Short Quality Fund outperformed the ASX Small Ordinaries Accumulation index by 0.19% in December.

The key contributors to performance were Neuren Pharmaceuticals (NEU), Sigma Healthcare (SIG) and Latin Resources (LRS). 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 Latin Resources had a strong December (+42%) after what was a difficult 2023 for lithium stocks. Latin's Colina Project is set to become a low-cost producer in an attractive mining jurisdiction, and importantly will come to market very quickly. The project will be economically attractive at lithium prices well below the current spot range.

The key detractors from performance were Pexa Group (PXA), Hansen Technologies (HSN), and Light & Wonder (LNW). Pexa Group declined -7.35% in December, triggered by a disappointing trading update, mainly from its international division. The current share price is primarily supported by the Australian exchange business, with the market awaiting positive developments in the UK to recognise value there, which is likely more than six months away. Despite the recent setback, we maintain a positive outlook on Pexa due to its high-quality attributes including a monopolistic market position, high margins, and long-term growth prospects.

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.

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