September 2024

# CERUTTY
MACRO FUND

441 Little Bourke St, Melbourne, Vic 3000 | chris.judd@ceruttymacrofund.com.au | ceruttymacrofund.com.au

## Cerutty Macro

Cerutty Macro Fund is an independent active manager of global, but predominantly Australian equities. The Manager applies a detailed investment process, using identified macroeconomic trends as the foundation of its allocation. Coupled with analysis of the liquidity cycle and bottom-up research, we aim to deliver attractive returns to investors over a 3-year time horizon.

The Fund's portfolio is a high conviction portfolio ranging from 15-40 positions in equities, to scale between high/low concentration allocations depending on liquidity conditions. It is the Fund's perspective that financial market liquidity has a large impact on asset prices, thus it being a vital component to the investment process. Cerutty's investment process is:

- Macro Themes
- Liquidity Cycle
- Bottom-up

## Fund Performance

| | Fund % | Index % | Excess % |
|---|---|---|---|
| 1 Month | 2.59 | 5.06 | -2.47 |
| 3 Month | 6.04 | 6.53 | -0.49 |
| 1 Year | 24.49 | 18.79 | 5.70 |
| Since inception (annualised) | 21.26 | 12.15 | 9.11 |

*Index/Benchmark ASX Small Ordinaries Accum. Index*

## Fund Overview

| | |
|---|---|
| Portfolio Management | Chris Judd |
| No. Investments | 15-40 |
| Type of Investments | Long only<br>Australian listed equities<br>Global listed equities |
| Time Horizon | 3+ years |
| Benchmark | ASX Small Ords Accumulative Index |

*Past performance is no indication of future performance & returns are post fees with reinvestment of distributions and capital gains.*

## Monthly Update

September proved to be a strong month for U.S. markets. The S&P 500 posted a 2.1% gain, while the NASDAQ Composite returned 2.8%. Closer to home, the ASX Small Ordinaries Accumulation Index rose by 5.1%, and the Cerutty Macro Fund delivered a 2.6% increase.
While it may sound like a cliché, there's a lot happening on the macroeconomic front at the minute. Three key developments are currently catching our attention: substantial liquidity injections in China, a stronger-than-expected U.S. non-farm payrolls report following the Fed's rate cut, and escalating conflict in the Middle East.

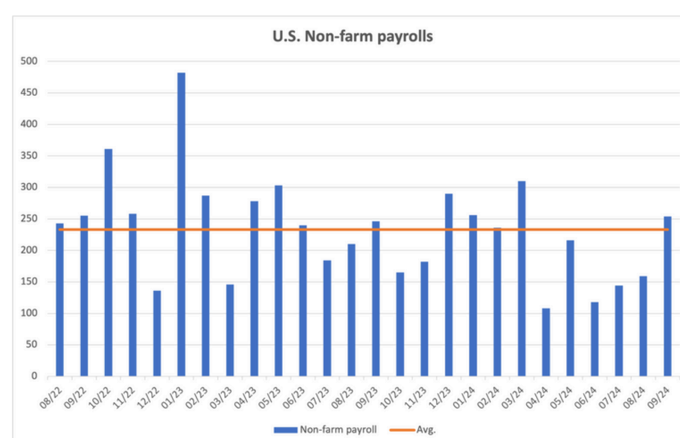
According to Deutsche Bank, estimates for the Chinese stimulus package amount to 7.5 trillion yuan if all government measures are implemented.[1] The stimulus includes support for mortgage debt servicing, increased capital for the banking system, and efforts to stimulate stock market speculation. The Chinese government has also stated that further stimulus may be [1] introduced if needed. The Chinese stock market surged on the news of monetary stimulus, but when fiscal stimulus announcements fell short of expectations on October 8th, the Hang Seng dropped sharply by 9.4%.

Market volatility isn't confined to China. In the U.S., the October 4th Non-Farm Payrolls report showed an increase of 254,000 jobs, far exceeding the estimated 150,000. This is notable considering the Federal Reserve had cut interest rates by 50 basis points just weeks earlier due to concerns about a recession. Such a robust payroll report is unusual during the early stages of a rate-cutting cycle.

### Hang Seng Index

Source: Trading View

### NFP's month on month




Source: FRED

1. https://www.scmp.com/economy/policy/article/3280948/how-chinas-2024-stimulus-compares-past-packages-and-whats-next

441 Little Bourke St, Melbourne, Vic 3000 | chris.judd@ceruttymacrofund.com.au | ceruttymacrofund.com.au

## Monthly Update

Unfortunately, escalating conflict in the Middle East has also grabbed headlines. Last year's October 7th attacks on Israeli civilians that were met with retaliatory strikes by Israel, aimed at weakening Hamas in Gaza have spread and since intensified. Israeli troops now moving into southern Lebanon and the growing possibility of broader involvement from Iran has led to heightened awareness among investors of energy security and the risks of further escalation.

These developments have caused heightened volatility across various asset classes. However, they serve as a reminder of the importance of maintaining a long-term perspective and adhering to an investment strategy aligned with our strengths. Short-term price swings can easily unsettle investors, but we aim to stay focused on longer-term trends that have enduring, secular growth potential. Trends that can prevail in an increasingly bifurcated world while keeping a particularly close eye on broad market liquidity.

## Position Spotlight - Fleetwood (FWD.ASX)

Fleetwood should be a familiar name to those who follow our monthly updates, as we first highlighted it in our January 2024 investor letter. Given its recent performance, our updated expectations for FY25, and several potential near-term catalysts that could drive a re-rating, we believe it's time for an update.

While we previously provided a detailed analysis of each operating segment, this month we'll focus on the 'Community Solutions' division, specifically the Searipple Village. This asset was central to our original investment thesis, as it was under-utilised at the time and in need of some refurbishment. We believed the market wasn't fully appreciating the significance of the earnings potential from improved occupancy rates —a view we still hold.

We expect the earnings boost we've been anticipating to materialise this year, with occupancy rates projected to rise from an average of 34% in FY24 to 65% in FY25. The key driver behind the earnings increase is the higher margins associated with greater occupancy, as fixed costs become better absorbed and economies of scale are realised. Searipple generated approximately $11.5 million in EBIT in FY24, and has potential to grow 140% in FY25, to around ~$28m.

There is potential for further upside in the second half of FY25 and into FY26 if occupancy approaches 100%, supported by a mix of long-term contracts and temporary accommodation needs. Several new projects in the area offer Fleetwood promising opportunities, and we believe some are likely to occur soon. Management has highlighted the Perdaman project as a potential match for the remaining beds, which could serve as the catalyst that pushes the stock higher.

At 65% occupancy, we estimate Fleetwood could deliver EPS of around $0.19 per share in FY25, translating to a 10% dividend yield at the current share price of $1.90. If Fleetwood secures an additional contract bringing occupancy to 100%, EBIT for this segment could exceed $40 million, with a dividend yield potentially reaching 15%. Fleetwood's current capital return policy involves paying out 100% of NPAT to shareholders via dividends, alongside an existing $5 million share buyback. The advantage of this policy is that either the market re-rates the stock to a more appropriate dividend yield (e.g., pricing the stock at a 7.5-10% yield), or we receive approximately 25% in dividends over FY25 and FY26.

Despite Fleetwood's clearer path to earnings growth, the share price has yet to reflect this potential. With a market cap of around $180 million and an enterprise value of approximately $140 million, we believe the current valuation — FY1 at 8x EV/E and FY2 at 6x EV/E — undervalues the opportunity. Importantly, most of this earnings growth is tied to 'take or pay' contracts with tier-1 companies like Rio Tinto, extending through FY27, which should provide stability and reduce the risk of negative surprises over the next three years.

The main risk we see with Fleetwood is its relative illiquidity, which is not uncommon for ASX stocks with market caps below $500 million. While we typically avoid stocks that don't meet a general liquidity standard, we believe certain opportunities, like Fleetwood, are worth the patience.

Here's why we're comfortable holding Fleetwood:

- Strong balance sheet: $39 million in cash and no drawn debt.
- Predictable earnings: A majority of earnings come from multi-year 'take or pay' contracts with tier-1 clients.
- Solid management team: We have confidence in the company's leadership.

In our view, Fleetwood's attractive valuation and clear near-term catalysts far outweigh any opportunity costs associated with holding a less-liquid stock. We're happy to take a position in this under-researched, under-owned company and let the market come to us.

CERUTTY
MACRO FUND

441 Little Bourke St, Melbourne, Vic 3000 | chris.judd@ceruttymacrofund.com.au | ceruttymacrofund.com.au

## Disclaimer

Juddcorp Pty Ltd ACN 635 629 631 (CAR) is a corporate authorised representative (CAR Number 1300536) of Boutique Capital Pty Ltd ACN 621 697 621 (BCPL) AFSL 508011. CAR is an investment manager for the Cerutty Macro Fund described elsewhere in this document, or in other documentation (Fund). Equity Trustees Limited ABN 46 004 031 298, AFSL 240975 ("Equity Trustees") is the Responsible Entity for Fund and is a subsidiary of EQT Holdings Limited ABN 22 607 797 615, a publicly listed company on the Australian Securities Exchange (ASX: EQT).

This document has been prepared by Juddcorp Pty Ltd to provide you with general information only. In preparing this monthly report, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither Juddcorp Pty Ltd, Equity Trustees nor any of its related parties, their employees or directors, provide and warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product.

Cerutty Macro Fund's Target Market Determination is available https://ceruttymacrofund.com.au/wp-content/uploads/2023/05/Cerutty-Macro-IM.pdf A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

To the extent to which this document contains advice it is general advice only and has been prepared by the CAR for individuals identified as wholesale investors for the purposes of providing a financial product or financial service, under Section 761G or Section 761GA of the Corporations Act 2001 (Cth).

The information herein is presented in summary form and is therefore subject to qualification and further explanation. The information in this document is not intended to be relied upon as advice to investors or potential investors and has been prepared without taking into account personal investment objectives, financial circumstances or particular needs. Recipients of this document are advised to consult their own professional advisers about legal, tax, financial or other matters relevant to the suitability of this information.

The investment summarised in this document is subject to known and unknown risks, some of which are beyond the control of CAR and their directors, employees, advisers or agents. CAR does not guarantee any particular rate of return or the performance of the Fund, nor does CAR and its directors personally guarantee the repayment of capital or any particular tax treatment. Past performance is not indicative of future performance.

The materials contained herein represent a general summary of CAR's current portfolio construction approach. CAR is not constrained with respect to any investment decision making methodologies and may vary from them materially at its sole discretion and without prior notice to investors. Depending on market conditions and trends , CAR may pursue other objectives or strategies considered appropriate and in the best interest of portfolio performance.

There are risks involved in investing in the CAR's strategy. All investments carry some level of risk, and there is typically a direct relationship between risk and return. We describe what steps we take to mitigate risk (where possible) in the Fund's Information Memorandum. It is important to note that despite taking such steps, the CAR cannot mitigate risk completely. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product.

This document was prepared as a private communication to clients and is not intended for public circulation or publication or for the use of any third party, without the approval of CAR. Whilst this report is based on information from sources which CAR considers reliable, its accuracy and completeness cannot be guaranteed. Data is not necessarily audited or independently verified. Any opinions reflect CAR's judgment at this date and are subject to change. CAR has no obligation to provide revised assessments in the event of changed circumstances. Neither Juddcorp, Boutique Capital or Equity Trustees nor any of its related parties, their employees or directors, provide and warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it.

This Document is informational purposes only and is not a solicitation for units in the Fund. Application for units in the Fund can only be made via the Fund's Information Memorandum and Application Form.