

Monthly Report

SEPTEMBER 2026

CERUTTY
MACRO FUND

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.

Fund performance

	Fund %	Index %	Excess %
1 Month	-3.5	-2.3	-1.2
1 Year	-12.9	-6.7	-6.2
3 Years (annualised)	13.6	10.4	3.2
Since inception (annualised)	13.7	8.7	5.0

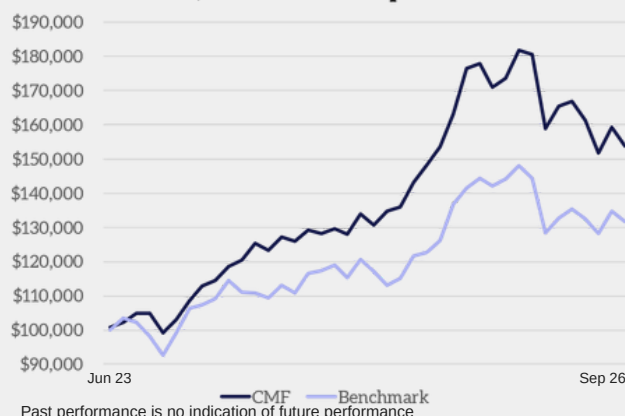
Index/Benchmark ASX Small Ordinaries Accum. Index

Past performance is no indication of future performance & returns are post fees with reinvestment of distributions and capital gains.
Inception June 2023

Fund overview

Portfolio management	Chris Judd
Number of investments	15-40
Type of investments	Long only Australian listed equities Global listed equities
Time Horizon	3+ years
Benchmark	ASX Small Ords Accum. Index
Management/Performance fee	1.20% & 20% over benchmark

\$100k since inception



Monthly update

The ASX Small Ordinaries Accumulation Index returned -2.3% for the month of September, while the Cerutty Macro Fund returned -3.5%.*

One of the few constants in markets is human behaviour. Technology, regulation and the structure of the economy are always changing, but the way people respond to fear and greed has barely changed in centuries. Most people put outsized weight on how they feel today and assume the future will look much the same. It's why so many investors can quote Warren Buffett's advice to "be fearful when others are greedy, and greedy when others are fearful", yet so few are able to act on his advice. Australian households are clearly fearful at the moment. The Westpac-Melbourne Institute Consumer Sentiment Index fell 4.7% to 80.4 in October, one of the -

40 weakest readings since the survey began in the early 1970s. Readings this low have often come close to turning points in the past, although sentiment alone is a poor guide to timing, and it can stay depressed for longer than expected.

Currently, there is no shortage of legitimate news headlines giving investors cause for concern. Recent interest rate hikes both here and in the U.S., bond yields exploding higher around the world, oil prices surging, the conflict in the Middle East and the Russia-Ukraine war continuing. There is a suspected outbreak of pneumonic plague in Russia, taxation is rising in Australia, and warnings persist that AI could displace large parts of the workforce or even a 10% chance it could wipe out humanity! Those are only some of the news stories weighing on investors. While each of -

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Westpac Consumer Sentiment Index



Source: Westpac Economics, October 2026 *

these risks is real and should be analysed seriously; we're treating some more seriously than others while also balancing out the risks with how much pain is already priced in, and what could potentially go right.

Of the above risks, the one we are watching particularly closely is the sharp rise in bond yields, both in the U.S. and around the world. We think investors need to decide whether yields are rising mainly because of inflation or because of the sheer volume of government bonds coming to market. If inflation is the main driver, it is puzzling that yields have kept rising since the Federal Reserve raised rates in September. If issuance is the main driver, we think the likely outcome is more intervention, and we have already seen early signs of it. We've written before about the U.S. Treasury Secretary Scott Bessent buying back long-dated bonds and has since increased the size of those buybacks. He has also appointed David Zervos as a counsellor to Treasury. Zervos has long been a strong supporter of quantitative easing and unconventional liquidity support for the financial system. Most recently, President Trump told Time that "certain levels of inflation will also pay off that debt very rapidly". None of this guarantees a particular outcome, but it points to a policy direction that favours more liquidity, or a "run it hot" mindset, and a willingness to tolerate higher inflation along with higher growth. If this mindset is followed through with policy action, it has meaningful implications for which assets do well over the next few years.

Part of the challenge for investors is that the market is forward looking, while many investors make decisions based on how things look today and extrapolate that into the future. At the time of writing, the ASX Small Ordinaries Index is down 18% from peak to trough. That is a significant fall, and it leaves us asking how much of the current negativity is already reflected in prices.

Vysarn (VYS) - 1-year



The divergence between small caps in the U.S. and Australia this year shows how differently two markets can price a similar set of worries. The Russell 2000 returned 13.7% in the first nine months of 2026, while the ASX Small Ordinaries Accumulation Index returned -8% over the same period. Australian small caps have borne the brunt of rising local rates and a sharp fall in risk appetite. We remain mindful of the current volatility in equity prices. Even so, we are seeing valuations look attractive in quality businesses whose share prices have been marked down with the broader index or because of short term issues in otherwise strong underlying businesses.

Position Spotlight - Vysarn Limited – VYS.AX

One such company is Vysarn Limited (VYS), which has been a long-term Fund favourite. The Perth-based group is a vertically integrated water services company, spanning hydrogeological drilling, water advisory, water and wastewater technology and, through Vysarn Asset Management (VAM), the development of its own water assets. September, however, was a difficult month for shareholders. The stock fell from \$1.08 at the end of August to \$0.82 by the end of September, a decline of roughly 24%, with most of the damage done in two sessions mid-month.

On 14 September, Vysarn announced it would terminate its share sale agreement for NWG Enterprises (NewGround), the civil and irrigation services business it had agreed in June to acquire for roughly \$30m upfront and up to \$50m including earn-outs. Completion had been due on or before 2 October and the company had sought an extension, but the parties mutually agreed not to extend. Management's commentary following the announcement was that the financial due diligence held up, but outstanding non-financial matters, predominantly around governance, processes -

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and systems, could not be resolved in the time available. The market was rightly concerned. When announcing Welltech in July, Vysarn presented combined FY26 pro-forma EPS accretion of more than 59.1% including NewGround, against more than 37.3% for Welltech alone, and those pro-forma numbers now have to be walked back. Brokers duly cut forecasts, with one estimating NewGround would have contributed 16–17% of FY28 EPS.

Our more nuanced view is that the sell-off has gone further than the lost earnings justify. At ~\$0.78, Vysarn trades well below the \$1.055 it closed at before Welltech was announced, and below where it sat before NewGround was announced in June. In our view, the market is attributing very little value to Welltech, the second and larger of the two acquisitions, which completed on 3 September, around a month ahead of expectations. We recognise the frustration around timing. The Fund participated in the \$65.3m fully underwritten placement at \$1.05 in late July, priced at a 0.5% discount to the last close. That paper is now ~26% under water, and investors were understandably upset that equity was raised alongside a combined acquisition story that unravelled seven weeks later. Still, we'd much rather management acknowledge when an acquisition won't work than force a poor fit that delivers medium-term earnings volatility. It is worth noting that two directors, including Managing Director James Clement, bought ~\$578k of shares on market the day after the announcement.

Welltech is a Canning Vale-based water and sewerage management business operating since 1995 across three units: construction water supply (hiring out water storage and pumping equipment on long and short-term arrangements), bypass operations (pumping that diverts live sewer flows so networks can be maintained) and water drilling. Clients include Melbourne Water, Water Corporation, BHP, Rio Tinto and John Holland. Vysarn paid \$37.25m in cash plus 12.14m shares upfront, which the company calculates as 3.6x EV/EBITDA on Welltech's unaudited FY26 earnings, with up to a further \$10m (half in shares, half in cash) payable over three years if Welltech reaches EBITDA targets of \$11m, \$12.5m and \$13m. On an EBIT basis Welltech is roughly 70% larger than NewGround would have been, and in our view the fit is cleaner too. The rental fleet provides an annuity-like earnings base, the bypass work deepens Vysarn's exposure to utility and wastewater spend alongside its existing Technology division, and the East Coast utility client base supports the strategy of diversifying away from WA resources.

It's our view that Vysarn's valuation is now undemanding for the

quality on offer. At ~\$0.78 the company has a market cap of ~\$490m, below where it traded before either acquisition was announced, even though the larger Welltech deal has now completed and the group delivered EBITDA margins of ~21% in FY26. In our opinion, management credibility is one of Vysarn's key strengths, with its leadership building a strong track record of delivering on guidance that has typically been set conservatively. FY26 was a case in point: revenue rose 31% to \$140.1m, EBITDA 36% to \$28.9m and NPBT 39% to \$20.9m, ahead of the \$20.0m target management reaffirmed in March, and Industrial enters FY27 with a new five-year Tier-1 drilling contract.

The more interesting debate, in our view, is VAM. Through a joint venture with the Kariyarra Aboriginal Corporation, VAM is developing the Kariyarra Water Scheme (KWS), a paleochannel groundwater resource in the Pilbara. The JV's application for a Section 5C licence (the WA licence that grants the legal right to take groundwater) is for up to 10GL per annum over 30 years. Demand is clear. Port Hedland, home to the world's largest bulk export port, draws ~14GL a year from the Yule and De Grey borefields, and in January Water Corporation called for third-party proposals to supply up to 10GL a year of additional bulk water from 2028, for a term of more than ten years. VAM has since been shortlisted to Stage 2 of that process. The market has started to attribute some value to KWS, with brokers now including it in their valuations, but we believe it still underestimates the potential. An asset capable of supplying volumes equivalent to ~70% of Port Hedland's current draw would, if contracted, be a long-dated, infrastructure-style earnings stream quite unlike the drilling business the market benchmarks Vysarn against.

The short-term catalyst is the potential 5C license, followed by offtakes and funding. The company is targetting the licence, a binding offtake or option agreement and in-principle infrastructure funding in the short/medium term. We acknowledge that dealing with Government as a counterparty can often take longer than expected, although we view this as a cheap call option, with asymmetric upside if successful. We're not underwriting a full 10GL outcome, but each step converts KWS from an aspirational option into a real project, and as the market comes to price it as real rather than aspirational, we think the stock will move higher.

The next milestone is the upcoming AGM, where we expect management to give more colour on the first few months of FY27 and the outlook, including Welltech's early performance and KWS progress.

2 Bloomberg, "US 30-Year Yield Hits Highest Since 2004 as Bond Selloff Deepens", 24 September 2026. <https://www.bloomberg.com/news/articles/2026-09-24/us-30-year-yield-hits-highest-since-2004-as-bond-selloff-deepens>
3 CNBC, "Treasury doubles debt buybacks as Bessent moves to steady bond market", 19 August 2026. <https://www.cnbc.com/2026/08/19/treasury-announces-upscaled-buyback-operation-for-longer-term-debt-sending-yields-lower.html>

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Overall, we believe September's sell-off has left Vysarn priced as though the NewGround setback undid the whole acquisition strategy, when in our view management's discipline protected shareholders and the larger, cleaner Welltech deal is already in the numbers. We think Vysan's operational businesses offer great value at these levels, with a potential for a re-rate on a successful KWS outcome.

⁴ CNBC, "Treasury Secretary Scott Bessent hires Wall Street economist David Zervos", 28 September 2026. <https://www.cnn.com/2026/09/28/david-zervos-treasury-department-scott-bessent.html>

⁵ Fortune, "Trump: Inflation is way to pay off national debt 'very rapidly'", 2 October 2026. <https://fortune.com/2026/10/02/trump-inflation-growth-national-debt-tariffs-ratio-balance/>

⁶ Royce Investment Partners, "3Q26 Small-Cap Recap", October 2026. <https://www.royceinvest.com/insights/small-cap-recap>

⁷ Termination of Acquisition of NewGround - 14 September 2026

⁸ Welltech Acquisition and Capital Raising - 28 July 2026

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