Monthly Report

OCTOBER 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.

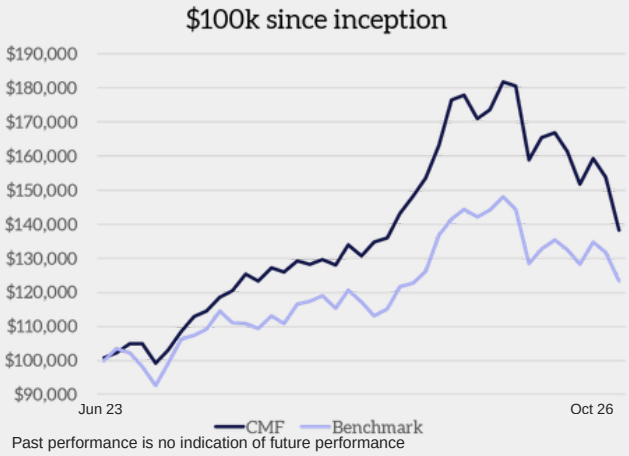
Fund overview

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

Fund performance

	Fund %	Index %	Excess %
1 Month	-10.1	-6.4	-3.7
1 Year	-22.3	-14.4	-7.9
3 Years (annualised)	11.7	10.0	1.7
Since inception (annualised)	9.9	6.4	3.5

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



Past performance is no indication of future performance

Monthly update

October was a brutal month for ASX small cap investors. The Small Ordinaries Accumulation Index returned -6.4% for the month and the Cerutty Macro Fund returned -10.1%.* Over the last three years, Cerutty's returns are annualising at 11.7%* per annum. Of significance during October, the Small Ords had fallen more than 20% from its peak, putting it in bear market territory.

On some days in October the selling felt like capitulation, with share prices of some stocks seemingly dislocated from company fundamentals. Investors cut their small cap exposure across the board, and with sentiment low there weren't enough buyers to absorb the selling without prices falling.

We have a bias towards small cap stocks, where we get better - access to management and can find under-researched ideas, but our mandate does allow us to invest in large caps and overseas stocks. Had we done this in a more material way, our trailing 12-month number may have looked better. Ultimately, we felt valuations of Australian small caps were attractive relative to other parts of the market, but we got the timing wrong on both the Iran war and peak interest rates in Australia. We like the saying that the scoreboard doesn't lie in markets, and over the last 12 months our scoreboard has been poor.

Our preference for under-researched companies has also worked against us. We still firmly believe this is where investors can earn strong returns over the long term. In a drawdown, though, institutional investors tend to retreat to well-researched names -

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Monthly update

that feel safer, and to align their portfolios more closely with the benchmark they're measured against.

The gap between ASX small and large caps suggests small caps look attractive on valuation, but we believe they still need a catalyst for broad, sustained moves higher. The graph below, versions of which have been doing the rounds among small cap managers, shows the relative performance of ASX large caps versus small caps. It shows small cap performance approaching historically low levels.

Aus Small Caps vs Large Caps: Relative Performance



Source: FactSet, Indicies S&P Small Ords & S&P/ASX 100, November 2026 *

We aren't short-term traders, and we continue to look for companies in sectors with strong macro tailwinds, high-performing management teams who have skin in the game, and conservative balance sheets.

We won't try to predict when the bear market in small caps will end. We expect volatility to stay high until there is a permanent ceasefire in Iran and the market agrees we've reached the top of the interest rate cycle in Australia. We don't believe small caps need rates to fall to rally, but the market does need to believe rates won't rise further. The local bond market may give us early clues. One sign could be Australian 2-year bond yields falling faster than 10-year yields, which would suggest the market expects rates to come down.

We know bear markets like this are stressful for investors, and Cerutty lagging the market over the last 12 months adds to that stress. But bear markets are also when prices can drift furthest from fundamentals, and that creates opportunities for investors who stay focused. In the meantime, we'll keep building our shopping list of companies we'd like to own, or add to, if valuations move away from what we believe the fundamentals justify.

Position Spotlight - Duratec Ltd – DUR.AX

Following a particularly weak month for data centre and data centre-exposed equities, we've taken a closer look at ASX listed small-cap contractors to see which businesses may have been unfairly caught in the broader sector sell-off. One that we think sits near the top of that pile is Duratec Ltd (ASX: DUR). Duratec is an engineering and asset remediation contractor operating across Defence, mining, energy and infrastructure, backed by a solid master service agreement (MSA) book adding a level of recurring work to the mix. Notably, Duratec has no direct exposure to the data centre build out in Australia yet traded ~15% lower in the month of October, following many of its peers lower. It's our view that as the dust settles, the contractors that are well diversified in markets experiencing strong levels of growth, will be well positioned to outperform once again.

Looking more closely at the business, one aspect we particularly like – especially in a more unpredictable Australian backdrop – is the relatively even spread of revenue across its operating divisions. In FY26, no single division contributed more than ~28% of group revenue, with Defence being the largest. This level of diversification adds a layer of quality relative to some of its peers, reducing reliance on any one industry or major project. We particularly like the exposure to Defence, which has been somewhat slow to gain momentum over the past couple of years, with the rollout of major projects taking longer than the industry has initially anticipated. However, we are beginning to see signs of this changing, with Duratec recently securing a $281m contract through its 50:50 JV with Ertech for infrastructure upgrades at HMAS Stirling in WA. We view this as an encouraging sign that the long-awaited Defence spending pipeline is beginning to translate into actual awards, with the HMAS Stirling contributing in both FY27 and FY28.

Whilst we're constructive to the view that many of these contractors have re-rated from their pre-cycle lows, we believe a well-diversified name with strong visibility on earnings growth is a good place to be. Adding the non-cyclical nature of some potentially very large Defence contracts, we think the current ~14x earnings multiple is fairly undemanding.

Looking at the numbers, Duratec's orderbook has grown materially over the past 12 months, again largely supported by several major Defence contract wins. As of August 2026, the orderbook stood at ~$650m, up from $390m at the same point last year, representing growth of ~67%. Management expects 70-80% of this work to be recognised in FY27, providing a high degree of revenue visibility for the year ahead. This excludes revenue generated through the group's MSA book, which contributed ~$185m of revenue in FY26 -

1 S&P ASX Indicies

Position Spotlight

and provides an additional layer of recurring work and visibility for the current FY.

At current levels, Duratec trades at a meaningful discount to most of its peers. A basket of ASX small cap contractors trade at an average FY27 PE of 18x and EBITDA multiple of 9 times – which places Duratec at a ~20-30% discount. We view this as an undemanding multiple for a business expected to deliver >20% top line growth in FY27, particularly given the strength of its balance sheet ($40m net cash excluding leases), and improved forward looking visibility.

In summary, we view Duratec as a quality, well-diversified contractor with strong earnings visibility and exposure to some attractive structural tailwinds, particularly across Defence. At current valuation levels, which we believe reflect the broader sell-off in contracting names rather than any deterioration in the underlying business, we see an attractive entry point into a company with a growing orderbook, strong balance sheet and the potential for further growth in FY28 and beyond.

2 Duratex ASX FY26 Annual Report
3 https://www.duratec.com.au/news/duratec-ertech-jv-dejv-awarded-281m-contract-at-hmas-stirling-for-department-of-defence/
4 FactSet Consensus Data (Duratec + Contractor peers - SXE, GNP, MND)

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