MONDAY FUNDIE

MATTHEW KIDMAN

FUND MANAGER
CENTENNIAL

The veteran fund manager is preparing to pounce on the smaller end of the sharemarket.
PHOTO: DOMINIC LORRIMER

Looking towards a small-cap resurgence

Alex Gluyas

As investors cheered another record high for the Australian sharemarket during the February reporting season, Matthew Kidman was growing increasingly worried.

The fund manager veteran was alarmed by the wild swings in stock prices – among the most volatile on record – so he rapidly built up cash in Centennial Asset Management's Level 18 Fund to 30 per cent by the middle of February.

That coincidentally marked the top of the market as concerns about US President Donald Trump's aggressive trade policies kicked off six weeks of turbulence that prompted Kidman to double down on his cash allocation.

By the time Trump announced his "liberation day" tariffs on April 2, which would erase trillions of dollars in market value, Kidman had upped the cash levels to 50 per cent of the portfolio and had taken shelter in large-cap stocks such as Coles, Telstra and AGL Energy.

While Kidman's long-short strategy is primarily focused on ASX-listed small- and mid-cap shares, it can invest more broadly and take the cash allocation to any level, which he says gives Centennial an edge over rivals.

"The flexibility allows us to defend ourselves against bad markets and take advantage of better markets," the Sydney-based fund manager tells *The Australian Financial Review*.

"So we've started to churn some of these large caps out over the past few weeks, which had served us well defensively ... but now we're thinking it's better to get back on the bike we ride normally and take on more risk."

And so he's been busy redeploying cash back into the market, about 10 per cent, and plans to spend a large chunk of the remaining 40 per cent over the next six weeks.

He snapped up Macquarie following the sale of its North American and European public asset management unit two weeks ago and has also added laboratory services giant ALS.

Kidman has deliberately stuck to the larger end of the sharemarket before this week's Macquarie Conference, which is expected to throw up some curveballs. Often referred to as the start of "confessions season", it is where companies tend to shuffle guidance expectations.

"We walk into the Macquarie Conference expecting to get some pretty negative corporate news," he says.

"I think most companies are going to say it's been a reasonably difficult six months, not because the economy is terrible, but because of bad weather, unusual holidays and the lead up to the federal election – none of that is conducive to strong earnings results."

So far, the strategy looks to be paying dividends. The fund's 11.4 per cent one-year return compares to 2.2 per cent for the benchmark All Ordinaries Accumulation Index and 1.3 per cent decline for the S&P/ASX Small Ordinaries Accumulation gauge.

Since its inception in 2012, the fund has delivered a net return of 12.2 per cent each year versus the benchmark's 9.4 per cent.

Returns have been fuelled by timely bets on companies such as Generation Development Group, RPM Global and Zip. More recently, holdings in Bega Cheese, Codan and ClearView Wealth contributed the most in March.

As for what the second half of the year holds, Kidman is more bullish than many of his peers. He believes the Trump administration will negotiate deals with America's major trading partners, including China, that will help avoid a significant global recession.

Still, Kidman expects the Reserve Bank of Australia to cut the cash rate up to five times this year, which would inject fresh momentum into household spending and boost consumer-facing shares.

Centennial has a rich history in backing ASX-listed retailers, having made a fortune by investing in Universal Store and Beacon Lighting. This time around it is watching Nick Scali along with property developers Mirvac and Stockland, as the RBA resumes its easing cycle.

Kidman's also bullish on companies exposed to south-east Queensland before the 2032 Brisbane Olympics because the state government is taking the "expensive" path to building a new stadium and other facilities. It means companies such as construction materials business Wagner and scaffolding company Acrow are in his sights.

It's a different story for Victoria, according to Kidman, so the fund manager has avoided investing in companies with a heavy exposure to the southern state because it's lagging the rest of Australia.

"Every company we speak to says Victoria is the problem," Kidman says. "For Australia to kick on, Victoria needs to join the party, but that's hard because the government is financially stretched and people have lost confidence."

So he has focused on domestically exposed businesses that operate along Australia's east coast, which have also become a relative safe haven for investors given they are more insulated from Trump's tariffs.

That's because he's still wary of a worst-case scenario where there is no deal between the US and its biggest trading partners on tariffs, demand contracts and the global economy falls into a recession.

Historically, that scenario has triggered a 25 per cent to 35 per cent decline in corporate earnings and caused the sharemarket to collapse by about 30 per cent from its most recent peak.

"If that recession happens, then the sell-off we saw was probably only half the story," he says. "We're still not completely certain which way it will go ... so we're sitting at that in-between phase currently."

The investing veteran and co-founder of Centennial has seen his fair share of tumult after almost 30 years in the industry, but his pathway into financial markets was a little less conventional.

After studying economics and law at Macquarie University as a "middle-of-the-road" and "muddling" student, Kidman secured a clerkship at boutique law firm Norton Smith in the early 1990s and struck up a rapport with managing partner David Rose.

The pair regularly played squash together and while Kidman had hoped the summer job would lead to something more permanent, Rose delivered a brutal reality check: "You're not going to be a very good lawyer, you'll find something better."

So after struggling to find work, he went backpacking around Europe where, when trying to read local newspapers, it sparked an interest in journalism. He got his first gig at a suburban newspaper called the *Macarthur Chronicle* in Campbelltown before landing a role at the *Sydney Morning Herald*, where he finished up as the business editor in 1998 after five years.

That's because veteran fund manager Geoff Wilson offered him a job at his freshly launched Wilson Asset Management.

Fast forward to the early 2000s and Kidman was running a presentation for Wilson's clients when Rose, coincidentally a WAM shareholder and among the audience of 300 people, yelled, "I told you you'd find a better job!"

Kidman worked as a portfolio manager and chief investment officer at WAM for 13 years before joining forces with Gary Joffe, who had just left Ellerston Capital, to form Centennial Asset Management.

While the pair intended to solely manage their own money, which they did for the first three years when Centennial had just one external client, they eventually opened up to a limited amount of outside capital.

Centennial's principles, including Kidman and Joffe, remain the biggest investors in the Level 18 Fund, accounting for 20 per cent of the total capital. And while funds under management currently sit at about $230 million, the plan is to cap it at $300 million.

Emerging markets roar back a month after tariff shock

Equities

Bailey Lipschultz

A month after President Donald Trump's April 2 tariff offensive, some emerging market equities have come back stronger as the countries stay clear of the US-China dispute and governments strive to clinch a deal with Washington.

Equity benchmarks in India, Mexico, Brazil and South Korea have recouped all of their losses since the tariff shock and are among the best performers globally. Chinese and Hong Kong stocks have stumbled as a stand-off between Washington and Beijing continues.

In currencies, Trump's policy whiplash has driven investors to havens such as the Swiss franc, which has strengthened more than 6 per cent versus the greenback since April 2. The euro has also fared well, with its gains bolstering emerging-market currencies in Central and Eastern Europe.

Investors are turning their focus to potential winners from a new world order fashioned by Trump as markets return to a semblance of calm. Should the odds of a US recession grow, the pivot away from US equities and dollar-based assets may continue. The MSCI All Country World gauge, excluding the US, has surged more than 9 per cent this year, while US benchmarks sit firmly in the red.

"Emerging market equities stand to be beneficiaries of the US trade rebalancing," said Michael O'Rourke, chief market strategist at JonesTrading. The asset class has benefited from "the US-China decoupling and there is tremendous room to grow that relationship if deals are struck with the Trump administration", he said.

Japan, India and South Korea are among countries jockeying to get initial deals closed. Investors have been quick to snap up equities from those nations, expecting bigger gains should agreements be reached in the coming weeks.

Stocks in Hong Kong and China have lost their sheen after an early 2025 rally driven by optimism about artificial intelligence, as geopolitical tensions keep investors on edge. The Hang Seng China Enterprises Index has lost about 4 per cent since April 2, trimming its year-to-date advance to 16 per cent.

While signs emerged that the Sino-American stalemate could break, the negotiation process is likely to take months, if not longer. China said on Friday it was assessing the possibility of trade talks with the US and urged officials in Washington to show "sincerity".

"There appears to be no quick or clear path to de-escalation between China and the US at this time," said Jeff Wilson, portfolio manager at Jensen Investment Management. "However, international markets sans China have a clearer path to resolution and de-escalation."

In addition to its lure as an alternative destination to US assets, the euro has rallied as investors expect the European Union to boost military spending after Washington cast doubt over its commitment to the bloc's defence.

Still, years of gains in US equities mean some investors see the current underperformance as more of an anomaly. Indeed, the rebound in US stocks has been strong, with the S&P 500 climbing 14 per cent from its April low. The benchmark posted a ninth straight day of gains on Thursday, although underwhelming company results may pause that rally.

"We are currently positioned as overweight US and emerging markets, which screened as attractive areas even prior to the trade war and remain high in our country ranking," said Josh Kutin, senior portfolio manager and head of multi-asset solutions for North America at Columbia Threadneedle Investments.

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