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	5.40%	7.23%	-1.83%
3 Month	3.86%	8.52%	-4.66%
1 Year			
Since Inception - 1 June 2023	8.68%	6.45%	2.23%

Fund Overview

Portfolio Management	Chris Judd
No. Investments	15-40
Type of Investments	Long only Australian listed equities Global listed equities
Time Horizon	3+ years

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

Monthly Update

The conclusion of the 2023 calendar year witnessed strong market performances. In the US, the S&P 500 surged by 4.42% in December, accompanied by significant growth of 5.6% in the Nasdaq. Meanwhile, in Australia, the ASX Small Ordinaries Accumulation Index delivered a return of 7.2%, while the Cerutty Macro Fund finished the month with a 5.4% increase.

Throughout December, capital continued investing in trends that had previously demonstrated strength in 2023. Equities, gold, bonds, and tech stocks all showcased impressive performances. Optimism stemmed from the Federal Reserve's shift in stance, with widespread anticipation that US interest rates are poised to decline throughout 2024, thereby prompting many investors to increase their appetite to risk.

While the end of calendar year 2023 saw investors chase themes that had been working throughout the year. The start of a new year means many professional investors (particularly in the US) start with their P&L at zero and can lead to a shift in sentiment as new ideas are explored.

One prevailing theme we're contemplating revolves around the trajectory of inflation. Will it sustain a steady decline, as witnessed throughout 2023, or could the Fed's policy shift and the relaxation of financial conditions lead to persistent inflation levels higher than the Fed's 2% target?

While we acknowledge the potential for inflation to continue its downward trend, supported by slower US growth and the looming possibility of a 2024 recession. Significant fiscal deficit spending decreases the likelihood of this occurring. Coupled with 2024 being a US election year creating an increased incentive for the government and Fed to avoid a recession through policy actions.

We also factor in ongoing conflicts in the Middle East, potentially causing disruptions to supply chains and oil price escalations. Added with the Fed's policy pivot and the easing of financial conditions, our core projection leans toward inflation persisting above the Fed's 2% target for a longer duration than currently anticipated by the market.

We don't foresee a return to the cycle high’s for inflation experienced in recent history, but we do anticipate it will remain higher than the consensus forecasts.

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Monthly Update

In light of these considerations, one trade that continues to capture our interest is Uranium and its role in providing base load power in a world looking to de-carbonise without reducing living standards.

The rise in the world's energy consumption aligns with the advancement of living standards, owing to the increasing reliance on numerous technologies that hinge on electricity. Moreover, increasing numbers of electric vehicles, the integration of previously unconnected objects into the digital realm and breakthrough technologies such as AI, underscore the pivotal role electricity plays in our modern era.

This pervasive "electrification of everything" unfolds amidst a global drive toward curbing carbon emissions. Initially, renewable energy sources like wind and solar were hoped to be able to satiate the world's soaring energy needs. However, commercial realities, higher cost of capital and increasing input costs have made the transition to these energy sources more challenging than initially hoped.

The recent share price performance of some companies operating in this space illustrates the challenges confronting these firms (below).

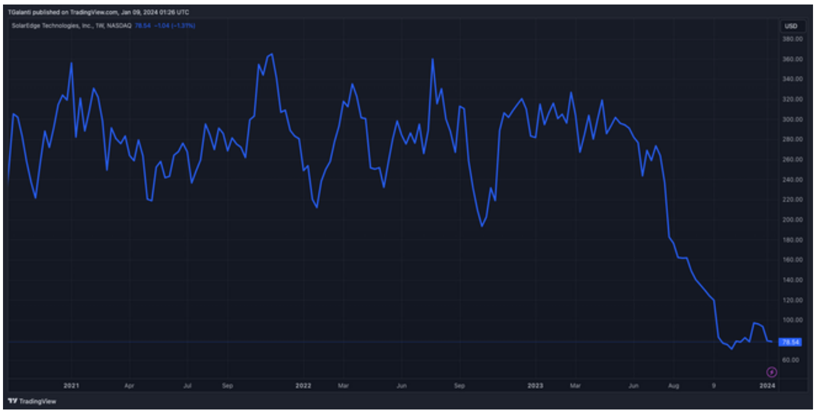
SolarEdge specialises in solar, batteries, EV charging stations and inverters among other products for homes and businesses while Orsted specialises in solar and wind energy production.

It's been a hard road of late for investors in these two stocks but their challenges have been industry wide and not unique to these two businesses.

Whilst clean energy infrastructure indexes have underperformed since 2021, Uranium producers and nuclear power providers have broadly outperformed. Wind and solar will continue their essential role as renewable intermittent energy sources, although clean baseload power will require significant investment to meet long-term emission reduction targets.

Only recently, the French Energy Transition Minister announced an additional 8 reactors (on top of the 6 recently announced) in order to meet their goal of reducing fossil fuel dependency from 60% to 40% by 2035.[1] As outlined in the short *spotlight* below, we suspect governments globally will continue the push towards nuclear power as an alternative to fossil fuels.

SolarEdge Technologies



Source: Trading View Jan. 9 2024

ORSTED

Source: Trading View Jan. 9 2024

1. Reuters, 2024. https://www.reuters.com/world/europe/nuclear-debate-nears-french-minister-sees-potential-14-new-reactors-2024-01-07/

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Position Spotlight - Uranium

The Fund has been overweight Uranium since August, contributing to some of the outperformance to date. Whilst the commodity's rise in 2023 has garnered some mainstream attention in recent months, we continue to believe favourable market dynamics will see U3O8 materially higher in 2024 and beyond.

Hedge Funds Pile Into Uranium Stocks Set for 'Dramatic' Rise

- Uranium prices have soared 125% since the end of 202
- IEA estimates global nuclear capacity needs to double b

By Sheryl Tian Tong Lee
29 October 2023 at 18:00 GMT+11
Updated on 30 October 2023 at 17:22 GMT+11

Uranium Exceeds $80 for First Time in More Than 15 Years

- Futures for yellowcake rose about $80.25 a ton on Monday
- ongside disrupted mines drives long rally

Uranium's Epic Rally Says Lots About the World Right Now

Climate change will continue to spur demand for the metal while traders are betting on the growing risk of geopolitical disruptions to supply.

27 November 2023 at 23:30 GMT+11

To give some context to the trade and the Uranium market more broadly, we are currently experiencing a type of nuclear 'renaissance,' where governments are looking towards nuclear power as a long-term solution to their emission reduction goals. Some point towards Fukushima in 2012 for the demise of the industry, although it's best to go back to the Three Mile Island partial meltdown in 1979 and the Chernobyl disaster in 1986 to understand the long-standing hesitancy to nuclear power. This reversal in energy policy globally lead to an oversupply in the U3O8 spot market and a price far below production costs for many producers. This included the Honeymoon mine in South Australia which began operations in 2011, although quickly fell into care and maintenance in 2013 due to operational issues and a rapidly falling uranium price. The mine was sold to Boss Energy (owned) in September of 2015 and has recently recommenced production, with the expectations of its first sale in the first quarter of 2024.

Experts now believe that a combination of no new operating mines, depleting reserves and production issues have pushed the physical market back into deficit, which is likely to extend out for most of this decade due to the lag of new supply.[2] In recent years we have seen a broad reversal of the anti-nuclear thesis, highlighted recently at the COP28 conference, where over 20 countries declared they would triple nuclear capacity by 2050.

The spot price has since rebounded off the ~$20/lb lows of 2017, reaching a current 15-year high of ~$92/lb. Prices have risen sufficiently above production costs and some new supply is expected to be contracted out over the next few years, although still insufficient to close the growing supply gap. Whilst the price of the commodity has risen substantially over the past 24-months, we believe the rally can extend into 2024 and beyond. Sprott Asset Management CEO John Ciampaglia, who runs the Sprott Physical Uranium Trust – a Trust that purchases physical U3O8 for short-term delivery off the spot market – recently noted that they've found it difficult to purchase even a relatively small amount of pounds on market, potentially foreshadowing supply issues on the horizon for utilities. He added that for the first time in years, he suspects uranium producers were buying off the spot market to fill supply contracts, further highlighting potential production issues and foreshadowing production downgrades from producers in the near future.[3]

2. Goehring & Rozencwajg - Natural Resource Market Commentary 'Golden Foresight: When Speculation Meets History.' 15 August 2023
3. Macro Sunday #17 Podcast - 'The Nuclear Option. Guest: John Ciampaglia.' 1 October 2023

Position Spotlight - Uranium

Source: Trading View, 28 December 2023

Uranium equities have closely followed the performance of the underlying commodity up until November of 2023, although has since begun to lag against the quickly rising spot price. The Fund's uranium positioning is biased towards producing and near-term producing (<6-months) assets, which most closely follow the above trend and have benefited most from the recent rally when compared to their explorer peers. Whilst not chartists, we've seen the divergence between equities and spot price many times throughout the cycle. Given how tight the spot market is, if prices are to remain at current levels - or continue moving higher - we expect to see producers catch up quickly over coming months.

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