June 2023

CERUTTY
MACRO FUND

441 Little Bourke St, Melbourne, Vic 3000 | chris@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	.77%	.03%	.74%
3 Month			
1 Year			
Since Inception - 1 June 2023	.77%	.03%	.74%

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

While the major US indices had a very strong June performance, markets in Australia have been more subdued with our benchmark index, the ASX Small Ordinaries Accumulation Index up .03% and our portfolio returning .77% after fees. Liquidity at the small end of the Australian market is still low, and coupled with tax loss selling made it a challenging month for many micro-caps that have underperformed over the last year.

Of the different economies we analyse, we spend most of our energy on the US as it's the world's largest and most important economy. We currently find ourselves in an environment where whatever your bias, there's an ability to find data to support it and an equally reasonable counterpoint supporting an opposing view. One such example is the manufacturing and construction sectors in the US which have historically been excellent leading indicators of the economy and during previous recessions have accounted for significant job losses. While US manufacturing jobs growth has turned slightly negative (-2,000 in the BLS May employment report released June 2nd), construction jobs growth is holding up (+25,000). US building approvals strengthened up 5.2% in May from April's figure as shown by The U.S. Census Bureau report released in June. Considering the US housing market is soft, this increase in approvals was counter intuitive and we put it predominantly down to US homeowners with low 30-year fixed rate mortgages being largely unwilling to move and enter into a new home loan at much higher rates unless they're forced to do so by life circumstances (divorce, change of employment in different area, etc). This has left US home buyers with limited stock to choose from, encouraging them to build a new home instead of buying an existing one.

As the US has become more of a service-based economy, some commentators believe the manufacturing and construction sectors have become less important as leading indicators. We take the opposing side to this argument and believe their importance as leading indicators remains. We don't want to exhaust the point but believe the above illustrates something we're seeing in many parts of the US economy, where data points are giving both bulls and bears reasons to confirm their views. Needless to say, we're staying extremely flexible in our views and closely observing the information the market and economy is giving us.

Flexibility was also demonstrated by Federal Reserve Chairman Jerome Powell in June who paused interest rate hikes but then proceeded to say that he expects interest rates in the US to continue rising later in the year. We put more emphasis on what central banks do than what they say, so viewed the June pause by the Fed as a positive for markets. Other central banks around the world were mixed with their monetary policies, the ECB, RBA, BOC and BOE all raised rates in June while the People's Bank of China lowered rates.

Broad based liquidity measures were also mixed, the debt ceiling in the US was lifted, enabling the Treasury Department to re-fill the Treasury General Account (US Government's operating account).

June 2023

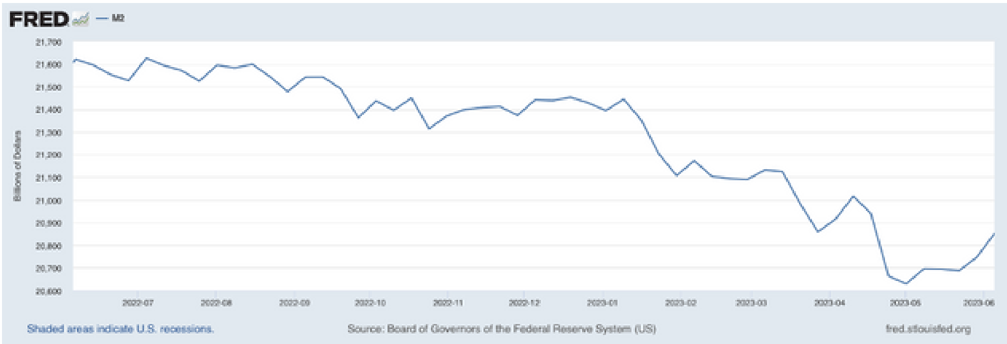
CERUTTY
MACRO FUND

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

Monthly Update

Re-filling of the TGA is a reduction in short term liquidity but this was largely neutralised by a drawdown in Reverse Repurchase Agreements (RRP drawdowns are considered an increase in short term liquidity).

US M2 has ticked up recently but is still deeply negative over the last 12 months. Along with the inverted yield curve, there are clues to say that it's too early to declare that the recent US banking crisis is over. We're watching the potential write downs on US commercial real estate values and private equity as possible catalysts for the next challenges that US banks may face.



So how are we positioning ourselves in equities to express these views? We currently have a bias towards low PE stocks and companies whose goods and services are required even in softer economic times. Companies we own are exposed to long term macro trends which have the potential play out over multiple business cycles. We're holding higher levels of cash than what we would normally expect to given we're trying to exercise patience in allocating to some small cap positions we like. We're also not yet confident broader liquidity has turned positive and continue to be cautious around the negative yield curve in the US, challenges facing the US banking system and in turn credit availability to businesses, particularly smaller businesses.

Some of the sectors we're most excited about from an investment perspective include the Uranium sector (~9% position) as forecast supply deficits are incentivising new off-takes being entered into between producers and utilities.

An unpredictable geopolitical environment as shown by Russia's 24-hour coup, leaves us expecting defence spending (~9% position) to continue being a high priority for governments around the world.

We also feel that the difference in valuations between small cap and large cap stocks are starting to make small cap industrials look appealing when compared to their larger counterparts.

We have a significant exposure to gold mining equities (~7% position) which has been a drag on this month's performance. We still like the position as we think it may assist the portfolio's performance should the banking challenges in the US increase or if US recession fears grow and expectations for monetary stimulus build but we also feel that if the US is serious about re-building its manufacturing capacity it would be assisted by a weaker USD over time which could be constructive for the gold price.

CERUTTY
MACRO FUND

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

Disclaimer