May 2024

CERUTTY
MACRO FUND

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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	4.15	-0.05	4.20%
3 Month	10.93%	1.53%	9.40%
1 Year	25.38%	10.92%	14.46%
Since Inception - 1 June 2023	25.38%	10.92%	14.46%

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

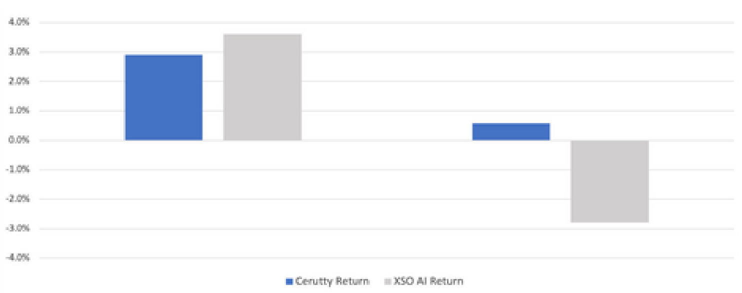
The end of May marked a significant milestone for the Cerutty Macro Fund, as it completed 12 months since its inception. While it is too early for any victory laps, we would be remiss not to thank our investors for their trust in us to manage their capital alongside our own and that of our families. It's a responsibility we do not take lightly, and we remain fully focused on continuing to grow that capital over the long term.

In its first year, the Fund's success was primarily driven by the expression of non-consensus views. These included the belief that inflation would remain stubbornly above the Fed's targeted 2%, that US interest rates would be slower to come down than the market anticipated, and that the long-standing inverse correlation between gold and real rates had broken down post the US sanctions on Russia's FX reserves in March 2022.

Over the course of the first 12 months, the portfolio focused on companies with strong cash flows, robust balance sheets, and clear catalysts for revaluation. This positioning resulted in a full first-year return of 25.38% after fees, compared to the benchmark's 10.92%, representing an outperformance of 14.46%. While the Fund's mandate allows for international equities, providing flexibility, our bias is towards Australian-listed equities. However, when we have high conviction in a particular theme and cannot express that view in a locally listed business at a reasonable valuation, we will look to execute that idea offshore. As of the end of May 2024, our exposure to international listed equities was approximately ~7%.

Positive outcomes from these non-consensus views resulted in only two months of negative returns, compared to the benchmark's five. During months of poor market performance, the portfolio held up well, averaging +0.53% compared to the market's -2.78%—an outperformance of 3.31%. During positive months, the Fund returned an average of 2.89%, compared to the benchmark's 3.61%, resulting in an underperformance of 0.72%. Most of this underperformance can be attributed to the portfolio's initial 12-month positioning away from tech/growth and towards value as it was often higher growth style companies that outperformed during positive months over the last year.

Positive market (avg) **Negative market (avg)**



Source: Cerutty Macro

Gold's divergence from real rates

Source: Michael Ashton, E-piphany

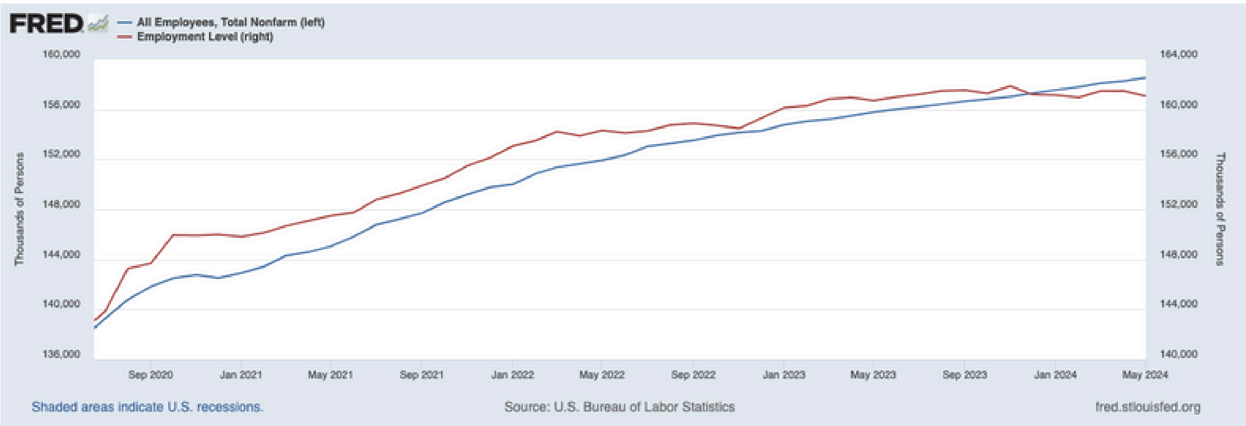
Monthly Update

While “review” is an important part of our job as investors, the most crucial aspect is observing today’s happenings with a view towards tomorrow. We understand the challenges of predicting the future, which is why our goal is not to be perfect but merely “less wrong” than the market regarding what will happen next.

Most of the themes we’ve invested in continue to interest us. These include the electrification of everything, increasing electrical grid requirements, cost of living pressures, and the impact of population growth in Australia. Other long-term secular trends include currency debasement and aging demographics, all of which our invested companies have exposure to.

The current cycle has been driven more by income growth in the US, both from increased wages and government handouts, rather than increased credit as seen in recent cycles. However, there are some signs of softness in the US economy, which has shown incredible strength largely due to the US government running deficits of ~7% of GDP—an unprecedented amount outside of world wars.[1] While the headline numbers for the June Non-Farm Payroll were strong, adding 272,000 jobs, and the wage increase was 4.1% year over year (higher than the forecasted 3.9%), there are conflicting data points regarding the US labor market. These include the unemployment rate rising from 3.9% to 4%, decreased job openings (JOLTS), a drop in the labor force participation rate, and discrepancies between the establishment survey and the household survey, which reported a loss of 408,000 jobs.[2]

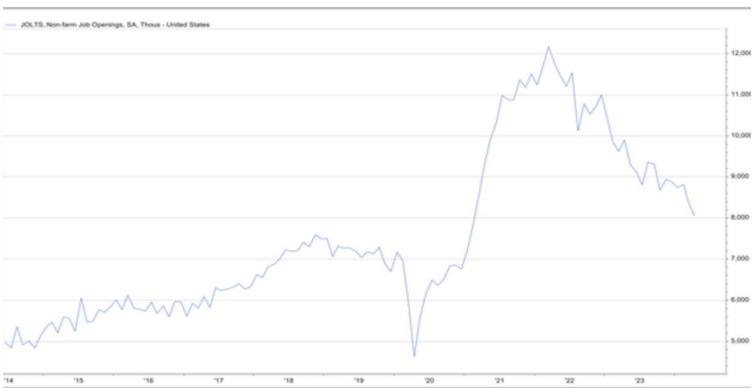
Household surveys v. Establishment



Source: FRED, U.S. BLS

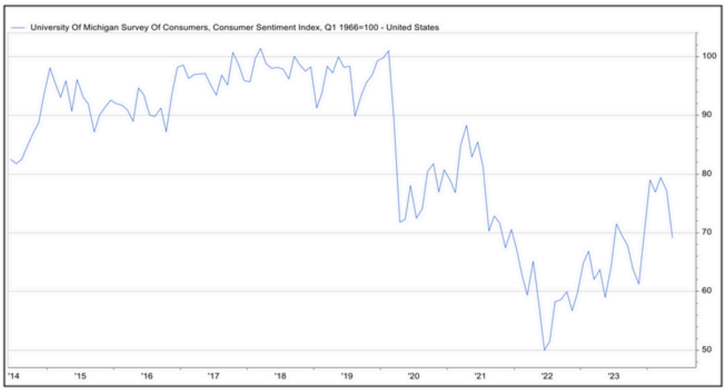
Consumer confidence in the US also shows mixed results. The University of Michigan’s consumer sentiment index decreased to 69.1 in May from 77.2 in April 2024. Additionally, total commercial bankruptcies in the US increased by 22% in the first quarter of 2024 compared to the same period in 2023, painting a picture of an economy starting to struggle with higher interest rates, inflation, and the removal of emergency subsidies provided during the COVID-19 pandemic.

JOLTS Report



Source: Factset

Uni Michigan Consumer Confidence



Source: Factset

1. https://www.cbo.gov/publication/59946#:~:text=The%20Federal%20Budget&text=Measured%20in%20relation%20to%20gross,to%206.1%20percent%20in%202034.
2. https://www.reuters.com/markets/us/us-job-growth-expected-remain-moderate-pace-may-2024-06-07/

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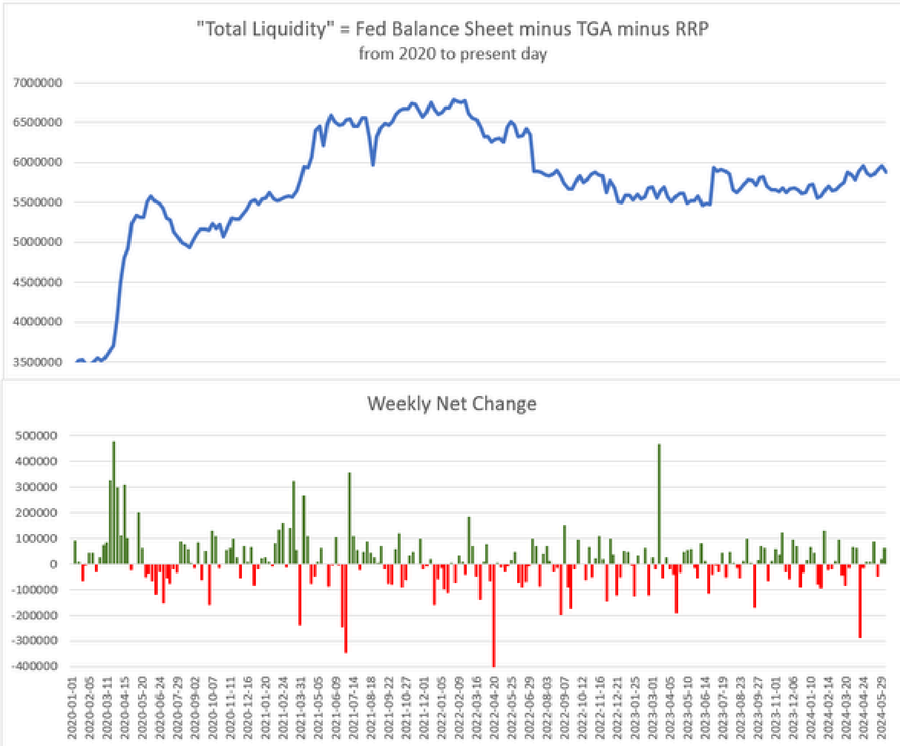
Monthly Update

While acknowledging the softening economic landscape in the US, we remind ourselves that the economy is not the same as asset prices. From our perspective, the most important correlation to asset prices is financial market liquidity. In this respect, we are more bullish and feel that the softening data points have increased the likelihood of a stronger liquidity environment ahead.

Things we continue to monitor from a liquidity perspective include the increased use of T-Bills to finance US government deficits by drawing on the RRP instead of bank reserves, and the spending down of the TGA, which currently sits at ~US$675b. [3]

Total Market Liquidity - U.S.



Source: Kevin Muir, @themacrotourist

We're also observing new measures such as Freddie Mac's proposed product, which makes it easier for US homeowners to use home equity for a second mortgage without sacrificing their home loan terms. In the US, these are generally 30-year fixed-rate mortgages. The proposal is yet to be approved, but if it's passed by the Federal Housing Finance Agency (FHFA), estimates suggest it could inject between ~US$800 billion and US$1.5 trillion, if Fannie Mae creates a similar offering.[4]

We are also at the beginning of a Fed bond buyback program aimed at improving liquidity in the US government bond market. The first buybacks from this operation occurred in late May, marking the first regular buyback initiative since the early 2000s. The Treasury plans to buy up to $2 billion per operation in nominal coupon securities and up to $500 million in Treasury Inflation-Protected Securities (TIPS). While still relatively small compared to the vast amount of bonds the Treasury needs to sell, we're watching to see if this operation will create a more meaningful liquidity boost in the future.[5]

3. https://en.macromicro.me/collections/9/us-market-relative/34339/us-treasury-general-account
4. https://www.americanactionforum.org/insight/the-freddie-mac-second-mortgage-proposal/?t..
5. https://www.reuters.com/markets/us/debt-buyback-program-set-improve-liquidity-says-us-treasury-official-2024-06-05/

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Cerutty Macro Fund's Target Market Determination is available https://ceruttymacrofund.com.au/wp-content/uploads/2023/05/Cerutty-Macro-IM.pdf A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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