

Cerutti Macro

Cerutti 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. Cerutti's investment process is:

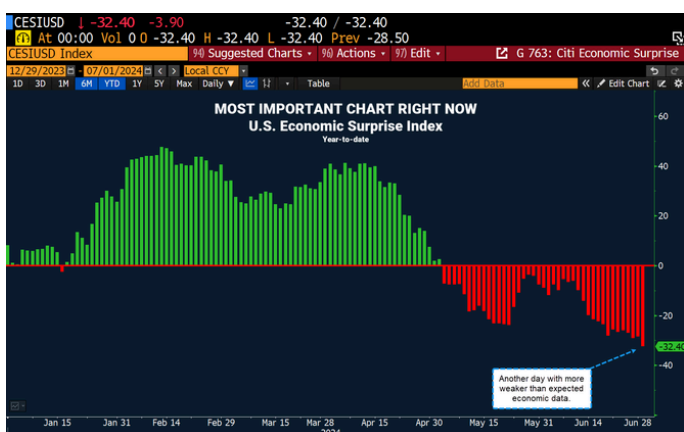
- Macro Themes
- Liquidity Cycle
- Bottom-up

Monthly Update

The final month of FY24 saw the Nasdaq continue its blistering run with a 6% gain, while the S&P 500 returned 3.6%. Many have begun to question the lack of breadth in the US market, which has become dominated by a few tech mega caps. This was evident as the Russell 2000 declined by -0.9% in June. In the Australian markets, the All Ordinaries Accumulation Index had a -1.4% return, while the Cerutti Macro Fund declined -1.7% for the month.

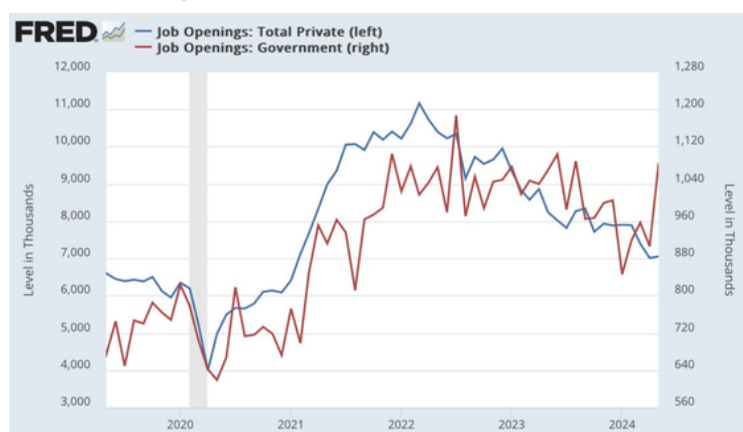
There are plenty of signs emerging that the US economy is entering a soft patch. Some indicators include poor ISM survey results, ugly readings from the Citi US economic surprise index, a weakening private jobs environment and a softening property market.

U.S. Economic Surprise Index



Source: The Macro Tourist, July 2024

U.S. Job Opening (public v private)



Source: FRED, July 2024

While the softer economic data will weigh on some asset prices, it also opens up increased liquidity options for central planners in the US, whether at the Treasury or the Federal Reserve. Some of the liquidity measures already announced or currently in progress include the opening of USD swap lines between the US and the Bank of Japan, the US Treasury's bond buyback program, Freddie Mac's proposal for second mortgage products, potential interest rate cuts and the spending down of the Treasury General Account (TGA).

There is ongoing debate about whether a significant market correction will occur before rate cuts are implemented in the US. This has been the case in the last two rate-cutting cycles. While this is possible, it's also conceivable that with US Government Debt/GDP at such a high level and liquidity challenges in the US Bond Market already existent, the Federal Reserve may prefer to improve the liquidity landscape before an emergency like the GFC or Covid-19 lockdowns occurs.

Fund Performance

| | Fund % | Index % | Excess % |
|-------------------------------|--------|---------|----------|
| 1 Month | -1.68 | -1.39 | -0.29 |
| 3 Month | 4.63 | -4.46 | 9.09 |
| 1 Year | 22.54 | 9.34 | 13.20 |
| Since Inception - 1 June 2023 | 23.27 | 9.38 | 13.90 |

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

We currently have a bias toward companies exposed to robust sectors of the economy, such as data centre capex, superannuation flows in Australia, ageing demographics, currency debasement, and Australian population growth due to immigration. We also favour companies that are producing good levels of cash flow with strong balance sheets. If large amounts of liquidity is injected into the financial system, some of these companies may underperform as outperformance might come from companies with more stretched balance sheets that rely on liquidity support. However, if there is a significant market correction before substantial liquidity is introduced, we hope these companies will hold up better than many of their peers in softer sectors of the economy or with less secure financial positions.

In the back end of June, Cerutty visited Perth for Euroz's 'Bespoke Industrials Forum,' catching up with management of a few key portfolio positions and evaluating other interesting industrial plays based out of WA. Below are a few notes from meetings with DUG Technology, Vysarn, and Southern Cross Electrical Engineering.

Cerutty x Perth Portfolio Updates

DUG Technology:

CEO Matt Lamont gave a solid update on the new compute installations and the broader competitive landscape of the seismic imaging market.

- DUG continued their installation of the 1,500 AMD EPYC Genoa computers throughout June, with an expectation that all workloads using third-party compute would be migrated upon commissioning.
 - Cash generation is set to improve significantly once third-party compute costs end.
- The Middle East opportunity continues to excite management, with a rapidly expanding workforce in Abu-Dhabi.
 - The current pipeline of potential work is \$65m – this should quickly expand as management expand sales teams.
- Matt Lamont believes more of the market is shifting towards their MP-FWI, with an expectation for further growth through FY25.

Vysarn:

MD James Clement has had a great run of solid company presentations, this was no exception.

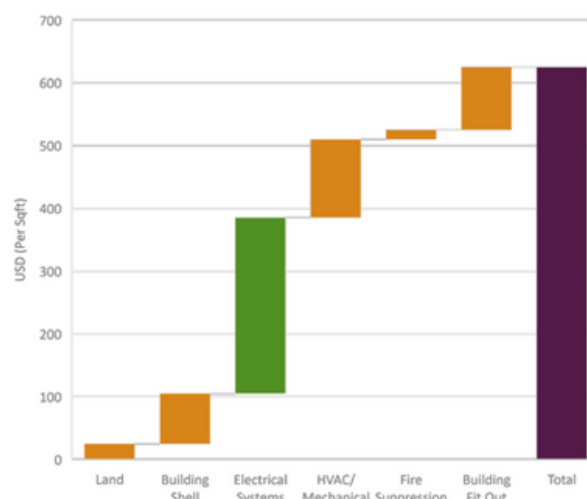
- Management sees opportunities to significantly increase earnings before tax (EBT) through both organic growth and acquisitions.
- Vysarn Asset Management continues to look like a "company maker."
- Recently awarded 26D license allows Vysarn to conduct drilling and test pumping programs on their land, which is estimated to have 50-60GL.
- Has already commenced conversation with potential off-take partners who are very supportive of new water pipeline projects.
- Large infrastructure asset managers already pushing for a "portfolio" of pipeline builds.

Southern Cross Electrical Engineering (SCEE):

Southern Cross Electrical continues to be one of the best ways to play the broad electrification trend in Australia – particularly through their exposure to data centre and large battery rollouts.

- Tendering on >\$500m worth of data centre works to be awarded over the next 2-years. Management believes this pipeline will significantly increase in size over coming years.
- Electrical systems – SCEE's area of work – makes up the single largest input cost per square foot of data centre construction. (*Figure right*)
- Balance sheet remains strong with \$65m cash and zero debt.
- SCEE was awarded its biggest ever initial award in May of \$160m for the Collie Battery Energy Storage System in WA.
 - Announced in July was an additional ~\$50m for Collie Battery Switchyard works.

Data Centre Spend per sqft



Source: SXE Company Presentation, 18 June 2024

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