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	-0.89	-2.02	1.12
3 Month	0.67	-0.01	0.68
1 Year	21.07	8.51	12.56
Since Inception - 1 June 2023	26.05	10.91	15.14

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.

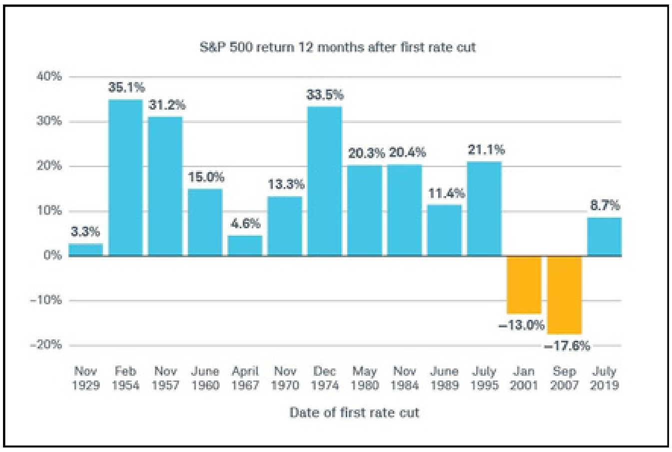
Monthly Update

Global markets experienced significant volatility in August, with three key themes dominating the landscape: a softening US labor market, appreciation of the Japanese Yen coupled with rising interest rates in Japan, and weak economic data from China. Despite these challenges, the S&P 500 delivered a 2.4% return for the month, while the Nasdaq posted a modest 0.7% gain. In contrast, Australian markets faced headwinds, with the ASX Small Ordinaries Index producing -2.0% performance while the Cerutty Macro Fund recorded a -0.9% return.

The specter of a US recession continues to loom large in market discussions. While we acknowledge this possibility, we maintain that it's not a foregone conclusion. August's US Non-Farm Payrolls came in at 142,000, falling short of the 165,000 estimate. Additionally, July's figures were revised downward to 89,000 from the initial 114,000. These numbers indeed point to a cooling job market, yet initial jobless claims remain stable, suggesting that while hiring urgency has decreased, widespread layoffs have not materialised.[1]

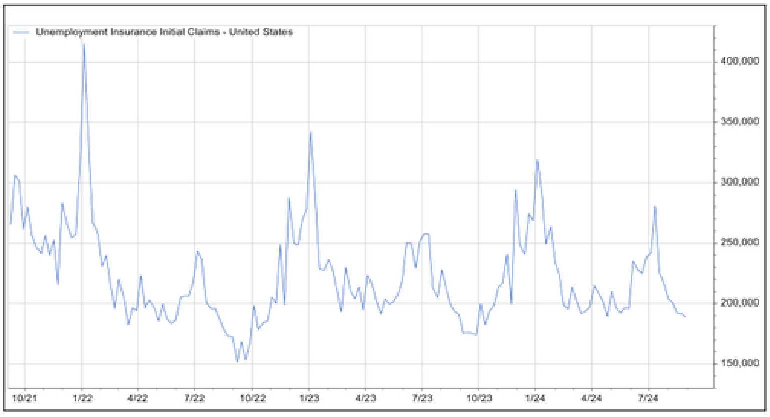
We caution against the market's tendency to "fight the last war" when anticipating the impact of incoming US rate cuts. The two most recent rate-cutting cycles coincided with extraordinary circumstances: the Global Financial Crisis and the COVID-19 pandemic. Extrapolating market performance based on these extreme events may be misguided. Historical data suggests that other rate-cutting cycles have not necessarily led to the severe market downturns witnessed during these exceptional periods.

S&P Return 12-months after first rate cut



Source:Charles Schwab, Bloomberg

US initial Jobless Claims



Source: Factset

1. https://www.reuters.com/markets/us/view-august-us-payrolls-short-expectations-boosts-bigger-rate-cut-view-2024-09-06/

Monthly Update

Moving onto the exceptional period of Yen currency weakness and ultra low Japanese rates, an appreciation of the Yen and the gradual increase in Japanese interest rates now looks underway and may present a headwind for global markets. Japan has long been a source of "free money" for carry trades, and this shift could impact global liquidity. However, this potential challenge is likely to be offset by an expected US interest rate cut at the September FOMC meeting, which should boost overall market liquidity. While there's a risk of accelerated Yen appreciation as US rates decline, it's worth noting the strong public commentary by Japanese central bankers following the sharp Yen appreciation against the USD on August 5th, which triggered a broad market sell-off, demonstrating their lack of appetite for high levels of market volatility.

The appreciation of the Japanese Yen may align with China's current economic interests if a non-consensus view plays out. A stronger Yen could alleviate some pressure on China's manufacturing sector, which competes with Japan in many export markets. While China's export prowess has been resilient, other sectors of its economy are showing signs of strain. Contrary to consensus expectations of Renminbi weakening, respected market commentators such as Louis Vincent-Gave believe that an appreciation of the Chinese currency might better serve China's economic goals: [2]

1. It could mitigate potential trade tensions, particularly if Donald Trump wins the upcoming US presidential election, as an ultra weak currency could be met with increased tariffs.
2. A stronger Renminbi would boost consumer purchasing power, potentially stimulating domestic demand.
3. It may help stem capital outflows, which have been significant over the past 12 months.
4. A stronger currency would support China's burgeoning bond market, which appears to be a major focus for the CCP.

China bond market relative strength

(Higher price = lower yield)

Source: Trading View

USD/Japanese Yen

Source: Trading View

In summary, we observe a US economy that is softening but not yet at crisis levels. This economic moderation opens the door for significant liquidity improvements by the Fed, which looks set to kick off their rate cutting cycle this September. In conjunction with the Fed's decision to slow the balance sheet run-off in May 2024, we see a global shift to loosen financial conditions. Whilst we patiently await further key economic indicators out of the US, we view the burgeoning rate cutting cycle bullish asset prices, and suspect favourable market conditions going into year end.

2. @gave_vincent on X

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Position Spotlight - Perseus Mining (PRU.ASX)

Gold has continued its solid performance YTD, up 21% against the USD and 23.5% against the AUD. Interestingly, gold seems to have broken multiple strongly held correlations, continuously making new highs as yields surged in the first half of 2024 and since broken to further highs with rates trending lower into the first Fed rate cut expected this month. Much of these correlation breakdowns have been attributed to the strong buying from central banks, as they look to increase the proportion of gold as part of their reserves. Whilst many attribute this recent trend in central bank buying to the distrust of the U.S. post seizure of Russia's UST assets, even allied countries like Poland have committed to building their gold position to 20% of reserves, from the current 15%. Given the less price sensitive nature of central bank buying, it might be a good explanation for the resilient price action for the precious metal.

As noted in previous monthly notes, the Fund holds a basket of gold stocks we feel are best positioned to take advantage of higher prices. A solid performer and one we feel still has plenty of runway is African gold miner, Perseus Mining. We remain confident that our initial thesis is playing out, with MD Jeff Quartermaine looking to have successfully executed on future growth projects and committing to a more favourable capital return policy.

Many question the risk profile of owning an African gold miner, given a long history of political volatility. Whilst we understand there is a jurisdictional discount applied to listed companies who operate in the region, we've grown increasingly comfortable with Perseus' operations for three key reasons.

1. Jeff Quartermaine's operating experience is second to none in Africa.
2. Diversification of operating assets in two countries, soon to be three (Nyanzaga), and a potential fourth (Bankan via PDI).
3. It is suspected that the Saudi JV might aid/facilitate relations in the region, given shared interests.

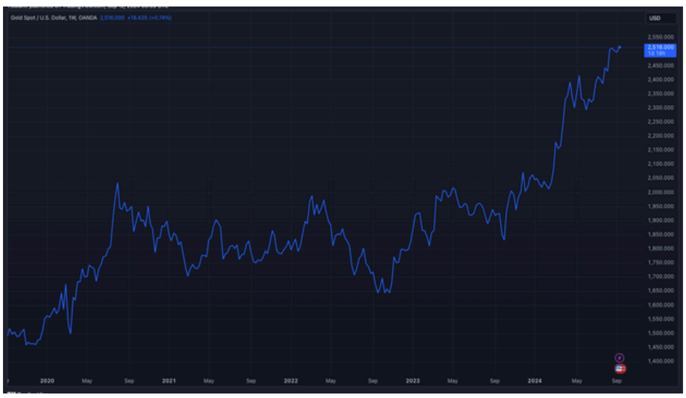
Perseus has three operating mines, two in Cote D'Ivoire (Yaouré and Sissingué) and one in Ghana (Edikan). The gold miner trades on a forward ~7x earnings (3.3x EV/EBITDA), net cash and bullion of US$587m (June 30, 2024), and multiple growth projects that should see >15% more ounces per year by FY28. At current gold prices, Perseus can fund all growth projects and capital return initiatives, whilst still yielding 12% FCF over the period. Investors calling for greater capital returns were recently rewarded, with management announcing a A$100m buyback program over the coming 12-months, in addition to their current dividend policy, bringing total yield to ~5% on FY24 numbers. Should Perseus decide to make a full take over offer for PDI some of these initiatives may be modified.

Additionally, and something that is far from base case for us, is the future potential for the development of the Meyas Sand project in Sudan. We believe the market attributes zero value to the development given some fairly serious regional instability, although boasts an NPV of ~US$1 billion. Whilst the opportunity is high up the risk curve, we view it as a free option - which might soon prove interesting with help from their Saudi JV partners.

PRU.ASX

Source: Trading View

USD Gold Price



Source: Trading View

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