October 2024

# CERUTTY
MACRO FUND

441 Little Bourke St, Melbourne, Vic 3000 | chris.judd@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 | -0.79 | 0.80 | -1.59 |
| 3 Month | 1.11 | 3.77 | -2.65 |
| 1 Year | 29.17 | 26.65 | 2.52 |
| Since inception (annualised) | 19.23 | 12.03 | 7.20 |

*Index/Benchmark ASX Small Ordinaries Accum. Index*

## Fund Overview

| | |
|---|---|
| Portfolio Management | Chris Judd |
| No. Investments | 15-40 |
| Type of Investments | Long only<br>Australian listed equities<br>Global listed equities |
| Time Horizon | 3+ years |
| Benchmark | ASX Small Ords Accumulative Index |

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

## Monthly Update

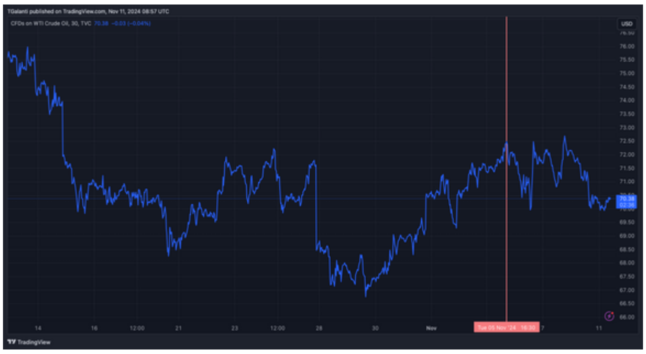
Markets in October presented a mixed picture: the S&P 500 slipped by 0.9%, and the Nasdaq fell by 0.5% for the month. In contrast, Australian markets showed resilience, with the ASX Small Ordinaries Accumulation Index posting a 0.8% gain. However, the Cerutty Macro Fund declined by 0.79%.

While October itself was relatively stable, the most significant recent development has been the U.S. election, marked by a decisive victory for Donald Trump and the Republican Party. Unlike some geopolitical events, this one holds significant weight for financial markets. With Republicans securing the White House, Senate, and House of Representatives, as well as winning the popular vote, the implications of another Trump presidency warrant careful examination. Although not exhaustive, here are some potential policy shifts under Trump that could influence markets:

1. Regulatory Easing and Resource Production: Anticipated deregulation and an increased focus on U.S.-based oil production and the development of critical minerals.
2. Trade and Manufacturing: Potential tariffs on imported goods and measures aimed at boosting U.S. manufacturing capacity.
3. Economic Stimulus: Prospects for tax cuts and a continued bias toward low interest rates.
4. Immigration Reform: Reduced illegal immigration paired with an increase in merit-based migration policies.
5. Cryptocurrency Policies: A pro-crypto stance that could impact digital asset markets.
6. Accountability in Food and Agriculture: Stricter regulations for food manufacturers, corporate farming, and oversight of the FDA.

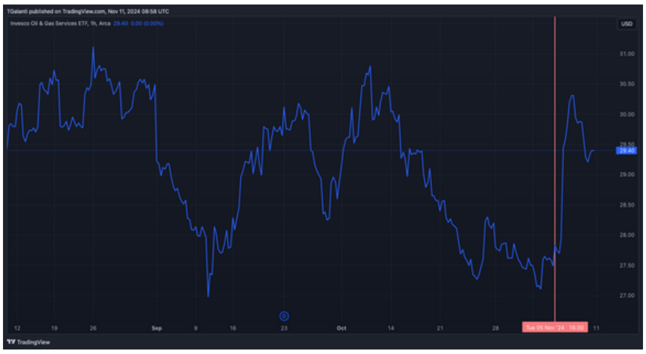
One insightful quote we got from an investor during the week on Trump's negotiation style is, "If you want a dog, ask for a pony" suggesting that Trump's policies may be designed to provoke strong responses, moving negotiations toward his intended outcomes. From an Australian investment perspective, there are questions about how deregulation and a focus on resource extraction in the U.S. might influence commodity prices. Trump's emphasis on boosting oil production could help maintain stable prices, potentially limiting the risk of inflationary spikes. This focus on production could benefit certain commodity service providers, even if underlying commodity prices remain flat.

WTI Crude (election, red line)



Source: Tradingview

Oil & Gas services ETF (election, red line)



Source: Tradingview

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

## Monthly Update

Trump's expressed commitment to tax reduction, combined with Republican control of Congress, increases the likelihood of such policies being implemented. Additionally, Trump's history of pressuring the Federal Reserve to lower interest rates could stimulate earnings per share (EPS) for U.S. companies and may bolster economic activity more broadly.

### BofA Trump v Harris tax cuts

**Exhibit 16: A tax hike to 28% (from 21%) is estimated to be a 5% hit to EPS**
Hit to EPS from the corporate statutory tax rate rising to 28% from 21%

| HARRIS | Increased tax amount | 2025 net income | Hit to EPS |
|---|---|---|---|
| Cons. Disc. | 16,939 | 213,186 | (7.9%) |
| Comm. Svcs. | 16,033 | 268,899 | (6.0%) |
| Financials | 22,153 | 409,558 | (5.4%) |
| Health Care | 15,578 | 311,913 | (5.0%) |
| Industrials | 9,921 | 200,018 | (5.0%) |
| Staples | 6,091 | 154,426 | (3.9%) |
| Tech | 21,051 | 563,418 | (3.7%) |
| Materials | 1,757 | 54,645 | (3.2%) |
| Energy | 2,947 | 146,189 | (2.0%) |
| Real Estate | 172 | 29,910 | (0.6%) |
| Utilities | 60 | 67,413 | (0.1%) |
| S&P 500 | 112,703 | 2,419,576 | (4.7%) |

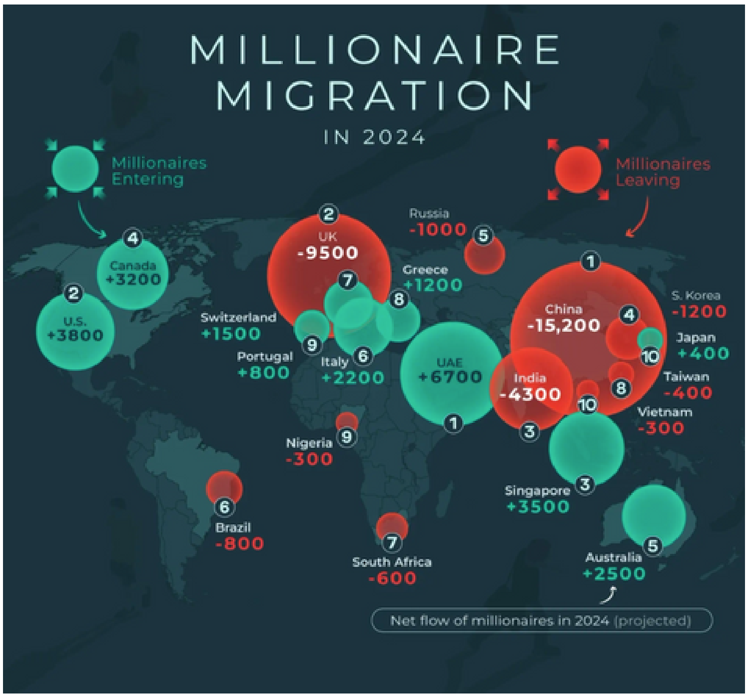
**Exhibit 17: A tax cut to 15% (from 21%) is estimated to be a 4% benefit to S&P 500 EPS**
EPS benefit from the corporate statutory tax rate falling to 15% from 21%

| TRUMP | Lower tax amount | 2025 net income | EPS benefit |
|---|---|---|---|
| Cons. Disc. | -14,516 | 213,147 | 6.8% |
| Comm. Svcs. | -13,742 | 268,899 | 5.1% |
| Financials | -18,989 | 409,558 | 4.6% |
| Health Care | -13,353 | 311,913 | 4.3% |
| Industrials | -8,504 | 200,018 | 4.3% |
| Staples | -5,221 | 154,426 | 3.4% |
| Tech | -18,044 | 563,418 | 3.2% |
| Materials | -1,506 | 54,645 | 2.8% |
| Energy | -2,526 | 146,189 | 1.7% |
| Real Estate | -147 | 29,910 | 0.5% |
| Utilities | -52 | 67,413 | 0.1% |
| S&P 500 | -96,599 | 2,419,537 | 4.0% |

**Source:** BofA US Equity & Quant Strategy

BofA GLOBAL RESEARCH

In terms of migration, any U.S. policy changes are unlikely to have a significant effect on Australia's migration trends. Despite being a high-tax country, Australia continues to attract a large number of wealthy migrants. While a shift towards merit-based migration in the U.S. could imply fewer high-net-worth individuals moving to Australia, it's also possible that disaffected Democrat voters might choose to relocate. Overall, we expect continued strong migration to Australia, including an influx of global wealth.

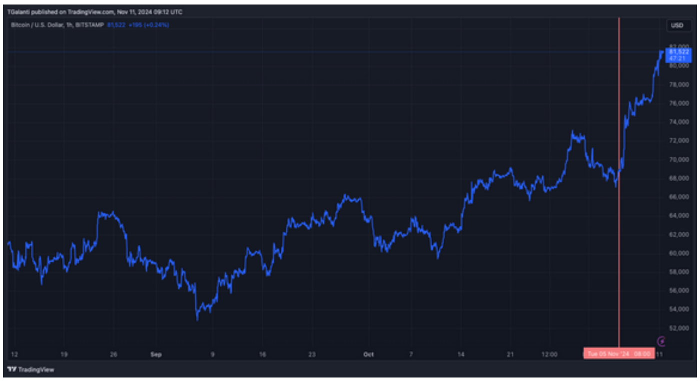



Source: Visual Capitalist, June 2024


## Monthly Update

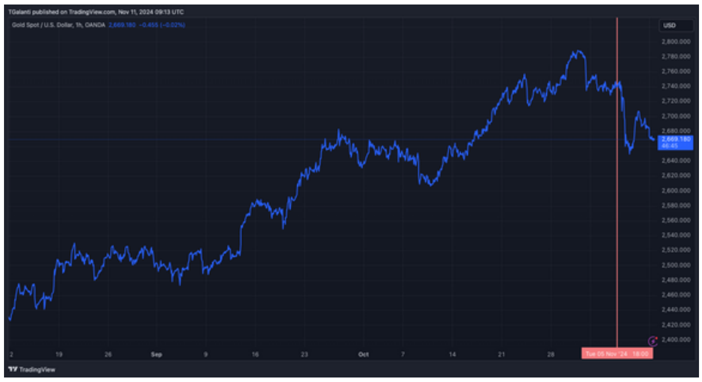
A Republican victory is also likely favourable for cryptocurrency. Vice President JD Vance's ownership of Bitcoin, along with endorsements from figures like Howard Lutnick, RFK Jr., and Vivek Ramaswamy, signals a supportive environment for digital assets. As long-time advocates for gold, we are mindful of how these pro-crypto policies might affect its market position. Although some, including Elon Musk and Lutnick, have noted the administration's ambitions to reduce U.S. deficits, achieving this may prove more challenging than anticipated. Central banks worldwide are likely to continue favouring gold as their primary reserve asset. However, should they begin to diversify by incorporating Bitcoin, even a small shift could impact gold prices by reducing—but not eliminating—central bank demand. This has led us to slightly reduce our portfolio allocation to gold equities, while still maintaining a material exposure.

Bitcoin (election, red-line)



Source: Tradingview

Gold (election, red line)



Source: Tradingview

## Position Spotlight - Alphabet (Google)

This month we thought we'd cover a 'mega cap' position in the Fund that displays our capacity to look overseas, where we feel it difficult to play a thematic locally – that stock is Alphabet (Google). We added a modest position in Google to increase overall exposure to quality, cognisant of what looks like some stretched valuations on Aussie quality tech names.

Whilst we've remained cautious, avoiding the wave of ASX companies who've pivoted to AI, the race for machine learning leadership is undeniable, and we expect earnings to grow through numerous upcoming tech upgrade cycles. Finding quality exposure to such a powerful trend at a reasonable valuation and with a clear competitive edge is challenging. In our view, Alphabet meets these criteria, trading at a significant discount to the Mag7 while possessing what is arguably the most valuable user data in the industry.

Our focus on the quality of their data comes from our view that, outside of the algorithms used, the AI race can be divided into three main hurdles:

1. Access to low-cost energy
2. Compute
3. Data

As each tech giant races to outpace its peers in developing AI tools with true commercial value, their success will ultimately hinge on the one challenge that endless sunken capital alone can't overcome: access to high-quality, real-time data. Google's user data advantage[1] comes from their dominance in both browsing and website analytics, holding a 90% and 83% market share position in those respectively. Over the next 12-months, Google is set to announce an array of new AI powered products, including Project Jarvis (set for unveiling in December 2024), which is expected to revamp existing search engine functions.

We were very comfortable taking a position in Alphabet at ~19x forward earnings, expected >15% bottom line growth over the medium-term and near monopolistic positions in multiple high growth markets. The market is currently focused on Google Cloud services, with revenues accelerating in Q3 to 35% growth YoY – which Alphabet's CFO Anat Ashkenazi attributes to new AI infrastructure and core product growth. Google has been growing market share in Cloud, far outperforming the sector growth of 23% in Q3 – now clearly in the Big 3 providers alongside Amazon Web Services (AWS) and Azure (Microsoft).

The perceived market 'discount' is almost certainly due to the Department of Justice's antitrust lawsuit, which poses the possibility of fairly serious resolutions. While we remain mindful of potential unfavourable outcomes, we highlight the numerous past DOJ antitrust cases against Microsoft, Apple, and Meta, which did not prevent their continued success.

1. https://gs.statcounter.com/search-engine-market-share

CERUTTY
MACRO FUND

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

## Disclaimer

Juddcorp Pty Ltd ACN 635 629 631 (CAR) is a corporate authorised representative (CAR Number 1300536) of Boutique Capital Pty Ltd ACN 621 697 621 (BCPL) AFSL 508011. CAR is an investment manager for the Cerutty Macro Fund described elsewhere in this document, or in other documentation (Fund). Equity Trustees Limited ABN 46 004 031 298, AFSL 240975 ("Equity Trustees") is the Responsible Entity for Fund and is a subsidiary of EQT Holdings Limited ABN 22 607 797 615, a publicly listed company on the Australian Securities Exchange (ASX: EQT).

This document has been prepared by Juddcorp Pty Ltd to provide you with general information only. In preparing this monthly report, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither Juddcorp Pty Ltd, Equity Trustees nor any of its related parties, their employees or directors, provide and warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product.

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.

To the extent to which this document contains advice it is general advice only and has been prepared by the CAR for individuals identified as wholesale investors for the purposes of providing a financial product or financial service, under Section 761G or Section 761GA of the Corporations Act 2001 (Cth).

The information herein is presented in summary form and is therefore subject to qualification and further explanation. The information in this document is not intended to be relied upon as advice to investors or potential investors and has been prepared without taking into account personal investment objectives, financial circumstances or particular needs. Recipients of this document are advised to consult their own professional advisers about legal, tax, financial or other matters relevant to the suitability of this information.

The investment summarised in this document is subject to known and unknown risks, some of which are beyond the control of CAR and their directors, employees, advisers or agents. CAR does not guarantee any particular rate of return or the performance of the Fund, nor does CAR and its directors personally guarantee the repayment of capital or any particular tax treatment. Past performance is not indicative of future performance.

The materials contained herein represent a general summary of CAR's current portfolio construction approach. CAR is not constrained with respect to any investment decision making methodologies and may vary from them materially at its sole discretion and without prior notice to investors. Depending on market conditions and trends , CAR may pursue other objectives or strategies considered appropriate and in the best interest of portfolio performance.

There are risks involved in investing in the CAR's strategy. All investments carry some level of risk, and there is typically a direct relationship between risk and return. We describe what steps we take to mitigate risk (where possible) in the Fund's Information Memorandum. It is important to note that despite taking such steps, the CAR cannot mitigate risk completely. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product.

This document was prepared as a private communication to clients and is not intended for public circulation or publication or for the use of any third party, without the approval of CAR. Whilst this report is based on information from sources which CAR considers reliable, its accuracy and completeness cannot be guaranteed. Data is not necessarily audited or independently verified. Any opinions reflect CAR's judgment at this date and are subject to change. CAR has no obligation to provide revised assessments in the event of changed circumstances. Neither Juddcorp, Boutique Capital or Equity Trustees nor any of its related parties, their employees or directors, provide and warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it.

This Document is informational purposes only and is not a solicitation for units in the Fund. Application for units in the Fund can only be made via the Fund's Information Memorandum and Application Form.