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	0.99	1.32	-0.33
3 Month	3.52	7.30	-3.78
1 Year	26.46	19.88	6.58
Since inception (annualised)	18.85	12.30	6.55

Index/Benchmark ASX Small Ordinaries Accum. Index

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
Benchmark	ASX Small Ords Accumulative Index

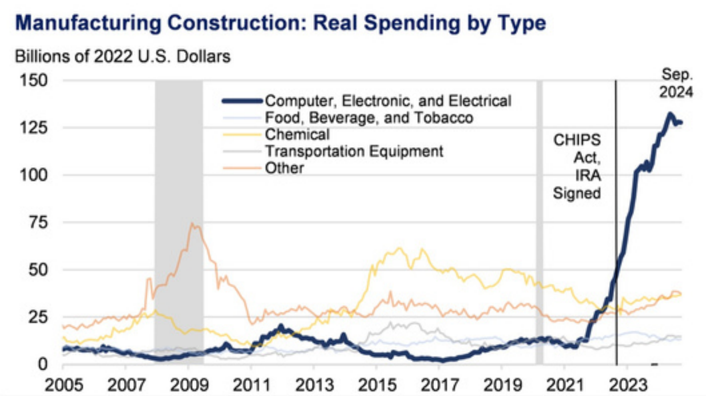
Past performance is no indication of future performance & returns are post fees with reinvestment of distributions and capital gains.

Monthly Update

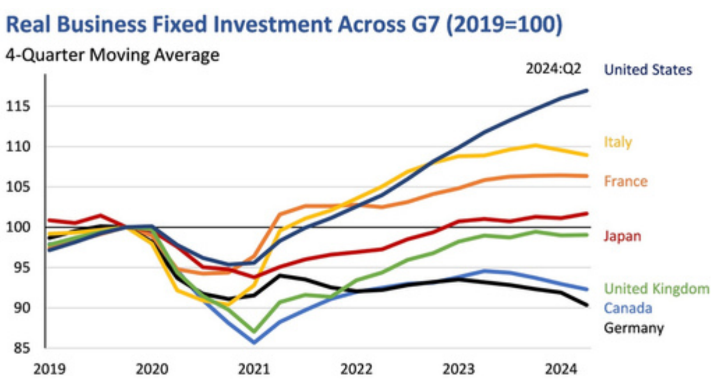
US markets continued their strength post-election as newswires and investors analysed President-elect Trump's cabinet nominations awaiting Senate approval post-inauguration. The NASDAQ and the S&P 500 returned 6.2% and 5.7% respectively for November. On Australian soil, the ASX Small Ords Accumulation Index posted a 1.3% gain while the Cerutty Macro Fund increased by 1%.

Understanding the potential changes post-Trump's inauguration continues to be of utmost importance for us internally, particularly now that Trump's cabinet nominees have become clearer. Of these nominees, Scott Bessent, who's been earmarked as the Treasury Secretary, has been a main focus point for us. Many of the desired outcomes articulated by Trump and his team for the future have a level of conflict with other ambitions. Consider tax cuts and tariffs but low inflation, strong growth while cutting billions if not trillions in unnecessary government expenditure, and a strong manufacturing sector with reduced immigration (low-cost labour). We've spent considerable time analysing what will be prioritised and where new technologies might open up different ways to achieve positive outcomes.

Increasing US manufacturing capacity was a hallmark of the Trump/JD Vance campaign, but in fairness to the Biden administration, increasing US manufacturing capex is a trend that's already been underway for a couple of years. Covid exposed the vulnerabilities of supply chains in many Western countries, including the US, which had developed an over-reliance on China for manufactured goods at a time of heightened geopolitical tensions between the two nations.



Source: U.S. Dept. Treasury



Source: U.S. Dept. Treasury

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Monthly Update

Since the end of 2021, real manufacturing construction spending has doubled, with government policies like the CHIPS and Science Act incentivising domestic production of semiconductors and electronics. Other government policies such as The Infrastructure Investment and Jobs Act and the Inflation Reduction Act have also been conducive to manufacturing capex. We see this trend as just beginning, potentially increasing as the threat of tariffs convinces manufacturers to set up in the US to gain access to the US consumer without the additional cost of tariffs.

Such a manufacturing boom could cause challenges from a wage inflation perspective, even more so if newly appointed "Border Czar" Tom Homan is able to deport a significant number of illegal immigrants and reduce the number of migrants coming to the US via non-approved methods. To ease this pressure, we anticipate that the manufacturing the US commits to over the next decade will be highly automated and embrace new technologies, leaving power, not labor, as the major bottleneck that needs to be overcome. With that in mind, the stock we want to focus on this month is a new addition to our portfolio in the additive manufacturing space, a neat fit for a country looking for innovative ways to build out their manufacturing sector.

Position Spotlight - AML3D Ltd. (ASX.AL3)

AML3D (AL3.ASX) is an Australian additive manufacturing company specialising in 3D metal printing technologies. Utilising wire-arc manufacturing techniques, the company delivers quality and cost-effective solutions for various industrial sectors, including defence, oil & gas, and high-tech manufacturing. FY24 was a monumental step change for the business, with new commercialisation strategies rapidly growing revenue and a sizeable pipeline to follow.

What gives us confidence in the growth drivers of the business is the U.S. Navy's ambitious plan to ramp up submarine production from 1.33 per year to 2.33 per year in the next few years to meet AUKUS requirements.[1] This goal underscores the critical need for innovative manufacturing techniques to overcome the long lead times associated with complex submarine components, which often add significant friction to the production schedule. Industry experts agree that additive manufacturing is pivotal in addressing these challenges, as it offers the ability to produce intricate parts locally and often at a fraction of the time.

"I earnestly believe that metallic additive manufacturing is the path to the capability and capacity you need for critical materials in the submarine industrial base" – Matt Sermon Executive Director of the US Navy's Program Executive Office, Strategic Submarines.[2]

"Ultimately, the Navy envisions a network of 50 or more sites (3D printing farms) in the United States printing metal parts for new submarine construction" – Don Hairston, GM of Austal USA Advanced Technologies.[3]

In anticipation of accelerated demand out of the U.S. and other AUKUS partners, AL3 raised $30m – which will be allocated to doubling U.S. production capacity and advance UK operations. In September 2024, AML3D entered into a Manufacturing License Agreement (MLA) with BlueForge Alliance (BFA), a non-profit organisation supporting the US Navy's Submarine Industrial Base. This agreement allows AL3 to expand its manufacturing opportunities for US Navy submarine parts by accessing technical assistance and data through BFA. The partnership gained significant momentum when the US Department of Defence awarded BFA a US$951 million contract to boost the US Navy's submarine industrial base. It is expected that a substantial portion of this funding will be directed towards accelerating the adoption of advanced additive manufacturing technology. We await further detail on the flow of this funding over coming months.

Whilst the Defence opportunity has the 'blue sky' potential drawing most investors' attention, it is important to note just how broad the use cases of the technology are. Management have pointed towards a $40m pipeline of work, of which only ~30% is tied to Defence tenders. Just recently (9 Dec 2024), AL3 announced the sale of a large scale 6700 Edition ARCEMY X to the largest public utility company in the US, the Tennessee Valley Authority. AL3 won the contract valued at A$2.27m following a competitive tender process and will be the first system built out of the new AML3D US Technology Centre in Ohio. Whilst this system won't be delivered until H1FY26, it represents ~31% of total FY24 revenue – evidence of both industry adoption of the technology and management's successful push to commercialisation.

On valuation, we view AL3 as one of the more reasonably priced additive plays on the ASX. Whilst there are some technological differences between each company, AL3 trades at ~40% of Titomic's (ASX.TTT) EV and ~1/2 of Amaero's (ASX.3DA) – whilst producing greater trailing revenues, smaller bottom-line losses, and [at minimum] similar industry tailwinds.

1. https://asiapacificdefencereporter.com/troubled-virginia-submarine-production-needs-emergency-funding/#:~:text=The%20current%20rate%20of%20SSN,in%20the%20next%20few%20years.
2. https://www.nationaldefensemagazine.org/articles/2023/3/17/navy-must-go-all-in-on-additive-manufacturing-official-says
3. https://www.defensenews.com/industry/techwatch/2023/11/06/manufacturing-woes-could-sink-us-sub-fleet-can-3d-printing-save-it/

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