



ALTUS

I N V E S T M E N T

Quarterly Investor Report

Second Quarter 2024

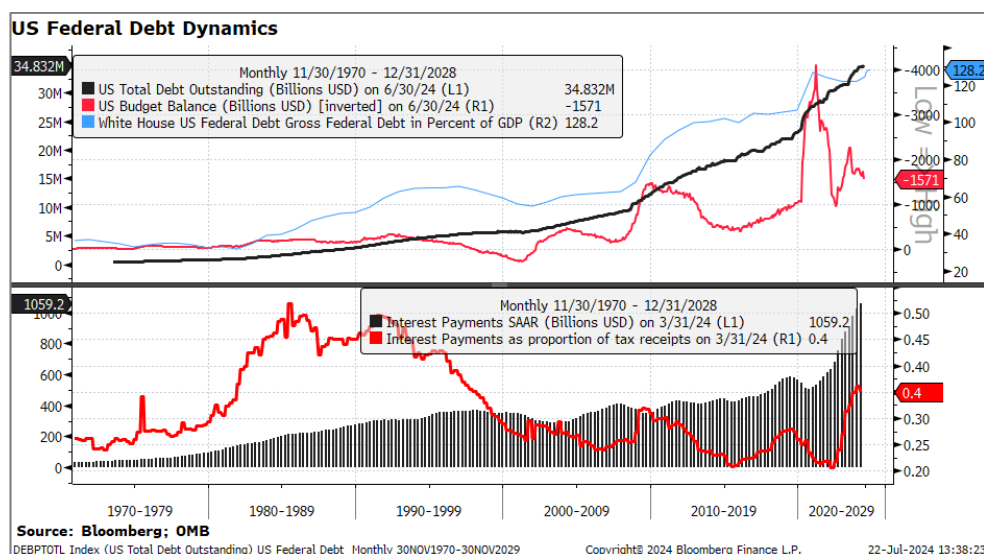
Macro Commentary

Halfway through a year always destined to be dominated (politically) by polarising populist elections and (economically) by the US recession/no recession scenarios, we have little further clarity. The UK bought some centrist stability (courtesy of an electoral system designed to eliminate political 'corner solutions'), while European politics remains a factional mess (courtesy of electoral systems designed to enable factional messes). The odds of a reinvigorated Trump 2.0 Presidency markedly increased as Democrats fought over Biden's questionable suitability for another 4 years in office. The July 13th attempted assassination of Trump seems to have consolidated Republicans' lead, increasing the odds of a 'clean sweep' of Congress; Biden's late exit increases the general uncertainty.

Markets seem to regard Trump as a net positive for US stocks, but his smash-and-grab style of populism risks significantly upsetting what is left of the global geopolitical détente. A Trump presidency would need to find a balance between the populist rhetoric and his underlying transactional pro-business agenda. The only

cross-party consensus in the Presidential race (other than for more National Security spending) is that higher trade-tariffs are needed—bad for both inflation and growth, as well as further destabilising international relations!

Although a US recession scenario is still not currently on the cards, macroeconomic surprises have been turning negative in the US. Europe and the UK's growth outlook remains mixed: arguably less like sustainable catch-up growth cycles than late-cycle slowing. China is still suffering questions over a potential 'lost decade' courtesy of a property-market-debt overhang. Central bankers look increasingly glad to have the opportunity to talk about defeating inflation, with rate cutting cycles coming closer to reality, yet against a backdrop of political polarisation, it cannot be ignored forever that we are moving towards increasingly unpleasant fiscal scenarios. Developed market economies have post-WWII levels of government debt (in relation to GDP) but are far from post-war consensus-building fiscal management. H2 will start anticipating what 2025 brings, and 'uncertainty' is the order of the day.



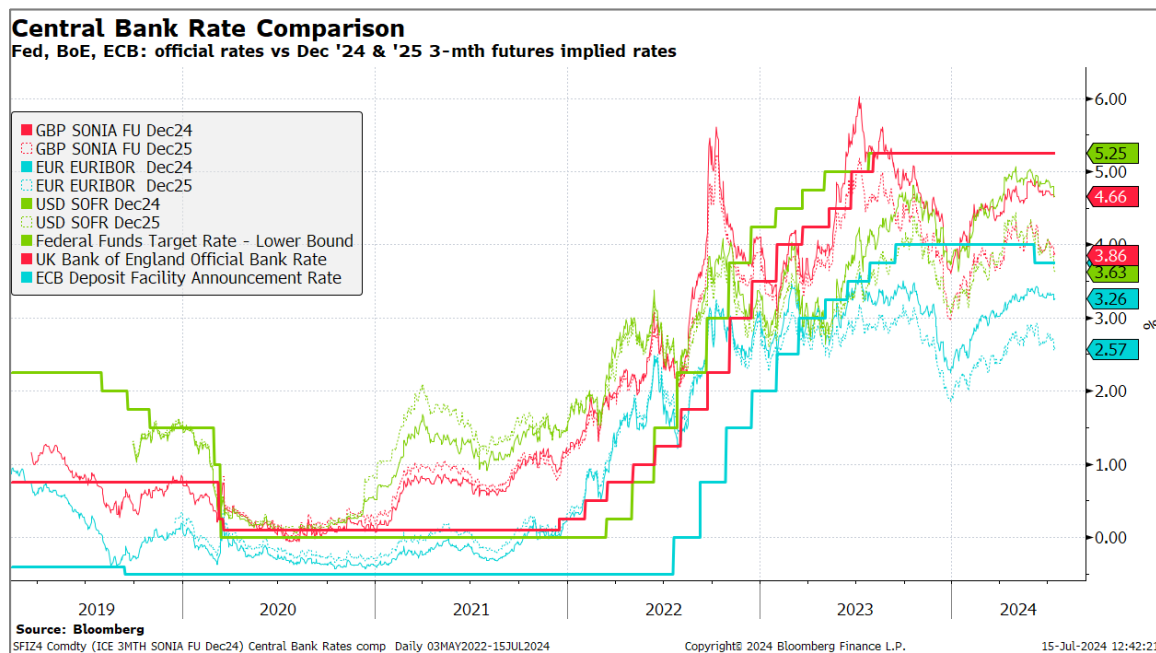
Underlying Portfolio Review

Fixed Income

Timing of expectations of central bank rate-cutting cycles continues to dominate the fixed income space. While in April the trend of pricing out anticipated rate cuts continued the first quarter's trend (with US economic growth surprising to the upside), as the quarter wore on signs that US growth was easing, and inflation remained well-behaved encouraged increasing rhetoric from Fed decision markets indicating the long-anticipated turn in the rate cycle was indeed likely to begin before year end (if not before the US election). While the election cycle clouds the outlook, the markets are currently looking for 25-50bps cuts before year end and potentially a total of around 150 bps (i.e., 1.5%) by June 2025 (close to 4%). This has taken pressure of the Treasury market, with 10 year yields falling from an April high of 4.74%, seeing a low of 4.21% towards the end of the quarter.

In early June the ECB delivered the 25bps of cutting expected by the markets (down to 3.75% lower bound), with a series of 25bps cuts priced-in cumulatively to around 2.75% by the middle of next year. In the UK, Bank of England policymakers remain hawkish with rhetoric, fearing that wage rise expectations are increasingly embedded as catch-up wage demands will linger, leaving the UK with a more persistent inflation problem. This has been positive for sterling, as while the market is still anticipating a cutting cycle (beginning late summer), the expected pace of cuts appears to be moderating in the UK, with around 100bps likely by the middle of next year (down to 4.25% on BoE base rate).

The net effect of these moves is that as at the end of the quarter, short-dated returns in fixed income were marginally positive for the year, while longer-duration fixed income had recovered, but remained negative.



Underlying Portfolio Review

Credit

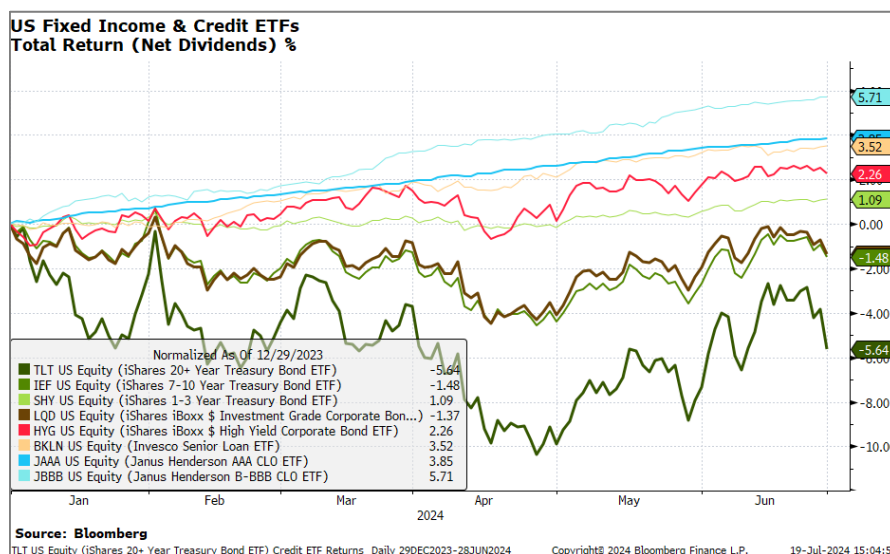
Credit spreads remained remarkably resilient in H1 against the potentially negative backdrop of record issuance, geopolitical risk factors, and diminished expectations of rate cuts (as compared to where we started the year). Credit has generally been buffered by typically short duration (the US Treasury yield curve has seen positive returns YTD up into the belly of the curve, while longer-dated T-Notes and T-Bonds are still showing negative total returns), combined with a continued benign-to-positive economic outlook.

Gross issuance has been high, partly because issuance has been happily digested by investors. Goldman Sachs analysts are predicting an annual run-rate gross issuance of \$1.5trn in USD Investment Grade credit in 2024, with a net issuance of \$600bn (cf. \$6trn still in US money market funds). ETFs focused on IG credit have grown by over 30% since January 2022.

While US recession risks have remained on the backburner, and central bank easing cycles are looming, there remains investor appetite to lock-in credit yields

against the consensus soft-landing scenario. The resilience in credit markets is a positive against a (likely overstated) narrative of fears of a wall-of-refinancing needs and stretched corporate balances sheets. However, credit markets are now well valued, with less room for buffering any potential tail risks. The HY (High Yield) sector remains the canary in the coal-mine here (as it does for the exuberance for unprofitable tech stocks in the equity market), and CCC credit spreads have widened (albeit still rewarding investors with a net-positive return). The corporate credit migration though has so far seen fewer 'fallen angels' than it has 'rising stars'.

Gross issuance across various sectors of the structured credit market has been strong particularly in CMBS (Commercial Mortgage Backed Securities) which seems in part to be related to the re-shoring/re-industrialisation cycle going on in the US, with very strong demand for data-centre buildout. Fears over real-estate refinancing have so far been unjustified (although questions will remain over downtown office space). ABS and CLO issuance has continued to grow from already healthy levels.



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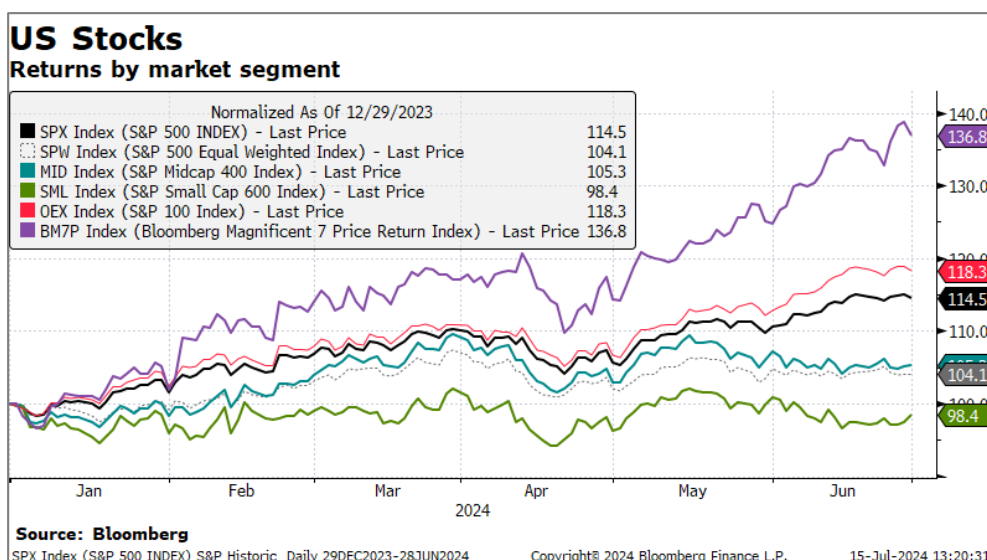
Long Only Equity

Stock markets pulled back at the start of the quarter on geopolitical tension in the Middle East, with Iran and Israel exchanging air strikes. While this direct conflict was unprecedented, it quickly became clear that neither side was interested in escalation and investors aggressively bought the dip. Momentum (with no small dash of 'FoMO') in US megacap tech continues to dominate the headlines, with gains in the quarter +8% for the Nasdaq 100, (with semiconductors +16%). For context, of the \$6trn in market value added to US equities in the first half of the year, \$4trn was attributed to the 'Magnificent 7' stocks (with the index up 36.8%). The top 25 stocks contributed 13.4% of the overall 15.3% total return of the S&P500 in H1, as the small-cap S&P600 fell 1.6%.

We believe evidence points to an intermediate period of pullback or consolidation in these areas as Q3 unfolds, as the traditionally more volatile summer into autumn period gets under way, particularly in light of rising unpredictability as the US election approaches. The

Nasdaq 100 became overbought in recent weeks, with breadth narrow and sentiment euphoric, which is a common set up for a pullback. The major question going forward is a half-full or half-empty conundrum: to what extent (or not) will market participation broaden-out to value, cyclical, and smaller-cap names.

While US tech dominates the headlines, in the UK, the FTSE 100 recently broke out to new all-time highs, while the midcap FTSE 250 also shows strength, and the small-cap AIM Index has turned higher after finding a floor at key historical support. UK stocks remain cheap relative to international markets, attracting the attention of global investors with improved perception of the UK's prospects. While there is no easy path ahead, the level of inflation is falling as we emerge from recession, and house prices are stabilising. Party politics aside, the landslide Labour Party electoral victory has arguably restored a sense of governmental stability in what has (for nearly a decade) been a fractious political landscape. This backdrop is a tailwind for our UK focused holdings.



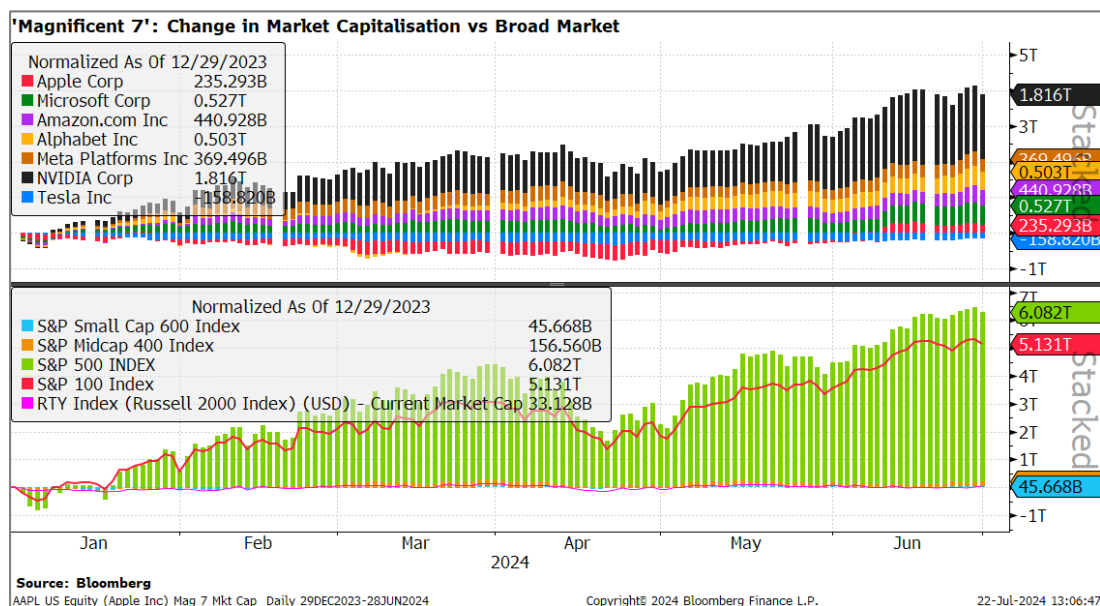
Underlying Portfolio Review

Hedged Equity

The Hedged Equity book consists of stock pickers who run with a material net long bias and a preference towards value. The second quarter was a difficult environment for them as the equity markets were in “either/or” mode: that is, either the Mag7 and the growth/momentum fan favourites were going up, or the rest (the “S&P493”), but not both. For most of the quarter, the Mag7 and friends were rising, while the rest lagged (see chart above). There are many reasons why the market should act like this, but one practical explanation is simply that the Mag7 are so huge that they when they run, they consume the buying power of the market to the exclusion of everything else. To illustrate the point, NVIDIA’s market cap of approximately \$3tr is roughly the same as the whole of the Russell 2000; if NVDA goes up +15% in a week (as it did the week commencing 20th May), that adds the same market capitalisation to the US market as if the entire Russell 2000 rose 15% (around \$450bn)! It’s not a case of the

market not caring about valuation among smaller caps, but investor buying power is constrained, and in this momentum environment, value-oriented opportunities get overlooked.

As a result of this either/or market, most of our HE managers experienced varying degrees of frustration this quarter and their returns were somewhat muted [although as of mid-July there appears to be a rotation to value in their favour, with intramonth estimates suggesting they are benefiting from the move so far]. Our European long/short manager, has enjoyed a stellar run: +22% YTD in 2024 after making +99% in 2023. Their book has some compelling value opportunities across Europe with decent upside, including a Polish utility trading at 5x PE, a German broadband and telco services company trading at a 40% discount to fair value, and an Italian manufacturer of electric motor components who supplies nine of the top twelve global EV manufacturers that is -40% off its peak stock price.



Underlying Portfolio Review

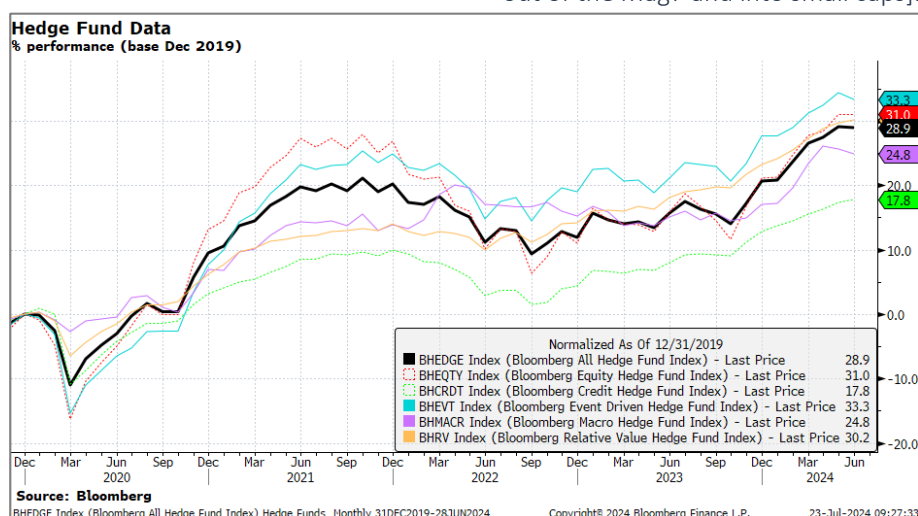
Absolute Return

The objective for our diversified Absolute Return ‘bucket’ is to generate positive returns even in adverse market conditions. It is an inherently idiosyncratic industry, but it was encouraging to see the majority of our AR managers delivering positive returns during the difficult month of April, when the S&P500 fell 4.0% and the US T-Bond fund (TLT) fell 6.8%. We have added a new manager to the AR book, a North American financial sector specialist [see case study at the end of this report].

Our core Multi-Strategy holding returned +3.3% in Q2 (8.7% YTD). The fund consists of 25 independent teams (or ‘pods’) pursuing different trading strategies, carefully selected and managed to be uncorrelated to each other. The fund is broadening its stable to include systematic strategies and macro (a complement to the current array of long/short equity). Our recently allocated EM focused distressed debt manager made +4% in Q1 as a result of idiosyncratic work-out situations across emerging markets. They anticipated the recovery in Argentinian sovereign bonds following the IMF’s spring meetings in Washington. The manager has also profited from a variety of trades in other jurisdictions, notably

anticipating the reinstatement of coupon payments by a distressed Brazilian industrial conglomerate after new contract wins.

Our macro manager had a solid quarter, +2.8% (+8.9% YTD), making money from long positions in tech, gold, and copper. Going into H2, this manager has a very similar worldview to our own [see Macro section above], suggesting there seems to be some residual complacency around the inevitable uncertainty of the US election and its aftermath: the “major imponderable”. Key questions are: (1) will Trump win? (2) what are his policies? and, (3) how precisely he will enact them? One negative performance was our more contrarian equity long-short manager whose role in our portfolio is partly to generate alpha in unloved sectors combined with non-correlated equity returns (as illustrated by their +91% performance during the bear market of 2022). Their current view (which we share) is that momentum’s outperformance of value has reached a breaking point and is likely to mean revert. Short the tech high-fliers and long unloved sectors (such as energy) was a difficult stance to maintain in May and June [Note: we have seen early signs of a mean reversion in the early days of July with a strong rotation out of the Mag7 and into small caps].



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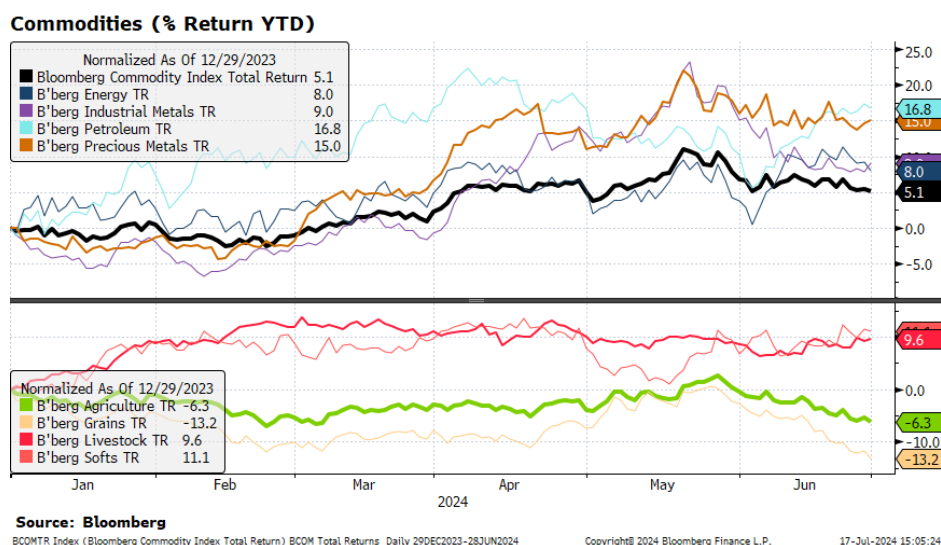
Commodities

With a still very unsettled geopolitical environment and stretched fiscal scenarios, there is an increasing appetite amongst investors for diversification into real assets. A recent article in the FT from Goldman Sachs' head of asset allocation suggested the structural 'optimal portfolio' choice going forward may well not be the traditional 60/40 equities/bonds, but more like a 1/3rd each split between equities, bonds and real assets. This is akin to a view we have long-espoused and continue to endorse. We continue to believe that the dynamics of global population, consumption and investment—combined with developed market fiscal trajectories—are supportive of structural commodity bull markets. The caveat is that this is a long-term view, and we are cognisant of the risk of speculative bubbles and cyclical demand destruction (for instance if a US recession were to materialise).

Our commodity views are expressed through a combination of active managers, and exchange traded

products across various commodities. With this in mind, commodities had another broadly constructive quarter; the Bloomberg Commodity (BCOM) Total Return Index was up 2.9% in Q2, bringing YTD gains to 5.1%. Under the surface grains had a volatile quarter, rallying strongly before collapsing in June, as supply conditions normalise, and markets unwound some long-held speculative positions. Energy was another weaker area, particularly for natural gas (again as supply conditions normalise combined with benign weather), with oil giving back some Q1 gains as geopolitical tensions unwound alongside some (mildly) negative economic surprises.

Copper—a key industrial metal in the energy transition—witnessed a buying panic early in the quarter with pricing rising 25% at one stage, before giving up some gains against ongoing fears of excess Chinese inventories, and lack of cyclical demand. Gold added around 5% to Q1 gains (of 8%), but silver (with its dual status as a combined precious/industrial metal) rallied over 20%. H2 will likely see an ongoing clash between geopolitical tensions and cyclical economic concerns.



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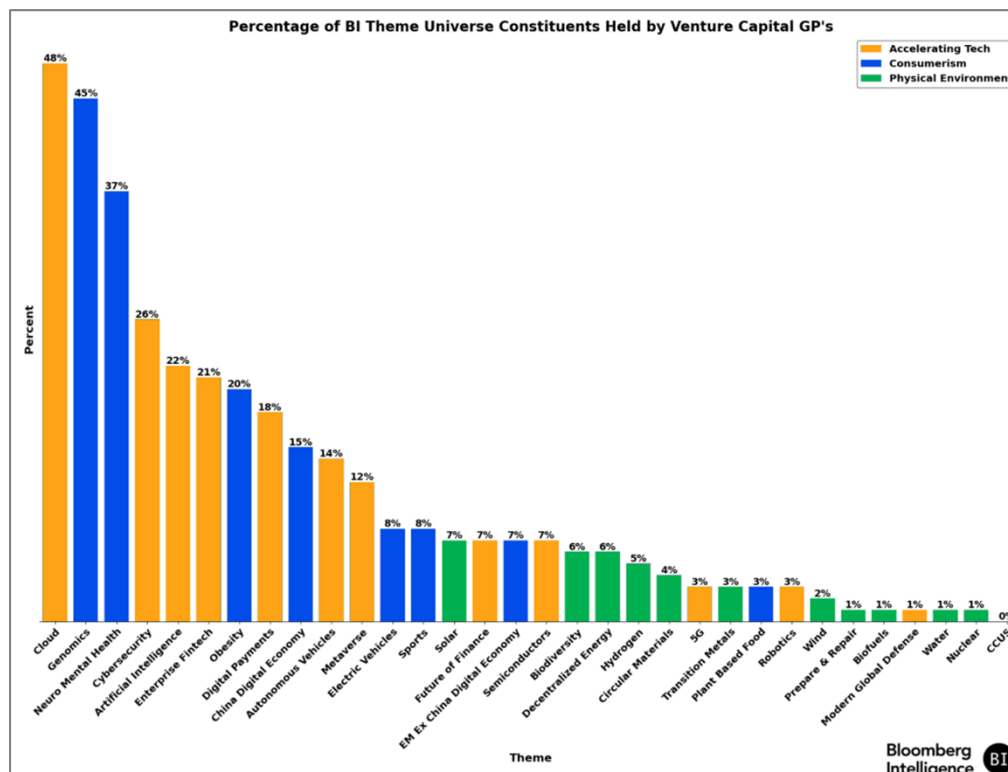
Private Equity / Venture Capital

Having had a rollercoaster ride from the highs of 2020-21 down into 2023, the IPO market continues to splutter back to life in 2024. Q2 saw a broadening of activity geographically, with China, Japan and Middle East all seeing names come to market. Meanwhile, the US remains slow, particularly on the tech new issuance side. This may be a function of the narrowness of the rally in the US equity market, and the lack of participation by small and mid-cap stocks; potential issuers may be awaiting a market that broadens out and puts more appropriate valuations on the still relatively cheap small-cap sector.

While fintech and innovative health (such as genomics) still get interest, AI continues to dominate VC capital

deployment—at elevated valuations—which bring comparisons to the pricing power enjoyed back in 2020-21, where a variety of tech names raised new funding at ≈100x revenue multiples: similar levels are now being achieved within the AI sector. It is interesting to note that none of the 2020-21 cohort have yet been back to the market for capital due to the reluctance to execute down rounds in what has subsequently been a poor environment. Will today's AI driven exuberance end the same way?

We have several opportunities at various stages of due diligence currently. These include: (a) the de-listing of a UK SaaS business in a deal led by KKR where we see very strong growth potential for global sales roll-out; and (b) an early stage AI business.



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