ALTUS

INVESTMENT

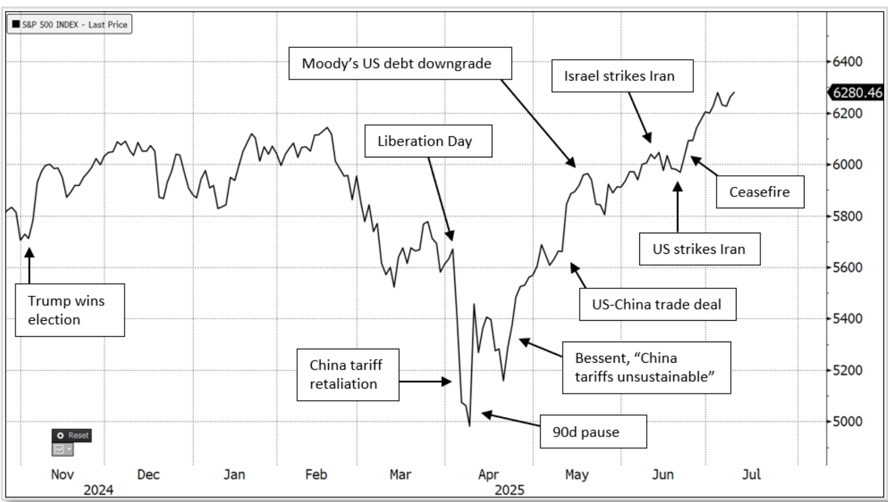
Quarterly Investor Report

Second Quarter 2025

Macro Commentary

The second quarter belonged to President Trump who drove all the major themes and narratives. In our Q4 2024 report, we wrote that Trump was "likely to make a splash during his first 100 days in office. While we believe on balance Trump will be pro-business and pro-market, his opening salvos relating to tariffs… are likely to be deliberately loud and dramatic. His negotiating style is to start from an extreme position that he can then moderate to win concessions. So, we should expect some volatility around initial policy announcements." We give ourselves high marks for anticipating the likely pattern of events, but, like most investors, lower marks for anticipating quite how far Trump was prepared to push everything - trade, fiscal spending, Fed independence, and surprisingly, the Middle East.

The Liberation Day event, at which President Trump unveiled tariff rates on America's trading partners undoubtedly took the market by surprise on 2 April. Global stocks had pulled back into the event as investors de-risked in anticipation of bad news. The way scheduled news events of this type work is that when they arrive, we find out if the news was correctly priced in or not. If what transpires isn't so bad, you see a reversal of price action, if it's worse, you see an extension. On Liberation Day, we very much saw the latter, with US stocks closing down -5% on 3 April, then, after China retaliated with tariffs of their own, the VIX spiked to 60 and the S&P500 closed down -15% from the Liberation Day event. The tariffs Trump announced would have put America's average tariff rate north of 20%, which nobody expected because if they were maintained for any length of time, they would lead America into recession. That was precisely the point made by Jamie Dimon on the morning of Wed 9 April, who, when asked if a recession was likely, said, "I think it's a likely outcome. Markets aren't always right, but sometimes they are right, and I think they are right this time." Trump was listening and this turned out to be the day that he backed off, announcing a 90-day pause in a Truth Social post that sent the S&P500 up +10% in a few helter-skelter hours. From that point on, it gradually became clear that Trump was not willing to go through with the worst of his threats. On 14 April, tariff exemptions were announced on smartphones and electronics, then on 22 April, he sent out Treasury Secretary Bessent to state that the tariffs on China were not sustainable. On 12 May, America and China agreed a framework trade deal in Geneva, which was the catalyst for the major US indices to reclaim their 200-day moving averages, and on 11 June, that deal was confirmed in London. At the end of this round trip for stocks down and up, the average tariff rate America charges on



Macro Commentary (continued)

imports will likely settle around 10-12%, so we shouldn't consider Trump's climbdown to be a capitulation. Compared to the previous average rate of 2%, an increase to 10-12% represents a real change the full impact of which may yet to be seen.

The fact that Trump pulled back from his extreme trade policy when bond markets sold off and recession expectations spiked reveals his objectives for his second term. Despite his assertions to the contrary in February, he is pro-market, and he clearly wants to generate an economic boom. That goal has two major implications for US policy beyond trade, namely fiscal and monetary policy.

First, fiscal policy. In February and March, the Trump administration's message was that America had become "hooked" on government spending and needed a period of "detox", and that the remedy was Elon Musk's DOGE, a program of cutting wasteful government spending that would yield trillions in savings. However, as the quarter unfolded, it became clear that Trump's signature spending bill, the "One Big Beautiful Bill", would bring a continuation of the heavy deficit spending policy of his predecessor, Joe Biden. The bill will add a further $3-4tr to US government indebtedness over the coming decade and was described theatrically by Musk as "a pork-filled abomination". Another word for fiscal deficit is fiscal stimulus and the OBBB looks set to support the US economy, corporate earnings, and in turn US stocks. However, the bill kicks the can of US indebtedness down the road and may cause problems in the future. One of our managers, Riposte, reckons if nothing is done to reverse America's policy of huge borrowing, then by 2045 annual net interest payments will reach a colossal 10% of GDP. In phases of recession, automatic stabilisers could take the figure even higher. Jamie Dimon summed it up again, "You are going to see a crack in the bond market. I just don't know if it's going to be a crisis in six months or six years."

The second policy implication of Trump's eagerness to generate a boom impacts monetary policy, which is currently beyond his control because of the well-established independence of the Federal Reserve. Trump has made it abundantly clear he wants the Fed to lower interest rates and has held Jerome Powell personally responsible for holding them unchanged this year. On 21 April, Trump suggested he was looking into ways to fire the Fed Chair, whom he called a "major loser". However, after the market appeared to take those comments badly, on 23 April, Trump backed off, saying he had no intention of firing "Mr Too Late". But, in recent weeks, Trump has returned to his sledging, on 2 July posting "Too Late should resign immediately!!!" and making it clear he plans to install a dovish stooge when Powell's term ends in May 2026 (or before, if Powell leaves early) - posting "whoever is in there will lower rates. I'm going to put someone in that wants to cut rates." He may get his way as the list of candidates includes members of his inner circle, such as Treasury Secretary Scott Bessent and Director of the National Economic Council, Kevin Hassett. If Trump does appoint a new Chair who aggressively cuts rates at his behest, then that would be stimulative for the economy, but it would also raise serious concerns about Fed independence and the resilience of America's institutions. And, in the context of major fiscal stimulus, it could trigger inflation fears that could in turn upend America's longer-dated bond yields. Like US debt sustainability, this isn't an immediate concern, but it could spring into importance in the not-too-distant future.

The other field where Trump went further than some expected was the Middle East. On 11 June, reports emerged that America was evacuating non-essential personnel from its military bases across the Middle East

Macro Commentary (continued)

as negotiations about Iran's nuclear program stalled. Two days later, Israel launched major airstrikes against Iranian nuclear facilities, military infrastructure, and high-ranking members of the Khamenei regime. Iran immediately retaliated with missile and drone attacks against Israel. Throughout the following week, the two countries exchanged continuous aerial attacks. At that point there was heated debate as to whether Trump would or should supply Israel with the specialised ordinance required to destroy Iran's uranium enrichment facility at Fordow, buried deep under a mountain in central Iran. On the one hand, here was a clear opportunity to permanently halt Iran's nuclear enrichment program, but on the other hand Trump's MAGA support base, such as Steve Bannon, were vocally against America starting another "forever war". On 21 June, Trump settled the question by sending B2 bombers from their bases in Missouri to strike Iran's key nuclear facilities. America's calculus was that Iran would not be willing to retaliate in any major way. As one commentator put it, "Iran's retaliatory options are the strategic equivalent of a suicide bombing, they can strike US bases, attack oil facilities, mine the Strait of Hormuz, or rain missiles on Israel, but the regime will not survive the blowback." History is littered with oppressive dictators who, having been toppled, meet bad ends at the hands of their people (recent examples including Muamar Gaddafi, Saddam Hussein, and Nicolae Ceaușescu). Khamenei and his entourage lead rich lives - a Reuter's report as far back as 2013, "Assets of the Ayatollah", estimated his wealth at around $95b; and they know that escalation against America might lead them down a path to humiliation, incarceration or worse. Their unwillingness to take that path was revealed on Monday 23 June when they embarked on a retaliation that was unequivocally de-escalatory in nature. Iran fired missiles against America's Al Udeid base in Qatar, but they telegraphed it well in advance allowing the base to be evacuated, and the attack caused little damage and no casualties. This face-saving action maybe marks the end of the conflict for now.

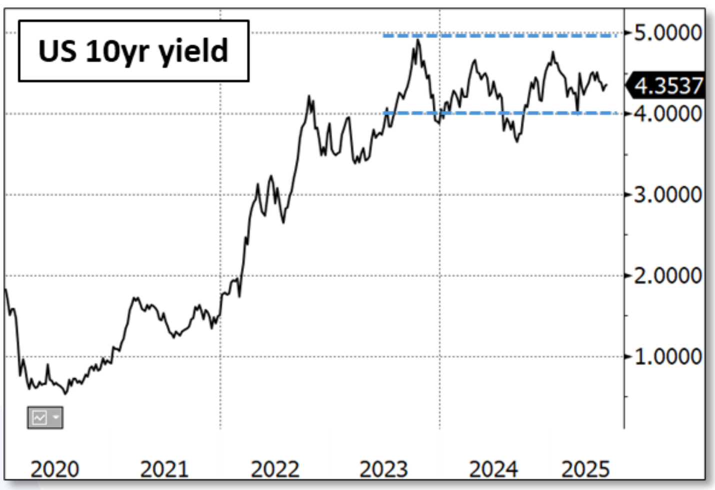
So, what are we to make of Trump's various actions relating to tariffs, fiscal spending, monetary policy, and the Middle East? The common thread in all his actions is that we are just going to have to wait and see what the longer-term consequences are. Will tariffs induce an increase in inflation in the US, prompting the Fed to turn hawkish? Will the OBBB cause problems for the US bond market? What will happen if Trump installs a dovish puppet at the Fed? Did America's bunker busters really stop Iran's nuclear program in its tracks? The answers to these questions will take a while to materialise. In the meantime, however, investors are giving Trump the benefit of the doubt and focusing on the bullish dynamics of the here and now. First, the substantive phase of tariff uncertainty is behind us. Second, the Middle East has faded into the background once again. Third, economic data in America and Europe is holding up fine. Fourth, we now have confirmed and strong fiscal stimulus in play in America, Europe, and China. And fifth, we have accommodative monetary policy across the globe, plus the outside chance of a less independent Fed becoming outright stimulative for the first time since Q1 2020. Whether or not stocks can maintain their rapid pace of ascent through the third quarter, which is seasonally the trickiest, remains to be seen. A period of consolidation or pullback looks possible as tariffs feed through into American inflation and we await more clarity on the questions posed above.

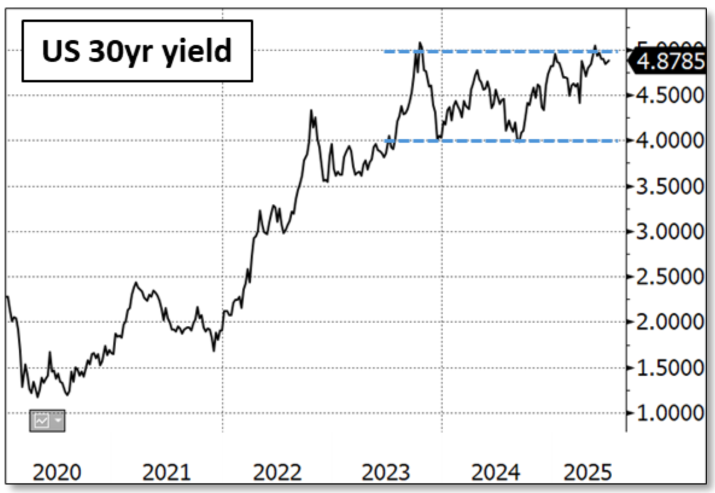
Asset Class Review

Fixed Income

lDeveloped market government bonds were not immune from Trump's trade policies, which caused oversized moves particularly in US Treasuries. From Fri 4 April to Fri 11 April, the US 10-year yield jumped from 3.86% to 4.59%. It was arguably this move in yields that prompted Trump to walk back his hardline tariff policy. Later in the quarter, as the Big Beautiful Bill made its way through the Senate and Congress, on 16 May, Moody's downgraded their sovereign rating on US debt on the basis that "successive U.S. administrations and Congress have failed to agree on measures to reverse the trend of large annual fiscal deficits and growing interest costs." Despite these challenges, if you zoom out, US longer-term bond yields maintained the 4.0-5.0% range they have respected for the last three years, as shown in the charts below for the 10yr and 30yr bonds. So, no sign of a bond market revolt as yet.

A further point on US fiscal policy that flew under the radar but was of great significance was Treasury Secretary Bessent's interview on Bloomberg on 30 June. When asked if the Treasury will issue at the long end, he stated, "why would we issue debt at current long-term rates?" In other words, Bessent is telling us that the Treasury intends to issue short-dated Bills instead of longer-dated Bonds. This has the effect of increasing overall system liquidity, which eases financial conditions and supports financial assets, especially riskier ones like equities and credit. Also, reducing the issuance of longer-dated bonds means they become scarce, which leads to a supply/demand imbalance that bring down longer-term yields below the level where they would naturally trade. This is very stimulative for the economy and was a tactic adopted by Treasury Secretary Yellen under the Biden administration. That fits into Trump's boom agenda and reflects his willingness to resort to Bidenomics on steroids to achieve his objective.



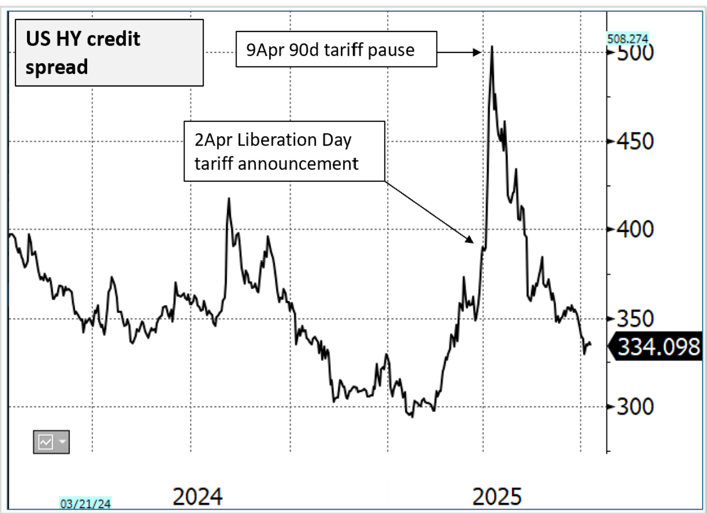


Asset Class Review

Credit

The sudden burst of risk aversion on 2 April impacted credit market in much the same way as they impacted equities. All sectors of the credit market felt the rush to de-risk, with US HY credit spreads (shown below left) lifting from a low of around 300bps in January to a peak of 500bps just before Trump announced the 90-day pause to tariff implementation that signalled his administration's intention to walk back from the brink. As we noted earlier, it was on 9 April that Jamie Dimon gave a TV interview on Fox Business, noting that the markets were correctly pricing in a high and rising probability of a recession. This was also reflected in betting markets, which are emerging as a liquid forum for expressing macro views, which in turn provides information about investors' views and positioning. One of the largest of these forums, Kalshi, showed by late April its clients believed there was a 65% chance of a recession in 2025. As the admin dialled down their hardline stance and struck a deal with China, credit spreads compressed and the perceived probability of a recession fell back.

The outlook for credit from here depends on many of the same factors that impact equities. Questions remain outstanding about the impact of tariffs on inflation, about Fed independence, and about whether further deficit spending will begin to lift bond yields. If we can navigate these challenges without serious problems, then the outlook for credit looks OK.

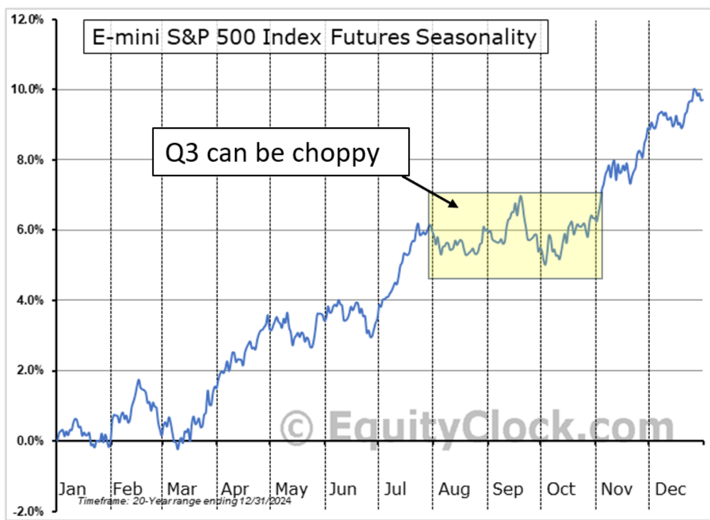


Asset Class Review

Equities

We noted last quarter that the S&P500 had broken below its 200dma (the blue line in the chart below), and that until it reclaimed that level, we should treat stocks with caution. We expected that process would take some time, but here we are in July with the S&P500 not only back above its 200dma but also breaking out to new all-time highs. The reversal of Trump's hardline tariff policy was the initial impulse behind the bounce in US stocks, but as the quarter unfolded, a variety of bullish dynamics have asserted themselves. Fiscal stimulus, which looked like it was being withdrawn via DOGE and tariffs (which essentially constitute a tax hike) has returned with Trump's spending bill. Meanwhile, Bessent has indicated the Treasury will be pivoting to the issuance of Bills over Bonds, which boosts system liquidity, which is favourable for stocks. As for monetary policy, that tailwind may pick up soon, either from JPowell reinitiating the Fed's cutting cycle towards the end of the year, or from his successor, who may carry out Trump's orders to cut rates aggressively. The bullish action was not just confined to US stocks, the German DAX also hit new all-time highs, with the Euro Stoxx 50 and Nikkei 225 not far behind.

So, what could sour the bullish picture? The most immediate concern for the US is that as tariffs feed into the economy, this pushes up inflation. So far, inflation readings have been pretty benign since Liberation Day. For example, on 11 June, Core CPI came in at 2.4% yy versus 2.5% expected. If we were to see a string of hotter than expected inflation data, then it's hard to see US stocks maintaining their current rate of ascent. This would tie in with the seasonal pattern for stocks, as illustrated by the seasonality chart for the S&P500 in the graphic below. Q3 is often accompanied by late summer pullbacks or consolidations in thin trading conditions before bullish tendencies reappear in Q4.



Asset Class Review

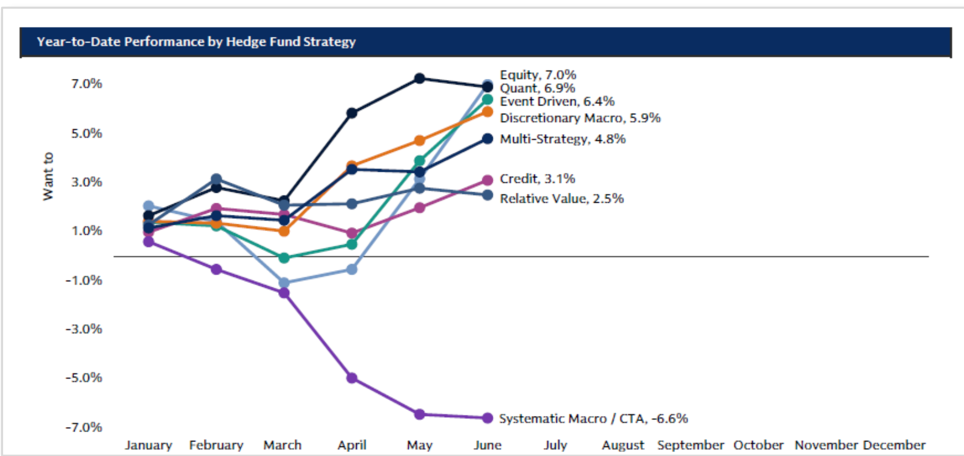
Absolute Return

The second quarter of 2025 for the absolute-return hedge fund sector was characterized by resilience amid complex macroeconomic crosswinds. The environment was marked by sticky inflation, divergent central bank actions, heightened volatility, and episodic liquidity stress. Despite these challenges, the absolute-return cohort delivered a median return of 1.4%, affirming its reputation as a low-beta, capital-preserving strategy with subdued volatility, averaging around 5.9% and a Sharpe ratio of 0.58.

The best-performing sector in Q2 was Quantitative/Statistical Arbitrage, which posted an impressive 3.4% return. These strategies thrived by exploiting intraday market noise and short-term reversal signals, assisted by machine-learning models and an environment rich in dispersion. They also delivered the highest unlevered Sharpe ratio in the universe, reflecting strong risk-adjusted performance and minimal exposure to macroeconomic beta. Multi-Strategy platforms posted a return of 1.5%, thanks to dynamic capital rotation and risk budgeting. These funds tactically redeployed capital from underperforming macro strategies to more productive statistical arbitrage sleeves during the quarter. While leverage remained high, platform diversification and internal liquidity provision helped buffer against external funding shocks and macro volatility.

Macro and CTA strategies were the clear laggards, suffering a 2.0% decline; their worst performance since 2022. This poor showing was attributed to abrupt trend reversals in commodities like cocoa and gold, along with losses in long-duration bond positions following April's rates shock. Although discretionary macro managers mitigated some losses, the broader sector struggled due to the sharp shift in macroeconomic signals and weakening momentum trades.

Fundraising trends showed stabilization, with notable product innovation such as the launch of a $341 million catastrophe-bond UCITS, reflecting growing demand for uncorrelated yield. This is a sector we are currently looking at. Overall, the quarter reaffirmed that absolute-return hedge funds, while trailing the broader equity rally in pure returns, continue to provide attractive risk-adjusted performance and structural convexity during stress periods. Success in the months ahead will depend on fund managers' ability to maintain liquidity, optimize leverage, and adapt to the dynamic policy landscape.

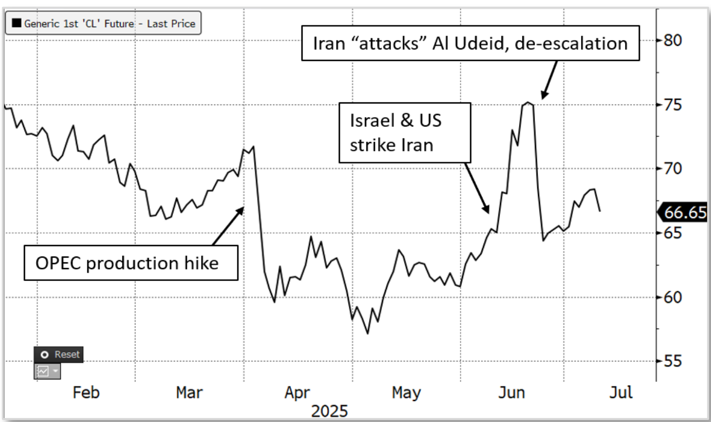


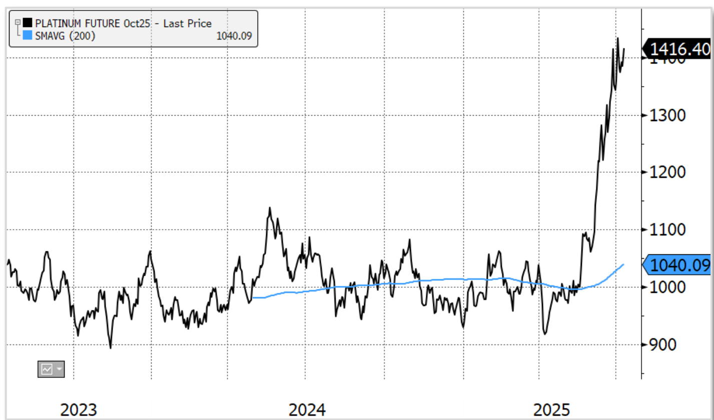
Asset Class Review

Commodities

Oil went on a wild ride in Q2. At the start of the quarter OPEC surprised the market by boosting production unexpectedly, prompting WTI to fall 20% from $72 to $55. The rationale for the cut was to incentivise better production compliance from Iraq and Kazakhstan. These two OPEC members have been overproducing while around 60% of Saudi, UAE, and Russian production is shut in. As the quarter played out and Israel struck Iran, one might be forgiven for suspecting Trump had pressured Saudi and OPEC to boost production to keep oil prices low ahead of destabilising military action in the Middle East. Oil prices spiked after Israel stuck Iran, but only as far as $75 per barrel. As we noted in the Macro section earlier, it quickly became clear that Israel did not intend to hit Iran's energy complex – perhaps at the behest of America who wants low energy prices and low inflation; while Iran did not intend to shut the Strait of Hormuz – perhaps at the behest of China who buys 70% of Iran's oil exports. It was a relief to see oil prices fall back as a ceasefire was announced at the end of June. However, we don't yet know for sure if the Iranian nuclear weapons program has been permanently derailed, and there is certainly scope for this narrative to re-emerge in the coming months and quarters.

As for precious metals, Gold took something of a breather, despite the geopolitical troubles in the Middle East. Gold passed the momentum baton on to Silver and, most notably, Platinum, which staged a very clean breakout in June and is one to watch from here. Precious metals are a clear beneficiary of the dollar debasement story playing out in US fiscal and monetary policy, which we cover in the Case Study section below.





Asset Class Review

Private Equity

In the second quarter of 2025, private equity (PE) markets demonstrated a marked divergence between volume and value, as deal counts declined even while total deal value surged. Global sponsor-backed exits totalled $279 billion for the first half of the year, representing a 45% increase over the same period in 2024. However, the number of transactions declined by 16%, reinforcing a market dynamic increasingly defined by fewer, but much larger deals. This was particularly evident in the United States, where mega-deals, defined as those exceeding $1 billion, accounted for 37% of buyout activity, a notable increase from the previous year. As a result, the average U.S. buyout size rose to $1.71 billion, setting a new record.

This consolidation in transaction value stems in part from an urgency among PE firms to deploy dry powder. At $2.5 trillion globally, available undeployed capital remains historically high, with approximately $1.2 trillion now aged beyond four years. This aging capital is exerting pressure on fund managers to initiate investments before commitment periods expire. The preferred strategy appears to be headline-grabbing mega-transactions in high-conviction sectors, such as technology, artificial intelligence infrastructure, and healthcare. Growth equity emerged as a particularly strong subsegment, with U.S. deal values up 63% year-to-date, offering PE funds a route to deploy capital without relying heavily on debt.

Turning to company-specific developments, Huma Therapeutics and Zilch exemplify two contrasting yet successful private capital deployment strategies in this environment. Huma has pursued an equity-heavy roll-up strategy, underpinned by a new growth equity partnership with Eckuity Capital. In May 2025, the company acquired Aluna, a U.S.-based remote respiratory monitoring firm, expanding its platform's reach in chronic-care management. This deal also strengthens Huma's U.S. regulatory presence and supports its broader aim of building a disease-agnostic digital health ecosystem. Earlier, in March, Huma issued £9.6 million in new preference shares, creating an attractive capital structure for new investors by layering in senior rights and conversion features. With little reliance on debt, Huma is positioning itself as a

Asset Class Review

Private Equity (Continued)

consolidator in the digital health space, albeit with limited short-term profitability.

Zilch, by contrast, is scaling through structured credit rather than fresh equity. The UK-based "buy now, pay later" fintech increased its Deutsche Bank-led securitisation facility to £150 million, enabling it to support up to £10 billion in annual transaction volume. With a current revenue run-rate of £145 million and six consecutive months of profitability, Zilch has established a compelling financial profile heading into a potential IPO window. A partnership with Visa has further expanded its acceptance network, and the company has engaged advisors to scout overseas acquisitions, signalling openness to private equity support for larger-scale M&A if needed. Importantly, Zilch's capital strategy has preserved shareholder dilution, leveraging its strong cash flow and credit partnerships instead.

Collectively, Huma and Zilch offer instructive case studies on capital stack engineering in late-stage private markets. Huma's approach is anchored in equity-fuelled consolidation within healthcare, while Zilch emphasizes debt-fuelled expansion within consumer fintech. Both paths attract distinct subsets of PE interest, Huma appealing to growth-oriented buyout funds comfortable with operational scale-up risk, and Zilch to private credit and hybrid investors seeking exposure to profitable fintech's with IPO potential.

As the PE landscape progresses into the second half of 2025, these dynamics are expected to persist. The continued bifurcation between mega-deals and sluggish mid-market activity, combined with aged capital pressures and evolving exit conditions, will shape the strategic behaviour of funds and their portfolio companies alike. Capital discipline, sector focus, and capital-structure creativity will likely remain the defining features of successful private equity deployment strategies in the coming quarters.

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