



ALTUS

INVESTMENT

Quarterly Investor Report

Third Quarter 2024

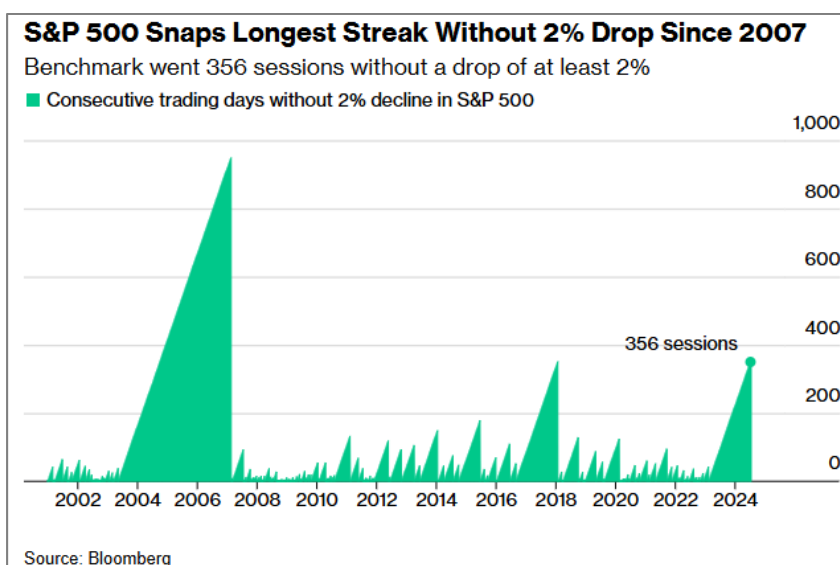
Macro Commentary

Financial markets faced a bumpy Q3, driven by some weaker U.S. economic data and recurring doubts over the sustainability of technology company earnings. Yet, despite lingering fears of a hard landing for the global economy, equities managed to stay well bid into the end of the quarter, bolstered by a bond market rally and falling yields. In China, authorities unleashed the 'bazooka' of interventions late in the quarter, aiming to avoid a Japanese-style 'lost decade,' which spurred a dramatic turnaround in Chinese equities.

While the odds of a U.S. recession remain slim, markets continued to swing between the prospects of either a soft or hard landing. July's unexpected negative CPI reading, coupled with signs of a slowing economy, turned investors' attention towards the Federal Reserve's anticipated rate cuts. The Fed made a well-anticipated move at its September meeting, initiating the rate-cutting cycle with a bold 50 basis point reduction, following the earlier cuts by the Bank of England (1 x 25bps) and the European Central Bank (2 x 25bps). The aggressive action triggered more strength in stocks and eased some

concerns about the health of the U.S. economy.

Ironically, the Federal Reserve's dovish shift may partially have been spurred by Japan's hawkish shift, as the Bank of Japan had earlier raised rates on the road to normalising its monetary policy. This prompted an unwinding of the notorious Yen carry trade, leading to broader market de-leveraging and a sharp spike in U.S. equity volatility, causing problems for the increasingly popular volatility-harvesting strategies. Nvidia, the AI juggernaut, remained a market darling, with strong earnings continuing to support the stock, although any hint of weakness in tech earnings still rattles investors: at one point during the quarter Nvidia shed over \$1/2trn in value, before ending the quarter flat. The Nasdaq 100 exemplified the market's wild ride, ending the quarter up 2%, but experiencing sharp swings: a 5% rally, a 16% drop, a 14% rebound, another 8% dip, and yet another 10% recovery. This erratic behaviour reflects normal volatility of U.S. Presidential election cycles, which tend to spark increased market jitters in the late summer and autumn.



Macro Commentary – Continued

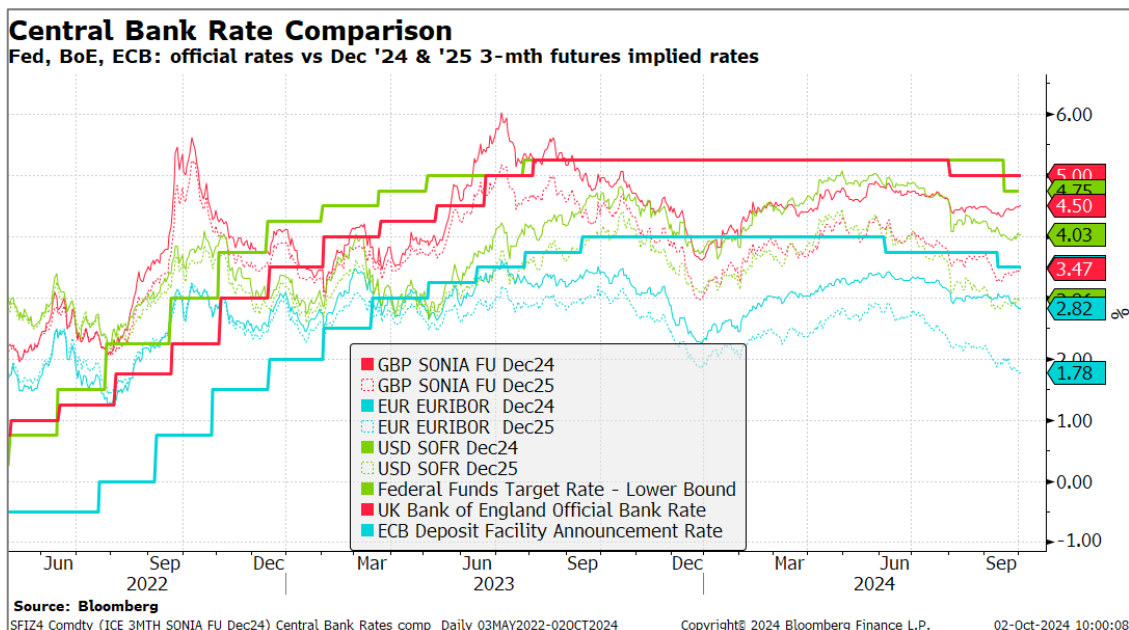
Inflation worries have subsided in recent months—helped in no small part by weaker oil prices—leaving central bank deliberations to remain centre stage in fixed income markets (though fiscal concerns continue to lurk in the background). The long-awaited rate-cutting cycle is now underway, with the pace and extent of future cuts the primary subject of speculation. The ECB kicked off the cycle in June, followed with another cut in September, as the Eurozone economy remains in the doldrums with political deadlock in France and Germany, signaling further reductions ahead.

Most attention has been on the U.S. Federal Reserve, and after much anticipation the Fed finally cut rates by 50bps to 4.75%. With dovish signals coming from several key figures, including Chair Jerome Powell, the prevailing expectation is for steady 25bps cuts until a ‘new normal’ neutral rate—likely in the 3-3.5% range—is reached. While the Bank of Japan remains on its own trajectory after a decade of near-zero rates, the Bank of England has also started its cutting cycle, though maintaining a

more hawkish tone.

Following the upheaval of the ‘Liz Truss Moment’ two years ago, the current government is scrambling to restore fiscal and economic credibility. For now, the markets seem placated, with the UK viewed more favourably (albeit nerves remain ahead of a Budget likely to bring targeted tax measures against financial wealth). The UK stands out as a relative bastion of stability in a politically dysfunctional Europe, providing a lift for both stocks and sterling, but this also implies a shift toward structurally higher relative interest rates compared to other markets.

In this environment, longer-duration bonds performed well during the quarter, particularly in the U.S., where yields on the 10-year benchmark Treasury note fell by 62bps to 3.64%, delivering a near 8% return for the 10-year aggregate index. Year-to-date returns remain modest, with the UK notably trailing behind its peers.



Asset Class Review

Credit

In credit market, a volatile start to August in corporate credit coincided with equity market volatility, on renewed fears of economic weakness. High-yield credit spreads widened sharply, reflecting a flight to quality into Treasuries. But again, similar to equity market recovery, the balance of the quarter saw a re-compression of spreads as the macro and fixed income backdrop ultimately proved constructive. The reduction in rates across the board, driven by increased perception of a soft-landing economic scenario, ultimately led to decent returns in credit.

Inline with this scenario, distressed debt indices performed extremely well: a kind of 'dash-for-trash' environment. To quote Bloomberg, "Junkiest debt soars as monetary policy eases". Yet the factor holding-back

the broad corporate credit market relative to sovereign fixed income is the tendency for shorter-duration than the benchmark US Treasuries often quoted (primarily the 10yr T-Note or 30yr T-Bond). Whereas the US 10 T-Note returned around 8% for the quarter, the broader US Treasury market index (average maturity around 6.8 years) returned 4.7%. The Bloomberg Aggregate Corporate index returned 5.8%, with high-yield corporates averaging around 6.1 years to maturity, and Investment Grade corporates average around 9.8 years.

What we have in the credit market at the end of Q3 is a series of similar returns across differing subclasses YTD, arrived at via different routes based on the current market perception of the balances of risks between the economic environment (recession or inflation) and the likely central banks' reaction functions as the rate cutting cycles proceeds.

Govt vs Corporate Credit by Maturity

Total Return (Rebased to 100 at period start)



Source: Bloomberg

LD06TRUU Index (Bloomberg Intermediate Corporate Total Return Index Value Unhedged USD) Corporate Duration Daily 29DEC2023-30SEP2024 Copyright© 2024 Bloomberg Finance L.P. 15-Oct-2024 14:42:52

Asset Class Review

Long Only Equity

For equity markets, in our Q2 quarterly report in July we noted US stock indices were likely setting up for a period of seasonal consolidation through the summer months. That proved to be spot on. The S&P500 peaked on 16 July then charted a classic bull market correction of -10%. As often happens, the pullback began from technically overbought conditions after the S&P500 reached a daily RSI of 80, which is very high. At such extremes it's normal for sellers to lock in recent profits. Then, once some negative momentum was established, the move lower accelerated on bad news, which related to an apparent weakening in the US jobs market (most notably on Friday 2 August when US NFPs printed a bad miss, 114k new jobs versus 175k expected). Steady selling escalated into a final panic flush lower on Mon 5 Aug as a severe dislocation upset FX markets. At the same time as US data suggested a slowing US economy (weakening the Dollar), the Bank of Japan signalled its intention to embark on a hiking cycle (strengthening the Yen). The result was a sudden drop in USDJPY, which fell -8% in three sessions leading into Mon 5 Aug. Global investors who had used JPY as a funding currency to buy dollar assets rushed to square off positions as the Yen strengthened. FX volatility spread to equity markets and the VIX peaked at an astonishing 65 early that Monday morning. However, this proved to be the capitulation low of the S&P500's correction. In classic manner, the bounce started high volume as price came into significant channel support (see chart).

After a rapid +10% bounce in early August, volatility settled down as US jobs data improved and the BoJ announced they wouldn't hike "when markets are unstable". A further bullish tailwind came at the Fed's annual symposium at Jackson Hole on Fri 23 Aug, when J Powell announced that "the time has come for policy to

adjust." The Fed followed up on 18 Sep when they announced a 50bps cut, thereby initiating an interest rate cutting cycle that is expected to last at least a year. As we look out to Q4, the long-term picture is constructive for stocks. A clear bull trend is observable in stock indices, the Fed has started a rate cutting cycle, and the US economy is healthy. However, on a short-term basis caution may be warranted. First, the US Presidential election is almost upon us, which may be a difficult time for stocks, especially if the result is contested. Second, we are still awaiting Israel's response to Iran's missile attack of Tue 1 Oct. There remains a risk that the Netanyahu government will seek to neutralise Iran's nuclear weapons program in response to Iran's recent missile attacks. But, if we can navigate these events unscathed, a strong Q4 looks possible for US stocks.



Asset Class Review

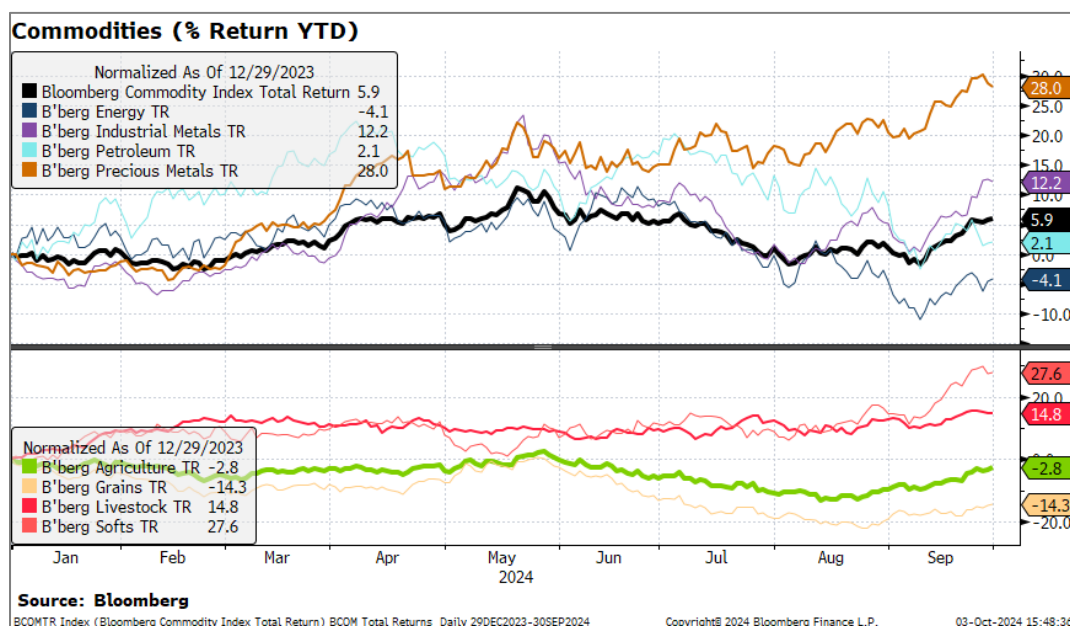
Commodities

In commodity markets, the Bloomberg Commodity Index (BCOM) finished Q3 with a year-to-date total return of 5.9%, but this relatively modest performance hides a range of significant gains and losses in individual commodities. Q3 proved challenging for the energy complex, as the combination of residual global growth concerns and supply dynamics weighed on prices. WTI crude fell 13.7%, erasing the Year-To-Date gains, resulting in YTD loss of -3.5%. Distillate products (such as gasoil, gasoline and heating oil) listed on NYMEX generally had an even worse quarter.

Meanwhile, precious metals had a good Q3. Despite the relatively benign near-term economic and inflation outlook, investors appear to be positioning for a different long-term scenario, with precious metals continuing to benefit from demand for safe-haven assets amid long-term fears of global uncertainty: a situation we continue

to have much sympathy for. Gold (the largest weight in BCOM) emerged as one of the strongest performers in the entire commodity space: gold-spot rose 13.2%, with a year-to-date return of 27.7%. The (generally more volatile) silver rose 6.9% to leave YTD returns of 31% (platinum and palladium are still in negative territory YTD).

Agricultural commodities have been mixed, still battling volatility tied to weather patterns and supply fluctuations: most grains are down double digits YTD, while cocoa and coffee are up 96% and 44% respectively. Meanwhile the economic barometer 'Dr. Copper' peaked at \$5.20/lb in May (~\$11,460/ metric tonne), and fell hard to below \$4/lb (~\$8,800/mt) in early August suffering from fears over excess speculative inventories and weak China demand. It did well to catch a bid and anticipate the Chinese stimulus, rallying into quarter-end around 20% from its low.



Asset Class Review

Private Equity / Private Credit

The third quarter of 2024 was marked by a surge in interest and investment in artificial intelligence (AI). Companies like OpenAI, the creator of ChatGPT, raised \$6.6bn in September, valuing the company at more than \$157bn. This trend extended beyond private equity and venture capital funds, with established tech giants like Apple, Microsoft, and Facebook also making significant investments in AI startups. It has very much become an arms race for listed firms such as this to invest into the “hot” new start ups in AI. Microsoft has invested a staggering \$19bn in cash capital expenditures and equipment, mostly related to AI. Despite the massive spending, the company has yet to see significant revenue from AI.

A new focus area for Private Equity investing is Europe. A good example of this is KKR’s involvement in taking a software developer headquartered in the UK, IQGeo, private (a coinvest which Altus participated in). Over the past five years IQGeo’s revenues grew from approximately £10m in 2018 to over £44m in 2023. The firm’s revenues are predominantly in the US but, due to it being headquartered in the UK, it is trading at a huge

discount to its US peers. KKR not only sees huge value in the name itself through synergies with its current portfolio but also in the relative value of it compared to its peers.

Despite the increasing value and number of deals getting done it remains a difficult capital raising environment for Private Equity Funds. North American private equity fund fundraising returned to its slow pace in the first three quarters of 2024, following a one-time rise in capital inflows between April and June. Buyout, growth equity, venture capital, secondaries and other private equity funds raised \$385 billion as of the end of September, down 15% from \$453bn secured a year earlier, according to Buyouts data.

The private credit market experienced a relatively muted quarter compared to its previous performance. While demand for new issuance remains strong due to the abundant capital raised in recent years, rising interest rates and wider credit spreads have created some headwinds. The floating-rate nature of private credit has helped to mitigate some of these challenges by providing a degree of protection against rising interest rates.

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