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I N V E S T M E N T

Quarterly Investor Report

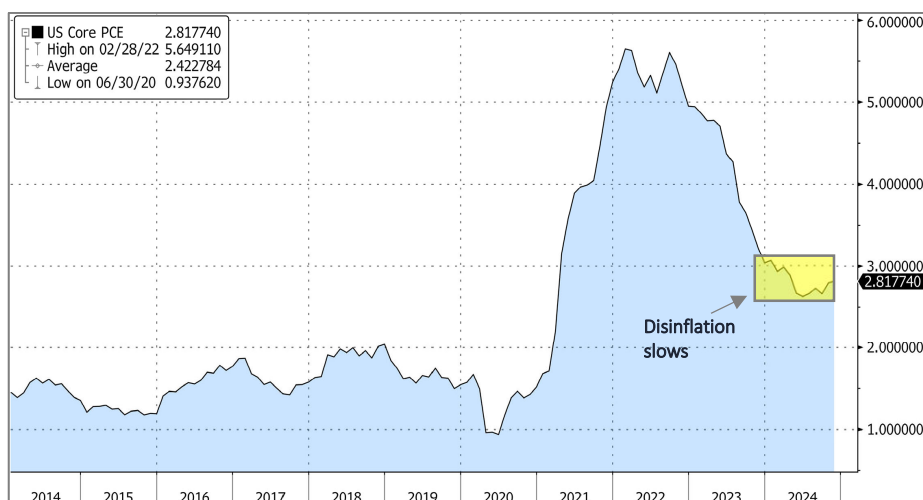
Fourth Quarter 2024

Macro Commentary

Q4 2024 kicked off with an Iranian missile strike on Israel on 1 October. For months, these two states have swapped tit-for-tat reprisals while deliberately avoiding material impact to the region's energy infrastructure. Accordingly, the market has learned to disregard these exchanges and quickly shook off the news of the Iranian attack and later Israel's retaliation on 26 October.

Of considerably more significance was the US Presidential election on 5 November, which was the event that dominated the quarter. There was understandable concern ahead of the election that a close and contested result could lead to a period of market-unfriendly uncertainty with recounts, legal challenges, and a result unknown for months (the precedents being the 2016 Trump/Biden election and the 2000 Bush/Gore election). However, this anxiety disappeared after Donald Trump won a clear victory with 312 electoral college votes to Harris's 226. Trump also won the popular vote 49.9% to 48.4% while the Republican party won control of the Senate and Congress. US stocks reacted very positively to the Red Wave, pricing in four years of low taxation, deregulation, and pro-business policy. In the weeks immediately following the election, the SP500 rose +7% the Nasdaq100 +11%, and the Russell 2000 +12%.

However, the market's honeymoon phase with Trump 2.0 was given a significant jolt by the Fed's FOMC meeting on 18 December. The Fed cut their policy rate by 0.25% as expected, however the meeting carried three hawkish notes. First, Beth Hammack, President of the Cleveland Fed, dissented from the decision to cut, preferring to keep rates unchanged. That demonstrated a 0.25% cut was not the slam dunk the market had assumed. Second, the Fed's "dot plots", which illustrates individual FOMC members' projections for the future path of the Federal Funds Rate, showed the FOMC expected only two further cuts in 2025 whereas the market was expecting four. And third, Fed Chair Powell was overtly hawkish in his press conference, noting further cuts in 2025 would be conditional on "further progress on inflation", and that the Fed had entered a "new phase". "New phase" is precisely the sort of loaded central bank language that is designed to catch the market's attention and the S&P500 dropped -3.0% on the day, kicking off a larger pullback that extended to the end of the quarter. A less dovish Fed means a slower pace of cuts and a less forceful tailwind for stocks.



Macro Commentary (continued)

At his press conference on the 18 December, Chair Powell explained the FOMC had grown more concerned about the Fed's price stability mandate than their full employment mandate. In plain English, cuts are off the table as long as upside risks to inflation are growing and the jobs market remains in solid shape. Powell offered a couple of reasons why the FOMC think upside risks to inflation have grown. First, key inflation prints overall in Q4 came in hotter than expected, showing that the disinflationary process has slowed in the US (see chart above for the longer-term picture). Second, the FOMC has started to worry about the incoming Trump administration's policy mix, which may carry inflationary consequences, especially as they relate to tariffs, immigration, tax cuts, deregulation, and governmental cost cutting. The FOMC minutes, released on 8 January, explained that several members of the FOMC had made "placeholder assumptions" about the inflationary impact of Trump's policies. We will find out how accurate these "placeholder assumptions" (aka "guesses") are once Trump begins to roll out his policies.

The financial media's job is to sensationalise the extreme tails, but there is scope for optimism that Trump's policies will not be as radical as feared. Significantly, the Trump 2.0 admin has more knowledgeable and experienced people on board compared to the Trump 1.0 admin. They understand the negative macroeconomic consequences of a sudden 60% blanket tariff on Chinese goods or the attempted mass deportation of 10m low-cost labourers. Figures such as Scott Bessent as Treasury Secretary, formerly George Soros's CIO, should help water down Trump's America First program into a formula that doesn't tank the stock market, in which around 60% of the US households have an interest.

Trump understands that it was inflation that got him elected and that this is what he has to avoid.

However, we should still expect some bumps in the road in 2025. Once Trump is inaugurated it is likely he will seek 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 and immigration 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 - recent examples being comments about the annexation of the Panama Canal, Greenland, and, somewhat amusingly, Canada, whose leader he has taken to calling a "state governor." So, we should expect some volatility around initial policy announcements, which may arrive unscheduled via X, Truth Social, or Fox News phone-ins.

Underlying Portfolio Review

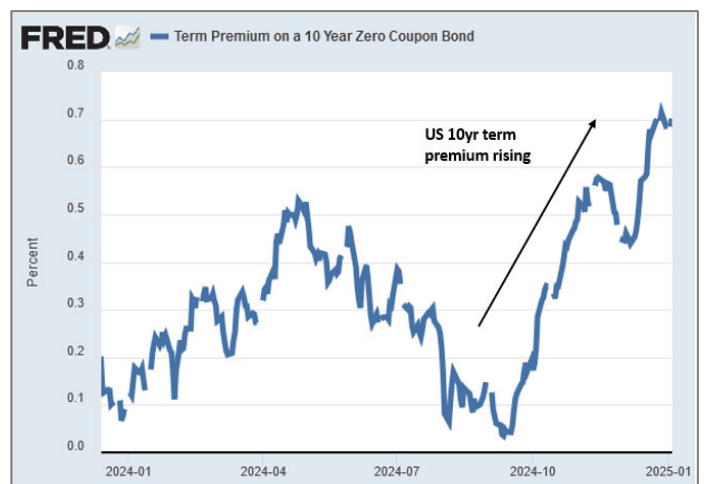
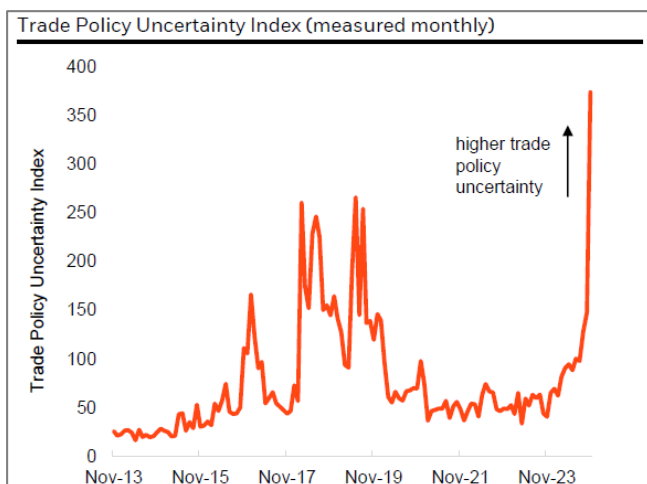
Fixed Income

Global fixed income markets experienced volatility during the fourth quarter and on the whole yields generally rose. In the case of the US, the dynamics described above relating to policy uncertainty and the potential for an uptick in inflation both impacted bond markets. The chart below (left) is a measure of trade policy uncertainty based on an analysis of text searches of seven major US newspapers including the Wall Street Journal and New York Times. It reflects the lack of clarity investors feel about what is coming next.

The US 10yr government bond yield rose from 3.8% to 4.6% during the quarter, and early in Q1 it continued to rise along with the US Dollar. In the same way that the Fed has been forced to assume placeholder expectations/guesses about what Trump will do, so has the bond market. So, bond investors are demanding greater return for assuming the risk of investing further

out along the curve. This has led to the term premium of US government bonds increasing, which drives up yields (see chart below right). In addition to that, recent inflation prints have suggested the disinflationary process has stalled, so fixed income investors are demanding greater compensation for inflation risk as well.

The 5.0% level for the US 10-year yield should act as a significant resistance point, attracting global bond investors seeking attractive yields. However, a final push to that level may be accompanied by volatility across stocks and FX markets,



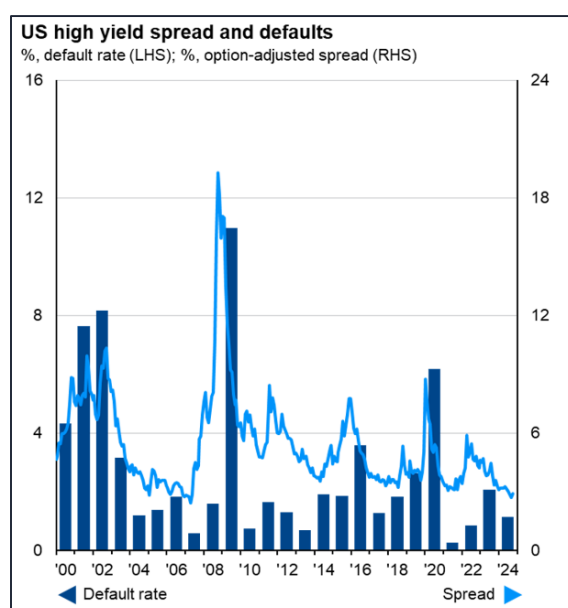
Underlying Portfolio Review

Credit

Credit markets faced challenges in Q4, contending with broad economic uncertainty and evolving regulatory pressures. Certain areas, such as Collateralized Loan Obligations (CLOs) and Commercial Mortgage-Backed Securities (CMBS), also faced their own idiosyncratic headwinds.

The CLO market encountered a critical juncture as a significant volume of 2021 issuance approached maturity. This maturity wall presented a substantial challenge for managers, necessitating either refinancing or restructuring investments. Elsewhere, CMBS also faced its own set of difficulties, primarily driven by the ongoing distress in the office sector. Elevated vacancy rates and declining property values, fueled by remote work trends, increased the risk of default and delinquencies. Moreover, rising interest rates increases borrowing costs for commercial real estate borrowers, making it more challenging to service CMBS loans.

Despite pockets of weakness, credit markets overall remained stable during Q4 2024 and reacted positively to the US election outcome with both US and Europe credit spreads tightening after the event. In absolute and relative terms credit spreads remain at historically tight levels, as shown in the chart below. This reflects high nominal growth (apart from China), high profit margins, and strong investor demand for the asset class. This means within credit there is limited scope for further upside but plenty of downside in the event of an unexpected shock, making the asset class less attractive compared to other available alternatives. Generally, the optimal time to get involved in credit is after spread widening episodes, such as recessions or crises. After these phases, when credit has sold off, new investors benefit from both carry and also capital gain as prices normalise from beaten down levels. But for the time being, there is not a great deal to do in this asset class.



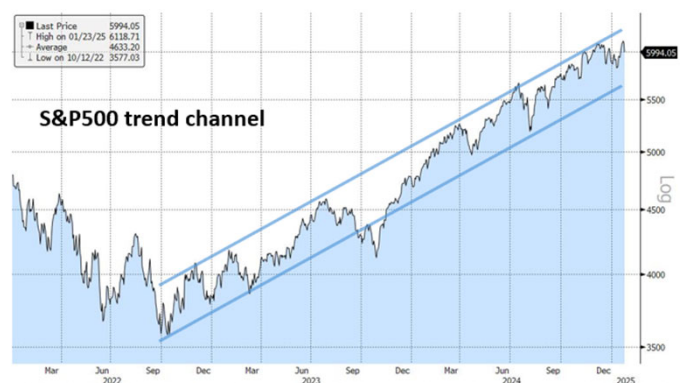
Underlying Portfolio Review

Equities

As we noted in our last report, US stocks looked good for Q4 provided the market could navigate the US Presidential election and tensions in the Middle East. This turned out to be right - US stocks shook off a final missile exchange between Iran and Israel, then broke higher after the election brought a Republican sweep of the White House, Congress, and Senate. The S&P500 rose +6% following the election, reaching the top of the bullish channel that has formed the guardrails of the rally that began in late 2022 (see chart below). As often happens when price becomes overextended and encounters a zone of resistance, the market found an excuse to pull back. On this occasion, it was the FOMC meeting on 18 December that prompted a phase of profit-taking.

So far, this has precipitated a pullback that appears to be a healthy correction in the ongoing primary bullish trend (see chart below right). This pullback is also helping to reset sentiment, which had become excessively bullish, as measured by investor surveys, the equity put/call ratio, and evidenced by some bubble-like moves among highly speculative stocks related to areas such as cryptocurrency (MSTR +240% at peak in Q4, then down -47%) and pipedream story stocks in quantum computing (RGTI +2400% at peak in Q4, then down -72%). Usually, the market needs to shake off giddiness of this sort before it can make more sustainable progress higher, so it is good to see some bearishness and worry creep back into the sentiment indicators.

The outlook for US stocks from here depends on a couple of interrelated factors, which we have touched on already. First, bond yields have risen rapidly, which has developed into a headwind for stocks. This is particularly problematic for growth stocks whose net present value is the function of distant future earnings discounted at longer term discount rates. The major US indices hold big weightings in growthier stocks, like NVDA and TSLA, and so sharply rising yields present a problem. As noted above, a 5.0% yield for the US 10-year should be a tough nut to crack, but we are monitoring closely the factors that could bring a further breakout in yields, namely inflation and extreme Trump tariff and immigration policy. However, if inflation remains on its slow, bumpy glidepath back to 2% and Trump doesn't upset the bond market, then the fundamental underpinnings of the current bull market should assert themselves to support stocks, namely, economic growth, earnings growth, fiscal stimulus, tight credit spreads, pro-business taxation policy, deregulation, and the slow normalisation of monetary policy.



Underlying Portfolio Review

Commodities

In commodity markets, the Bloomberg Commodity Index (BCOM) fell -1.6% in Q4, finishing the year approximately flat. As ever, the components within the index exhibited a wide range of results over the quarter. Among energy commodities, WTI rose +5% in the quarter, and US Natural Gas futures rose 25% from \$2.9 to \$3.6. We currently see an interesting supply/demand mismatch in natural gas.

Among precious metals, Gold finished the quarter roughly flat, taking a breather after a very strong year in which it rose +27.5%. Flat performance in the quarter was a decent result for the yellow metal, which normally struggles in the face of a rising US Dollar and rising real

bond yields (the US Dollar, as measured by DXY, gained +7.7% in Q4 while real yields rose around 0.25%). From a technical analysis perspective, gold continues to trade well, holding a clean bullish trend channel since its breakout through \$2100 twelve months ago (see below).

As for industrial metals, sustained demand weakness in China weighed on prices in December and in Q4 despite Beijing's announcements of fresh stimulus. Copper, iron ore, nickel and aluminium all finished in negative territory. Among agricultural commodities, corn prices climbed into year-end on expectations of a tighter market due to lower production in the European Union and Ukraine.



Underlying Portfolio Review

Private Investments

The private equity (PE) market in Q4 2024 continued to exhibit a cautious tone, reflecting economic uncertainty. Deal activity remained subdued compared to the robust levels observed in 2021, with a slight decline in new deals during the quarter. This hesitancy was notable given the substantial "dry powder" amassed by PE firms, suggesting a gap between available capital and a willingness to put it to work.

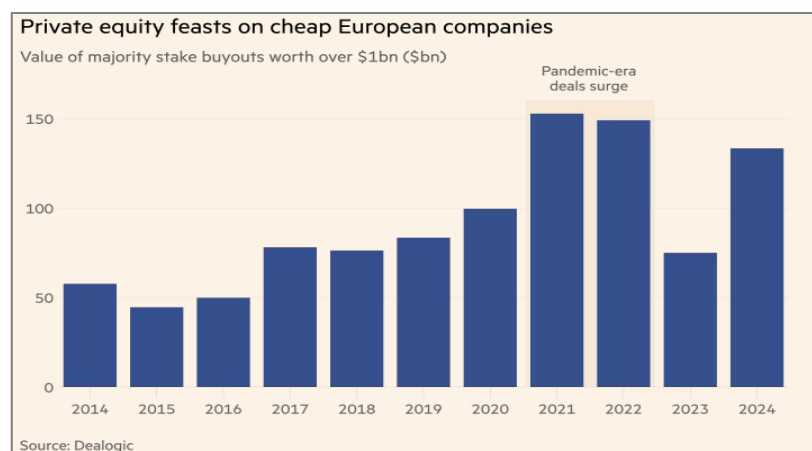
Despite the general weak trend, there has been an increase in PE activity within Europe (see chart below). The continent's economic challenges, including weak growth, political instability, and the impact of the strong US dollar, have created a compelling environment for opportunistic acquisitions. This is evidenced by a significant increase in the value of European buyout deals exceeding \$1bn, outpacing global dealmaking activity by a considerable margin.

The widening valuation gap between European and US

equities further incentivizes PE activity. While European equities have historically traded at a discount to their US counterparts, this discount has widened significantly in recent years.

While large-scale buyouts have been a significant driver of this trend, it is crucial to note that smaller deal activity has exhibited faster growth globally compared to Europe. This suggests a differentiated approach by PE firms, with a focus on larger, more strategic acquisitions in Europe while pursuing a smaller opportunities in other regions.

As for private credit, this is an asset class that continues to grow but is still modest in the context of the overall private investment asset class. Another area of growth is private infrastructure, which is helping meet the financing needs of the AI-related datacentre buildout, which continues apace. We are continuing to monitor these areas for promising investment opportunities in 2025.



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