Lucerne Alternative Investments Fund

October 2023

The Trust Company (RE Services) Limited (ABN 45 003 278 831) (AFSL 235150) is the Responsible Entity and Issuer of units in Lucerne Alternative Investments Fund

Fund Description

Lucerne Alternative Investments Fund is a multi-strategy fund-of-funds targeting a return above the RBA Cash Rate +6% through a diversified portfolio of direct investments and managed funds employing a variety of strategies. Click here to invest.

Key Facts

Inception Date	1 Dec 2017
Benchmark	RBA Cash Rate +6%
Liquidity	Monthly
Strategy	Multi-Strategy
Min. Investment	$25,000
Class 1	
Unit Price	$1.195
Mgt. Fee	1.15%
Perf. Fee	0%
APIR Code	PIM7035AU
Class 2	
Unit Price	$1.191
Mgt. Fee	0.40%
Perf. Fee	12%
High Water Mark	Yes
APIR (Class 2)	PIM1923AU

Distributions[1]

	Class 1	Class 2
30 June 2018	$0.024	$0.022
30 June 2020	$0.009	$0.012
30 June 2021	$0.142	$0.109
30 June 2022	$0.165	$0.158
30 June 2023	$0.090	$0.095

Risk Statistics

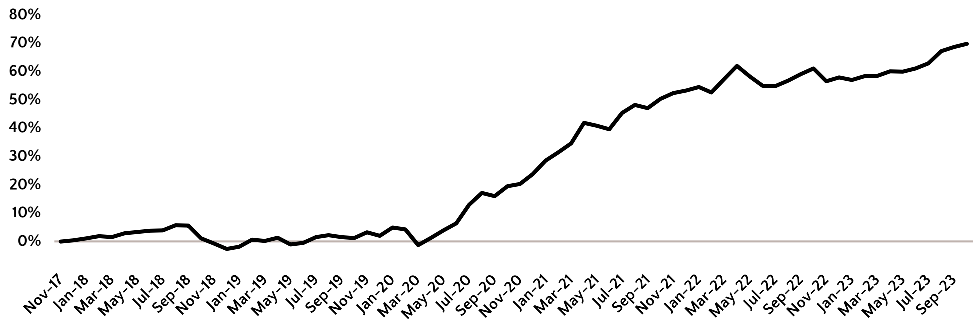
Sharpe Ratio	1.15
Sortino Ratio	2.07
Standard Deviation	6.92%
Maximum Drawdown	-7.88%
% Positive Months	68%

Service Providers

Responsible Entity	Perpetual
Fund Admin.	APEX
Legal Advisor	Launch Financial Services Lawyers
Fund Auditor	EY

[1]Per unit

Cumulative Growth Since Inception



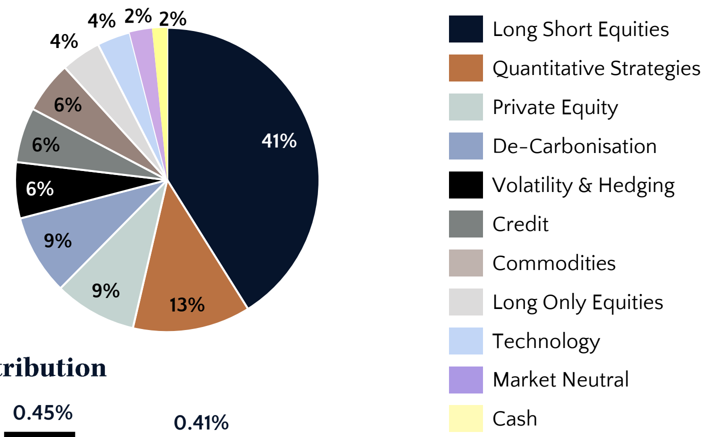
Performance

	Since Inception p.a.	5y p.a.	3y p.a.	1y	3m	1m
Class 1 (net)	9.36%	10.92%	12.42%	5.42%	4.24%	0.74%

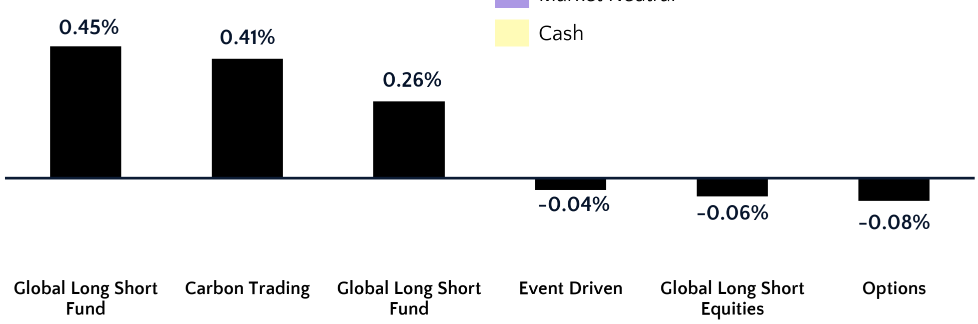
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-	-	-	-	-	-	-	-	-	-	-	0.40%	**0.40%**
2018	0.71%	0.80%	-0.37%	1.30%	0.53%	0.42%	0.04%	1.80%	-0.16%	-4.21%	-1.84%	-1.87%	**-2.96%**
2019	0.78%	2.57%	-0.47%	1.13%	-2.43%	0.66%	2.07%	0.58%	-0.65%	-0.34%	2.06%	-1.19%	**4.95%**
2020	2.91%	-0.75%	-5.25%	2.53%	2.66%	2.36%	6.23%	3.69%	-0.98%	3.02%	0.68%	2.90%	**21.13%**
2021	3.78%	2.28%	2.45%	5.37%	-0.71%	-0.93%	4.18%	1.90%	-0.76%	2.26%	1.33%	0.59%	**23.78%**
2022	0.80%	-1.25%	3.12%	2.99%	-2.33%	-2.06%	-0.08%	1.22%	1.45%	1.30%	-2.84%	0.90%	**3.03%**
2023	-0.57%	0.88%	0.04%	0.99%	-0.07%	0.70%	1.17%	2.59%	0.86%	0.74%			**7.54%**

Total returns shown for the Lucerne Alternative Investments Fund have been calculated using unit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation. Past performance is not indicative of future performance. Information on this document may not be reproduced or communicated, including files downloadable from this website, without the express permission of Lucerne Funds Pty Ltd. Source: APEX Fund Services

Strategy Allocation



Attribution



Note that distribution of factsheets occurs late in the following month as we need to receive final NAV reports from all underlying managers before finalising the NAV for LAIF. We appreciate your patience. A person should consider the PDS and TMD in deciding whether to acquire or continue to hold units in Lucerne Alternative Investments Fund. The PDS and TMD are available for download at laif.com.au

Fund Commentary – October 2023

Monetary Policy Stance Is Tighter than Federal Funds Rate

Central banks primarily use two tools to manage monetary policy:

1. Interest rates to manage inflation and deflation and
2. Balance sheet adjustments to infuse liquidity into the financial system and mitigate volatility.

Additionally, central banks possess a less tangible but equally potent tool:

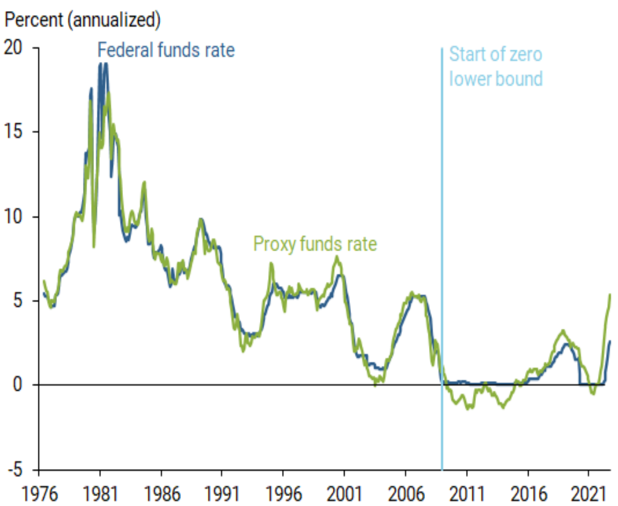
3. Forward guidance

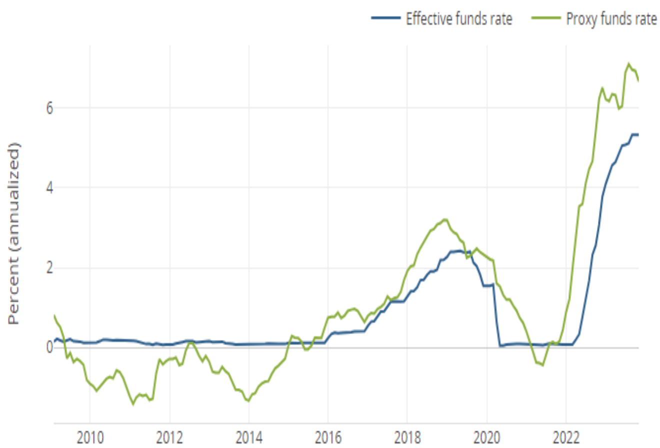
This involves subtly signalling future policy directions and influencing lending, borrowing, and market activities.

While the US Federal Funds rate offers insights into monetary affairs, it's part of a larger narrative. Previously, before the 2000s, the stance of monetary policy was directly linked to the federal funds rate. However, introducing more tools and greater transparency in policy communication by the US Central Bank's Federal Open Market Committee (FOMC) has complicated this relationship. For illustration, in 2021–22, the FOMC raised the funds rate target from zero, initiated a rapid series of rate hikes and began to scale back its balance sheet expansion. During this period, the FOMC communicated its plans through official statements and public comments, adding layers to policy understanding.

The charts below track the monthly effective federal funds rate and a proxy rate that uses a set of 12 financial variables to infer the broad stance of monetary policy, including Treasury rates, mortgage rates, and borrowing spreads, to assess the broader stance of monetary policy; the proxy rate can be interpreted as indicating what federal funds rate would typically be associated with prevailing financial market conditions if these conditions were driven solely by the funds rate.

From June 1976 to September 2022 illustrates this complexity. Before December 2008, these two rates were closely aligned. However, a noticeable divergence began around July 2003, with the proxy rate often preceding fund rate changes. This divergence marks when the FOMC started using forward guidance more regularly, indicating its likely actions regarding the funds rate. In essence, the proxy rate reflects financial market expectations of future policy and encompasses all information from the FOMC, both in its actions and communications.





Source: Federal Reserve Board of Governors, Freddie Mac, The Bond Buyer, Moody's

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The contrast between the federal and proxy rates presents an intriguing picture: Between 2010 and 2016, while the federal funds rate was consistently at zero, the proxy rate dipped even lower. This was due to the Federal Reserve employing additional measures to stimulate the economy.

However, the situation has recently shifted. With the proxy rate currently at around 7% compared to the federal funds rate of 5.3%, it's evident that monetary policy has exerted a tighter and more rapid influence on the financial system than it might initially appear. This suggests that borrowing costs for individuals and businesses could be higher than what the already elevated federal funds rate indicates. Since economies typically respond to shifts in monetary conditions after a delay, we might soon experience a significant impact from these sharply increased rates.

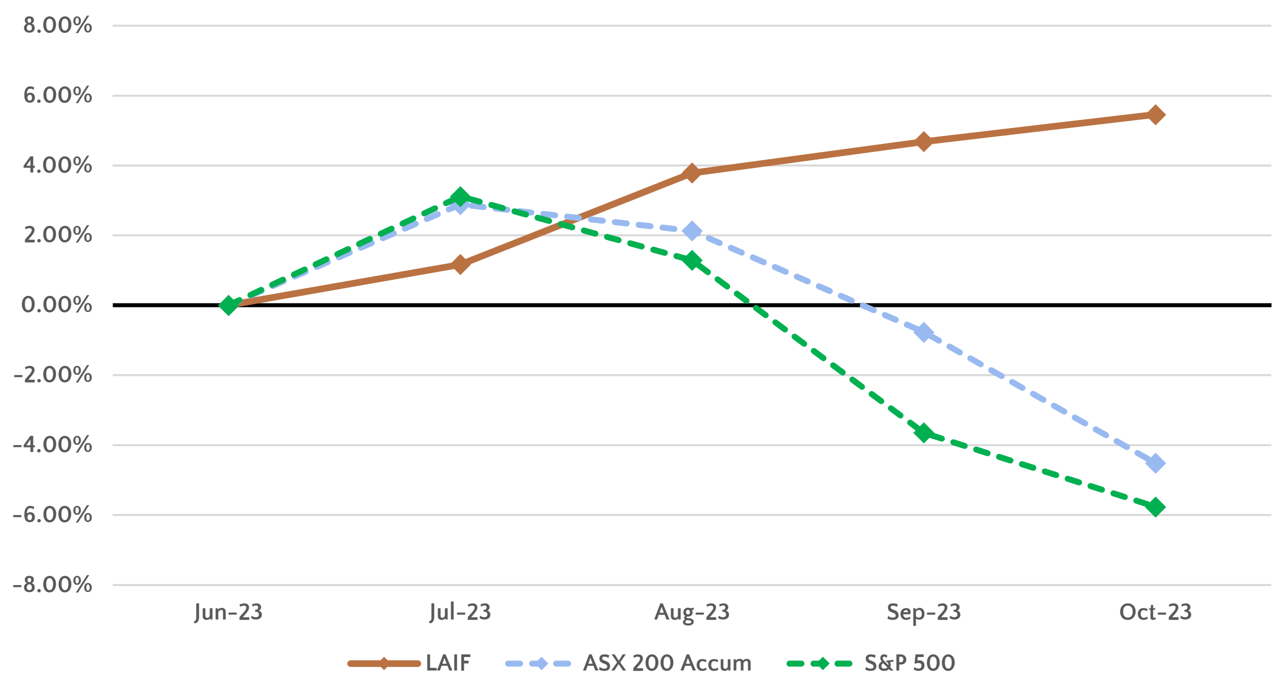
Markets

In October, the S&P/ASX 200 Accumulation Index experienced a 3.78% decline. This downturn was largely attributed to geopolitical unrest in the Middle East and increased bond yields, with Australian and US 10-year bonds reaching 4.92% and 4.90%, respectively. The month proved challenging for global equity markets as well. The US S&P 500 recorded a 2.2% decrease, influenced by the dual pressures of rising yields and rising geopolitical tensions. Oil prices declined over global growth concerns, while gold prices rose, benefiting from its status as a safe haven.

Performance

The Lucerne Alternative Investments Fund returned 0.74% in October despite a challenging period for global equity markets. This performance contributed to an impressive financial year-to-date return of 5.46%. The ASX 200 Accumulation Index experienced a decline of -4.52% during the same period, while the S&P 500 Index in USD fell by -5.77 %.

Cumulative Performance – Financial Year 2024, LAIF, ASX 200 Accum Index and S&P 500 Index



Source: Lucerne Funds, Morningstar. Past performance is not indicative of future performance

Fund Commentary – October 2023

Our Global Long Short Strategies excelled in October, with two specific strategies yielding exceptional returns. This performance was in line with our strategy focused on inflation. Additionally, the Decarbonisation Strategy benefited from the diverging prices in regulated carbon markets. The Fund also gained from favourable currency movements during the month.

The Australian Event Driven and the Global Long Short Strategies underperformed during the month. The underperformance of the Australian Event-driven strategy resulted from limited market activity within the investment space, while the Global long-short strategy was adversely affected by erratic market movements, coupled with a concurrent rise in the term structure curve.

Macroeconomic factors and expectations around interest rates are shaping the market. While there has been a brief respite from rising yields, the threat of a fundamental change in real interest rates still exists. Despite recent rate increases, the economy demonstrates strength, evidenced by robust spending, low unemployment, and ongoing inflation. In response to this strong economic performance and inflation rates exceeding forecasts, the Reserve Bank of Australia implemented a rate hike in November. However, the possibility of a significant economic downturn looms, with the market often overlooking this risk.

The Investment Committee monitors these evolving market conditions and believes the portfolio has been strategically positioned to navigate various market scenarios effectively.

Lucerne Alternative Investments Fund
November 2023

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