Lucerne Alternative Investments Fund

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March 2023

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	$1.204
Mgt. Fee	1.15%
Perf. Fee	0%
APIR Code	PIM7035AU
Class 2	
Unit Price	$1.210
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

Risk Statistics

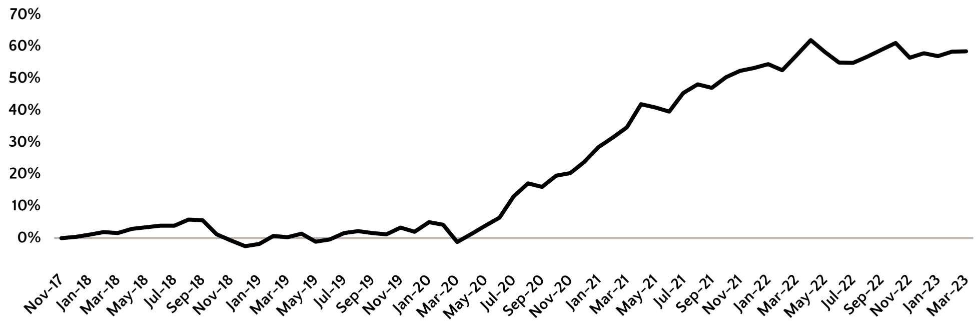
Sharpe Ratio	1.10
Sortino Ratio	1.96
Standard Deviation	7.24%
Maximum Drawdown	-7.88%
% Positive Months	66%

Service Providers

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

[1]*Per unit*

Cumulative Growth Since Inception

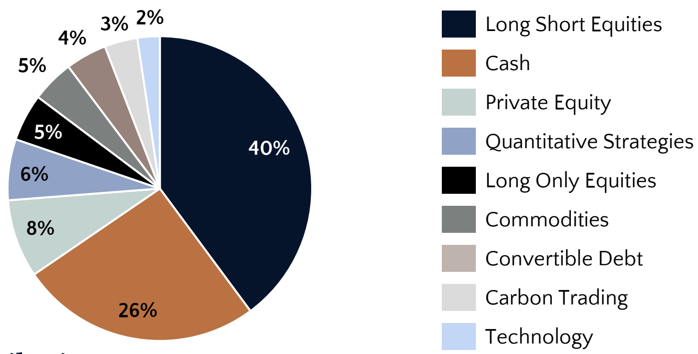


Performance	Since Inception p.a.	5y p.a.	1y	6m	3m	1m
Class 1 (net)	9.02%	9.31%	0.73%	-0.35%	0.35%	0.04%

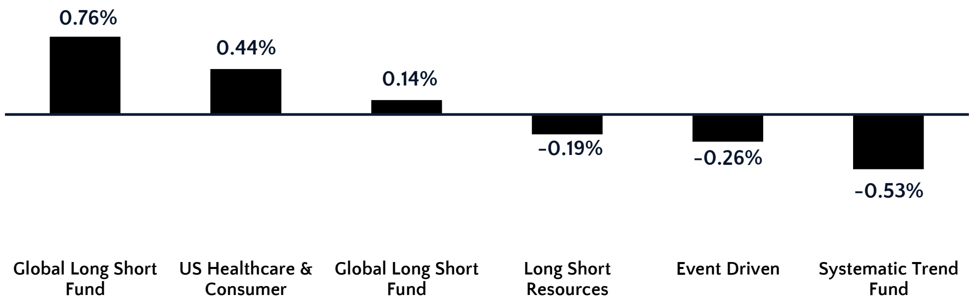
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-	-	-	-	-	-	-	-	-	-	-	0.40%	**0.40%**
2018	0.71%	0.80%	-0.37%	1.30%	0.53%	0.42%	0.04%	1.80%	-0.16%	-4.21%	-1.84%	-1.87%	**-2.96%**
2019	0.78%	2.57%	-0.47%	1.13%	-2.43%	0.66%	2.07%	0.58%	-0.65%	-0.34%	2.06%	-1.19%	**4.95%**
2020	2.91%	-0.75%	-5.25%	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%										**0.35%**

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

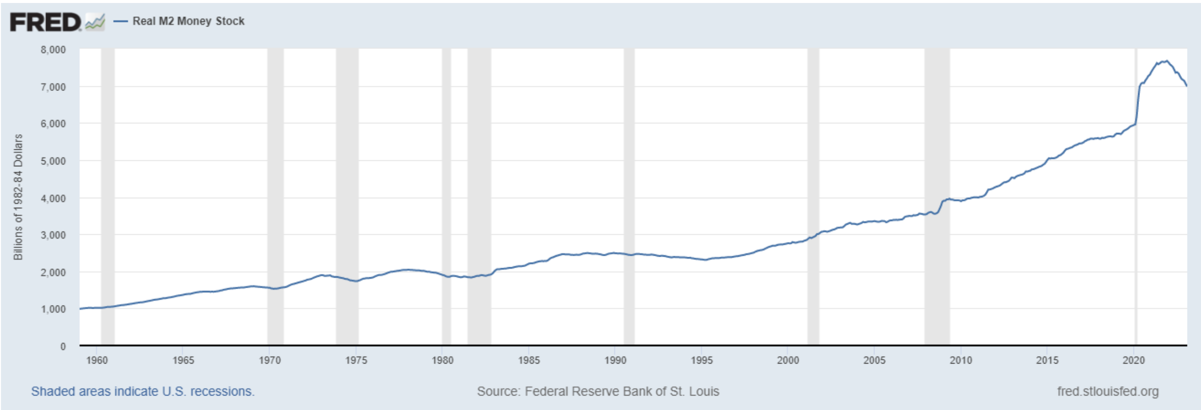


Note that distribution of factsheets occurs late in the following month as we need to receive final NAV reports from all underlying managers before finalising the NAV for LAIF. We appreciate your patience. A person should consider the PDS and TMD in deciding whether to acquire or continue to hold units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

Fund Commentary – March 2023

Declining Money Supply is Increasing Investment Risk

The old investing maxim of "don't fight the Fed" is supported by substantial evidence that investment returns tend to be poor during times when the Federal Reserve increases interest rates and/or reduces the money supply.
The accompanying chart demonstrates that since 1950 even a very minor dip in the M2 money supply precedes an economic recession. The only exception occurred in 2020 when the COVID pandemic prompted coordinated fiscal stimulus and dramatic growth of an already expanding money supply.



The M2 decline rate is currently the steepest since 1950 (aided by the banks losing deposits to money market funds), raising the likelihood of a recession in late 2023 due to the lag effect of economic policy changes on a large-scale financial system. The equity markets, however, seem to be anticipating a unicorn "soft-landing" recession which we think is unlikely, as discussed in previous monthly notes.

Further volatility can be expected if the developing recession is of average severity or the sharper version we anticipate depending on various economic and geopolitical factors. However, we believe the bear market will only end when the Fed stops increasing interest rates, the money supply expands again, and negative investor sentiment triggers a selling bout, creating a risk/reward buying opportunity.

Why Monetary Tightening is Both Necessary and Frightening

The March 2023 US CPI report showed a 5.0% year-over-year increase, suggesting the Federal Reserve's monetary tightening policies are working. However, we firmly believe the Fed needs to maintain elevated rates until inflation is decisively eliminated, despite the temptation to give up due to labour market softening, approaching elections, and banking system pressures. Succumbing to these pressures would result in costly mistakes.

The continuous burst of inflation in the aftermath of COVID-19 is rare but not unprecedented. We note the same thing happened after the end of World War I and the Great Influenza in the winter of 1918/1919. On the other hand, the Great Inflation of 1965-1982 was a legitimately unique event in U.S. history. Never before nor since has the U.S. experienced a prolonged period of inflation that came even close to lasting as long.

Fund Commentary – March 2023

We have previously written extensively about whether the Federal Reserve will orchestrate a soft or hard landing. History strongly suggests that the latter is far more likely. We see this as just the nature of price instability. Extinguishing persistently high inflation, almost by definition, requires an overcorrection in the opposite direction. The same principle applies to severe deflationary shocks, such as the one we experienced in March 2020. Though necessary, the massive fiscal and monetary response raised the likelihood of an inflationary shock in the opposite direction.

Markets

March was a turbulent month for markets in which the banking sector was again at the eye of the storm. Comparisons have been made to previous periods, such as the Global Financial Crisis of 2008 and the dot-com bubble at the turn of the century. The S&P 500 and ASX 200 Accumulation index returned 3.51% and -0.16%, respectively.

Performance

For March, the Lucerne Alternative Investments Fund was up 0.04%.

The Global Long Short and the US Healthcare and Consumer Disc. Long Short Strategies were among the top-performing investment strategies for the month. These strategies benefited from the market-wide increase in volatility and macro uncertainty.

In March, our investments in Systematic Trend Following, Australian Event Driven, and Global Resources Strategies had the highest negative impact. The volatility and yield reversals in the bond market had a detrimental effect on the Systematic Trend Following strategy, while the Australian Event Driven strategy suffered from a selloff in micro-cap stocks. Additionally, the Global Resources strategy was affected by an unexpected surge in unprofitable lithium producers, primarily due to Albemarle's A$5.5 billion bid for Liontown Resources (LTR) at a premium of 64% over the last traded price. This bid caused a significant increase in the stock prices of many small and mid-cap mining companies involved in decarbonisation, with the most notable increases observed in what we consider "lower quality" stocks. It's worth noting that Liontown Resources is a pre-production company with no revenue, making this bid all the more surprising.

Our conviction in the macro thesis led the Investment Committee to increase allocations to some existing Global Long Short and Carbon Trading strategies. LAIF initiated a new investment in Volatility Arbitrage and an Australian Long Short strategy.

Lucerne Alternative Investments Fund
April 2023

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Disclaimer

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