Lucerne Alternative Investments Fund

July 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	$1.147
Mgt. Fee	1.15%
Perf. Fee	0%
APIR Code	PIM7035AU
Class 2	
Unit Price	$1.147
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

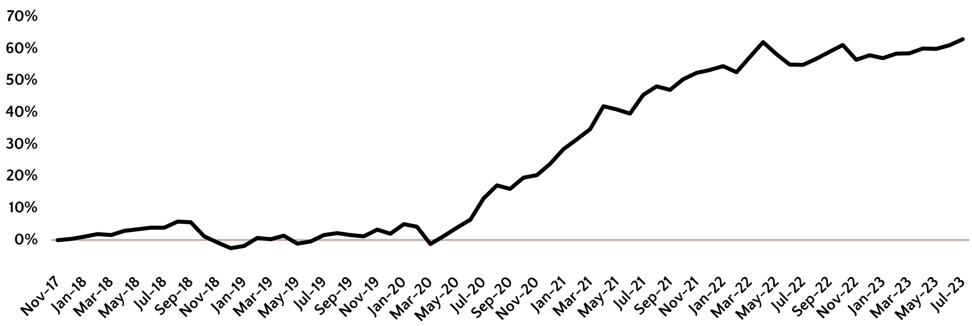
Sharpe Ratio	1.10
Sortino Ratio	1.97
Standard Deviation	7.03%
Maximum Drawdown	-7.88%
% Positive Months	66%

Service Providers

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

[1]Per unit

Cumulative Growth Since Inception



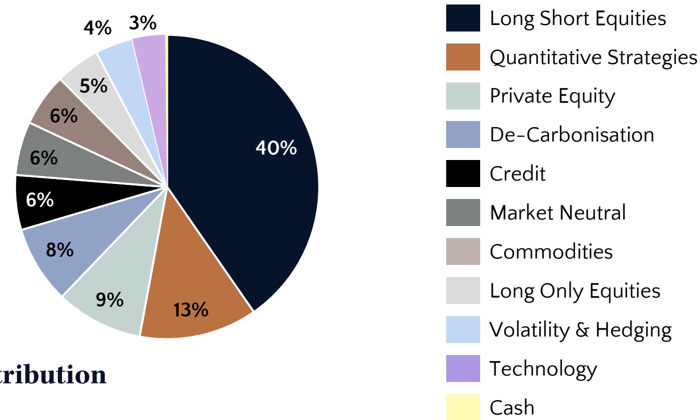
Performance

	Since Inception p.a.	5y p.a.	3y p.a.	1y	3m	1m
Class 1 (net)	8.99%	9.42%	12.97%	5.21%	1.80%	1.17%

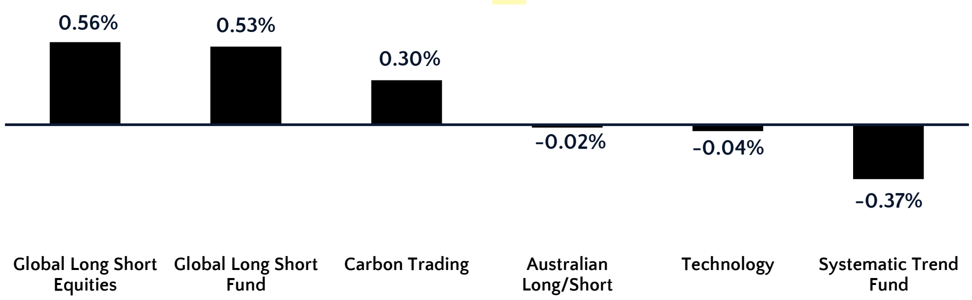
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-	-	-	-	-	-	-	-	-	-	-	0.40%	**0.40%**
2018	0.71%	0.80%	-0.37%	1.30%	0.53%	0.42%	0.04%	1.80%	-0.16%	-4.21%	-1.84%	-1.87%	**-2.96%**
2019	0.78%	2.57%	-0.47%	1.13%	-2.43%	0.66%	2.07%	0.58%	-0.65%	-0.34%	2.06%	-1.19%	**4.95%**
2020	2.91%	-0.75%	-5.25%	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%						**3.17%**

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

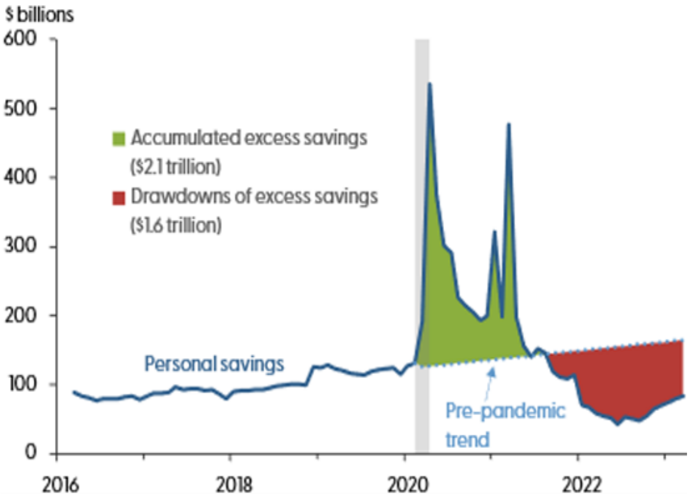


Note that distribution of factsheets occurs late in the following month as we need to receive final NAV reports from all underlying managers before finalising the NAV for LAIF. We appreciate your patience. A person should consider the PDS and TMD in deciding whether to acquire or continue to hold units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

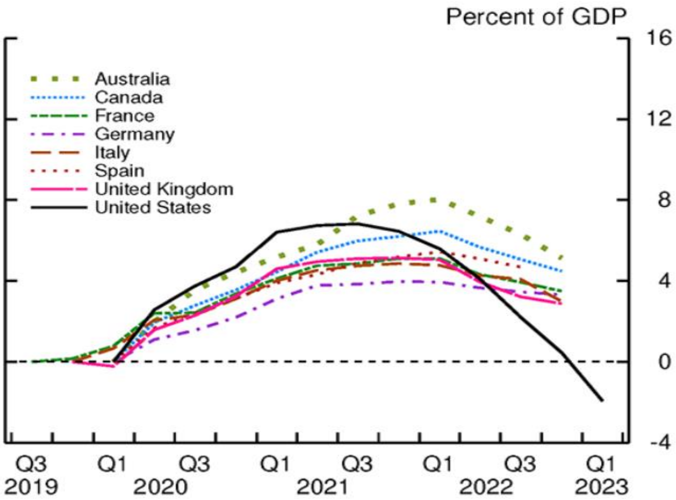
Fund Commentary – July 2023

The Unraveling Liquidity Puzzle: The Surge in Treasury Yields Explained

We note a remarkable resilience in both the economy and labour markets, even with escalating interest rates. A development that has caught numerous market participants off guard. However, this robustness is underpinned by the surge in consumer debt and the judicious use of excess savings amassed during the pandemic's grip.



(Source: Federal Reserve Bank of San Francisco)



(Source: Haver Analytics, FRED)

But prudence demands that we recognise the limitations of such resilience. A noteworthy study from the San Francisco Fed indicates a narrowing window: US consumers have an approximate surplus of $190 billion in savings projected to run its course this quarter. Other developed economies are seeing similar trends, albeit much slower.

Moreover, other economic headwinds emerge as we look ahead to the latter half of 2023. The US is bracing for the resurgence of student loan repayments, while Australia is preparing to grapple with the looming spectre of fixed mortgage rate resets.

The Investment Committee has recently adjusted portfolios to reduce market beta, recognising the sustained elevation in inflation and interest rates, a strategic maneuver deeply aligned with LAIF's portfolio thematics. The spectre of potential liquidity droughts, and the consequent impacts, especially on borrowers, is a significant concern. Assessing how LAIF can navigate and potentially thrive in such a climate is crucial. To fully appreciate this dynamic, it's imperative to differentiate between the two primary facets of liquidity:

1. **Market Liquidity:** This gauges the market's robustness, reflecting how effortlessly investors can transact existing bid-ask spreads without precipitous price shifts.
2. **Funding Liquidity:** This is more than just the M2 money supply. Instead, it pinpoints the ease of accessing resources, credit, and savings vital for facilitating market activities.

To bust a prevalent myth: Central banks aren't draining liquidity. It's staying consistent. Instead, the dampening liquidity can be attributed to expansive bond issuances, pivoting on collateral loans. A closer look reveals that the collateral for these loans constitutes safe assets like US Treasuries. As these assets' values wane, so does market liquidity.

Fund Commentary – July 2023

Let's dig deeper into the "Term Premia (Risk Premium)" – an essential metric that cushions investors against potential interest rate risks resulting from bond market volatilities. Historical data reveals that the bond market's volatility typically hovers at 7%. But today? It is a staggering 20%. While the standard term premia rests at about 50bps, the figure we're witnessing now is a concerning -150bps.

Subscribing to market mean reversion theories indicates a potential spike in the 10-year yield from the existing 4% to somewhere between 5-5.2%.

However, the million-dollar question remains: Why this sudden upswing in treasury yields? Analysing recent dynamics, we point to four driving factors:

1. **Japan's YCC Policy:** Japan's yield, currently at 50bps, is anticipated to climb to 100bps.
2. **Fitch's Evaluation:** The recent downgrade of the US's long-term rating is a glaring indicator.
3. **BRICS Initiative:** The introduction of a gold-backed currency by BRICS nations.
4. **The U.S. Spending Dilemma:** With mandatory and fixed spending outpacing tax revenues, the government's reliance on the treasury market is growing.

An anomaly emerges: the dominant issuance of fixed income is being shouldered by Treasury Bills, which deviates from conventional trends. Drawing upon this, it's evident that investors are recalibrating their strategies, bracing for an era marked by prolonged higher interest rates and amplified inflation. This sentiment is further cemented by the resilient economic performance in developed economies, with 2023 witnessing unanticipated growth spurts. But there's a twist.

The US Federal Reserve (Fed), it appears, is adopting a tenacious approach. Not only are they refraining from prematurely celebrating inflation control, but the inflation protection securities (TIPS) rate also suggests a steep inflation adjusted borrowing surge. The landscape is rife with challenges, coupled with Fitch's scepticism over US debt due to political tumult, escalating fiscal expenditure, and amplifying debt issuance. With countries like China and Saudi Arabia trimming their US treasury holdings and Japan's yields rising, the appeal of US debt diminishes. While the Fed's quantitative tightening strategy further complicates the matrix.

In conclusion, we're at a critical juncture, necessitating discerning analyses and proactive strategies. Understanding the nuances of liquidity, the forces driving treasury yields, and the impact on all assets more broadly will be pivotal for consistent performance.

Markets

In July, global stock markets performed well. This was spurred by signs of a stable US economy and anticipation of a Chinese government stimulus. Key inflation rates in major developed economies dropped, while 80% of US firms surpassed earnings estimates. The S&P 500 marked its fifth positive month, growing 3.1%, its best streak in two years. The NASDAQ also rose by 4.0%. Interestingly, gains in US markets aren't just from mega-tech firms anymore, hinting at a brighter overall economic outlook.

Asian markets responded positively to preliminary details from China about an economic stimulus plan to boost its slowing growth. This high-level initiative indicates a move towards a growth-centric policy. Meanwhile, Australian stocks, including the ASX 200 and ASX Small Ordinaries, saw a 2.9% increase, though they lagged behind global peers.

Fund Commentary – July 2023

Performance

For July, the Lucerne Alternative Investments Fund was up **1.17%**

Throughout the month, the Global Long Short Strategies were notable contributors. Two of the three strategies considerably enhanced returns, with the Decarbonisation Strategy also a strong performer.

Currency fluctuations had a negative impact too with the Systematic Trend Following Strategy being the primary drag for the month. This strategy struggled mainly because of currency reversals serving as the critical downward driver.

The Investment Committee maintains its confidence in the discussed macro thesis and is pleased to witness the outcome to the Funds investors. LAIF consistently delivers returns uncorrelated with traditional markets whilst minimising associated risks, showing the benefits of allocating to a well-diversified active alternative Fund of funds strategy.

Lucerne Alternative Investments Fund
August 2023

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