![Lucerne Alternative Investments Fund]

Lucerne Alternative Investments Fund

January 2024

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	$1.179
Mgt. Fee	1.15%
Perf. Fee	0%
APIR Code	PIM7035AU
Class 2	
Unit Price	$1.178
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

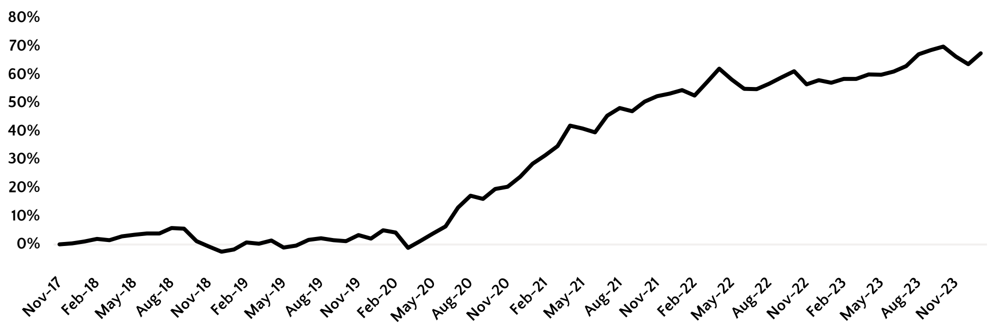
Sharpe Ratio	1.04
Sortino Ratio	1.82
Standard Deviation	6.94%
Maximum Drawdown	-7.88%
% Positive Months	66%

Service Providers

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

[1]*Per unit*

Cumulative Growth Since Inception



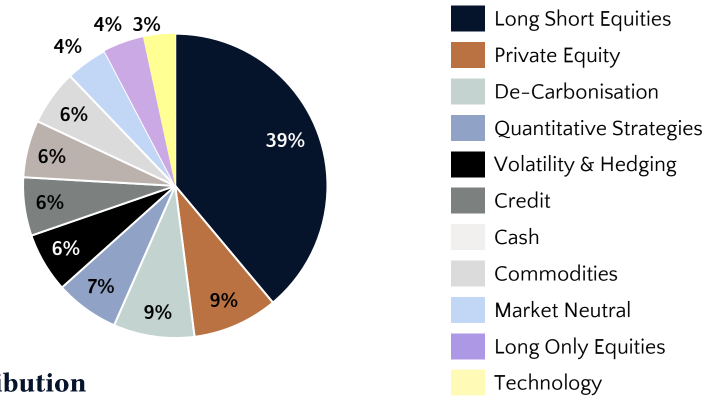
Performance

	Since Inception p.a.	5y p.a.	3y p.a.	1y	3m	1m
Class 1 (net)	8.71%	11.26%	9.22%	6.63%	-1.41%	2.36%

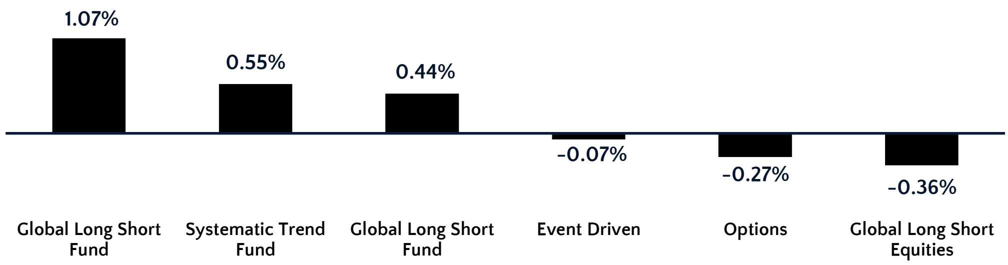
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-	-	-	-	-	-	-	-	-	-	-	0.40%	**0.40%**
2018	0.71%	0.80%	-0.37%	1.30%	0.53%	0.42%	0.04%	1.80%	-0.16%	-4.21%	-1.84%	-1.87%	**-2.96%**
2019	0.78%	2.57%	-0.47%	1.13%	-2.43%	0.66%	2.07%	0.58%	-0.65%	-0.34%	2.06%	-1.19%	**4.95%**
2020	2.91%	-0.75%	-5.25%	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%	-2.09%	-1.63%	**3.58%**
2024	2.36%												**2.36%**

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

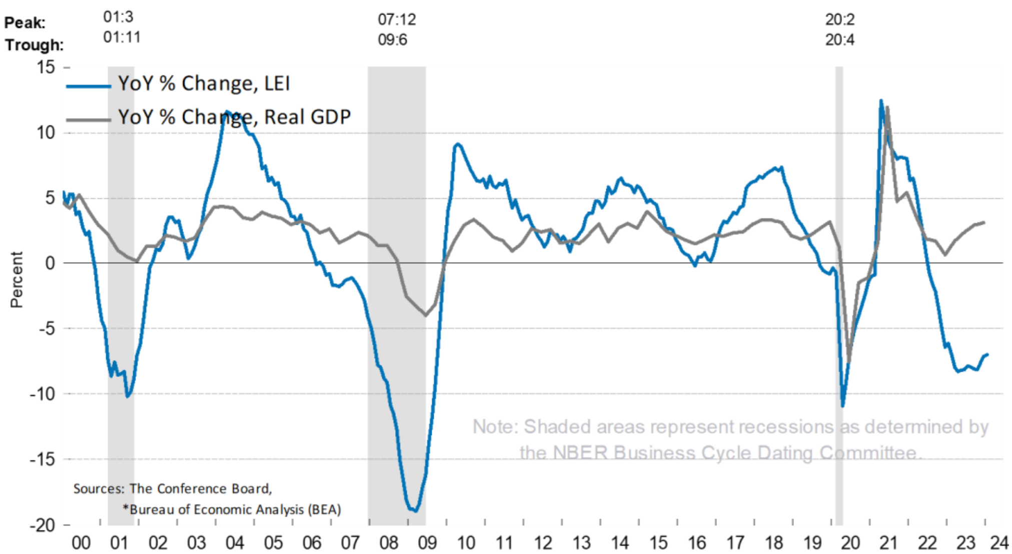
Fund Commentary – January 2024

<u>New Year, Same Risks</u>
Three consistent patterns illustrate bubbles:
1. The belief that "this time is different."
2. Prices go beyond expectations.
3. Eventually, the bubble bursts, leading to significant losses and remorse.

Bubbles have a rich history, from the Tulip Mania in the 1630s to more recent phenomena like crypto and tech disruptors. Despite their unique characteristics, all bubbles share common elements, such as catalysts, prices, valuations, and the influence of monetary policy, but most importantly on human nature and greed.

- **Catalyst:** Technological innovation, geographic expansion and central bank interventions often ignite bubbles. For instance, the AI bubble was ignited by the US Federal Reserve's (Fed) response to Silicon Valley Bank and AI advancements, similar to how various factors like policy changes, wars, or crises sparked historical bubbles.
- **Price:** Bubbles are characterised by significant asset price gains. While the Magnificent Seven have seen impressive increases over the past year, deviations from moving averages indicate the velocity of price gains, a classic bubble indicator.
- **Valuation:** While current trailing price-to-earnings ratios for the Magnificent Seven stand at 45x, they are not as extreme as those seen during historical bubble peaks, such as the Nifty Fifty, peak Nikkei in '89, or the Nasdaq Composite in 2000.

We bring attention to this issue against the backdrop of worsening macroeconomic indicators. In January, the Conference Board's Leading Economic Indicators (LEI) experienced a notable decline of -0.4%, exceeding the forecast of -0.1%. This decline follows a revised decrease of -0.2% in December, previously reported as -0.1%. Marking the 22nd consecutive monthly decline is a streak reminiscent of the GFC era when the LEI fell for 22 straight months from June 2007 to April 2008. Such persistent decreases, coupled with a year-over-year drop of -7% (marking the 19th consecutive monthly decline), typically indicate an economic downturn historically associated with recessions.

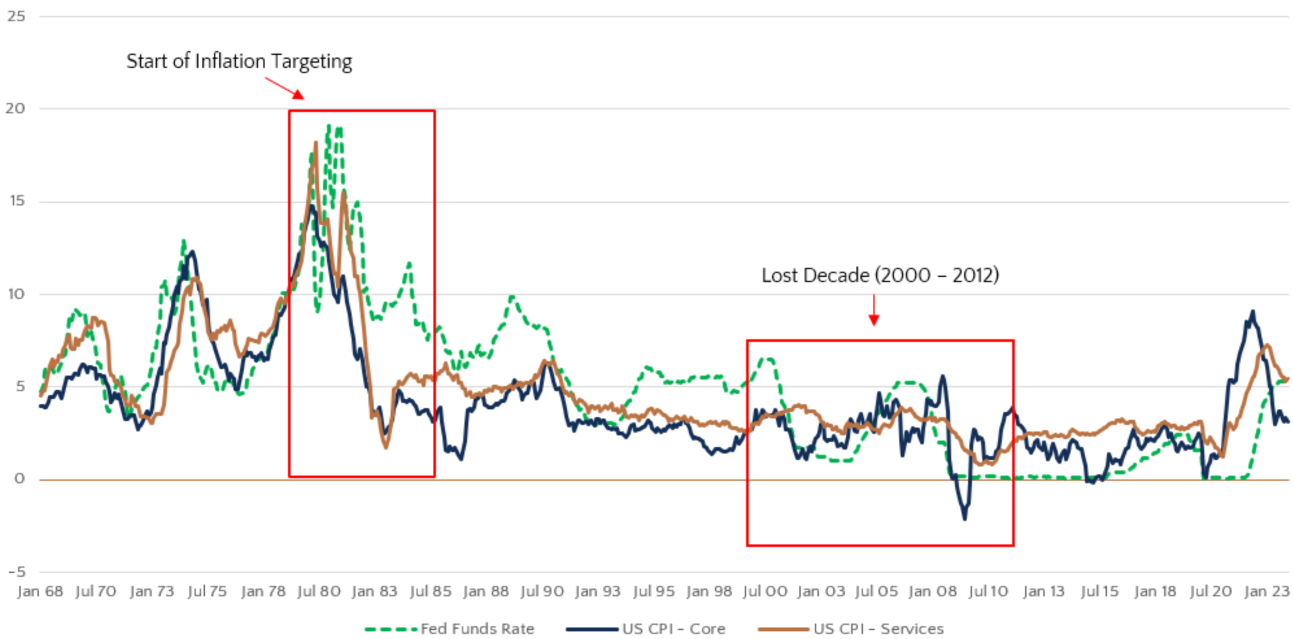


Fund Commentary – January 2024

<u>The Current Macro Environment:</u>

- The US labour market is showing signs of cooling but remains resilient enough to support real earnings growth, while inflation has decreased more quickly than expected.
- Europe is experiencing stagnation, though there are indications of nascent growth.
- The Australian labour market might be at a turning point with a steady decline in job openings and an uptick in unemployment, making the RBA's job easier.
- A breakdown of Australian spending shows that the rental crisis is hurting more than higher interest rates. Those without mortgages are faring best.
- Anticipated policy interest rate reductions may not meet overly optimistic market expectations and a steepening yield curve could counterbalance the benefits to corporate funding costs.
- With rising real wages and declining inflation, consumer confidence is on the rise and there's potential for further growth with the normalisation of services spending.
- A soft landing seems feasible, although overeager central banks and geopolitical tensions pose significant risks.
- Banks face commercial real estate (CRE) and capital challenges (we will discuss this in more detail in our quarterly report).

While recent economic trends may align with the viewpoint of those advocating for a transitory inflationary environment, caution is warranted. Post-pandemic adjustments in supply chains and labour force participation have tempered inflationary pressures, particularly in the US, despite reasonable growth and fiscal stimulus. Core inflation in the US is nearing the Fed's target on an annualised and six-month basis, with consumer expectations of near-term inflation returning to pre-pandemic levels.



Source: Lucerne Funds, FRED

Fund Commentary – January 2024

However, it's important to temper optimism. Central banks, wary of potential inflation resurgence, maintain a cautious stance. While core goods inflation has been subdued in the US, core services inflation remains elevated. Additionally, despite some relief in the labour market, indicators for wage growth, such as the quits rate, have stalled. Labour force participation has declined and there's a resurgence in labour activism, potentially leading to more industrial disputes.

External factors also threaten prices, though they have yet to materialise fully. Geopolitical tensions and climate change-related disruptions in key shipping routes could embed inflationary pressures, which traditional rate policy may have limited impact unless demand is significantly affected.

Markets

In January, global markets registered a mixed performance following a robust conclusion to the 2023 calendar year. Market sentiment remained largely positive, supported by expectations of a gradual economic slowdown in the US and the possibility of interest rate cuts as early as the first quarter of 2024. However, the recent rally witnessed a downturn in momentum throughout January due to escalating geopolitical tensions, persistently high inflation data and a weakening fiscal position in the US.

Despite these challenges, US equity markets reached record highs during the month, driven by ongoing strength in the 'Magnificent Seven' and encouraging US employment data. The S&P 500 index increased by +1.6%, while the tech-heavy NASDAQ index rose by +1.0%.

In Australia, concerns regarding a potential slowdown in Chinese demand and a strengthening US dollar exerted downward pressure on commodity prices and the resources sector. While the ASX 200 Metals and Mining Index experienced a decline of -5.7%, energy stocks remained well-supported, fueled by growing apprehensions regarding oil supply disruptions, particularly concerning tensions in the Red Sea. Overall, the broader ASX 200 index advanced by +1.2% over the month.

Performance

The Lucerne Alternative Investments Fund delivered a strong return of 2.36% in January, which was a pleasing outcome and aligned with expectations given the market's tendency to experience reversals following brief, sudden rallies.

The Global Long Short and Trend Following strategies were the primary contributors to the fund's performance, while allocations to the Deglobalisation and Event-Driven strategies detracted from returns. The strengthening of the USD throughout the month positively impacted the fund.

The Investment Committee remains vigilant to evolving macroeconomic conditions but maintains confidence in the portfolio's positioning. The primary focus continues to be on providing truly uncorrelated alpha to investors while actively monitoring the potential reemergence of inflation amid heightened geopolitical tensions worldwide.

Lucerne Alternative Investments Fund
February 2024

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