Lucerne Alternative Investments Fund

March 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	$1.220
Mgt. Fee	1.15%
Perf. Fee	0%
APIR Code	PIM7035AU
Class 2	
Unit Price	$1.216
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

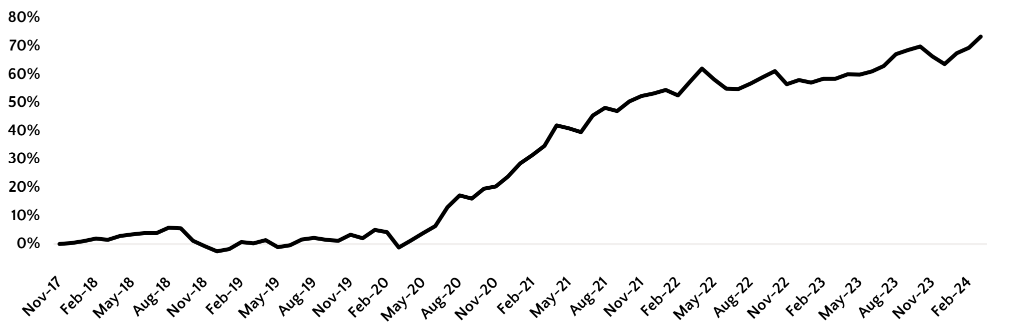
Sharpe Ratio	1.09
Sortino Ratio	1.92
Standard Deviation	6.88%
Maximum Drawdown	-7.88%
% Positive Months	67%

Service Providers

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

[1]Per unit

Cumulative Growth Since Inception



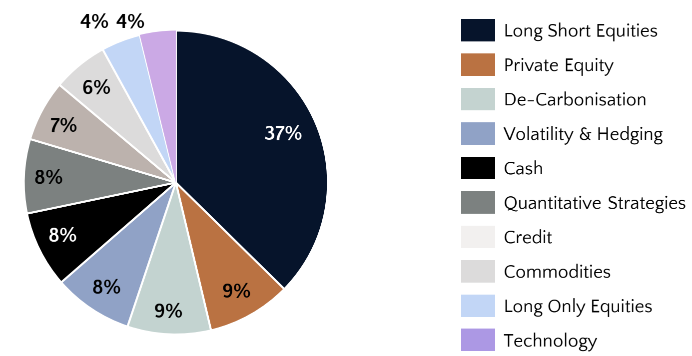
Performance

	Since Inception p.a.	5y p.a.	3y p.a.	1y	3m	1m
Class 1 (net)	9.07%	11.57%	8.78%	9.39%	5.98%	2.33%

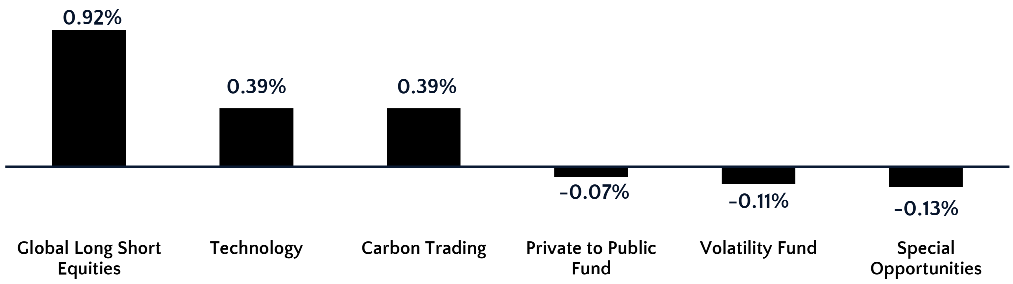
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-	-	-	-	-	-	-	-	-	-	-	0.40%	**0.40%**
2018	0.71%	0.80%	-0.37%	1.30%	0.53%	0.42%	0.04%	1.80%	-0.16%	-4.21%	-1.84%	-1.87%	**-2.96%**
2019	0.78%	2.57%	-0.47%	1.13%	-2.43%	0.66%	2.07%	0.58%	-0.65%	-0.34%	2.06%	-1.19%	**4.95%**
2020	2.91%	-0.75%	-5.25%	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%	1.18%	2.33%										**5.98%**

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 2024

Unravelling Market Complexity: From Surging Rallies to AI-driven Strategies and Correlation Conundrums

We're often questioned about the sudden market rallies when there's no apparent fundamental shift. The truth is that financial markets are intricate ecosystems where many factors, including historical trends and subjective perceptions of the future, set prices.

Today, this complexity is compounded by the prevalence of quantitative strategies empowered by artificial intelligence. These models rely on past patterns to make decisions, assuming that future behaviour will mirror the past. For instance, many equity market models prioritise momentum based on price trends (a core allocation in LAIF) and earnings revisions over traditional valuation metrics.

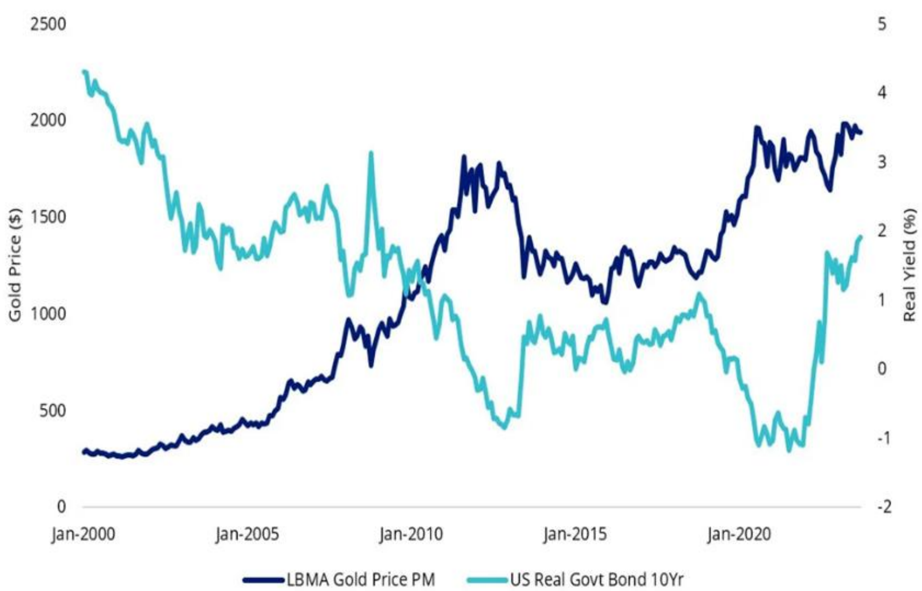
While aggregate market volatility may appear subdued and has trended down, there's a noticeable increase in volatility at the individual security level, particularly around significant events like earnings announcements or economic data releases. This surge in volatility is often attributed to the growing influence of quantitative strategies employing complex decision rules.

However, what happens when these assumed correlations break down?

These models often underestimate the likelihood of correlation breakdowns, leaving risk management frameworks vulnerable. Historical examples, such as the collapse of Long-Term Capital Management in 1998, the Global Financial Crisis in 2008, and the COVID-19 pandemic in 2020, underscore the consequences of overlooking tail risk events.

One current example of correlation breakdown is the disconnect between inverse real yields (interest rates minus inflation expectations) and the price of gold.

Chart 1: Real Rates and Gold Relationship (Source: FRED, Bloomberg)



Fund Commentary – March 2024

Historically, there has been an inverse relationship between real yields and the price of gold. When real yields decrease, gold tends to appreciate, and vice versa. Unlike bonds, gold doesn't offer interest payments, making its appeal stronger when real yields on other assets, like bonds, are high. Conversely, when real yields turn negative, demand for gold typically rises as investors seek alternatives with better returns.

This inverse correlation between gold prices and real yields has been evident since the 1990s, as real yields have steadily declined. Major surges in gold prices, such as those seen from 2008 to 2012 and 2019 to 2021, have often coincided with periods of negative real yields fueled by global quantitative easing and zero interest rate policies, as seen in the above chart.

However, recent trends challenge this historical pattern. Despite a notable increase in real rates, gold prices have not experienced a corresponding decline. Real yields haven't been this elevated since 2009. We note that various factors, including the exchange rate of the U.S. dollar (also currently breaking), real yields, supply and demand dynamics, and market sentiment, influence the price of gold. Recently, gold has shown an asymmetric response to changes in real yields, a trend supported by significant central bank purchases.

Chart 2: Central Bank Gold Reserves (Source: Haver Analytics)
Chart 3: USD and Gold Relationship (Source: Lucerne Funds, ICE and NYSE)

Chart 2

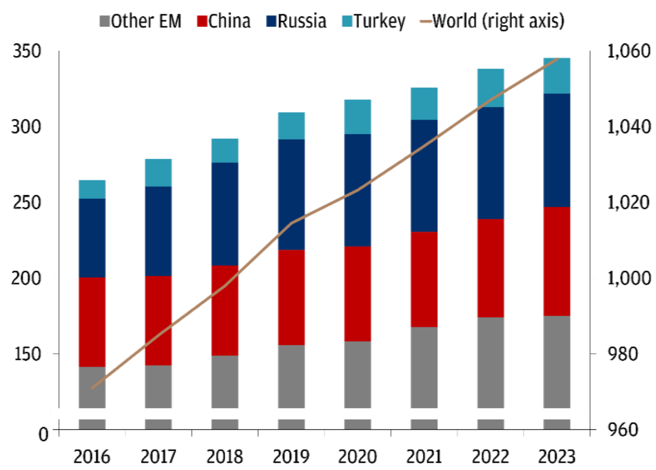
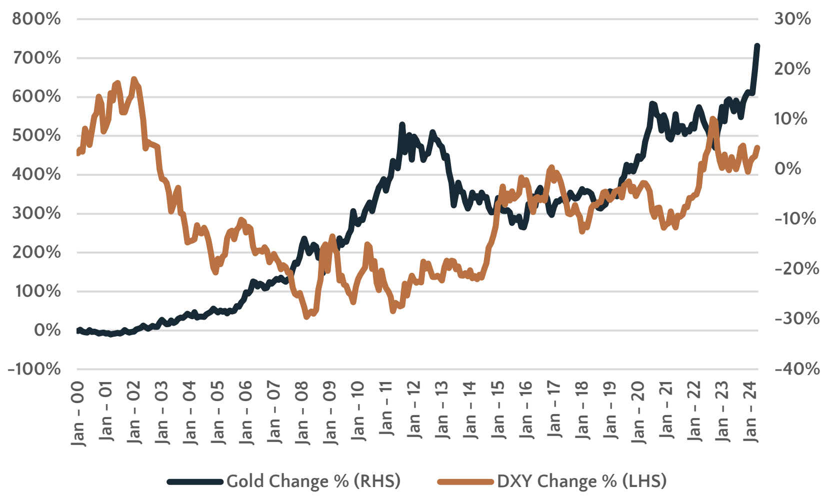


Chart 3



The best approach to managing breakdown risks or historical patterns is to prioritise thoughtful analysis over quick, rule-based decisions. Despite being uncomfortable, taking the time to deliberate can mitigate the risks associated with herd behaviour and conflicting data. This is especially crucial in today's environment of geopolitical uncertainty, central bank policies, and emerging trends like decarbonisation and energy security.

As a liquid alternative Fund of Funds, we believe that investors who engage in deliberate, logical thinking will maintain an edge over strategies solely reliant on rigid decision rules. While it's impossible to anticipate every risk, cultivating a mindset that values critical thinking can help exploit market inefficiencies and navigate through periods of uncertainty more effectively.

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Markets

In March, the S&P/ASX 200 Accumulation Index rose 3.27%, driven by a 17 basis point drop in Australian 10-year bond yields and growing confidence in averting a recession. However, commodity performance was mixed: gold prices surged due to robust demand, while concerns about the Chinese economy and sluggish steel production led to a decline in iron ore prices. Conversely, oil prices strengthened due to positive demand forecasts and OPEC's disciplined supply measures.

Global markets maintained their upward trend in March, with the MSCI World index climbing 3.4%. Several factors fuelled this uptick, including subdued inflation, steady economic expansion, low unemployment rates, and optimistic earnings forecasts. Consequently, the market rally expanded to include cyclical sectors, mid-cap, and small-cap stocks. Interestingly, over 80% of US S&P500 stocks are trading above their 200-day moving average, indicating broad technical resilience.

Performance

The Lucerne Alternative Investments Fund generated a return of 2.33% in March and finished the first quarter of 2024 with a strong 5.98% return despite significant currency volatility. We are pleased with this outcome, as it reinforces our confidence amid an unpredictable market landscape.

The positive performance of the Deglobalisation, Systematic Trend Following, and Technology strategies propelled the Fund's growth, while the Private Equity and Volatility strategies had a slight dampening effect on returns. It's encouraging to witness the resilience of our core portfolio holdings amidst market turbulence, consistently positioning themselves favourably.

Furthermore, the tactical holdings continued to deliver the anticipated steady absolute returns, aligning with the expectations of our investment team.

As previously discussed, the investment environment remains uncertain, with historical patterns evolving unpredictably. This underscores the challenge of relying heavily on past data and information for decision-making. We have long recognised the growing disparity between macroeconomic indicators and market outcomes, a trend that persists as markets reach new highs.

In light of these dynamics, we maintain a prudent approach, prioritising risk-adjusted outcomes in the portfolio. Amidst the current landscape, we are steadfast in our conviction that we can navigate these uncertainties while striving to optimise outcomes for our stakeholders.

Lucerne Alternative Investments Fund
April 2024

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