Dear Investors,

In Q3 2023, Luna returned -2.6% on net assets under management. This brings our year-to-date performance to 11.4%.[1]

There is no shortage of negative catalysts unfolding in the world. Strikes, wars, rising energy prices, government shutdown fears/general political turmoil, restart of student debt repayment, and on and on. The number of topics we could select as a focal point for this letter is numerous. As such, it has been an important period to remind ourselves to stay focused on what is in our control, given the number of ongoing events that are not.

Without discounting or minimizing any of the events ongoing in the world, there is a scene in the 1994 movie Forrest Gump that comes to mind. While actively running across the country, a man in the bumper sticker business approaches Forrest and asks for a slogan. In the course of asking for a quote, Forrest steps through a large pile of dog excrement, and the bumper sticker “S#!t happens” is born. Forrest, of course, doesn’t skip a beat and continues running.

We must keep running as well. We spent the quarter focused on what is in our control, which is our process and our portfolio. It is easy to get wrapped up in the latest world event or “breaking news” story, but our only concern (related to our investments; we of course care deeply about the world otherwise) should really be, does this news story directly affect one of our holdings. Even speculating what the overall “market impact” of an event may be is not a high priority for us, given our investing horizon. Markets will always go up and down. Our strategy is one predicated on being completely or near-completely invested at all times, and there are good reasons for this.

Let’s look at the S&P 500 total returns from January 2003 to the end of 2022. If you were fully invested in the index for that 20-year period, your return was ~550%. However, let’s say of those ~5,200 business days (20 years), you missed the 10 best days. Your return drops to ~200%. 10 days is the difference between tripling your money and over sextupling it. If you miss the 20 best days, you don’t even double your money over that 20-year period. So, you might be thinking, “well the 10 best days must have come during bull markets.” That unfortunately could not be further from the truth. 5 of the 10 best days came in the second half of 2008 as the

[1] Net asset value calculations are provided by Interactive Brokers and returns are after expenses and fees. Clients should always check their individual statements for returns which may vary due to timing and other factors. Past performance is not indicative of future returns.

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world careened towards financial disaster. 2 of the 10 best days came in the month after the market bottomed in 2009. The remaining 3 best days came in the first 4 months of 2020 as the COVID pandemic swept across the globe.

This is a long way of saying that exercising the precision needed to avoid the down days without missing the best days is nearly impossible. Markets will always go up and down. Making bets on which days will be good or bad or guessing how long bull markets or bear markets will last is not the game we are in. We are business analysts first; we bet on companies and management teams and the quality of our diligence and valuation work. This leads naturally to our long-term time horizon (or more specifically, through-cycle horizon) and our concentrated portfolio in a few, great businesses.

We'll only spend a short paragraph on the Fed in this letter. They continue to keep upward pressure on interest rates to fight what inflation remains, but it seems the market may be starting to do its work for them. The 10Y US Treasury yield has continued to march towards 5%, which based on recent Fed commentary may be an impediment for any additional hikes. While we do not rule out more restrictive actions, the need for it seems to be abating.

We made limited portfolio moves in the quarter as the tug-of-war between positive and negative macro market drivers continues to play out. Only one of our 12 holdings missed consensus revenue expectations in the quarter while only two missed profit expectations. Given the challenging operating environment, this was a good sign that our investments across the portfolio continue to progress in the right direction.[2]

We look forward to keeping you updated on our progress and remain grateful for your support.

Warm Regards,

Lucy and Nate

10/2/2023

[2] Based on company filings and Koyfin estimates.

Appendix – Performance Since Inception

	Q4 2021	CY 2022	Q1 2023	Q2 2023	Q3 2023	YTD 2023	Since Inception
Luna Partners	5.6%	-24.6%	15.9%	-1.2%	-2.6%	**11.4%**	**-11.3%**
S&P 500	10.6%	-19.4%	7.0%	8.3%	-3.6%	**11.7%**	**-0.5%**
Nasdaq Composite	8.3%	-33.1%	16.8%	12.8%	-4.1%	**26.3%**	**-8.5%**
Dow Industrial	7.4%	-8.8%	0.4%	3.4%	-2.6%	**1.1%**	**-1.0%**

Note: Equity market returns above based on underlying index prices. Index prices are sourced from Koyfin. Standard and Poor's 500 is a popular stock market index representing 500 large companies on US stock exchanges. The Nasdaq Composite is a stock market index that includes all the stocks listed on the Nasdaq Exchange. Dow Jones Industrial Average is a price-weighted stock market index of 30 prominent companies listed on US stock exchanges.

Luna Partners' inception date is October 1, 2021. Luna's performance is based on net asset value calculations provided by Interactive Brokers and calculated net of expenses and fees. Luna's portfolio typically consists of 10-15 long, US based public equity positions. Returns are after expenses and fees and presented on a time-weighted basis to be comparable to the index returns in the table. Past performance is not indicative of future returns.

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Luna Partnership LLC is a state registered investment adviser located in Miami, Florida.

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