Dear Investors,

In Q4 2023, Luna returned 22.7% on net assets under management. This brings our 2023 performance to 36.7%.[1]

The Macro

In what is now modern-day Turkey, some two millennia ago, there was a Hellenistic kingdom known as Pontus. Pontus endured for over two centuries and was ruled by the Mithridates, a hereditary dynasty of Persian origin. Mithridates V was assassinated by poisoning in 120 BC leaving the throne to his two young sons, Eupator and Chrestus. Eupator, as the eldest, faced many challenges until he became of age and could take the crown. It is rumored that while in adolescence, he survived several poisoning attempts, possibly from his own mother who preferred the younger brother to be King. To avoid the fate of his father, Eupator fled into the wilderness for seven years where he embarked on a regimen of ingesting doses of poison regularly to build his immunity.

2023 unfolded a little like Eupator's seven years in the wilderness, tasting poison and building up immunity. The year was littered with "near misses" and adversities. To name a few, there was a banking crisis, new and ongoing geopolitical conflicts, government debt / shutdown concerns, several large labor strikes, high interest rates, and the student debt payment restart, etc. We categorize most of these as "white swans" or known risks,[2] and none of these events dealt a serious blow to market momentum or economic activity. The worst contagion fears from the SVB banking crisis in Q1 were averted. In hindsight, branding it a "crisis" seems too extreme with the fallout substantially contained. The new conflict in the Middle East hardly moved a market that still has Russia's invasion of Ukraine in mind. Government shutdown jitters seem to be abating, with each false deadline eliciting a weaker response. The ability of the market to shrug off these events speaks to a callousness towards risk.

This mithridatism[3] has led to a recalibration in risk tolerance and market sensitivity to potential macro events. This adjustment is driven by two factors 1) the recent plethora of risks and headwinds has hardened the market,

[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.

[2] When we say known risks, we mean risks that were anticipatable or reoccurring in some form. Unfortunately, regional warfare, friction in government, and labor / supply chain disruptions are par for the course these days, while risks like higher interest rates or the student debt repayment restart were communicated ahead of time.

[3] Mithridatism (n) – The production of immunity against the action of a poison by taking the poison in gradually increased doses. Source: Collins Dictionary.

and 2) we faced a truly existential risk in the form of COVID-19 which has made other market concerns seem less significant in comparison.

For investors alive today who managed money through 2020, COVID-19 will likely go down as the single most uncertain macro event of their careers (to date). Even seasoned investors who have been at it since the '70s and '80s note the uniqueness of the event, especially the early days when information was limited. There really is not a comparable event in the modern era, and so few events can be pointed to that are truly first of its kind.[4] One of the "grey swans"[5] finally came home to roost, and we believe risk psychology has changed as a result. For this generation of money managers, it moved the goalposts for what a tail risk could look like and in doing so made the common "white swan" risks look less threatening. If a rapidly spreading global pandemic couldn't hobble the markets for more than a few months, it's unlikely congressional squabbling or regional conflicts are going to do it. In mid-2020, when we could just barely see over the horizon, but it was clear COVID-19 wasn't going to end humanity entirely, the markets made a "V-shaped" recovery to new highs before the year ended.

Even the risks regarding the upcoming US Presidential election seem minimal given we have survived four years of Trump and Biden already (the presumed nominees at present). Each administration had scandals and triumphs that can be debated, but it is safe to say that the world did not end under either administration. When we are inevitably forced to endure another four years of one of these candidates, the market already has a good idea of what the potential impact of their policy positions will be.

It's always possible a "black swan" will appear and provide a new and unexpected risk to the market and economy. However, while new story lines will undoubtedly emerge, our view is usually that the media complex over-generates narratives to maintain viewer attention. The number of reported stories that significantly impact the market are very few. In lieu of a black swan or economic weakness emerging, the market seems happy to look through the more minor speed bumps.

The US economy defied expectations this year, remaining resilient against the backdrop of higher rates and predictions of recession. 2023 exemplified the fallibility of the "experts" when trying to accurately forecast the stock market or economy, even in the short-term. The narrow range of predictions at the outset of the year even more demonstrated the risks of relying on the wisdom of the crowd. As a result, many equity investment

[4] While no one living today managed money through the 1918 Spanish Flu, it is probably the most recent comparable event to COVID-19. However, we shy away from using it to draw any conclusions, primarily due to the impact 100 years has had on medical innovation and the stock market.

[5] A grey swan is a risk that the market is perhaps aware of but does not take seriously enough for it to have an impact. Common examples are climate change, rising government debt, impacts from population growth, nuclear accident, and pandemics, etc.

vehicles underperformed on the year due to excess conservatism in the face of an imminent and widely expected downturn that never materialized.

Back in Turkey, Eupator would become King Mithridates VI but after failed military campaigns, the destruction of Pontus and a rebellion, his reign ended. He is reported to have attempted suicide by poisoning only to fail due to his built-up immunity. He was left too weak to even end his life with his own blade, but it is said “partly by poison and partly by the sword he was at once self-slain and murdered by his foes” (quote by Cassius Dio, a Roman historian).

Our Portfolio

We entered the year with 12 positions and replaced two over the course of the year to end with the same number. The two new investments remain small “starter” positions. The majority of the proceeds from sales and shaves were redeployed into our core holdings. The additions capitalize on our analysis that the gap between intrinsic value and price grew for many of these names as operating performance came in ahead of expectations. It also represented our observation that the momentum for many of these names turned positive over the course of 2023 after suffering through a bear market in 2022. This sentiment shift could be seen in both price action and investor sentiment.

In some cases, we were able to improve our cost basis with these additions but not in all. While we strive to be opportunistic and buying at a cheaper price feels good, we try not to let higher prices dissuade us from adding when the situation calls for it. If a rising price is reflective of our thesis being realized and valuation continues to present an attractive gap to price, we will consider further investment. Many times, the improved performance occurs concurrently with an increase in our confidence in the overarching thesis, which gives us comfort when making these positions bigger.

Our largest positions at the start of the year, Cleveland Cliffs, MercadoLibre, Meta and Workday were all up in 2023. Those four names contributed ~3/4ths of the 36.7% of returns we saw in 2023. We shaved Meta in H2 2023, but it remained our third largest position as we closed the year. While we still believe deeply in Meta’s story and return opportunity, the rapid increase in share price made it prudent to adjust the position. CLF was our largest investment at the start of 2023, and we added over the year. While the operating performance of the company was excellent and the stock was up ~27% in 2023, it continues to trade at a deep discount relative to the value we see in the business. Indications are that 2024 will mark the year the company pivots to focusing on capital returns to shareholders, which we believe will entice more investors.

The strength we saw especially towards the end of the year created a temptation to sell. The combination of negative sentiment that still existed in the market and the rapid nature of the move led to a kneejerk reaction to want to trim our exposure. A recession remained an imminent risk to many market observers into H2 2023 and a feeling that a mean reversion trade was around the corner kept equity exposure light. After a rough 2022, we reclaimed that lost ground in Q4 2023, and looked for reasons to make shaves and sells to solidify that reclamation. However, as we retested each position, our conclusion was that we were even more optimistic about the potential of most of our holdings. On average, developments in 2023 increased our confidence in each individual investment thesis and return opportunities remain very attractive. Over the full year, we made a limited number of shaves for less than 20% of the portfolio and we quickly reinvested that capital into the pockets of greatest opportunity.

While we invested deeper in many names, each retest educates our view on intrinsic value and the thresholds at which we would consider significant divestitures. While those levels were not reached in 2023, 2024 could certainly present the opportunity. We stand ready to make significant cuts and sales as these target prices are reached. There is a deep bench of replacements that we have identified and vetted to take the place of positions that reach investment maturity. The quality of the current portfolio and opportunities on the bench cause us to be very optimistic as we enter 2024.

We remain very grateful to those who invested their capital and time as we navigated through our second calendar year. We hope we can reward this faith and support with more years that look like 2023.

Warm Regards,

Lucy and Nate

01/01/2024

Appendix – Performance Since Inception

	Q4 2021	CY 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	CY 2023	Since Inception
Luna Partners	5.6%	-24.6%	15.9%	-1.2%	-2.6%	22.7%	**36.7%**	**8.9%**
S&P 500	10.6%	-19.4%	7.0%	8.3%	-3.6%	11.2%	**24.2%**	**10.7%**
Nasdaq Composite	8.3%	-33.1%	16.8%	12.8%	-4.1%	13.6%	**43.4%**	**3.9%**
Dow Industrial	7.4%	-8.8%	0.4%	3.4%	-2.6%	12.5%	**13.7%**	**11.4%**

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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