Dear Investors,

In Q4 2024, Luna returned -9.9% on net assets under management. This brings our 2024 performance to -3.4%.[1]

Reflections

At the start of each year, I typically look at the calendar to see what trips and events we have scheduled. There are many exciting personal life events (e.g., my sister's wedding in April),[2] but on the professional side, we are looking forward to one trip in particular. This May, we will be traveling out to Omaha, Nebraska for the 2025 Berkshire Hathaway Annual Shareholder Meeting.

This has long been an event we have both wanted to attend, primarily due to the superstar, luminary status its leaders have achieved in the world of investing. While the pioneers of Value Investing were academics (Benjamin Graham and David Dodd), I would argue that Warren Buffett and Charlie Munger are some of the most successful practitioners of this investing method in history. Unfortunately, Charlie passed away in 2023 at the age of 99, and Warren is now 94. While we hope Warren "lives long and prospers," this unfortunately may be one of the last opportunities we have to see the old guard in action.

I am typically not one for New Year's resolutions. The idea of having a rather arbitrary date dictate when I will proceed with a new undertaking or set new goals feels like the wrong frequency and trivially timed. The tradition is speculated by psychologists to be caused by a manifestation of the "fresh start effect" and the "opportunity to reflect," which fuels a desire for self-improvement and sense of renewal. Regardless of my personal feelings on this cultural norm, when asked, I typically reply with my more perpetual goals like "run a faster 10k" and "spend more time with family," etc. This behavioral phenomenon likely transcends its use case as polite banter at social events and is a plausible partial explanation for the stock market's "January Effect." While this seasonality quirk isn't as prominent as it used to be, it is a reminder of the other forces at work in the market. If I had to make a New Year's resolution for our business, my answer would be "stick to the plan."

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[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] Nate's sister.

Performance in 2024 for Luna had its ups and downs, and we ended the year not far from where we started it. Over the course of the year, our portfolio narrowed to 9 holdings (from 12), and we made minor changes in the mix, reflecting our evolving views in a few names. This level of concentration forces returns to be dependent on a few specific storylines rather than the movement of the herd. This can lead to periods of frustration (as it did this past year), when the herd is running as you watch fence-side. One behavioral tendency often observed following a period of weak performance is to chase winners and trade or turnover the portfolio (doing something feels better than doing nothing). My honest New Year's "resolution" is to not fall into this trap.

Analytically, we feel great about our holdings and the overall portfolio. Of our 9 holdings at year end (all holdings we have had for 1+ years, and 7 of which we have held since our first quarter of inception), 6 saw revenue growth that averaged over 20% (the other 3 had declines in the single digits). 5 of the 9 saw FCF (CFO-Capex) grow on average by ~35% (of the 4 remaining, 2 saw FCF turn positive in 2024, and 2 saw FCF decline). If you look at the reported revenue and EPS of our 9 holdings over the last 4 quarters and their performance versus Wall Street consensus, our holdings beat ~80% of the time.[3]

Admittingly, there are several ways to cut portfolio data like this, but the takeaway is generally the same: most of our companies grew topline at an impressive rate and found ways to generate more cash flow for equity holders. In a year with a lot of noise and distractions, this perspective has been important for us. While Mr. Market wasn't willing to offer what we felt were commensurate prices for most of our holdings in 2024, we remain very optimistic about the operations and trajectories of the businesses we own.

A year like this can feel long, and I have found myself circling back to some of Warren and Charlie's wisdom. They had a perennial focus on compounding, but their success (in offering compounding returns to their investors) was a by-product of finding businesses that could compound capital. The price that the market ascribes to assets, month to month or even year to year, only matters in the moments of entry and exit. More important is a company's ability to generate cash flow and reinvest it at an attractive rate. If that holds true, Mr. Market will discover the intrinsic value, and an attractive exit will present itself eventually. As Warren once said "If you buy a farm, do you get a quote next week, do you get a quote next month? If you buy an apartment house, do you get a quote next week or month? No, you look at the apartment house or the farm and you say, 'I expect it to produce so many bushels of soybeans and corn, and if it does that, it meets my expectations.'"

[3] Statistics compiled using Koyfin. Data represents trailing 4 quarters to Q3 2024.

We look forward to hearing and seeing the “Oracle” in action this May. We wish you and your loved ones a wonderful 2025, and we look forward to keeping you updated on our progress.

Warm Regards,

Lucy and Nate

01/01/2025

Appendix – Performance Since Inception

	Q4 2021	CY 2022	CY 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	CY 2024	Since Inception
Luna Partners (Net)	5.6%	-24.6%	36.7%	5.1%	-7.8%	10.6%	-9.9%	**-3.4%**	**5.2%**
Luna Partners (Gross)	5.8%	-23.7%	38.7%	5.5%	-7.4%	11.1%	-9.6%	**-1.8%**	**10.0%**
S&P 500	10.6%	-19.4%	24.2%	10.2%	3.9%	5.5%	2.1%	**23.3%**	**36.5%**
S&P MidCap 400	7.6%	-14.5%	14.4%	9.5%	-3.8%	6.5%	0.0%	**12.2%**	**18.2%**
S&P SmallCap 600	5.3%	-17.4%	13.9%	2.0%	-3.5%	9.6%	-1.0%	**6.8%**	**5.7%**
Russell 3000	8.9%	-20.5%	24.0%	9.6%	2.9%	5.9%	2.3%	**22.1%**	**31.1%**

Note: Equity market returns above based on underlying index prices. Index prices are sourced from Koyfin, Yahoo Finance or other publicly available sources. S&P 500 is a popular stock market index representing 500 large companies. S&P MidCap 400 is a stock market index representing 400 mid-sized companies. S&P Small Cap 600 is a stock market index representing 600 small-sized companies. The S&P indices are composed of companies on the US stock exchanges, and each S&P index has distinct constituents. Russell 3000 is a stock market index representing the 3000 largest companies on the US stock exchanges.

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

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

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