Lugarno Fund

INVESTOR LETTER
30 June 2024

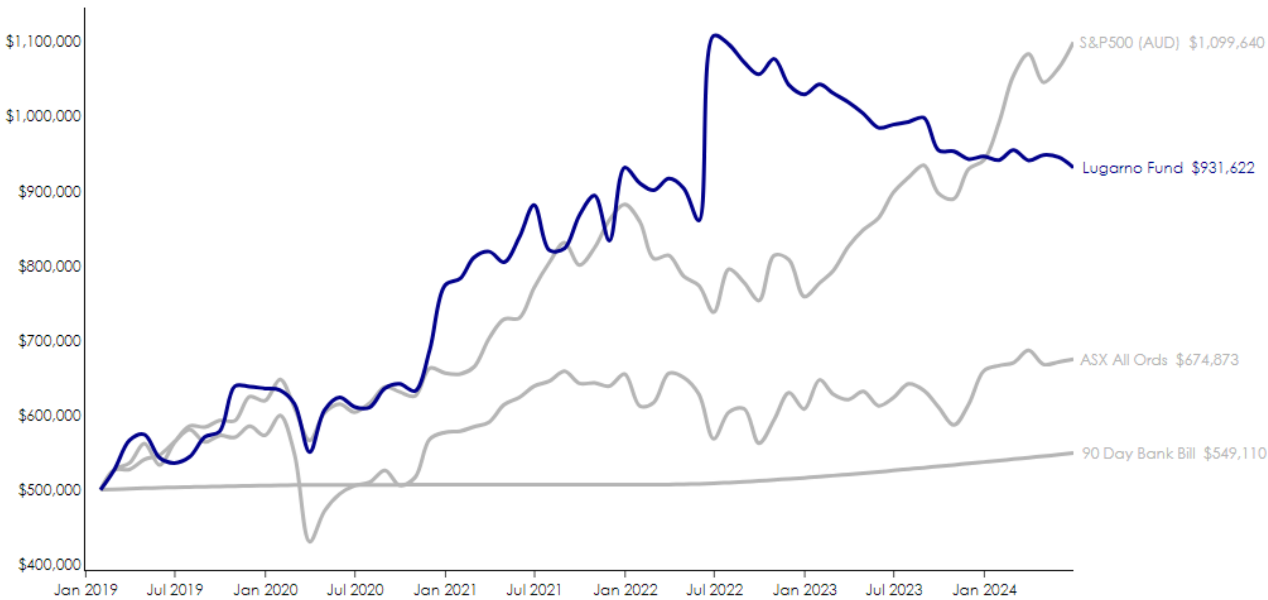
22 August 2024

Dear Partners,

The returns for the Lugarno Fund as at 30 June 2024 are as follows:

3 months	12 months	Since inception [15 Feb 2019]
-1.02%	**-5.82%**	**+12.28% pa**

Since its inception on 15 Feb 2019, the Lugarno Fund has delivered to investors a return of +12.28% pa (after all fees and costs). The chart below illustrates that $500k invested in the Lugarno Fund at inception would now be worth $931,631.



*ASX All Ords is accumulation (assumes dividends reinvested)

"Progress takes time and discipline"
Ronnie Coleman

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THEORY vs EXECUTION

Like many investors, we spend significant time honing our investment strategy. While it's an essential ingredient in what we do, coming up with a plan is easy. Being consistently disciplined to execute it is the hard part.

We all want to eat well, exercise lots, maintain an even keel with our emotions. But we don't always execute these ideals perfectly. Everyone has points of weakness which pull us away from being the people we want to be all the time.

I think the most challenging part of investing is managing our emotions to ensure we can consistently execute on our strategy. A major difference between Warren Buffett and the average investor is the discipline to consistently act rationally.

Why is it so challenging to consistently stay within our lane?

- Bright and shiny. Human beings crave new and exciting things. Investments that are dressed up as such can be hard to resist.
- Relationships. When an opportunity comes from a friend, close colleague, family member, it's hard to say no.
- Following the herd/FOMO. No matter how much risk inherent in the investment, we can't stand the thought of missing out on a return once we know others are investing.
- Boredom. No matter how much we know it works, sticking to the same simple strategy is boring.

We know from experience, that mistakes are most often made when we invest outside of our investment strategy/criteria. Therefore, it makes sense for us to place significant effort into the practices that encourage us to consistently make decisions within our criteria.

The list below outlines a number of items I personally prioritise to help me to stay in my chosen lane.

- Having a checklist/criteria. In our past letters has referenced our own investment criteria which we are happy to share.
- Find and lean on an independent judge to ensure you stick to the checklist. By independent I mean that this person stands to lose (or gain) very little from giving you honest advice.
- Prioritise sleep. Without doubt, with adequate sleep I make better decisions, have better moods, and I don't get sick as much.
- Exercising. Goes hand in hand with sleep.
- Cultivating positive influences. We are an average of the 5 people we spend the most time with. We are also very prone to influence by media and information sources.
- Build positions slowly. This reduces the risk of rushing. We also are aware that time is a variable in the learning process which can't be hacked.

My working conclusion is that the design of an investment strategy is the easy part. The hard part is 'how' we execute on it. For this reason I prioritise the practices which encourage rational and clear thinking.

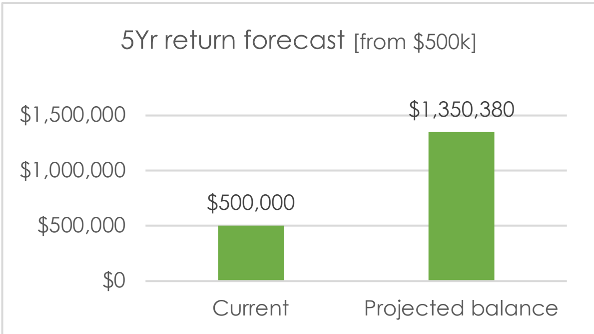
PORTFOLIO

At the time of writing this, the seven largest investments in the fund made up ~77% of the portfolio. These are listed below in order of holding size.

Below we have updated the portfolio's 5-year return expectations which have increased from 15.8% pa to 20.4% pa.

NB. This is a 5-year projection. We expect fluctuations (including negative returns) over shorter time frames. Also, because these are 'projections', the future will almost certainly turn out differently. We include them to provide you an indication of what our internal calculations are indication.

1.	Litigation Capital Management
2.	Cash
3.	Vox Royalties
4.	Aimia
5.	Thryv holdings
6.	Topicus
7.	Advanced Cosmeceuticals [unlisted]



While we are very optimistic about the potential returns, we are just as comfortable with the downside protection afforded to us – usually via tangible assets, a moat, and/or a very low valuation.

Please be cautious around any temptation to purchase these investments separate to the fund. As a company's outlook and share price changes, so too will the expected returns. It's also possible that we will sell holdings if we change our mind.

You may note Vox Royalties is a new holding in our top seven. Below is an overview of our thesis.

Vox Royalties [VOXR, Nasdaq]

A royalty is the best kind of revenue. The holder of a mining royalty receives a portion of a mine's revenue (usually 1-5%) regardless of its costs or profitability. So long as the mine is producing revenue, all the royalty needs to do is cash the royalty cheques.

Vox is a serial acquirer of mining royalties. They are in the early stages of what we expect to be many years of substantial compound growth. We first came across Vox in a newsletter last year. Since then, our analysis (including a visit to the CEO in Denver) has identified in Vox all the key characteristics we seek.

Aligned leadership
Confidence in leadership is always our priority and we have that here in droves. Kyle, Spencer, and Riaan are the founders and (collectively) own 18.7% of the business. But it's one thing to be an owner, the other is to act like one. Kyle and the team are frugal and focused on long-term shareholders returns. Its showing in their actions and results.

Capital allocation
Analysing Vox's acquisition history, we can learn they are analytical, patient, and disciplined. Vox allocate their profits between reinvestment (buying more royalties) and returning to shareholders (via buybacks and dividends).

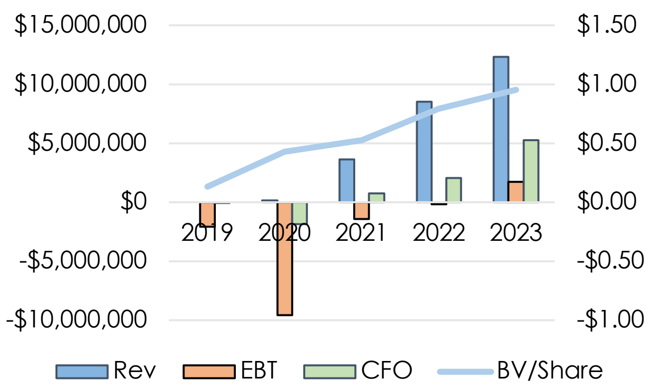
In difference to many of their peers, Vox keep their costs very low and despite growing profits, are actually reducing expenses on an absolute basis.

Competitive advantage
The quality of royalty revenue is no secret and so it's of no surprise there is plenty of competition. How then, has Vox managed to earn such impressive returns? Vox's advantage lies in the proprietary database they have built. The more royalties they know about, the greater their chances in finding a diamond in the rough.

Growth
We think about Vox's growth in the context of three different forms.

- Known growth. That is the current royalties owned by Vox which are either producing or nearly producing. We expect the revenue of Vox's known royalties to double Vox's revenues in the next 3-5 years.
- Known (unknown) growth. These are the royalties owned by Vox which are likely to enjoy upside via mine life extensions, production increases, or plans to mine. We are confident there is some value (optionality) in Vox's +60 royalty portfolio, but we can't be precise about it – and so we don't place a value on this form of growth.
- Unknown (unknown) growth. This applies to royalties Vox haven't yet purchased. There will almost certainly be additional royalties acquired but they will only increase our valuation when they happen. Vox's scale has allowed them to obtain a $15m credit facility which gives them a much stronger position to accelerate growth.

Ultimately, our returns from this investment will be determined by the growth in cash flow, and, Vox's ability to reinvest those cash flows to build their portfolio. Given managements history, their unique advantage, and (more recently) capital at their disposal, we think there is a strong chance Vox grow well in excess of our own expectations.



Valuation/return
We value Vox's current assets, at $3.34/share. This affords us a margin of safety of ~30%, this is protecting us should the business face misfortune.

If we are correct in our assessment of both known and unknown growth prospects, we expect the business to be worth +100% the current share price within the next 5 years.

We have more details on the fund's underlying holdings which we are more than happy to share with you. If you have any questions, or, would like additional info, please reach out and we will gladly communicate.

THE FUND

We believe in the concept of skin in the game – we eat our own cooking.

This fund serves as the primary investment entity for my family's wealth so you can be confident we are treating your investment like it's our own.

This fund exists to generate solid returns and if we fail to do so we do not deserve to be in business. We do not charge a management fee and only earn performance fees if we achieve returns of greater than 6%. This fee structure is a clone of Warren Buffett's early partnership.

We believe that the easiest way to grow capital is to avoid losing it. In practice this means that investments require a large margin of safety between what we pay and the value we believe we are receiving. We also prefer companies with substantial tangible assets to protect us should things not go to plan.

Good investment opportunities are rare so when they come along, we are willing to invest significant amounts of the fund's capital to maximise the investor's benefit. Conversely, we are content holding substantial cash in the absence of valuable opportunities.

In order to consistently make good decisions, we cultivate a sceptical and contrarian mindset. It is statistically impossible to generate great returns by investing with the same lens and conventional wisdom of 'Mr Market'.

Our investment strategy looks to capitalise on two main elements of the investment market place.

- Inefficient distribution of information: This is where under-researched companies are much less understood by the broader market
- Over-reaction tendency: This is where investors act in herd-like behaviour by over-reacting to negative news on otherwise quality investments

Well known opinions are usually priced into stocks and so we find that ideas are only valuable if they are contrary to consensus.

Internally, we judge our performance over periods of at least three years and we ask you do the same. While we strive to identify near term catalysts for our investments, 'Mr Market' rarely agrees with our perspectives as fast we would like.

We believe wealth gives people the freedom to live their best life and we are immensely proud to get to work every day helping you with that.

FUND PARTICULARS

Trustee	DDH Graham Limited
Investment Manager	Lugarno Partners Pty Limited
Administrator	DDH Graham Limited
Auditor	Findex
Min. investment amount	$250,000
Min. investment term	2 years
Redemptions	90 days' notice
Ongoing fee	Zero management fee
Performance fee	Performance fee of 25% above a hurdle of 6%, subject to a high watermark
Buy/sell spread	0.5% of applications and redemptions
External Trustee fee	Trustee fee $40,000 pa (adjusted annual for CPI increases)
Fund operating expenses	The general expenses of operating of the fund and its investments are paid out of the fund

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This update contains information concerning about the Lugarno Fund (Fund), an unregistered managed investment scheme, and has been prepared by Lugarno Partners Pty Ltd ACN 607 035 138 AFSL no. 508934 (Investment Manager) as investment manager of the Fund. DDH Graham Limited ACN 010 639 219 AFSL no. 226319 (Trustee) is the trustee of the Fund. This update is for distribution only to wholesale clients as defined in section 761G of the Corporations Act and to sophisticated investors under section 761GA of the Corporations Act. It contains general information only and is not intended to provide advice to any particular investor, nor take into account an individual's investment objectives, circumstances or needs.

Returns shown are net of all fees and costs. Past performance is not indicative of future performance. This update also contains statements about the estimated future performance of the Fund, which are based on a number of assumptions that may not prove to be correct or appropriate. Actual performance may vary from estimated or forecast performance. Neither the Investment Manager nor the Trustee give any representation, assurance, guarantee or warranty that the estimated return or any projection, forecast or assumption contained in this document will actually occur.