SOMERSTON
ASSET MANAGEMENT

Somerston Multi Asset Fund (the Fund)

Investment Letter No.15 – December 2020

The Somerston Multi Asset Fund (US0 class) returned +9.6% in the fourth quarter. The MSCI World Equity Index rose by +12.4% and a composite of UK, German and US Government bonds fell by -0.1% in Q4.

During Q4, the fund had average net equity and bond allocations of 62% and 37% respectively. The fund starts Q1 2021 with net exposures of 68% in equities, 37% in bonds and 20% in commodities.

Performance (%) US0 Class

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017				0.9	2.7	-0.9	0.6	0.6	-0.5	0.6	-1.2	1.9	**4.5**
2018	4.8	-3.7	-1.0	-1.0	0.8	-0.2	0.9	0.3	0.0	-2.3	1.8	-0.4	**-0.2**
2019	1.1	-0.6	2.8	1.3	-1.8	5.6	0.7	0.6	-0.6	2.1	2.8	3.3	**18.5**
2020	-0.3	-5.9	-8.5	6.9	2.4	1.8	7.4	3.1	-2.2	-1.0	5.2	5.2	**13.6**

Top Ten Equity Holdings

Name	% Fund
Alphabet Inc-Cl A	2.8%
Johnson & Johnson	2.6%
Mastercard Inc - A	2.4%
Intuit Inc	2.1%
Microsoft Corp	1.9%
Amazon.Com Inc	1.7%
Pepsico Inc	1.7%
Adobe Inc	1.7%
Thermo Fisher Scientific Inc	1.6%
Roche Holding Ag-Genusschein	1.6%
Total for Top Ten	**20.1%**

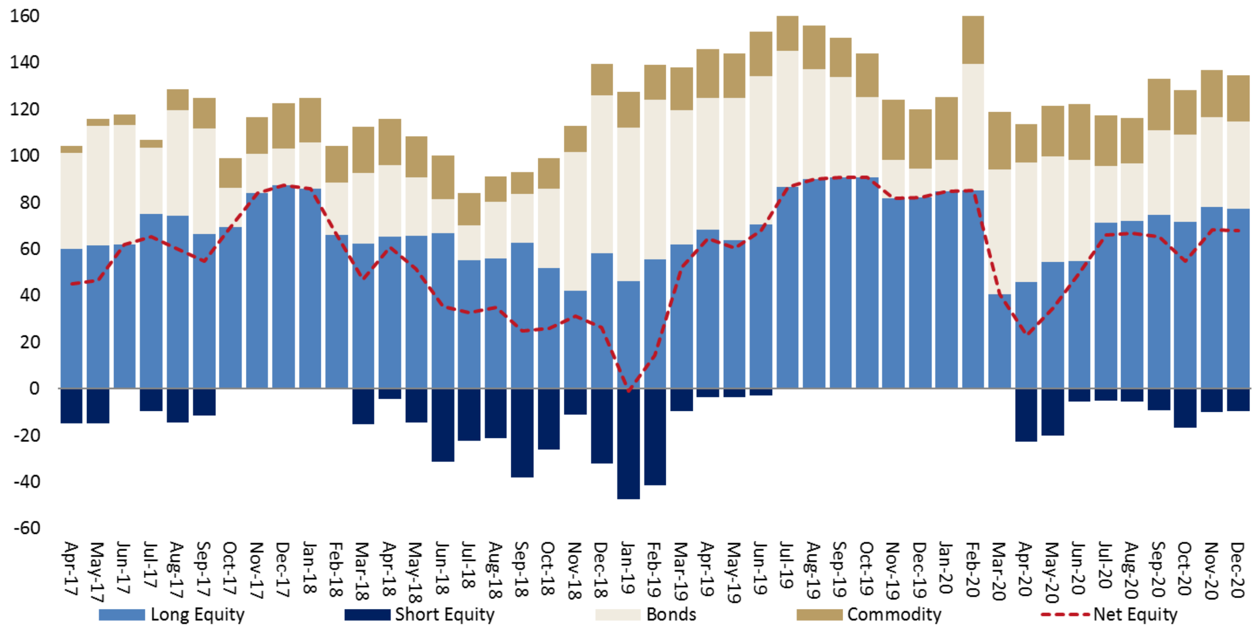
Share Classes

	ISIN	Ticker	NAV
US0	JE00BDRXFP25	SOMAUS0	136.1323
US1	JE00BDRXFQ32	SOMAUS1	132.0227
GB0	JE00BDRXFM93	SOMAGB0	128.2309
GB1	JE00BDRXFN01	SOMAGB1	124.3611
EU0	JE00BDRXFR49	SOMAEU0	124.0467
EU1	JE00BDRXFS55	SOMAEU1	120.3044

Asset Allocation

	Long	Short	Net
Core Equities	38.5%		38.5%
EM Equity index futures	14.4%		14.4%
Real Estate	3.6%		3.6%
Dev Market Equity index futures	12.4%	-9.6%	2.8%
Small Cap Value ETF	8.6%		8.6%
Equities	**77.5%**	**-9.6%**	**67.9%**
US Govt inflation linked bonds	9.4%		9.4%
US Government 10 yr. bond futures	-7.7%		-7.7%
PIMCO Global Inv Grade Credit Fund	8.3%		8.3%
IShares Inv Grade Corp Bond Fund	2.5%		2.5%
UK Govt inflation linked bonds	4.6%		4.6%
German Govt 10 yr. bond futures	11.6%		11.6%
German inflation linked bonds	4.7%		4.7%
High Yield Corp Bond ETF	3.8%		3.8%
Bonds	**37.2%**		**37.2%**
Gold Derivatives	15.4%		15.4%
Gold Miners	1.2%		1.2%
Platinum Derivatives	1.4%		1.4%
Gresham TAP Fund	2.0%		2.0%
Commodities	**20.0%**		**20%**
Volatility	5.1%		5.1%
Total All Assets	**139.7%**	**-9.6%**	**130%**
Cash and Equivalents			**-30.1%**

Evolution of Asset Allocation for Somerston Multi Asset Fund



Performance

- The fund returned +9.6% in Q4 versus its composite reference benchmark which rose by +8.6% equating to +1.0% outperformance during the quarter.
- Equity relative value trades added +1.1% to performance.
- Bond selection outperformed adding +0.7% to performance.
- Being underweight equities cost -1.2%.
- Top down equity allocation added +1.1% whereas stock selection detracted -1.1%
- FX added 0.3% to performance
- Commodities and precious metals added 0.2% to performance.

Commentary

2020 started with optimism, plunged to despair and ended jubilant. If ever there was a lesson for maintaining diversification, 2020 taught us.

Looking at the calendar year as a whole, the fund's result was respectable and crystallises a solid top decile three year performance.

Our strategy aims to generate outperformance in four ways:

- Outperform through asset allocation between Equities/Bonds/Cash/Precious Metals
- Outperform within our equity book
- Outperform within our bond book
- Outperform within our precious metal book

In 2020, the strategy delivered outperformance in three out of four cases.

Outlook

We are half way through a 'reflation' cycle. So far, recovery has been very lopsided. Smaller companies, and those exposed to cyclical sectors have barely started their recovery, whereas the larger technology companies have fully recovered and are seeing moderating growth rates. This gives rise to significant investment opportunities and a window to drive outperformance.

Liquidity and fiscal policies will continue to provide an underpinning to asset price. Only once the 'tv pundits' start getting excited that GDP growth is 10% + and earnings growth is 40% + (which is almost a mathematical certainty), should we become worried that growth rates will slow, liquidity may be withdrawn, and valuations become entirely unsustainable (if they are not already). There is no precise timing to this, but it seems that this will coincide with the seasonally weak third quarter.

Chart 1 shows the lopsided nature of the recovery. The US PMI ISM manufacturing index is over 60 but our diffusion of US growth remains below 0%.

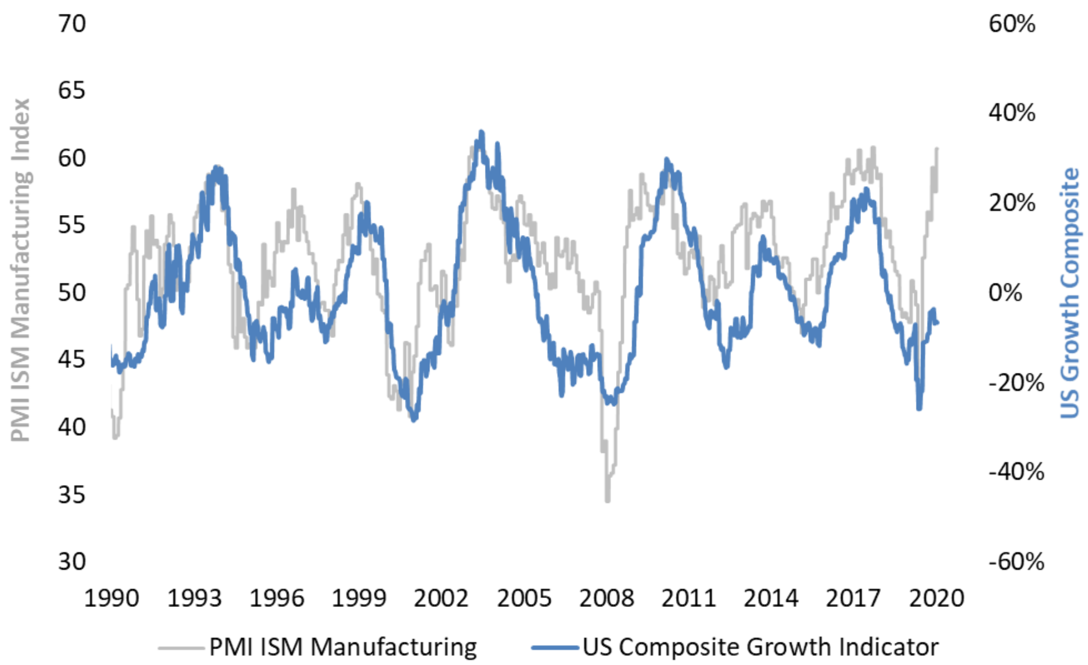
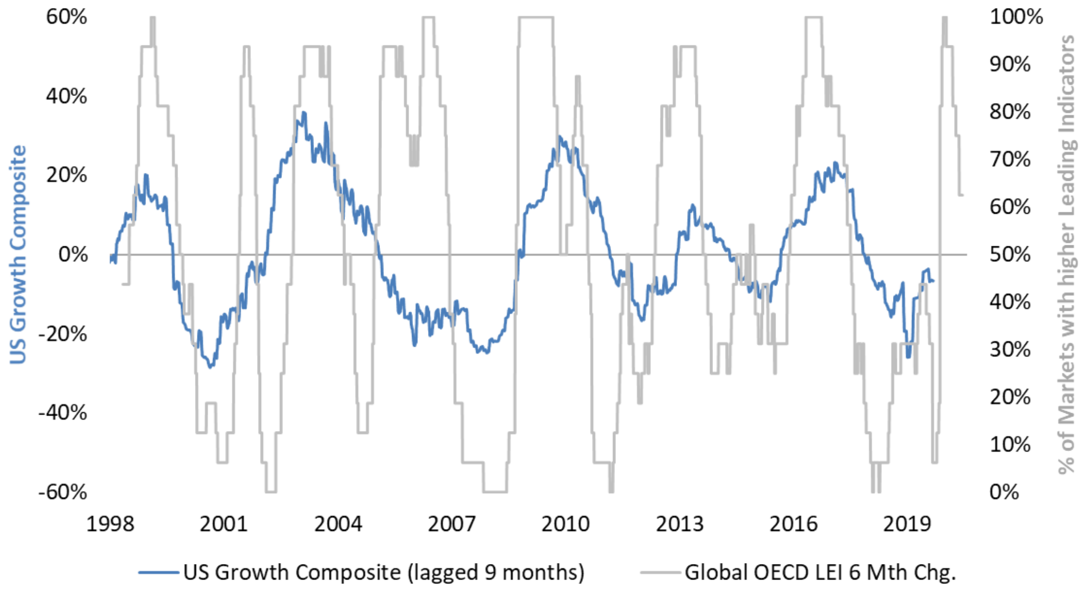
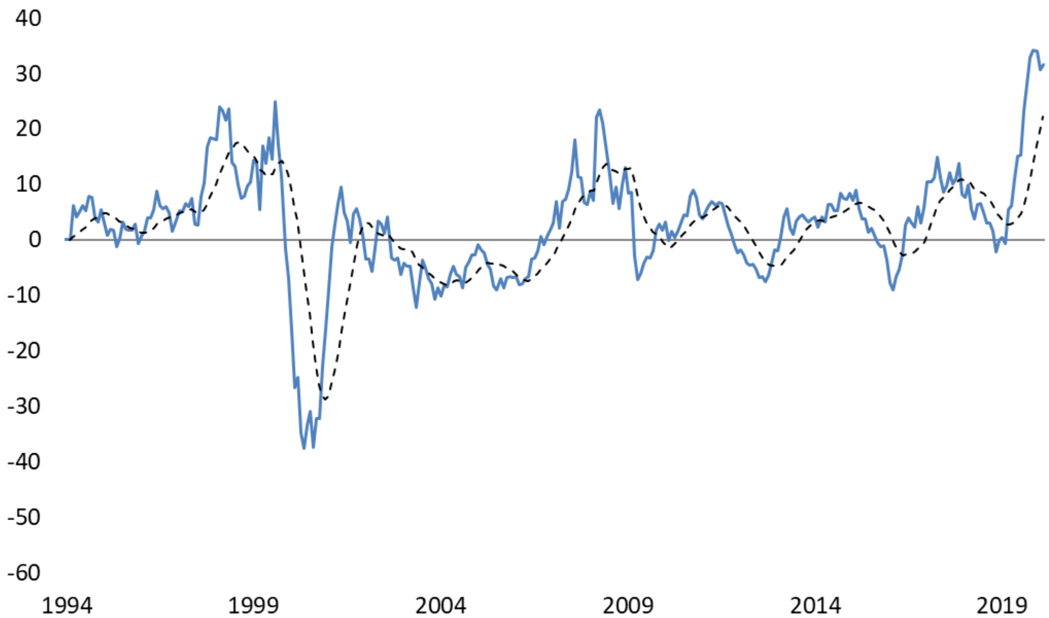


Chart 2 compares our composite growth measure against the OECD Global Leading indicator that is advanced 9 months. This corroborates a scenario of recovery followed by peak in the third quarter.



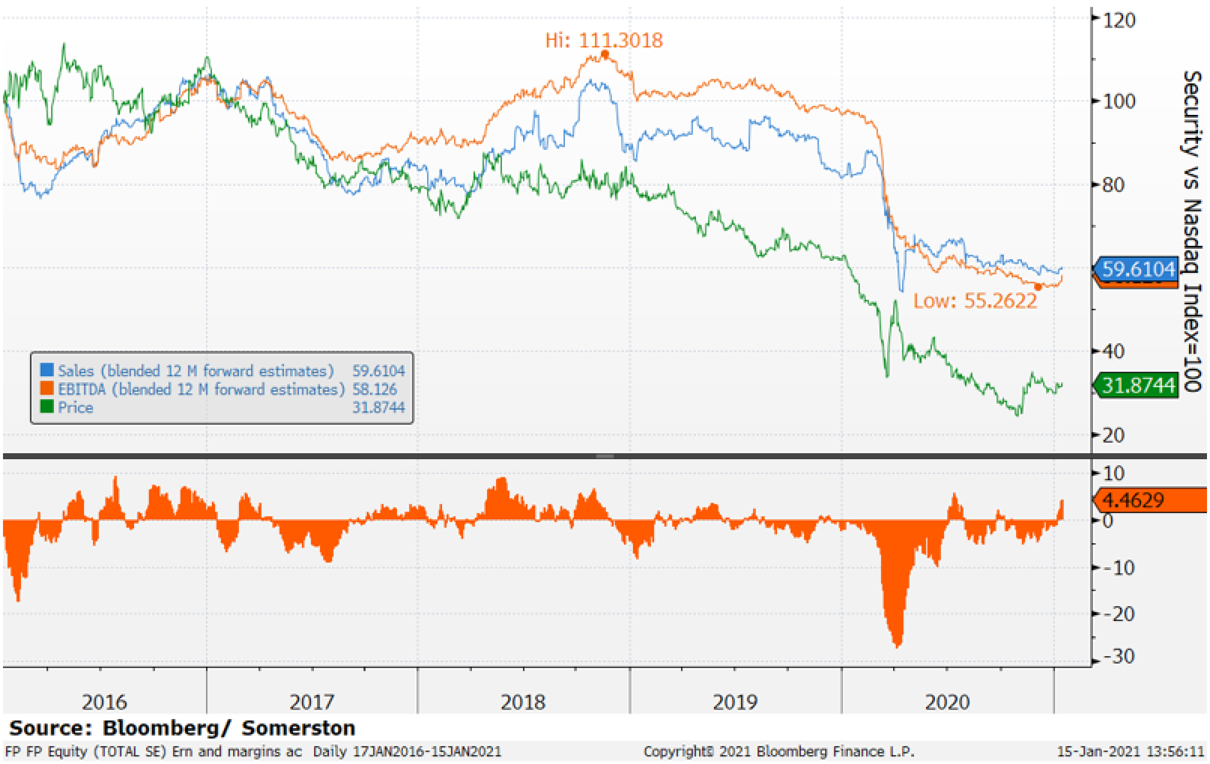
Inflationary pressures are on the rise. This is causing the yield curve to steepen – at the margin, a negative for long dated bonds, gold, and long duration assets such as growth and private equity. Moreover, these assets are at very elevated valuations. Chart 3 shows the year over year performance of Growth stocks vs Value stocks. Not even in the 'dot com' boom did growth outperform by this degree.

Chart 3 12 Month Price differences between 'Growth' VS 'Value'



The opportunities in unloved value sectors compared to growth are huge. Consider Chart 4. This chart compares sales, EBITDA and price of the energy major Total SE against the Nasdaq. In the top clip, the measures are indexed to 100 five years ago and are relative to the Nasdaq. Over five years, Total has underperformed the Nasdaq by 69% on a price only basis and sales and EBITDA have underperformed by 40%. In the bottom clip of the chart we show relative EBITDA growth. In March, Total's growth rate was some 30% less than the Nasdaq. Today, based on the next 12 month forecasts, Total's EBITDA growth is better than the Nasdaq. For Total to close the valuation gap that has developed in the last three years, the stock would need to rise 90%. This is not our base case, but illustrates the opportunity in cyclical value sectors.

Chart 4 Total vs Nasdaq



In summary, the fund is positioned to benefit from reflation. In our equity book we are overweight value sectors, small caps and emerging markets. In our bond book, we are overweight Inflation linked bonds and credit. In precious metals we have reduced overall exposure. From a top down perspective we maintain high levels of diversification and recognise that the path forward is highly uncertain. We are again building our long volatility exposures.

Core Equity Strategy

The approval and accelerated rollout of 3 successful Covid vaccines, and the conclusion of the US election and Brexit spurred a rally in equity markets. The core equity book gained strongly in absolute terms, but struggled to keep pace with global indices.

Value sectors led the charge, the energy sector rose 27% and financials rose 24%. In comparison the consumer staples and healthcare sectors rose 6.5%. Auto manufacturers, hotels and regional banks all surged +50% on improving economic prospects. Small caps outperformed large caps (Russell small cap + 31.4%, Russell large cap index +13.7%). High Beta outperformed, quality stocks underperformed and companies closest to their 52 week highs underperformed most.

Our top performing positions were LVMH and Estee Lauder. Having suffered from their exposure to travel and department store sales during the pandemic, luxury goods companies are direct beneficiaries of the economy re-opening.

Disappointing guidance from a number of high profile businesses including Apple, SAP, Microsoft, Intel and Mastercard weighed on the technology sector. These businesses seem to be struggling to maintain recent levels of earnings growth as short term covid gains recede. In contrast, communications businesses like Alphabet (one of our top holdings over the quarter) fared well as digital advertising budgets reaccelerated ahead of expectations.

The relative growth rate of 'value' companies is increasing as they just begin their recovery cycle. We continued to increase the value and cyclical side of our core equity book. We prefer to play value through energy companies which have more visibility than financials. We added a new position in oil major Total SE and topped up our allocation to pipeline operator Enbridge. We also added a new position in Assa Abloy, a technology empowered industrial. All these businesses pulled back to extremely attractive valuations on covid concerns. We funded our new positions by reducing our overall exposure to "expensive defensives" in the consumer staples, healthcare and utilities sectors (we took profits in Walmart and sold our entire positions in Danaher, Fresenius and Procter and Gamble).

The benefits of our macro equity overlay were clearly demonstrated this quarter. While our long term holdings in high quality companies failed to keep abreast of the rapidly evolving cyclical repositioning this quarter, our tactical macro adjustments meant overall, the fund was positively skewed to the better performing themes: Value, EM and small caps.

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