SOMERSTON
ASSET MANAGEMENT

Somerston Multi Asset Fund (the Fund)

Investment Letter No.16 – March 2021

The Somerston Multi Asset Fund (USO class) returned +0.4% in the first quarter. The MSCI World Equity Index rose by +6.1% and a composite of UK, German and US Government bonds fell by -4.1% in Q1.

During Q1, the fund had average net equity and bond allocations of 61% and 27% respectively. The fund starts Q2 2021 with net exposures of 47% in equities, 31% in bonds and 16% 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**
2021	-0.3	0.8	-0.1										**0.4**

Top Ten Equity Holdings

Name	**% Fund**
Alphabet Inc-Cl A	3.0%
Booking Holdings Inc	2.6%
Mastercard Inc - A	2.3%
Adobe Inc	2.1%
Johnson & Johnson	2.1%
Total Se	2.1%
Amazon.Com Inc	2.1%
Microsoft Corp	2.0%
Assa Abloy Ab-B	1.9%
Digital Realty Trust Inc	1.9%
Total for Top Ten	**22.1%**

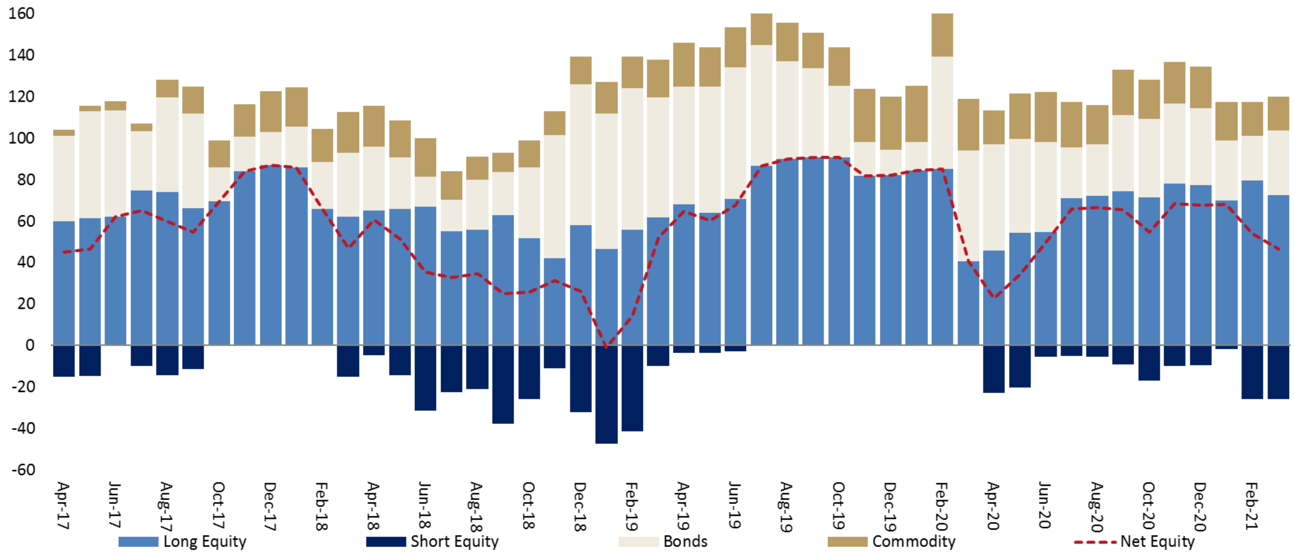
Share Classes

	ISIN	Ticker	NAV
US0	JE00BDRXFP25	SOMAUS0	136.6346
US1	JE00BDRXFQ32	SOMAUS1	132.1617
GB0	JE00BDRXFM93	SOMAGB0	128.6698
GB1	JE00BDRXFN01	SOMAGB1	124.4599
EU0	JE00BDRXFR49	SOMAEU0	124.1125
EU1	JE00BDRXFS55	SOMAEU1	120.0475

Asset Allocation

	Long	Short	Net
Core Equities	43.1%		43.1%
Emerging Market Equities	12.1%		12.1%
Small Cap Value Equities	6.5%		6.5%
Large Cap Value Equities	9.1%		9.1%
Small Cap Equities	1.8%		1.8%
Dev Market Equity Futures		-25.9%	-25.9%
Equities	**72.6%**	**-25.9%**	**46.7%**
US Govt inflation linked bonds	4.5%		4.5%
US Government 10 yr. bond futures	9.7%		9.7%
PIMCO Global Inv Grade Credit Fund	8.0%		8.0%
UK Govt inflation linked bonds	4.4%		4.4%
German inflation linked bonds	4.5%		4.5%
Bonds	**31.2%**		**31.2%**
Gold Derivatives	13.9%		13.9%
Gresham TAP Fund	2.1%		2.1%
Commodities	**16.1%**		**16.1%**
Volatility	7.5%		7.5%
Total All Assets	**127.5%**	**-25.9%**	**101.6%**
Cash and Equivalents			**-1.6%**

Evolution of Asset Allocation for Somerston Multi Asset Fund



Performance

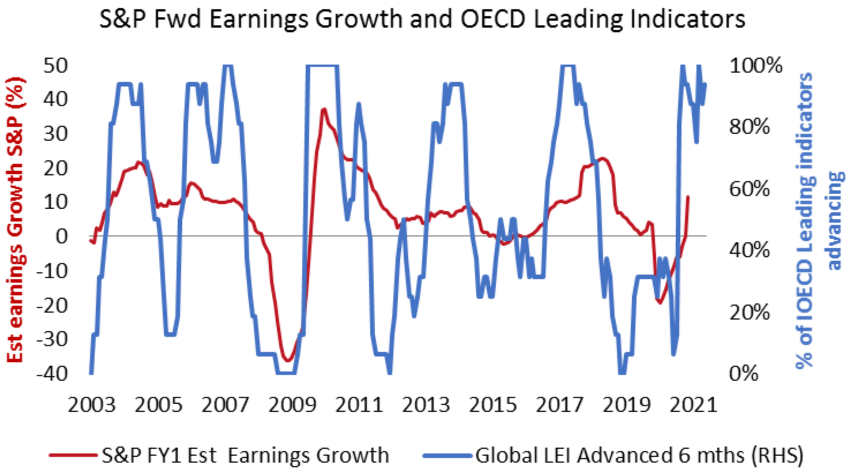
- The fund returned +0.4% in Q1 versus its composite reference benchmark which rose by +3.0% equating to -2.6% underperformance during the quarter.
- Core Equity and Macro Equity added +1.9% and +2.0% to performance respectively.
- Bonds detracted -1.2% from performance.
- Gold detracted -1.4% from performance.
- Our volatility positions detracted -0.6% from performance.

Commentary

The recovery is showing no signs of slowing. Earnings growth will be at record levels - maybe the best year over year growth we have seen for decades. Real bond yields are rising to discount better real growth prospects and clearly the equity market has flourished in the past year to discount a rosy outlook.

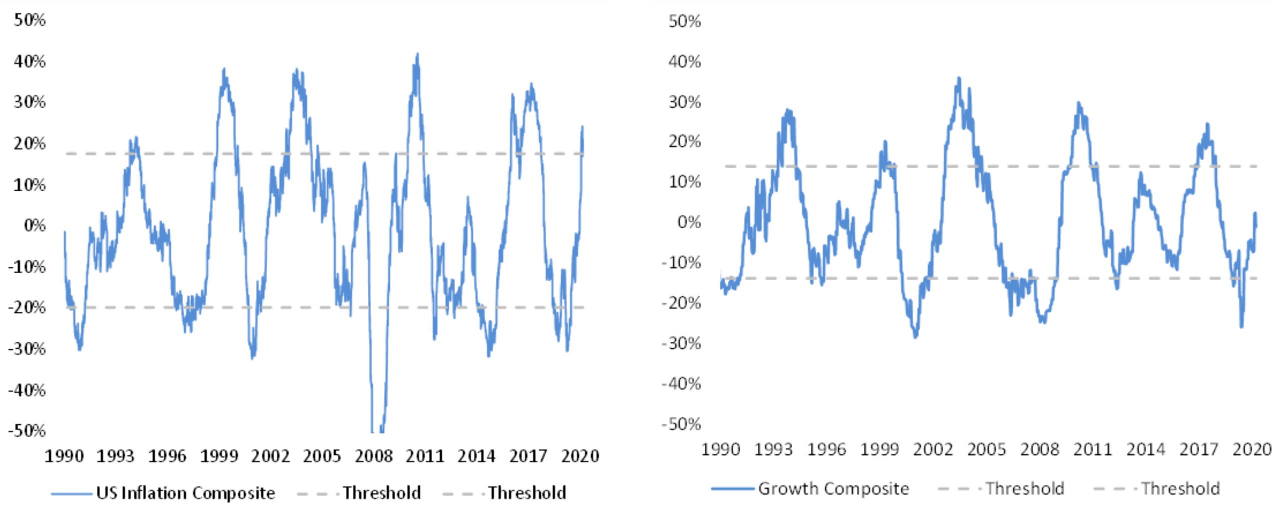
As the chart below shows, the OECD leading indicators, which illustrates the health of the global economy, is close to 100% (blue line). This has generally led to significant earnings growth in the next 6 months (red line). But the OECD leading indicators cannot go higher than 100% and the chart clearly shows the downward pressure on earnings growth once the OECD leading indicators turns down from these levels. In a previous report we stated that the time to become more cautious would be when the pundits celebrated the best growth outlook in decades without realising that it had already been fully discounted. We are getting close to that point. Contrary to intuition, when investing, it often pays to be cautious when everyone is jubilant and jubilant when everyone is cautious.

Exceptional equity market performance has caused valuations to rise, and investors appear complacent, especially in certain stocks and themes. The high growth rates we are presently enjoying cannot be sustained for too long. At the margin, rising interest rates (in the form of rising bond yields) and substantially higher commodity prices will negatively impact growth at the same time as capital becomes more expensive. Furthermore, as we explain below, there is a real risk that bond yields rise significantly. The relationship between 'disinflationary assets' and bond yields has been incredibly tight in the preceding five years and should yields accelerate, we would expect valuations of disinflationary assets, such as technology, to compress Accordingly, in the medium term, the risk adjusted return outlook for the general market is murky and we are therefore biased more defensively. The probability of a recession is presently extremely low, so it is not appropriate to get overly bearish on risk assets at this time, but it is prudent to be more selective.



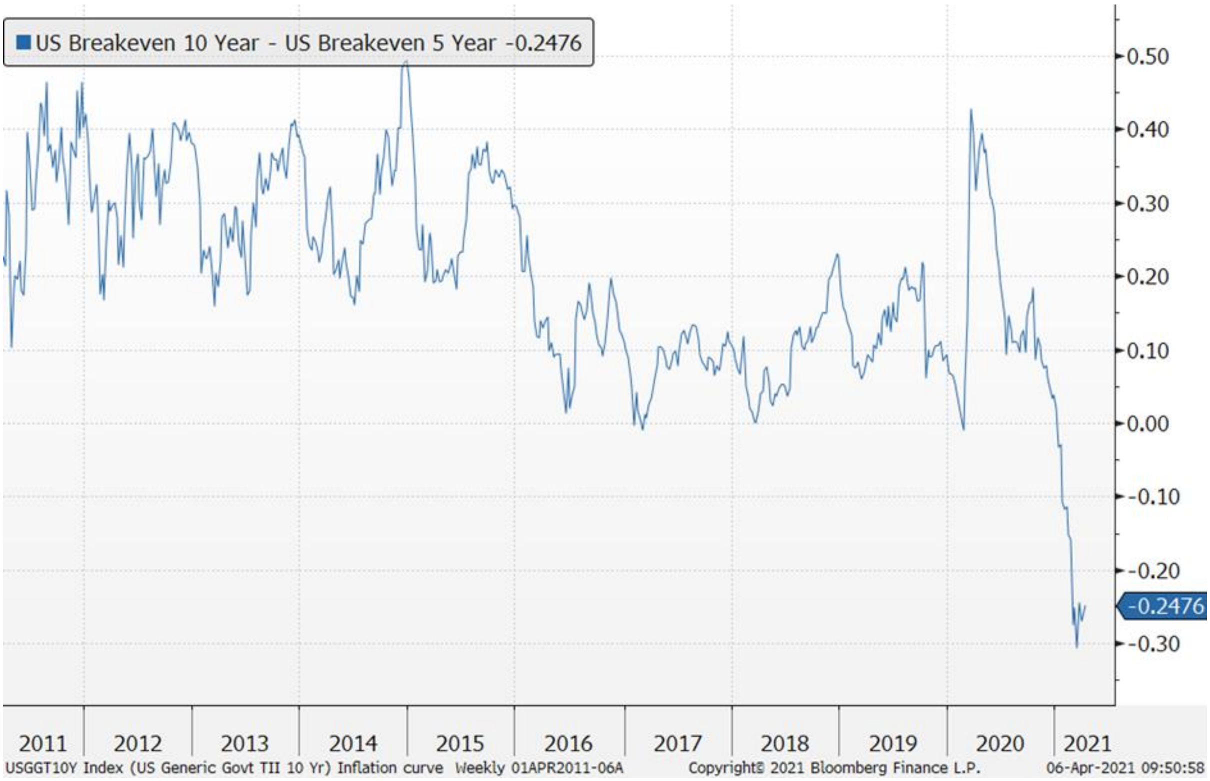
There is a lot of news and speculation about inflation. The chart bottom left shows that our measure of inflationary pressures confirms the headlines that inflationary pressures are building. Moreover, the chart bottom right shows that our composite measure of growth still has plenty of upside. This leaves a natural inference that as real growth accelerates, and monetary and fiscal policy remain incredibly simulative, inflation may get ‘out of control’.

Chart Left: US Composite inflation indicator; Chart Right US Composite Growth Indicator



The chart below shows the difference between the 10 year inflation rate and 5 year inflation rate as discounted by inflation linked bonds. In stark contrast to what the headlines lead us to believe, inflation linked bond markets are suggesting that 10 year inflation will on average be 24bps less than 5 year inflation. This spread is at all-time record levels. So either the market is right and inflation for the next five years is high and then it slows, <u>or long term inflation expectations are too low</u>. For certain, the deflationary forces of aging populations and technology are secular and unavoidable - they will re-assert themselves at some stage but there is a risk that longer term inflation expectations need to rise.

Of more concern, is that the market appears to have discounted the Fed's stated policy that rates will be on hold until 2023. Around 40% of the unemployed are from the leisure industry. These people could find themselves employed very quickly driving the unemployment rate towards 3%. <u>It is completely incompatible for Fed policy to be on hold for the next two years in the context of the unemployment rate moving towards 3%, a high savings rate, and a record high in household net worth</u>. The greatest risk therefore is for yields and rates to rise much faster than anyone anticipates.



Our ‘core equity’ strategy invests in ‘high quality’ equities. High quality is one of the few ‘styles’ of equity investing that generally outperforms over the long run. During adversity, 'high quality' generally outperforms and during reflationary periods, high quality equities can underperform. Since the market bottom in 2020, our core equity strategy has naturally underperformed but it now represents the lion share of our equity allocation. The chart below shows the MSCI World Quality Index vs MSCI World Index. The underperformance since April 2020 is clear. The market disruption that could ensue as the market and Fed realise their stated policy is too dovish, could lead to a period of outperformance for core equity.

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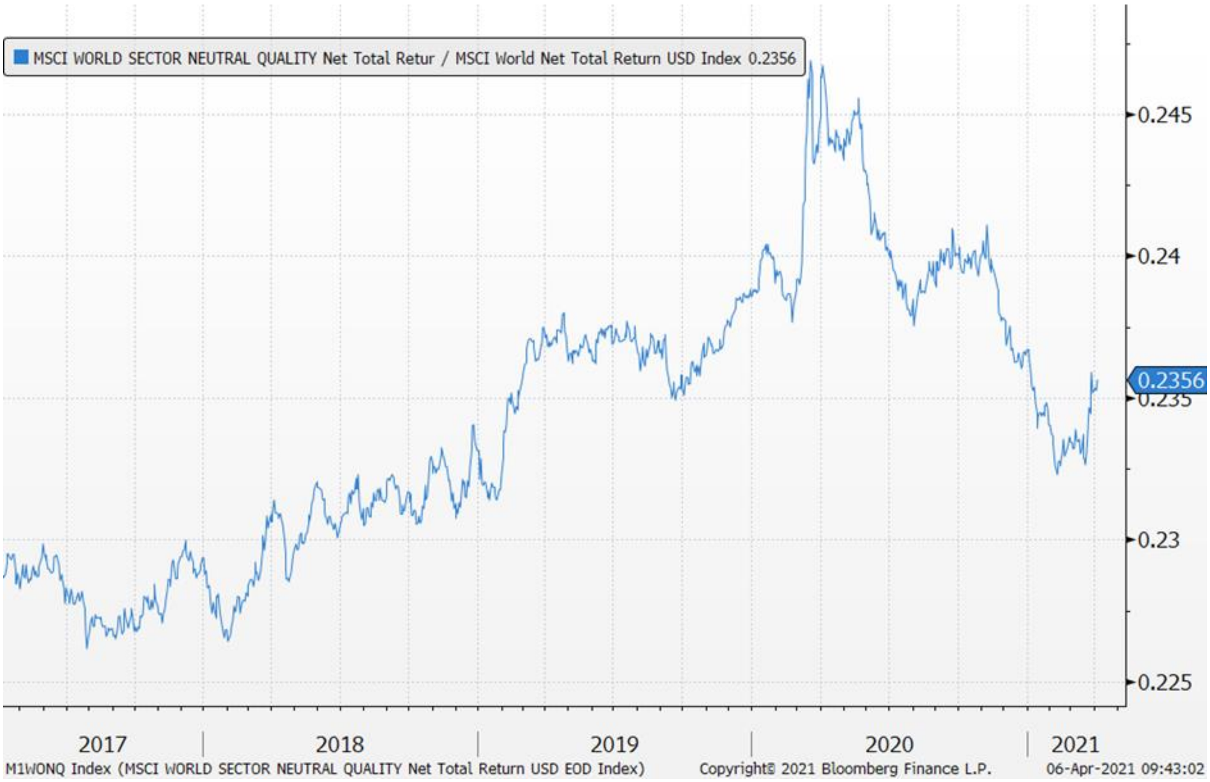
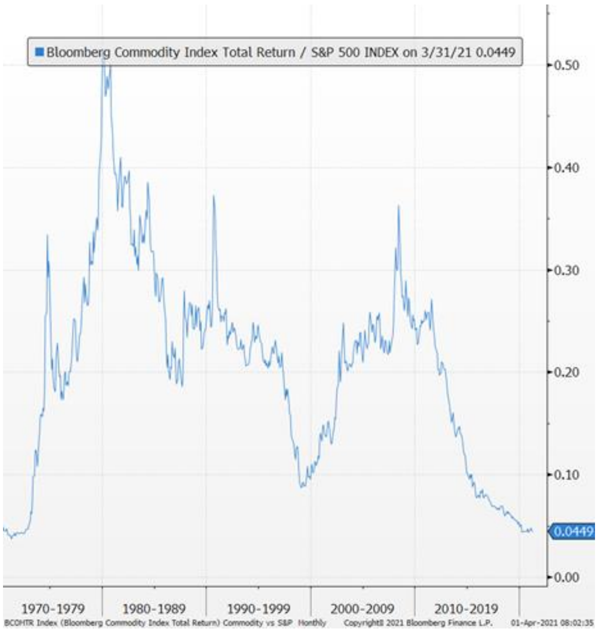
Chart: MSCI World Quality Equity Index vs MSCI World Equity Index.



In summary, the market needs to digest the gains it has enjoyed over the past year. The speculation needs to be purged, and the fed is too dovish - certain areas are at risk.   In the near term, the general return outlook is not great, and we have therefore reduced exposures. However, the economy will continue to push ahead. We are avoiding the speculative areas and favour high quality, value and emerging markets.

Resources and Emerging markets have underperformed for over a decade and valuations look attractive on a relative basis - they have over a decade of underperformance they can potentially reclaim.



Core Equity Strategy

Global equity markets rose with value stocks and "recovery" companies leading the rally. The value side of our book helped offset the underperformance of our growth and defensive businesses. Energy and financial companies were particularly strong and our two energy holdings Total (+12%) and Enbridge (+15%) were amongst our top performers, benefiting from a 23% rise in oil prices. We continued to add beta and cyclicality to our portfolio in a bid to capture upside from the covid recovery.

We added a new position in Illumina; the World's leading genomics business. Illumina has a monopoly in genetic sequencing machines which can sequence a patient's full genome in less than 24 hours for just a few hundred dollars. Genomics is revolutionising medicine and our ability to analyse and alter genes will impact every biological aspect of our lives, from population dynamics to forensics, conservation and agriculture. Illumina is the market leader in this high growth industry. Sales of medical equipment and consumables stalled during the pandemic as clinical procedures and investments were deferred. This weighed on the share price which created an attractive entry point.

We also added a new position in Booking Holdings; the World's largest online travel company. Booking Holdings slashed its cost base, increased market share in the "alternative" accommodation market (think Air Bnb) and increased the proportion of transactions it completes on its platform. It will exit the pandemic in a much stronger position. We also added another travel company Amadeus IT which provides IT software solutions to airlines, hotels and travel agents helping them optimise and digitise their operations and save costs.

Illumina, Booking Holdings and Amadeus IT all suffered significantly during the pandemic and their share prices remain depressed (particularly on a relative basis). All 3 companies were highly profitable, high growth businesses before the pandemic and we expect them to bounce back strongly as the World re-opens.

We added new positions in Digital Realty and Equinix; the two largest datacentre REITS in the US. These businesses held up well during the pandemic but have underperformed considerably as the market rotated to value and cyclicals. They have defensive characteristics like the consumer staples sector, but unlike the staples sector they are supported by enormous structural growth and benefit from the accelerating trend to cloud computing and digitisation, so the companies are growing considerably faster.

We sold Pepsi and Roche entirely, and took profits in Walmart and a number of our more expensive assets to fund the purchases.

Our top holding during the quarter was semiconductor equipment manufacturer ASML, which rose 25% on the back of a global semiconductor shortage. ASML has a global monopoly in chip manufacturing equipment which it sells to chip producers, so it's in a unique position to benefit from the scrabble to increase supply. It is the sole producer of extreme ultraviolet equipment used to create the fastest most powerful chips in the World. Demand for that equipment has just hit an inflection point.

The semiconductor industry was caught off-guard by a rapid surge in consumer demand and the insatiable growth in crypto mining. At the same time, natural disasters including fires in Japan, storms that knocked out the Texan grid and the worst Taiwanese draught in over 50 years smashed supply. Taiwan Semiconductor, the largest semiconductor manufacturer in the World (responsible for >54% of global production) is currently delivering water to its factories in trucks.

The impact of chip shortages is far reaching. Ford, Tesla and GM have all been forced to limit or halt production and Samsung has cancelled its new Galaxy phone. Games consoles and high powered chips are selling at extortionate prices online. Whilst the semiconductor industry is fragile and dependent on a small number of highly interdependent companies, it does highlight the risk of a meaningful short term spike in inflation. Many industries drew down inventories and shut down production during the pandemic, global supply chains are a mess and the supply recovery is likely to be slower and more fragile than the recovery in demand.

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Somerston Technology Fund (the Fund)

Investment Letter No.1 – March 2021

Portfolio Objectives: To grow capital over the medium term by investing in a concentrated portfolio of high growth companies.

Performance: The Technology Fund fell by -5.2% in the first quarter. The Dow Jones Internet Index rose by +2.7%.

Performance (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017	6.1	3.9	4.2	4.5	7.7	-1.5	5.8	3.2	-0.1	8.5	3.8	-0.8	**55.1**
2018	12.3	-1.4	-4.1	1.0	8.0	-0.1	0.0	8.9	-1.8	-12.3	1.3	-7.5	**1.7**
2019	12.0	2.9	5.6	6.3	-8.0	8.2	4.1	-3.8	-1.8	3.1	6.1	3.8	**43.6**
2020	6.2	-3.8	-6.6	18.2	9.6	10.0	9.1	8.5	-6.2	-0.7	9.6	5.5	**73.4**
2021	-0.2	1.6	-6.5										**-5.2**

Sector Allocation

Sector	% Portfolio
Information Technology	57.7%
Communication Services	19.7%
Consumer Discretionary	16.6%
Real Estate	1.3%
Health Care	4.6%
Cash/Divs/Fees	0.1%

Geographical Allocation

Country	% Portfolio
USA	82.8%
China	4.8%
Canada	3.4%
Argentina	4.3%
Israel	1.7%
Brazil	0.8%
Taiwan	2.2%
Cash/Divs/Fees	0.1%

Top Ten Holdings

Name	% Portfolio
Apple Inc	8.9%
Amazon.Com Inc	8.9%
Microsoft Corp	7.7%
Nvidia Corp	6.1%
Alphabet Inc-Cl A	5.9%
Paypal Holdings Inc	5.4%
Facebook Inc-Class A	5.1%
Mercadolibre Inc	4.3%
Tencent Holdings Ltd	3.7%
Square Inc - A	3.7%
Total	**59.6%**

This letter shows the performance of Somerson's "Technology Equity Strategy" from 31 December 2014 to 30 November 2020 then the Somerston Technology Fund from its launch on 01 December 2020.

Commentary

High growth companies have not been in favour during the quarter with investors rotating into beaten down areas of the market. This is understandable. However, while cyclical companies may have a few quarters of superior growth to celebrate, many of the companies we invest in have a far longer and more substantial growth runway.

The pandemic changed the psyche of many people, fostering a greater open mindedness to change. In almost every corner of life and business, new market opportunities have either developed or experienced acceleration, and new products and services launched to meet the demand. Presently, investors are assessing to what extent companies have appreciated solely because of a COVID tailwind, or whether there is a sustainable secular opportunity.

Shopify has been a significant beneficiary of the pandemic but in our view, it is a prime example of a secular growth story. In much the same way that Amazon eroded Walmart's market share, so we may see Shopify erode Amazon's market share in the fullness of time. In contrast to Amazon that puts the consumer first, Shopify puts the merchants first and they charge the merchant about a tenth of the price that Amazon does. In Shopify's business model, the customer relationship stays with the merchant, an aspect we feel certain merchants value highly, inducing merchants to at least try Shopify before other consumer orientated marketplaces. Furthermore, 'social media commerce' is building pace rapidly and this will eventually 'decentralise' e-commerce marketplace specific platforms. Shopify's recent partnership with Facebook, Instagram and TikTok show its opportunity in this new e-commerce movement. While Amazon remains ahead in terms of consumer convenience, Shopify is making inroads here too. The price to revenue multiple of 35x and price to next year's earnings ratio of 305 times, at first blush appears eye watering, but we think the recent pull back represents a compelling opportunity and we have recently added to our position.

Valuation multiples are often cited as an obstacle to investment returns from the technology sector. 35 x sales sounds very high but it is not an estimation against a useful measure of intrinsic value. That can only be done by assessing future cash flows discounted back to reflect for risk. To demonstrate the futility of multiples as an estimation of how expensive a stock is, it is instructive to look at how the FAANGs total returns have developed over the years.

In 2012, Facebook had a market capitalisation of $63 billion and with a P/E multiple of 50, at the time it was considered by many to be expensive. Fast forward eight years and the stock has appreciated 950%+ on the back of 2,100% earnings growth. It now stands with a P/E of 27. More extreme has been the example of Netflix that in 2012 had a market cap of just $5 billion and stood on a P/E multiple of 94. Eight years later, the share price appreciated 4,000% with 6,000% earnings growth. There are no shortcuts to investing and that is particularly true of determining valuation in Technology at the moment. Capital is available for high growth companies and customer acceptance rates appear high. This is fertile ground for innovation and high investment returns for long term investors.

Growth stocks will resume their outperformance, it is only a matter of time.

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Contributors:

During the Quarter the largest contributors were Alphabet, Microsoft, Facebook, Tencent and PayPal. The largest detractors were Apple, Okta, MercadoLibre, Amazon and Zscaler.

Activity:

During the quarter we acquired positions in Roku, Shopify, Snap, Teladoc, Ali Baba, Magnite and Zillow. We disposed of ServiceNow, Alteryx, Salesforce, AppFolio.

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