SOMERSTON
ASSET MANAGEMENT

Somerston Multi Asset Fund (the Fund)

Investment Letter No.19 – December 2021

The Somerston Multi Asset Fund (US0 class) returned +6.7% in the fourth quarter. The MSCI World Equity Index rose by +8.1% and a composite of UK, German and US Government bonds rose by +0.2% in Q4.

During Q4, the fund had average net equity and bond allocations of 67% and 40% respectively. The fund starts Q1 2022 with net exposures of 67.1% in equities, 43.8% in bonds and 26.2% 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	2.3	2.5	-0.2	2.2	0.5	-5.1	5.2	-1.7	3.2	**9.3**

Top Ten Equity Holdings

Name	% Fund
Nextera Energy Inc	3.3%
Pepsico Inc	3.2%
Amazon.Com Inc	2.9%
Adobe Inc	2.8%
Walmart Inc	2.7%
Thermo Fisher Scientific Inc	2.4%
Danaher Corp	2.1%
Alphabet Inc-Cl A	2.0%
Microsoft Corp	1.9%
Digital Realty Trust Inc	1.8%
Total for Top Ten	**25.1%**

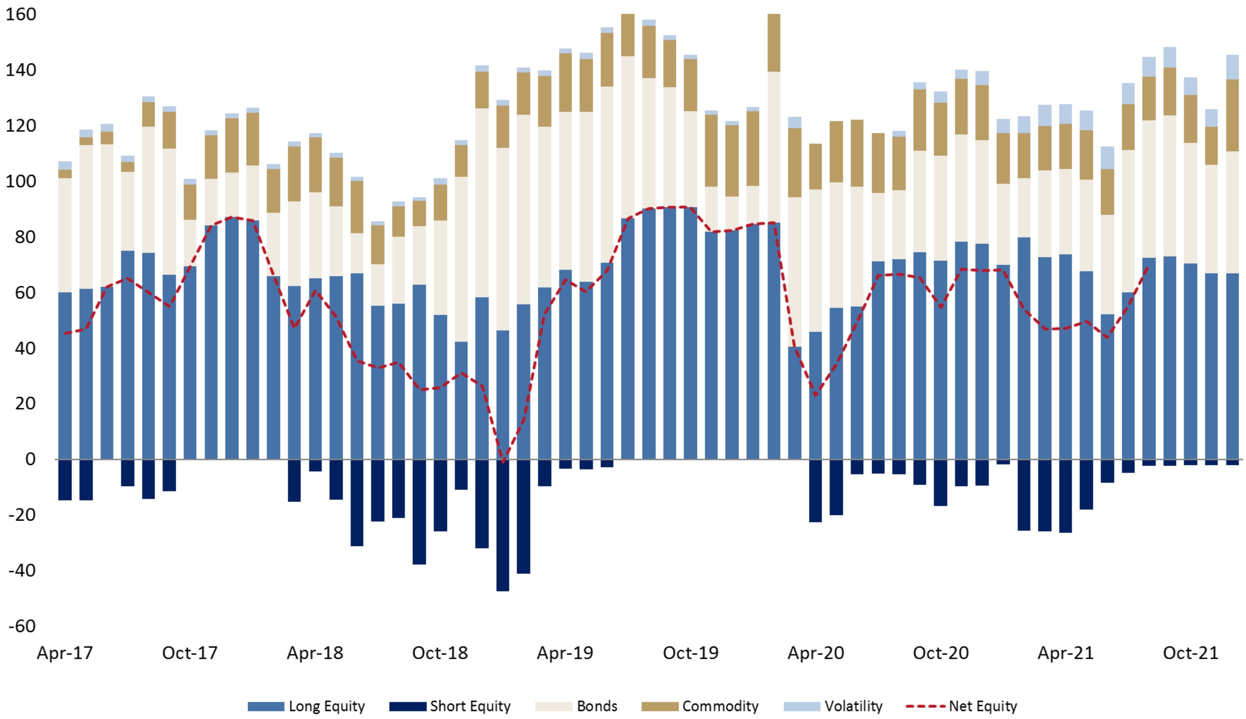
Share Classes

	ISIN	Ticker	NAV
US0	JE00BDRXFP25	SOMAUS0	148.7477
US1	JE00BDRXFQ32	SOMAUS1	142.6926
GB0	JE00BDRXFM93	SOMAGB0	139.5123
GB1	JE00BDRXFN01	SOMAGB1	133.8334
EU0	JE00BDRXFR49	SOMAEU0	133.9502
EU1	JE00BDRXFS55	SOMAEU1	128.4904

Asset Allocation

	Long	Short	Net
Core Equities	38.2%		38.2%
Developed Market Equities	14.3%		14.3%
Emerging Market Equities		-2.0%	-2.0%
Real Estate Equities	4.5%		4.5%
Small Cap Equities	1.8%		1.8%
Small Cap Value Equities	2.9%		2.9%
Defensive Equities	5.1%		5.1%
Equities	**66.9%**	**-2.0%**	**64.9%**
US Govt Inflation Linked Bonds	29.8%		29.8%
US Government 10 yr. Bond	10.0%		10.0%
UK Government 10 yr. Bond	4.0%		4.0%
Bonds	**43.8%**		**43.8%**
Gold Derivatives	13.1%		13.1%
Gold Miners	1.4%		1.4%
Platinum Derivatives	2.3%		2.3%
Copper Derivatives	4.5%		4.5%
Brent Derivatives	4.4%		4.4%
Commodities	**25.8%**		**25.8%**
Volatility	8.9%		8.9%
Total All Assets	**145.3%**	**-2.0%**	**143.3%**
Cash and Equivalents			**-43.3%**

Evolution of Asset Allocation for Somerston Multi Asset Fund



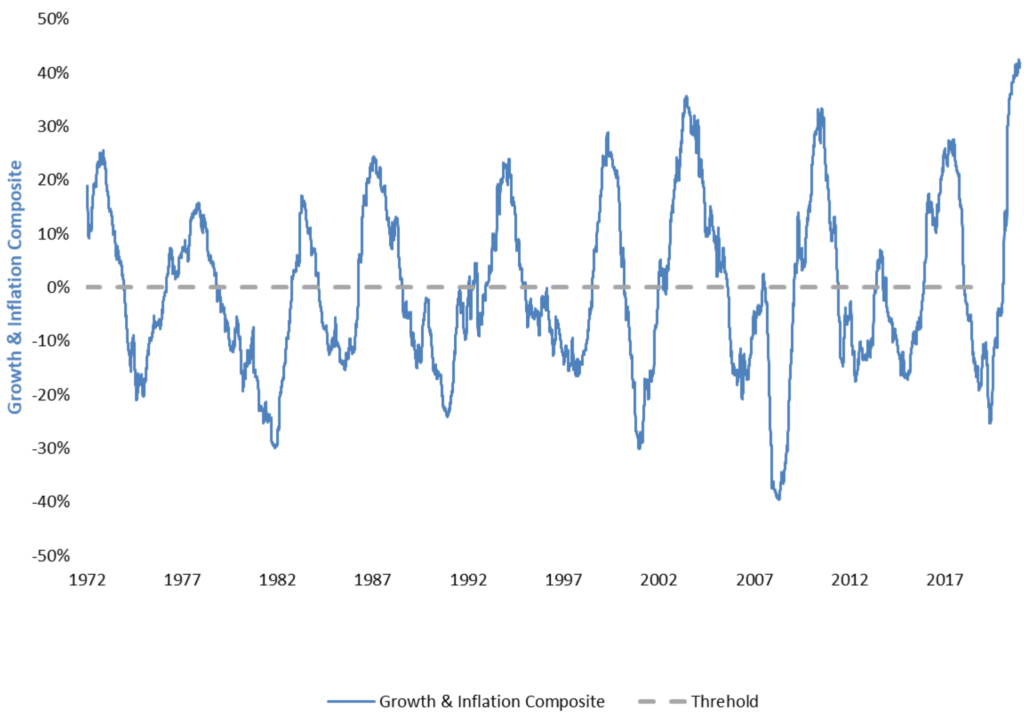
Comment

Strategy has been moderately cautious for much of 2021. Assets we would expect to do well in adversity have been a drag on performance. Our outlook remains somewhat cautious at this time. We maintain high levels of diversity and, within our equity book, we have a focus on quality and defensive attributes.

Outlook

Since March 2020, the economy has recovered at the fastest pace we have ever seen, and, as Chart 1 illustrates, it has forced the economic cycle to stretch to its highest level for 50 years.

Chart 1 – The US Economic Cycle 1972 – 2021 - A composite of 37 different growth and inflation indicators for the US economy, together they depict the US economic cycle.

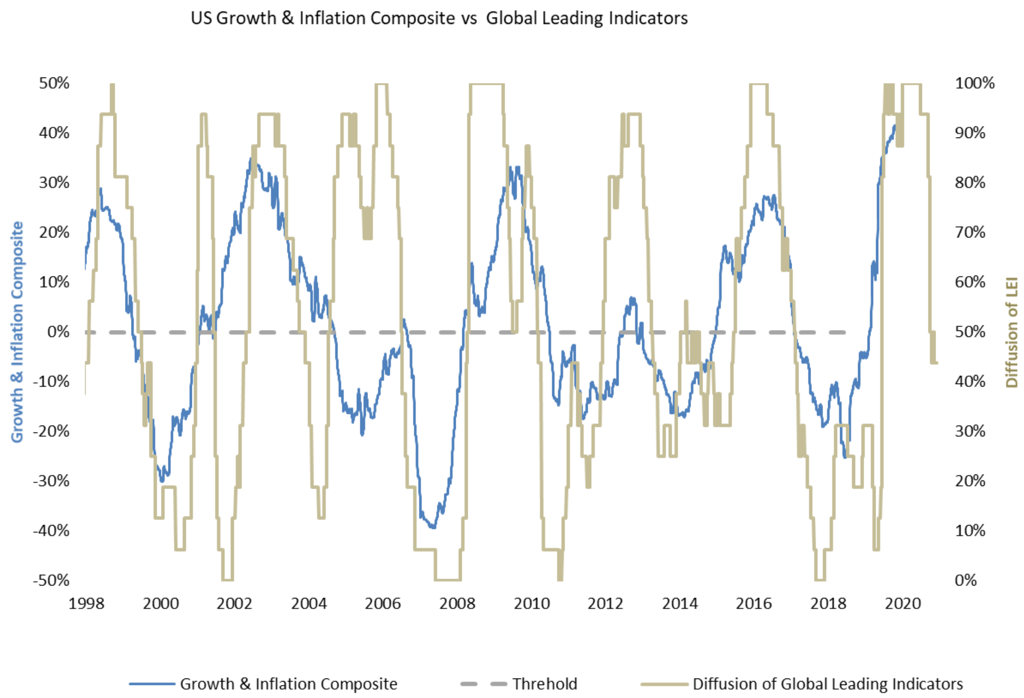


Over the last 50 years, there have been eleven cycles. Each upswing and downswing have intuitive 'Playbooks' investors can use to maximise returns given the opportunities available.

While the upswing in economic activity since March 2020 has been spurred by gigantic and unprecedented monetary and fiscal stimulus, asset classes have performed in line with the 'playbook' we would expect in a cyclical upswing: equities have outperformed bonds; cyclical equites have outperformed defensives, small caps have outperformed large caps, base metals and energy have outperformed precious metals, credit and inflation linked bonds have outperformed treasuries; and emerging market currencies outperformed the US Dollar. The only asset class that has bucked the historic blueprint is broad based emerging market equities that owe its misfortunes to the terrible market circumstances in China.

Chart 2 overlays the breadth of the OECD leading economic Indicators that are advanced one year against the economic cycle series in Chart 1. Not only are we at a 50-year cycle high but the OECD leading Indicators suggest a peak is close and the cycle will soon head lower.

Chart 2 – The US Economic Cycle 1998-2021 vs Breadth of OECD Leading Economic Indicators advanced by 1 year.



We are very early in a down swing but in all eleven cycles over the past 50 years, the downswing normally gets to an extreme before the next upswing begins. The downswings have typically lasted an average of 2.5 years.

If, as we believe, we are at, or close to a peak in the cycle, we should expect prospective asset class performances get turned on their heads compared to what we have enjoyed for the past 20 months. Here are our observations from those previous downswing periods since 1972:

- All equity bear markets over the past 50 years, except for the 1987 crash, occurred in cyclical downswings. However, taking the entire history, cyclical downswings, while volatile, were not always terrible for equities. Vigorous rebounds in anticipation of an upturn often recuperated losses during a downswing.
- However, volatility rose without exception during every downswing.
- Defensive equities (Healthcare, Utilities and Staples) outperformed cyclical equities (Industrials, Financials, and Consumer Discretionary) without exception.
- Emerging market equities and currencies generally underperformed developed markets and the US Dollar.
- Large caps generally outperformed small caps.
- Base metals and energy performed poorly.

- Precious metals did not always deliver positive returns, but long precious metals, and short base metals and energy, was a consistently positive long /short trade.
- 10-year Government bond yields generally fell but even during the late 1970's early 80's when yields rose, the total return from treasuries was positive.
- Credit spreads always widened during a downswing and Inflation expectations always fell.

In summary, if history repeats and if this cycle turns down soon, the crowded and over owned assets that have performed so well in recent years could see significant outflows. Moreover, the widely held narrative of higher inflation and higher rates may be incorrect. Of course, there will be unique aspects that alter outcomes for several assets. For instance, the 'ESG' movement has not only caused significant underinvestment in commodities, but many of the required metals for electrification are in short supply and require significant growth to support clean energy initiatives.

In any event, risks are presently high. While the composition of the equity market has changed dramatically, and is arguably of higher quality than ever before, valuations are at their highest level on many measures.

We expected the top of the cycle earlier this year and strategy has been and, if our models corroborate, strategy will continue to move towards being prepared to take advantage of the upcoming cyclical downswing. We have moderate equity allocation, we are overweight quality and low beta equities, we have no credit whatsoever, we are long precious metals, and we are long volatility plays. We continue to hold a small short position in emerging markets.

Similar to the 13 years from 1987, the 12 years since 2009 has been relatively benign with very few equity drawdowns lasting more than a handful of months. This has bred a certain type of investor that buys the dip on every occasion. Stability breeds instability. The levels of excess in the markets are clear, and they will eventually purge in one way or another. 2022 is not *necessarily* the start of that process, but it is not far away. We welcome the opportunity to navigate through and profit from that change.

Core Equity

- Q4 was a strong quarter for global equities, the core equity book rose +7.8% whilst the MSCI World Index rose +8.3%.
- Growth, defensive and large cap equities led the rally as the emerging threat of omicron weighed on cyclical sectors. Technology stocks led the pack rising +13.3%, followed by utilities +11.7% and Real Estate +10.9%.
- Towards quarter end, hawkish central bank commentary and persistently high inflation drove government bond yields higher. Growth stocks suffered as investors took profits and value stocks started to outperform.
- In keeping with our view that we are at, or near, a peak in the economic cycle we increased our allocation to defensive sectors (Consumer staples 15.4%, Healthcare 17.8%, Utilities

8.7%) and reduced our exposure to cyclically sectors (Energy 3.4%, Financials 0.0%, industrials 4.4%). We reduced our holding count to 23 names.

New Positions:

We switched our diversified industrial holding Roper into health care oriented rival **Danaher**, which has a lower BETA and more defensive characteristics. Danaher has a razorblade model and since the start of the pandemic its installed base of diagnostic equipment increased 50%. Whilst covid tailwinds will subside, investments into vaccines, RNA therapies and therapeutic science are starting to spill over into other segments. Monoclonal antibody therapies and biopharma remain a significant growth opportunity, whilst Danaher's cyclical businesses offer some cyclical upside in the event of a prolonged covid recovery.

We added **Pepsi**, a quality defensive that we have previously held in the fund. Whilst not immune to supply challenges and inflationary pressures Pepsi appears less exposed than its peers. Management increased prices whilst maintaining strong volume growth in recent quarters and at their latest earnings release raised their full year guidance once again. The structural story remains unchanged, favourable exposure to the fastest growing categories in consumer food and beverages. Alongside other quality compounders Pepsi significantly underperformed the global index since March 2020, it offers a dividend yield of 2.5% and remains well below historic relative valuations.

Intuitive Surgical remains one of the most convincing long-term growth stories in healthcare. It is the global leader in robotic surgery, a rapidly growing segment with an enormous TAM and very low penetration. Intuitive grew sales at a 17% CAGR over the last 5 years despite significant covid headwinds. Its market continues to expand with new use cases and broadening US coverage. The additional tailwind of significant pent up demand for elective procedures caused by the pandemic sets Intuitive up for a potentially blockbuster decade. We've watched Intuitive for some time and used the 10% relative pullback in October to add a position.

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