SOMERSTON
ASSET MANAGEMENT

Somerston Multi Asset Fund (the Fund)

Investment Letter No.20 – March 2022

The Somerston Multi Asset Fund (US0 class) returned -4.5% in the first quarter. The MSCI World Equity Index fell by -4.6% and a composite of UK, German and US Government bonds fell by -5.5% in Q1.

During Q1, the fund had average net equity and bond allocations of 49% and 46% respectively. The fund starts Q2 2022 with net exposures of 42% in equities, 44% 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**
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**
2022	-5.9	-1.1	2.6										**-4.5**

Top Ten Equity Holdings

Name	% Fund
Pepsico Inc	3.2%
Nextera Energy Inc	3.2%
Walmart Inc	3.0%
Amazon.Com Inc	3.0%
Adobe Inc	2.4%
Thermo Fisher Scientific Inc	2.2%
Alphabet Inc-Cl A	2.0%
Danaher Corp	2.0%
Microsoft Corp	1.9%
Anglo American Plc	1.6%
Total for Top Ten	**24.4%**

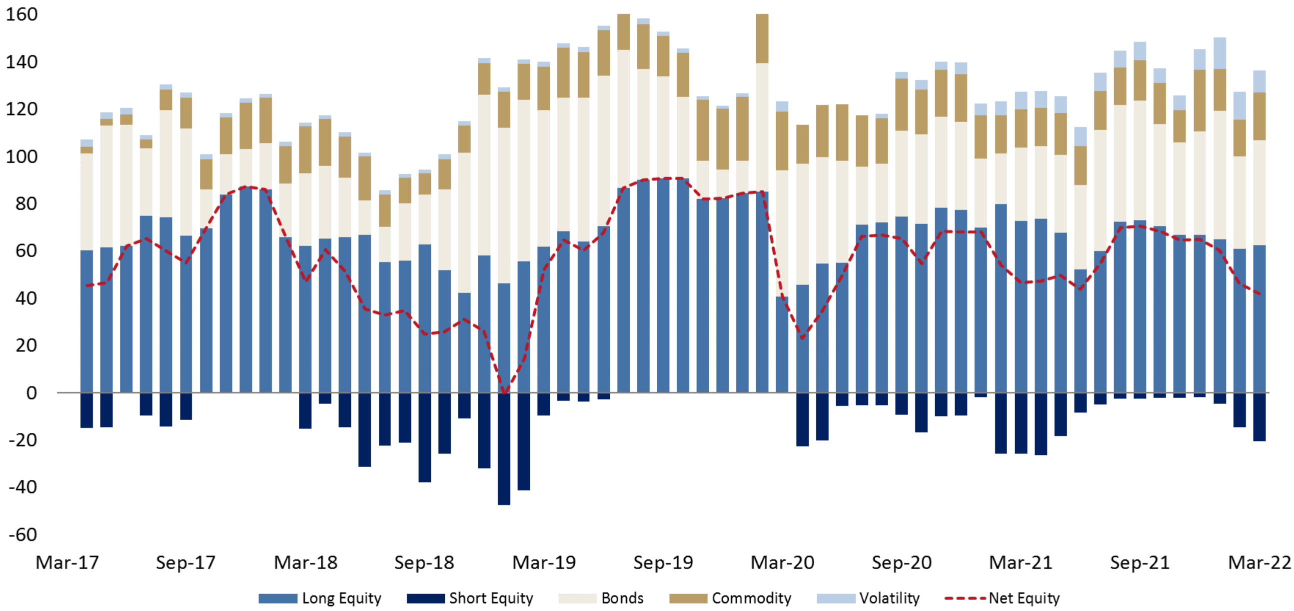
Share Classes

	ISIN	Ticker	NAV
US0	JE00BDRXFP25	SOMAUS0	142.0701
US1	JE00BDRXFQ32	SOMAUS1	135.9064
GB0	JE00BDRXFM93	SOMAGB0	133.3131
GB1	JE00BDRXFN01	SOMAGB1	127.5261
EU0	JE00BDRXFR49	SOMAEU0	127.6348
EU1	JE00BDRXFS55	SOMAEU1	122.0873

Asset Allocation

	Long	Short	Net
Core Equities	36.6%		36.6%
Developed Market Equities (US)		-7.5%	-7.5%
Developed Market Equities (EUROPE)	3.7%		3.7%
Emerging Market Equities		-7.9%	-7.9%
Large Cap Value Equities	2.7%		2.7%
Real Estate Equities	5.8%		5.8%
Small Cap Equities		-5.2%	-5.2%
Small Cap Growth Equities	4.3%		4.3%
Defensive Equities	9.4%		9.4%
Equities	**62.5%**	**-20.6%**	**41.9%**
US Govt Inflation Linked Bonds	11.0%		11.0%
US Govt (+15yrs) Inflation Linked Bonds	6.6%		6.6%
US Government Ultra Long bond	5.5%		5.5%
US Government 2 yr. bond	21.3%		21.3%
Bonds	**44.4%**		**44.4%**
Gold and Precious Metals Derivatives	15.0%		15.0%
Gold Miners	2.1%		2.1%
Copper Derivatives	1.6%		1.6%
Brent Derivatives	1.4%		1.4%
Commodities	**20.1%**		**20.1%**
Volatility and CTA	9.5%		9.5%
Total All Assets	**136.5%**	**-20.6%**	**115.9%**
Cash and Equivalents			**-15.9%**

Evolution of Asset Allocation for Somerston Multi Asset Fund

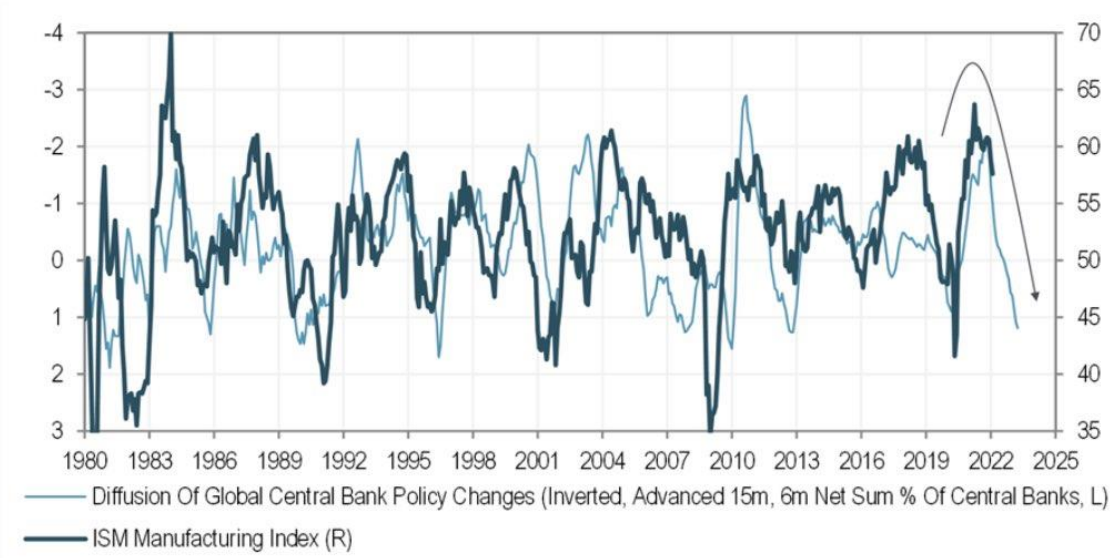


Commentary

The pandemic induced the largest fiscal and monetary stimulus in history causing an economic rebound of similarly historic proportions. The economy was due to moderate throughout 2022 and we considered that change would favour government bonds vs credit, defensive equities vs cyclical equities and gold versus industrial metals.

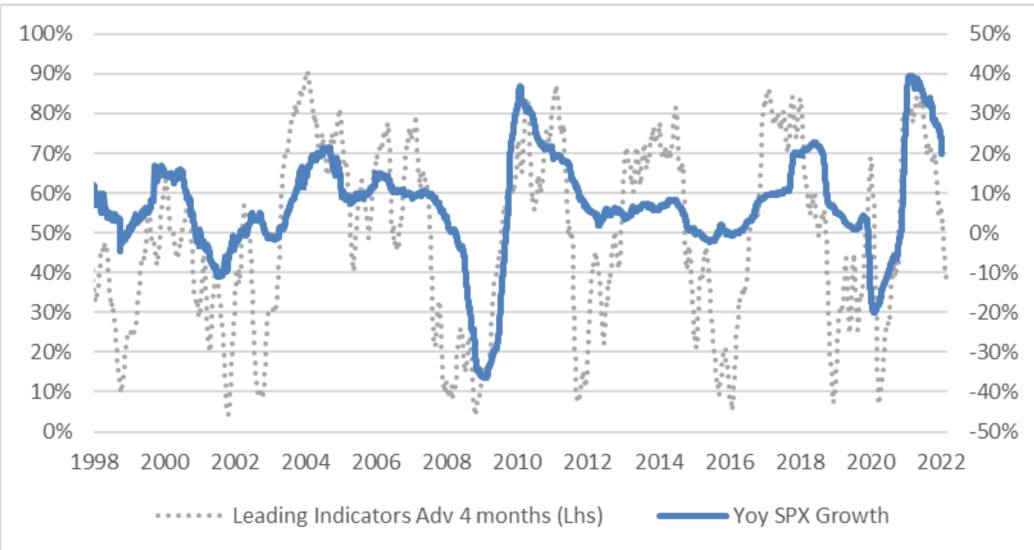
Whether the invasion of Ukraine and accompanying commodity spike was the main reason, but the increasingly hawkish tone from Central Banks was the most notable financial change in recent weeks. Of course, the recent rise in commodities has caused inflation to be more stubborn than would otherwise have been the case, however, the rise in energy, rent and food costs accelerates likelihood of contraction in real economic growth without Central Banks needing to do anything. The fact that the Federal Reserve are about to embark on the most aggressive monetary tightening cycle in the last 30 years, into an economy that is already slowing, causes us to become much more cautious. Historically, high inflation often leads to a recession.

Chart 1 - Global Central Bank Policy changes moved forward 15 months compared to Manufacturing activity



Evidence of the slowdown is starting to show up in leading indicators such as truck miles driven, shipping rates and survey of homebuilders. Indeed, only 20% of the OECD leading indicators are higher than a year ago. For sure, employment is firm, but employment is coincidental to the economy. Employment will always be the 'best' right before the economy turns down. Our own measure of leading indicators leads earnings growth by four-months and clearly show a rapid earnings slowdown in the quarters ahead.

Chart 2 – Leading Indicators advanced 4 months vs S&P 500 aggregate y/y earnings growth.

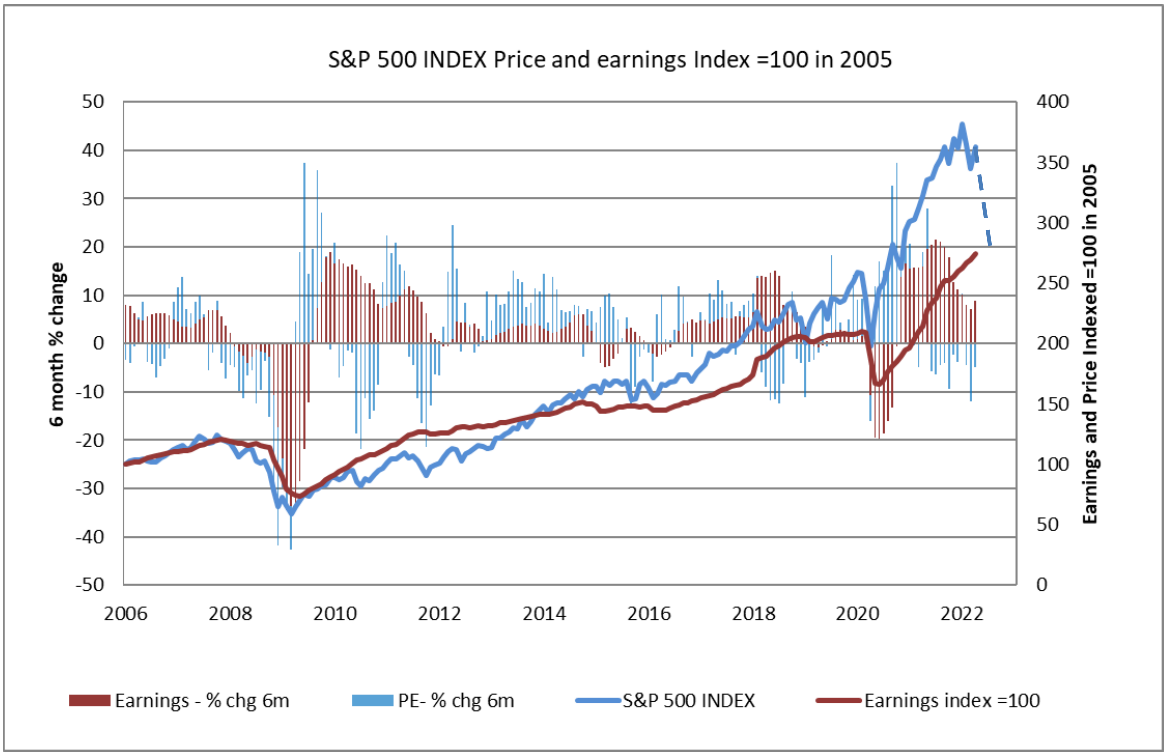


In our opinion, Central Bank hawkishness is misguided, and is probably being maintained for political reasons. Those least able to absorb the commodity inflation are large in number and the Central Banks seem very concerned to uphold their 'price stability' mandate to defend the populace from the ravages of inflation, even if it causes demand destruction.

No amount of tightening is going to do anything to resolve supply disruptions – the main cause of this inflation. In fact, raising the cost of capital reduces the incentive to make much needed infrastructure investment that would ease the supply side constraints.

Raising rates aggressively potentially undermines the wealth effect, arguably most important aspect to growth stability in the last 30 years. Rising home prices and stock markets has allowed net worth to reach all-time highs relative to GDP and encouraged us to spend more of our disposable income than we would have otherwise. But the wealth effect works both ways. Should asset prices fall, consumption may slow far more abruptly than would otherwise be the case.

Low interest rates were cited as one of the only justifications for lofty equity valuations. Rising bond yields undermine such justifications. **Chart 3 shows the S&P and its aggregate earnings indexed to 100 in 2005. The S&P would need to fall 25% to match its earnings growth since that time.**



In short, we view the 'growth tax' of higher energy costs, higher freight costs, higher broad-based inflation, and higher cost of capital to be the most acute for 20 years. We suspect it won't be long before the prospect of monetary easing will again be debated in the context of 'potential' recession risks. The yield curve is now inverted at many levels supporting this thesis.

In summary, we see even more reason to favour defensive equities versus cyclicals, government bonds vs credit and gold versus industrial commodities. We remain highly diversified.

Core Equity

Global equity markets had a bumpy start to the year, declining -4.6% during the first quarter.

Central banks became progressively more hawkish and the prospect of higher interest rates weighed on equity valuations, particularly for the most highly valued companies.

By early March global equities had fallen -13.4%. Growth stocks and technology businesses suffered the most. The technology sector fell -20%, Facebook and Netflix each fell -43%, PayPal fell -50% and Shopify fell -62%.

In contrast, energy stocks rallied as Russian gas stopped flowing to Europe and investors digested the longer term ramifications of the Ukrainian war and European energy security. Exxon rose +45%, Halliburton rose +61% and Occidental rose +88%.

The dislocation between growth and value was a major hurdle for many active managers as many of the market leaders rolled over. Our core equity book was not immune. The growth bias of our technology holdings and some of our healthcare stocks detracted from performance. Some of these businesses have experienced a modest slowdown in growth as the benefits of the pandemic, loose monetary policy and rampant consumption lapse. Relative growth rates vs energy and value companies deteriorated further as value sectors presently benefit from strong growth tailwinds. The combination of deteriorating relative growth and the prospect of rising interest rates, (which has a more pronounced impact on the valuation of long duration equities) was a painful combination for growth companies.

Given all the challenges facing the economy, it is unlikely that the current rate of growth enjoyed by value companies can be maintained. In contrast, our growth businesses continue to be underpinned by structural growth that far exceeds the long term market average. These companies have now de-rated to much more attractive relative valuations. The Adobe chart below highlights the contrast between fundamental and price performance of one of our larger holdings.

Since November, Adobe's share price (white) has fallen -35.5% whilst sales have increased +4.4% (orange) and earnings have grown by +5.2% (green).

The post-pandemic recovery is now well underway across most of the World, but supply chains remain under pressure, covid stimulus and support packages are being removed and there are signs that the global economy has already started to slow. Inflation is proving to be more persistent and problematic than expected and central banks look set to raise interest rates. None of this bodes well for equity markets or cyclical industries.

We maintained a significant overweight allocation to defensive companies during the quarter which benefited performance. This reflects our more cautious take on the global economy and our conviction has strengthened into Q2. (Allocation: Consumer staples 16.7%, Healthcare 17.1%, Utilities 8.3%).

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