

SOMERSTON CORE EQUITY STRATEGY

INVESTMENT LETTER AS AT 31 MARCH 2023

Portfolio Objectives: To grow capital over the medium term by investing in a concentrated portfolio of high quality companies and to outperform global equities over the economic cycle.

Strategy: We use a fundamental bottom-up approach to identify attractive investment opportunities. We have a 5 year investment horizon. We focus our investments in 15 to 25 high quality companies. We invest in companies that demonstrate strong governance, high profitability, low capital intensity, strong economic moats and low business risk. We invest globally, without sector/geographic restrictions. We actively tilt our style and risk exposures to account for prevailing market conditions.

Performance: The Core Equity Strategy rose by +5.3% in the month and rose by +3.6% over the last three months. The reference index rose by +3.9% during the month and rose by +7.4% over the last three months.

Core Equity Strategy Performance (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017				1.2	5.4	-0.2	0.4	-0.1	1.9	1.8	-1.8	2.1	10.9
2018	6.2	-4.6	-1.9	0.4	1.2	1.2	4.3	1.3	0.4	-8.5	2.7	-9.0	-7.2
2019	6.2	4.2	3.3	3.8	-4.0	5.7	0.6	0.8	-1.6	1.3	5.1	2.5	31.1
2020	0.9	-7.3	-14.3	12.5	5.8	2.6	4.4	5.5	-3.4	-3.8	9.7	2.9	13.0
2021	-0.6	1.7	3.3	5.0	0.2	3.4	3.1	2.2	-5.1	6.3	-1.6	2.9	22.2
2022	-8.3	-4.8	4.4	-9.4	-0.2	-8.8	10.4	-4.5	-8.6	6.6	4.7	-4.8	-23.1
2023	2.2	-3.8	5.3										3.6

Sector Allocation

Sector	% Strategy
Health Care	26.5%
Consumer Staples	26.4%
Information Technology	20.6%
Communication Services	8.1%
Energy	5.2%
Industrials	4.5%
Financials	4.5%
Consumer Discretionary	4.2%

Geographical Allocation

Region	% Strategy
North America	76.0%
Europe	24.0%

Top Ten Holdings

Name	% Strategy
Pepsico Inc	8.3%
Alphabet Inc-Cl A	8.1%
Adobe Inc	7.9%
Diageo Plc	7.3%
Intuit Inc	7.1%
British American Tobacco Plc	7.0%
Thermo Fisher Scientific Inc	6.9%
Unitedhealth Group Inc	6.1%
Microsoft Corp	5.6%
Totalenergies Se	5.2%
Total for Top Ten	69.5%

Commentary

After a substantial period of quality stocks struggling during a time when we would have expected outperformance, it is pleasing to see that trend stabilise. Moreover, it is satisfying to see the largely undemanding valuations that now accompany these companies, setting up for a period of improved prospective returns.

We made some changes in the quarter by (re)introducing a position in Diageo and initiating a position in Mettler Toledo.

Diageo (Enterprise Value: £98 billion) is the World's largest spirits company, selling in over 130 countries, with thirty-six key brands including Smirnoff, Johnnie Walker, Baileys and Tanqueray. In its most recent report, Diageo generated £16.9 billion in annual revenue. The strength of its brands is amply demonstrated by its 60% gross profit margin and sales per employee of over £550,000. We estimate the stock is valued to deliver an earnings CAGR of 5% which appears reasonable.

Mettler Toledo (Enterprise Value: \$36 Billion) is a global manufacturer and marketer of precision instruments for use in laboratory, industrial and food retailing applications with sales in forty countries, and manufacturing centres in Europe, America and China. Over half its \$3.9 billion annual sales come from recurring services and consumables, and it too, boasts gross margins close to 60% and operating margins at 30%. Mettler Toledo have been excellent stewards of capital. What small acquisitions they do, are highly beneficial for its shareholders and they achieve operating returns on total assets of over 30%. The company's valuation is a little higher than we would like, with an estimated earnings CAGR of 9%. While this is in line with its long term average, we acquired only a small position and hope to see better levels in the months ahead.

These positions were funded through a sale of Walmart and NextEra Energy.

Nick Wakefield

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