SOMERSTON ASSET MANAGEMENT

SOMERSTON MULTI ASSET FUND

INVESTMENT LETTER No.24 AS AT 31 MARCH 2023

The Somerston Multi Asset Fund (US0 class) rose by +2.9% in the month and rose by +1.2% over the last three months.

The MSCI World Equity Index rose by +2.5% during the month and a composite of UK, German and US Government bonds rose by +3.2% in the month. Our composite reference index rose by +2.7% in the month and rose by +6.2% over the last three months.

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	-3.5	-1.4	-4.1	4.3	-3.8	-4.9	1.3	3.7	-1.5	**-14.0**
2023	2.5	-4.0	2.9										**1.2**

Top Ten Equity Holdings

Name	% Fund
Pepsico Inc	2.9%
Alphabet Inc-Cl A	2.8%
Adobe Inc	2.7%
Diageo Plc	2.5%
Intuit Inc	2.5%
British American Tobacco Plc	2.4%
Thermo Fisher Scientific Inc	2.4%
Unitedhealth Group Inc	2.1%
Microsoft Corp	1.9%
Totalenergies Se	1.8%
Total for Top Ten	**24.1%**

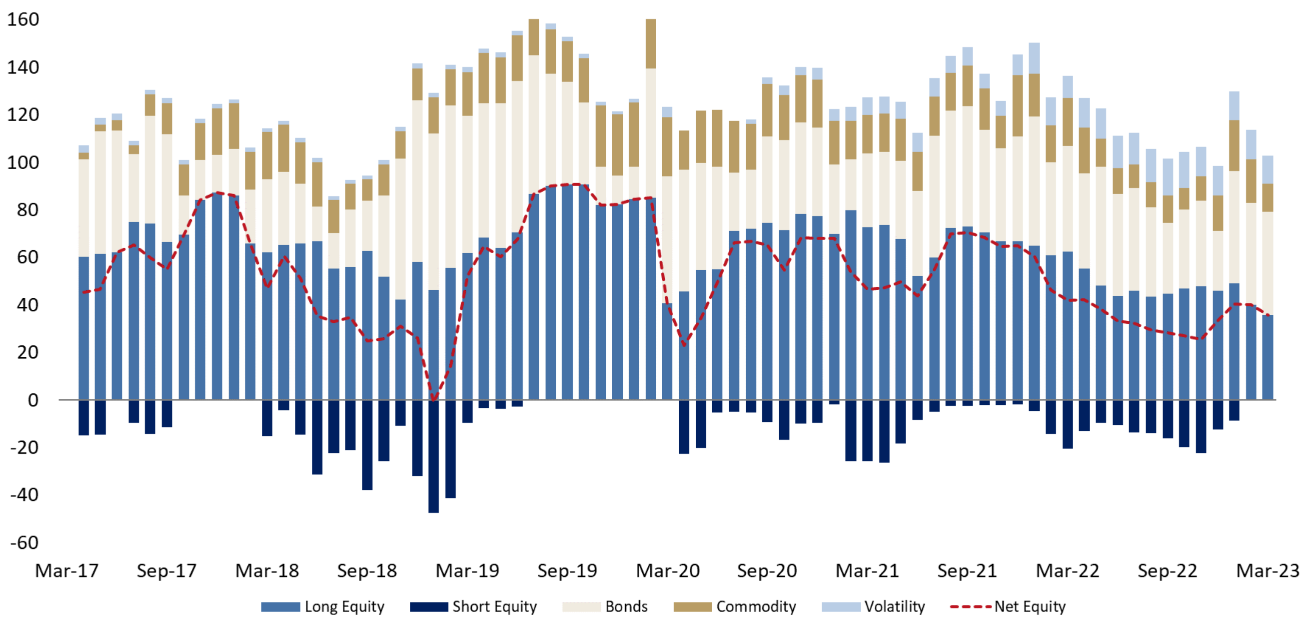
Currency Allocation

USD	88.4%
NOK	2.7%
SEK	1.6%
EUR	2.0%
GBP	5.2%
Total	**100.0%**

Asset Allocation

	Long	Short	Net	
Core Equities	34.7%		34.7%	↑
Energy Equities	0.9%		0.9%	-
Equities	**35.6%**		**35.6%**	↓
US Govt 2 yr. Bond	10.3%		10.3%	↓
US Govt Ultra Long Bond	4.9%		4.9%	↑
US Govt (+15yrs) TIPS	5.9%		5.9%	↓
US Govt TIPS	14.9%		14.9%	↑
Nowegian Govt Bond	2.7%		2.7%	↓
Bonds (Duration 5.7)	**38.6%**		**38.6%**	↑
Gold Bullion Derivatives	11.9%		11.9%	↑
Commodities	**11.9%**		**11.9%**	↓
Volatility and CTA	11.6%		11.6%	↓
Total All Assets	**97.7%**		**97.7%**	
Cash and Equivalents			**2.3%**	

Evolution of Asset Allocation for Somerston Multi Asset Fund



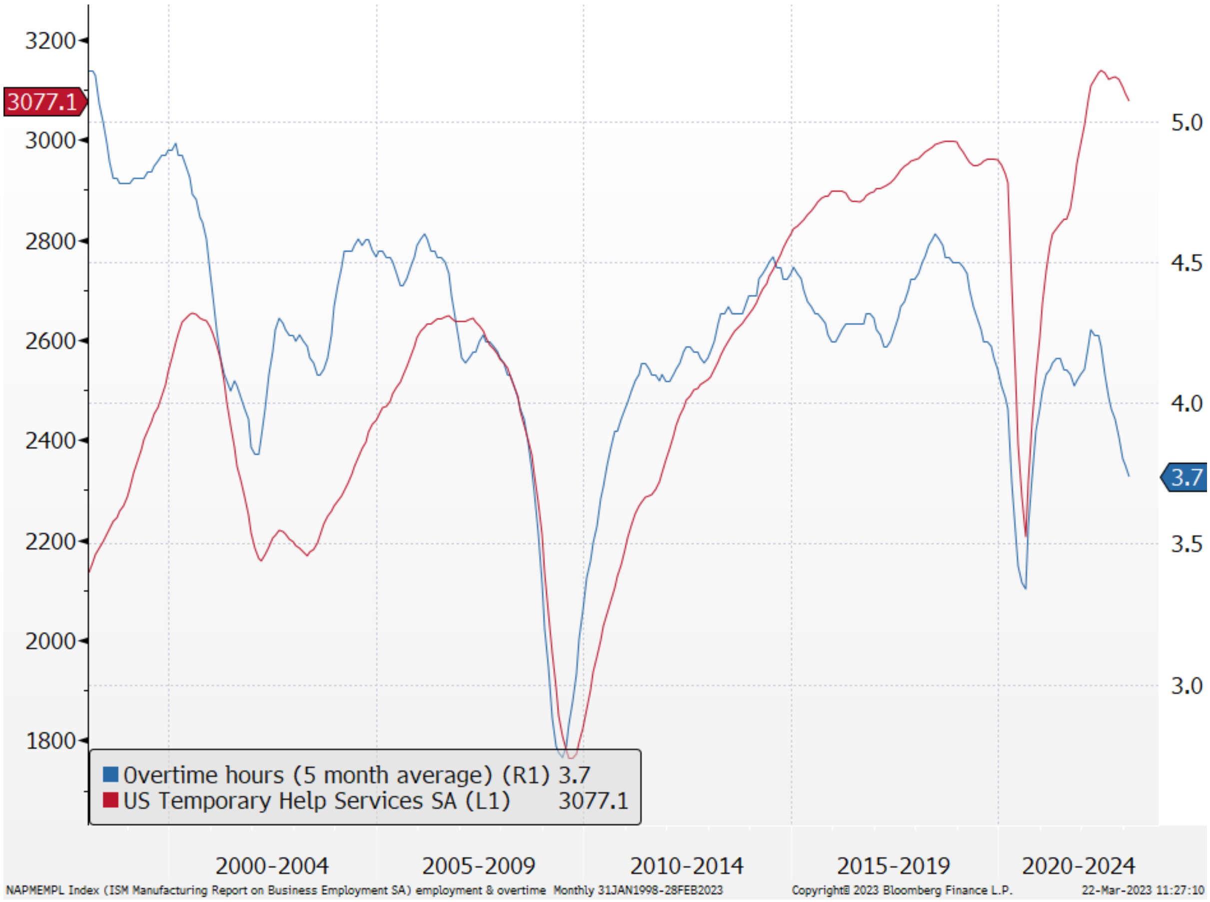
Performance

- The Fund employed a generally low equity allocation throughout the quarter.
- Core Equity selection contributed 1.3% in the quarter. Alphabet, Adobe and Microsoft were the major contributors, while British American Tobacco and NextEra were the major detractors.
- Macro equity strategy detracted -1.5% as the 'value' and Emerging market positions floundered during the quarter.
- Bonds added 0.7%. with inflation linked bonds performing positively albeit, not as well as their conventional peers.
- Precious metals and Commodities added 1.3%

Commentary

'Inflation surprises' caused by huge fiscal and monetary support during lockdowns, has caused a 'wonky' economic cycle. The cyclical parts of the economy, manufacturing and construction, fell as interest rates rachetted up, however, the pent up demand from lockdowns, has caused services to appear robust. While the employment market, along with services broadly, appear resiliant, overtime hours and temporary help are now rolling over. It is only a matter of time before, cracks become evident in headline numbers. (Chart 1). In contrast, data suggests that manufacturing and construction are past their worst point.

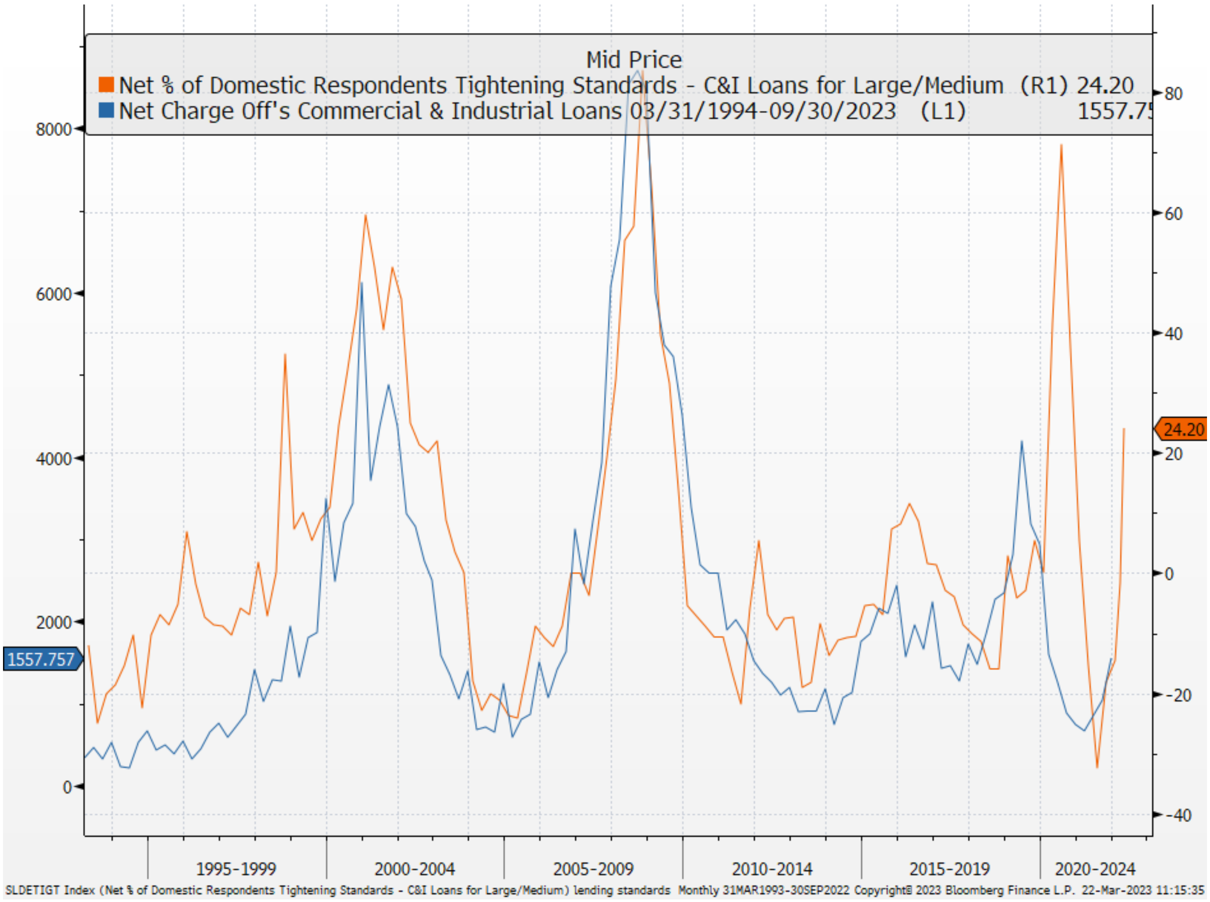
Chart 1 – Both overtime hours and Temporay Help look to be roling over. These are generally early signs for the overall employment market.



Until recently, the impact of the tightening cycle seemed strangely contained, and in fact, credit spreads started to tighten as if a broad-based recovery was on the horizon. However, in March, the dominos of bank failures started to fall. Tighter bank lending standards are unfortunately inevitable. Regional banks in the US have a far higher ratio of loans to deposits than the larger commercial banks to whom many depositors are now flocking. We are therefore likely to see credit spreads, and loan performance come under renewed pressure (Chart 2).

Accordingly, we continue to err on the side of caution. In equities, we are underweight but see distinct opportunities in defensive growth attributes. Adobe and Alphabet, appear well priced for their long-term potential.

Chart 2 – Lending standards were already tightening before the banking issues. We expect further tightening and more defaulted and delinquent loans.



In Bonds, we are overweight inflation linked bonds. The terms for US inflation linked bonds appear more favourable than they have been for many years. Implied inflation is around 2.2% for both 10 and 30 years but we get a 1.25% real yield on top. Traditional bonds must overcome a negative 'roll yield' with 30-year bond yields 1.1% below 2-year bond yields versus a long-term average of 1.6% above.

Gold has enjoyed a decent run. In our view gold is the most risk free, ultra-long duration, zero coupon, inflation linked, dollar denominated instrument in the world. Accordingly, when yields fall, inflation is present and the US Dollar is weak, gold flourishes. Gold has been toying with breaking through 2000 sine 2011. The present rally is not accompanied by derivative speculation but if the $2000/oz barrier is decisively broken, we would expect speculators to fuel the next leg higher.

The US Dollar entered the year with a tailwind of the most hawkish Central Bank. This has now changed, and the relative valuation is against the US Dollar. We continue to take some foreign exchange exposure.

In summary, the 2021- 2023 economic cycle is quite different to many that preceded it. However, many assets are reasonably valued for the long term, and we will acquire and add to these positions on weakness.

Nick Wakefield.

SHARE CLASS NAVS:

US0 129.5042; **US1** 122.4979; **GB0** 119.2197; **GB1** 112.7558; **EU0** 112.5246; **EU1** 106.4212

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