

# SOMERSTON CORE EQUITY STRATEGY

INVESTMENT LETTER AS AT 30 JUNE 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 +4.7% in the month and rose by +4.9% over the last three months. The reference index rose by +5.9% during the month and rose by +7.1% over the last three months.

## Core Equity Strategy Performance (%)

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

Total return since 2017: 55.5%

## Sector Allocation

Sector	% Strategy
Health Care	30.1%
Information Technology	24.3%
Consumer Staples	13.8%
Industrials	10.4%
Communication Services	8.1%
Energy	4.4%
Consumer Discretionary	4.6%
Financials	4.2%

## Geographical Allocation

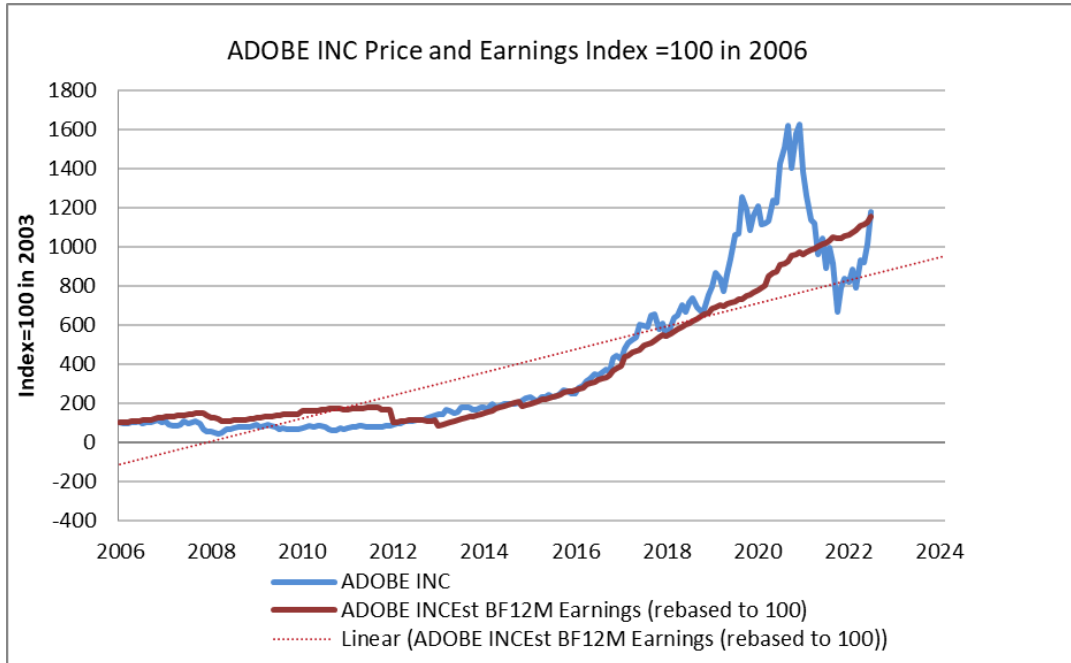
Region	% Strategy
North America	74.5%
Europe	25.5%

## Top Ten Holdings

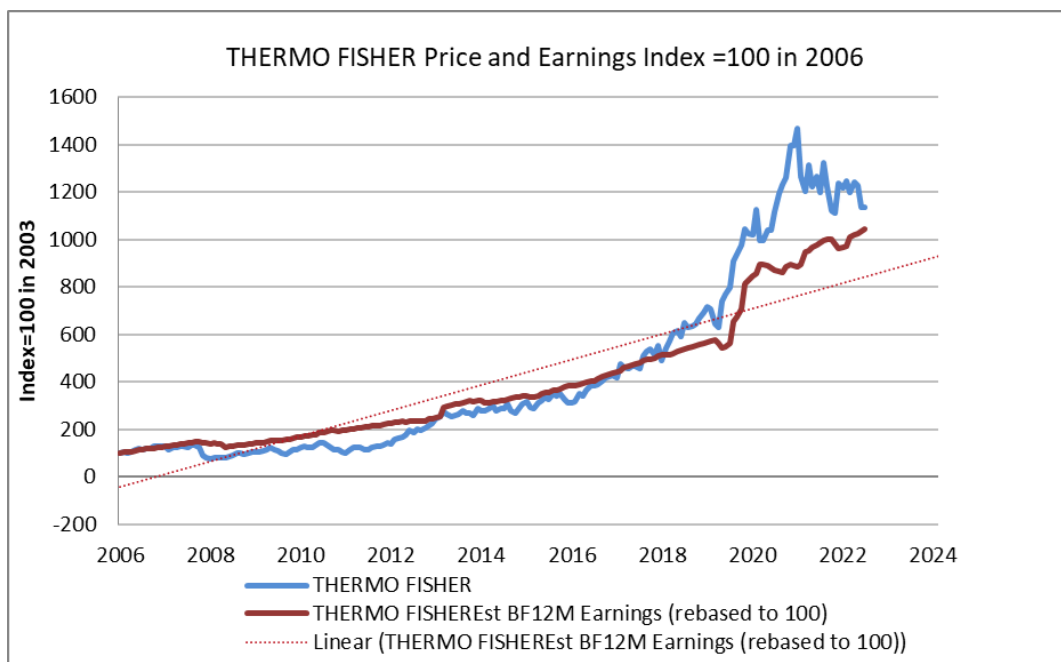
Name	% Strategy
Adobe Inc	9.6%
Alphabet Inc-Cl A	8.1%
Thermo Fisher Scientific Inc	6.2%
Diageo Plc	6.1%
Microsoft Corp	5.7%
Danaher Corp	5.5%
Unitedhealth Group Inc	5.4%
Assa Abloy Ab-B	5.3%
Sgs Sa-Reg	5.1%
Pepsico Inc	5.0%
<b>Total for Top Ten</b>	<b>62.0%</b>

### Commentary

During the quarter we took advantage of weakness in Adobe to add to our position. Subsequently, Nvidia had their annual event and mentioned their strong partnership with Adobe. This spurred, speculation that Adobe would be an 'AI winner' which was supported by Adobe showcasing their beta AI solution during their open day. The chart below shows Adobe's price and earnings indexed to 100 in 2006. The under valuation has now closed to be fair value.



The 'Picks and Shovels' providers to the life science industry, have been under pressure as COVID related revenues dissipate. We have taken the opportunity to add to Thermo Fisher, Danaher and Mettler Toledo.



We initiated new positions in Essilor Luxottica (€75 billion market cap), SGS (CHF 15.3 billion market cap) and Apple (\$3 trillion market cap). These positions were funded through taking partial profits on Pepsi and, Intuitive Surgical on grounds of valuation.

Essilor is a global, vertically integrated market leader in contact lenses and eye wear. It owns Oakley and Rayban brands, it partners with hundreds of designer brands for the design and manufacture of sun glasses (e.g. Armani, Bulgari, Chanel, Prada, Ralph Lauren, Versace), it operates over 17K stores and has a direct to consumer solution.

SGS is global leader in inspection, verification, testing and certification. The company employs circa 85,000 people and operates a network of more than 1,800 offices and laboratories around the world. SGS inspects, samples, analyses, and monitors raw materials, petroleum, food, crops, chemicals, consumer goods, and production machinery for compliance with industrial standards and local regulatory requirements, including tax and duty.

Apple is well known to all but its annuity like services business is continuing to outgrow its hardware sales and meaningfully contribute to earnings growth. Less reliance on one-time sales is welcomed and convinces us to invest.

Nick Wakefield

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