SOMERSTON ASSET MANAGEMENT

SOMERSTON RAINY DAY FUND

INVESTMENT LETTER AS AT 31 MARCH 2025

Portfolio Objectives: The fund seeks to provide readily realisable, positive returns, during most forms of financial market adversity, while maintaining good value in benign environments.

Strategy: We use a fundamental Multi Asset Strategy to identify attractive investment opportunities that are likely to benefit from adversity. We have a 5-year investment horizon.

Performance: The Somerston Rainy Day Fund (US Class) rose by +3.9% in the month and rose by +7.3% over the last three months.

Performance (%) (US Class)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2024						-1.1	2.2	0.5	1.6	0.8	-1.0	-1.2	**1.7**
2025	2.7	0.6	3.9										**7.3**

Total return since inception 9.1%

Top Ten Holdings

Name		% Fund
Kilo Gold Bars (32.15 oz)	Bullion	24.5%
EDC 5.075 05 07 2025	Bonds	9.3%
US I/L 0 1/8 04/15/27	Inflation Linked Bond	7.7%
US T-Bill 06 12 2025	US Treasury	5.2%
S I/L 01 06 2030	Inflation Linked Bond	4.5%
US T-Bill 05 15 2025	US Treasury	4.4%
CME Bitcoin Future (5 BTC)	Bitcoin	4.4%
One River Dynamic Convexity	Long Volatility	3.9%
US I/L 0 1/8 04/15/29	Inflation Linked Bond	3.8%
Aspect Divers Trend-A USD	CTA	2.4%
Total for Top Ten		**70.0%**

Allocation

Name	% Long	% Short	Net %
Gold Bullion	28.2%		28.2%
Gold Royalty	6.8%		6.8%
Gold Miners Equities	0.7%		0.7%
Silver Bullion	1.6%		1.6%
Gold and Precious Metals	37.2%		37.2%
Equity Long Short	2.0%	-2.0%	0.0%
Volatility and CTA	14.7%		14.7%
Inflation Linked Bonds	16.0%		16.0%
US Treasury Bills	11.2%		11.2%
Bitcoin	4.4%		4.4%
Carbon	4.0%		4.0%
Anti Beta	2.0%		2.0%
Cash and Cash Equivalents	10.6%		10.6%
Total All Assets	**102.0%**	**-2.0%**	**100.0%**

Performance calculations for the month are based on estimates and will be subject to change.

Performance

The Somerston Rainy Day Fund delivered a solid return of +7.3% in some very tough markets. Performance highlights are:

1. Gold and precious metals contributed +7.0% with Gold Royalty companies the significant standouts.
2. Our holdings in 5- year Inflation-linked bonds contributed +0.5%.
3. Long Low volatile stocks and short high volatile stocks contributed +0.2%.
4. Both Bitcoin holdings and Long Volatility strategies detracted-0.5%.

Commentary

Financial markets are in disarray following the announcement of Trump's tariffs. The new levies on imports will bring the total US effective tariff to a level not seen since the US protectionism of the 1930s. Though, given that the global economy is fundamentally more integrated than the last time we saw tariffs of this magnitude, the macroeconomic impact will be greater.

As we wrote a few days ago, the markets seemed to be behaving as if the tariffs were a 'bluff'. However, these announcements were clear, and it was equally clear that the market was not positioned for them. While there is room for negotiations, this administration is strategically focused, and US Treasury Secretary Bessent was explicit that there is no 'Trump Put' for investors. Any tariff cut would only come following a "phenomenal" offer from a country, according to Trump. However, with news that Canada, the EU, and China are looking to retaliate, we consider it over-optimistic to think there will be a swift resolution. Indeed, there are signs that these tensions will ramp up, and Trump has said that sector-specific tariffs, mostly targeting semiconductors and pharmaceuticals, are currently under review and due to be released very soon. Trump has commented that these will be "at a level that we haven't really seen before." Since writing, China has announced a 34% tariff on US imports.

We have been noting the severe growth slowdown for many weeks. Our real-time leading growth indicator, one of the two main compasses we have to determine near-term market direction, topped in the middle of February and sliced through the 50 level (the level that demarks expansion and contraction) on the 13th March when we wrote the note titled '*The Correction Remains Underway*.' This indicator is now at 35% suggesting there is more downside. We expect the market action over the next few weeks to potentially establish a significant oversold condition and offer a much better entry point for equities. Crucially the S&P would need to fall another 10-15% to 4,500 to get back to 17 times forward earnings, which is approximately fair. However, the trade wars will cause an earnings downgrade cycle pushing the 'fair' level down. Moreover, there is nothing stopping valuations from derating more significantly into the cheap zone. All in all, risks remain incredibly elevated.

The first quarter of 2025 has proven to be a remarkable period for gold, with the precious metal surging by an impressive +19%. This rally, whilst striking, is not entirely unexpected given the macroeconomic currents we've been tracking. The metal's ascent appears to be underpinned by a confluence of factors: persistent fiscal deficits across major economies, a renewed scramble for tangible assets amid declining global cooperation, and a notable shift in the physical gold market with significant movements from London to America that has caught the attention of investors and reserve managers alike. London, long the epicentre of the global gold trade, has seen a steady outflow of bullion as demand on the COMEX futures market intensifies, driven by institutional players seeking to secure physical delivery amid heightened geopolitical tensions. This migration reflects a broader reorientation of trust—away from paper promises and towards metal in hand. Meanwhile, unconfirmed reports of increased security measures at Fort Knox have fuelled speculation that central banks, including the U.S., may be quietly repositioning reserves.

Looking ahead, we see the valuation of gold royalty companies and silver as increasingly attractive relative to bullion, offering a compelling risk-reward profile should this rally extend.

The allocation to strategies that benefit from spikes in volatility has been rather dormant so far. However, given present market conditions, we expect this sleeve of strategy to prove its worth. When investors become forced sellers and the scramble for the exit happens all at once, these strategies generally deliver their outsized returns.

The first quarter of 2025 has allowed the Rainy Day Fund to demonstrate its value in a tough environment. Adversity has many complexions, and we can never be sure we are hedging the right type of adversity. However, we see plenty of opportunities for the Rainy Day fund to profit from in the near term.

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