



SOMERSTON RAINY DAY FUND

INVESTMENT LETTER AS AT 30 SEPTEMBER 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 +5.1% in the month and rose by +7.6% 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	2.7	0.2	0.2	-0.2	2.6	5.1				19.1
Total return since inception 21.1%													

Top Ten Holdings		
Name		% Fund
Kilo Gold Bars (32.15 oz)	Bullion	26.9%
US I/L 0 1/8 15 Apr 2027	Inflation Linked Bond	7.0%
Bitcoin	Bitcoin	6.2%
US I/L 2 1/8 15 Jan 2035	Inflation Linked Bond	5.4%
UKTI 0 ¾ 22 Nov 2033	Inflation Linked Bond	4.8%
JPN YEN Currency	Currency	4.3%
S I/L 01 06 2030	Inflation Linked Bond	4.3%
US I/L 0 1/8 15 Apr 2029	Inflation Linked Bond	3.4%
Euro Carbon Emission Future	Carbon	2.5%
36 South Carry Neutral	Long Volatility	2.1%
Total for Top Ten		66.7%

Currency Allocation	
USD	98.1%
JPY	4.3%
GBP	-2.5%
Total	100.0%

Allocation			
Name	% Long	% Short	Net %
Gold Bullion	30.8%		30.8%
Gold Royalty	6.5%		6.5%
Silver Miners Equities	1.9%		1.9%
Silver Bullion	1.9%		1.9%
Gold and Precious Metals	41.2%		41.2%
Equity Long Short	8.5%	-8.8%	-0.3%
Volatility and CTA	14.3%		14.3%
Inflation Linked Bonds	24.8%		24.8%
US Treasury Bills	8.4%		8.4%
Bitcoin	6.2%		6.2%
Carbon	3.1%		3.1%
Cash and Cash Equivalents	4.1%		4.1%
Total All Assets	108.8%	-8.8%	100.0%

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

Commentary

The Sun Also Rises

"How did you go bankrupt?" Bill asked. "Two ways," Mike said. "Gradually and then suddenly." This brief yet poignant exchange from Ernest Hemingway's 1926 novel, **The Sun Also Rises**, captures a fundamental truth about the nature of change and transformation in our lives and in the world around us.

French Philosopher, Auguste Comte said, "Demographics is Destiny". While America is certainly better than most western countries, birth rates have collapsed, and life expectancy has increased. This causes a demographic imbalance with the working population shrinking as a percentage of the total population. This is terrible news for the trajectory of sovereign debt loads. While the working population are taxable, the non-working population are often requiring healthcare and other benefits.

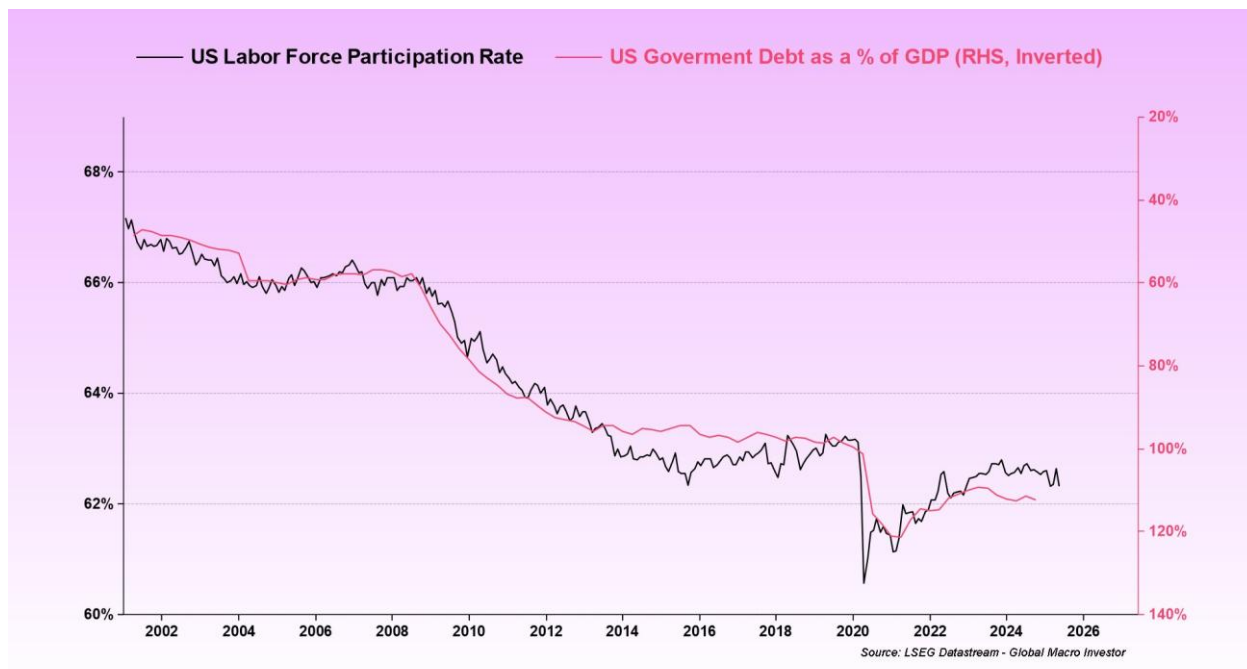
In our last letter we showed how indebted developed economies have become. We used reported Sovereign debt outstanding to calculate the Debt to GDP ratios of the developed economies. However, while US government debt is \$37.9 trillion, US 'Unfunded Liabilities' which include State and local Pensions, Social Security and Medicare, are estimated to be **three to four times** that amount in present value terms.

The demographic trend in western economies cannot be stopped – they are destiny (Chart 1). The populations are aging and their kids and grandchildren are not sufficient in number to generate sufficient taxes to pay for them. Consequently, the unfunded liabilities can no longer be ignored; they are now present obligations.

Chart 1 - The Trajectory of US Working Population is destined to be lower based on the US Births rate.
 Source (Global Macro Investor ("GMI"))



Chart 2 – Accordingly, Debt to GDP is likely to rise.



While we use the US as an example, a consequence of the richness of publicly available data, the situation is far worse for Europe and Japan. The longer-term trends for sovereign bond markets and their currencies appears highly unattractive.

These secular trends are undoubtedly good for gold and bitcoin, but within these long-term themes there will be cycles. Gold has moved considerably in recent months. The gold price is 72% above a 50-month moving average – a similar level that marked the top in 2011. However, there are a couple of dynamics suggesting that this cycle is unlikely to be over.

1. Chart 3 shows how international reserves are transitioning. In 1981, Gold represented 60% of all international reserves. In recent years, gold fell to just under 10% and since 2022, Central Banks around the World have been buyers of gold. Now at 25%, Central Banks have made good progress diversifying into gold and away from fiat currencies, but there is arguably a long way to go.
2. More critical to the near-term outlook are investment flows. For context, according to the World Gold Council, Central Banks bought 166.5 tonnes of gold in Q2 2025. That is 21% lower than a year earlier and represents just 15.4% of total demand. However, Exchange Traded Funds (ETFs) were net sellers a year ago (as they have been for the last four years) but that trend has reversed meaningfully this year and ETF's acquired 170.5 tonnes in Q2 alone. Central Banks appear to accelerate and decelerate their buying based on price levels, but they are always in the market in some capacity, but investment flows generate far bigger swings and are the biggest influence on the cycle. Chart 4 clearly shows that 'retail' buying of gold ETF's is considerably behind where we might expect given the price move, but crucially, perhaps because of the collapse of their real estate market, the Chinese consumer has become aggressive buyers of gold this year. The World Gold Council report that Asia Gold ETF's saw a 79% increase of tonnes in the past year.

Chart 3 – Central Banks have made progress in diversifying their reserves. Gold was 10% of total reserves in 2019 and they are now 25%. To get back to historical levels, Central Banks would need to buy the same amount they bought in the past 5 years all over again.

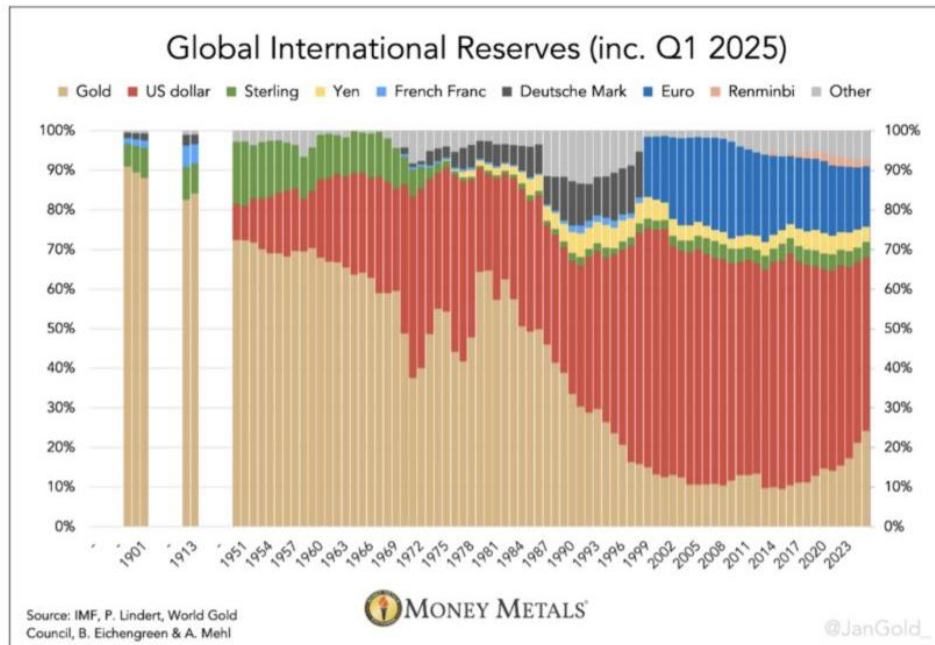
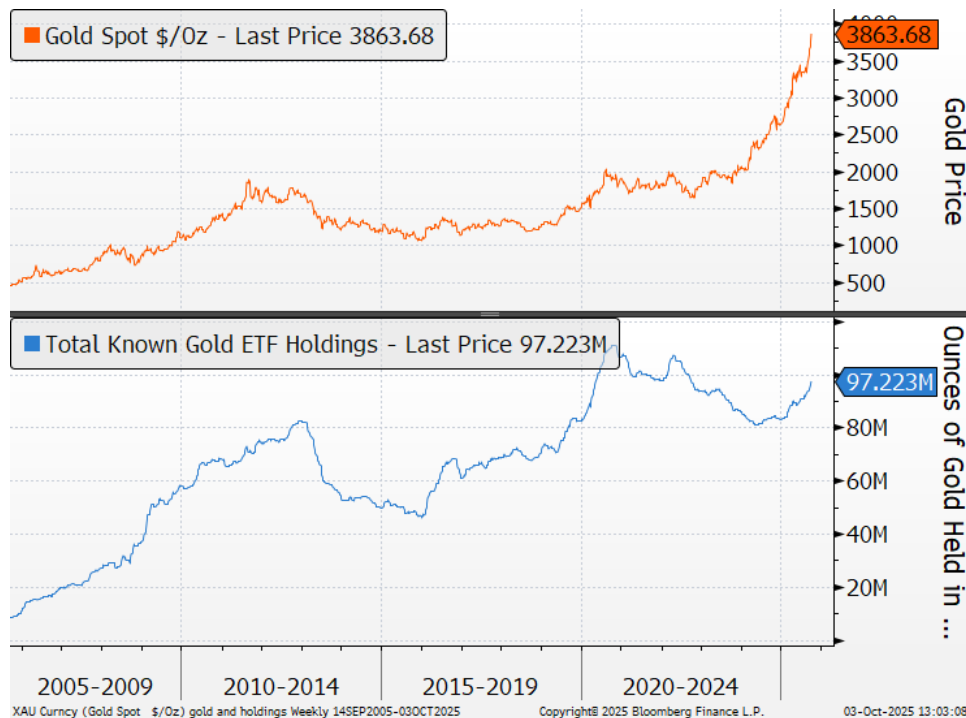


Chart 4 – Gold Price (top) compared with the Total Known Gold holdings in ETFs (ounces) (bottom). ETF holdings of gold appear lacking given the price movement. Retail investors appear to be just catching up.
 Source - Bloomberg



While the significant increase in the price of gold invites the question of its sustainability, the secular trends are highly supportive, and while the gold prices has done very well, until investment flows abate, the cycle is unlikely to have topped just yet.

The Somerston Rainy Day Fund has enjoyed a strong performance since launch. It was designed to hedge against the most pernicious financial market events. Presently, the movement in Gold suggests monetary debasement is the main concern, but that is not being discounted in other financial markets. If these concerns were to be reflected elsewhere, we would expect inflation expectations to rise materially and benefit our inflation linked bonds, Volatility would become unanchored, benefiting our long volatility managers and cyclical stocks would meaningfully de-rate relative to defensives.

The appreciation of the fund since launch has been a consequence of the move in precious metals. We remain subject to the swings in the gold price, equally, there are many other aspects to strategy where we are patiently waiting for the preconditions for large market moves.

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