



SOMERSTON TECHNOLOGY FUND

INVESTMENT LETTER No.19 AS AT 30 SEPTEMBER 2025

Portfolio Objectives: To grow capital over the medium term by investing in a concentrated portfolio of high growth companies and to outperform our reference index 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 20-30 high growth companies.

Performance: The Somerston Technology Fund (US1 Class) rose by +3.3% during the month and rose by +3.7% over the last three months. Our reference index rose by +1.2% during the month and rose by +4.0% over the last three months.

Performance (%) (US1 Class)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017	6.1	3.9	4.2	4.5	7.7	-1.5	5.8	3.2	-0.1	8.5	3.8	-0.8	55.1
2018	12.3	-1.4	-4.1	1.0	8.0	-0.1	0.0	8.9	-1.8	-12.3	1.3	-7.5	1.7
2019	12.0	2.9	5.6	6.3	-8.0	8.2	4.1	-3.8	-1.8	3.1	6.1	3.8	43.6
2020	6.2	-3.8	-6.6	18.2	9.6	10.0	9.1	8.5	-6.2	-0.7	9.6	5.5	73.4
2021	-0.2	1.6	-6.5	8.8	-3.6	11.6	1.0	5.7	-7.9	6.2	-1.5	-5.0	8.5
2022	-13.8	-5.5	2.2	-20.2	-6.1	-11.2	13.8	-6.9	-13.0	2.1	4.9	-10.0	-50.8
2023	16.7	0.3	11.9	-1.1	13.2	4.6	6.5	-3.3	-6.3	-2.0	16.1	4.8	76.6
2024	6.0	7.8	0.8	-5.0	6.8	8.5	-5.3	3.4	2.6	0.0	6.3	-1.8	33.0
2025	6.3	-5.4	-9.9	3.9	14.4	8.0	3.3	-2.8	3.3				20.6

Total return since 2017: 494.0%

Geographical Allocation	
Region	% Fund
North America	83.2%
South America	7.5%
Europe	5.4%
Asia ex Japan	0.7%
Cash and Equivalents	3.2%

Sector Allocation	
Sector	% Fund
Information Technology	51.2%
Consumer Discretionary	21.1%
Communication Services	17.8%
Financials	3.2%
Health Care	3.0%
Industrials	0.6%
Cash and Equivalents	3.2%

Top Ten Holdings	
Name	% Fund
Nvidia Corp	10.8%
Amazon.com Inc	9.2%
Meta Platforms Inc	8.5%
Alphabet Inc	7.5%
MercadoLibre Inc	7.5%
Advanced Micro Devices	5.2%
Microsoft Corp	5.2%
Duolingo	4.5%
ASML Holding NV-NY Reg Shs	3.8%
Zscaler Inc	3.3%
Total for Top Ten	65.5%

This factsheet shows the performance of Somerston's "Technology Equity Strategy" from 31 December 2014 to 30 November 2020 then the Somerston Technology Fund from its launch on 01 December 2020.

GB1 Class Performance: The Somerston Technology Fund (GB1 Class) rose by +3.2% during the month and rose by +3.7% over the last three months.

	Performance (%) (GB1 Class)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017	6.1	3.9	4.2	4.5	7.7	-1.5	5.8	3.2	-0.1	8.5	3.8	-0.8	55.1
2018	12.3	-1.4	-4.1	1.0	8.0	-0.1	0.0	8.9	-1.8	-12.3	1.3	-7.5	1.7
2019	12.0	2.9	5.6	6.3	-8.0	8.2	4.1	-3.8	-1.8	3.1	6.1	3.8	43.6
2020	6.2	-3.8	-6.6	18.2	9.6	10.0	9.1	8.5	-6.2	-0.7	9.6	5.5	73.4
2021	-0.2	1.6	-6.5	8.8	-3.6	11.6	1.0	5.7	-7.9	6.2	-1.5	-5.0	8.5
2022	-13.8	-5.5	2.2	-20.2	-6.1	-11.2	13.8	-6.9	-13.0	2.1	4.9	-10.0	-50.8
2023	16.7	0.4	11.4	-1.2	13.3	4.4	6.3	-3.4	-6.5	-2.0	15.8	4.8	74.2
2024	6.0	7.8	0.8	-5.1	6.7	8.5	-5.2	3.3	2.5	0.0	6.4	-1.9	32.6
2025	6.4	-5.3	-9.7	3.7	14.5	7.9	3.4	-2.9	3.2				20.9

Total return since 2017: 485.6%

* The GB1 class launched in February 2023, performance prior to this date is from the US1 class

Commentary

The Technology Fund US1 Class rose by +3.7% in the third quarter and +20.6% year to date.

Datacentre builder Fermi jumped 54% on its first day of public trading following its IPO as enthusiasm for the AI trade remains strong. The company's namesake, Enrico Fermi was an Italian physicist who, when confronted with the high statistical likelihood of aliens somewhere in the universe, famously posed the question "where is everybody?". Likewise, many have asked the same about AI; if AI is the future, where is the return on investment? This is a question that is of increasing importance given the substantial capital investments in recent years.

The AI Ecosystem

We conceptualise the AI ecosystem as five interlinked players:

1. **Infrastructure Vendors** (Nvidia, Broadcom, Arista etc.) that supply datacentre hardware.
2. **Datacentres** (hyperscalers like Microsoft, AWS and Neocloud providers like CoreWeave) that provide compute capacity.
3. **Foundational model builders** (e.g., OpenAI, Anthropic) that train and deploy models.
4. **Software applications** (Salesforce, Adobe, Palantir etc.) that deliver end-user AI tools.
5. **End users** (enterprises and consumers).

Figure 1 shows how cash flows through this ecosystem: end users pay application companies, which are clients of the foundation model companies, which pay the datacentres, which buy infrastructure. Of course, there are some nuances, but we consider this a useful mental model.

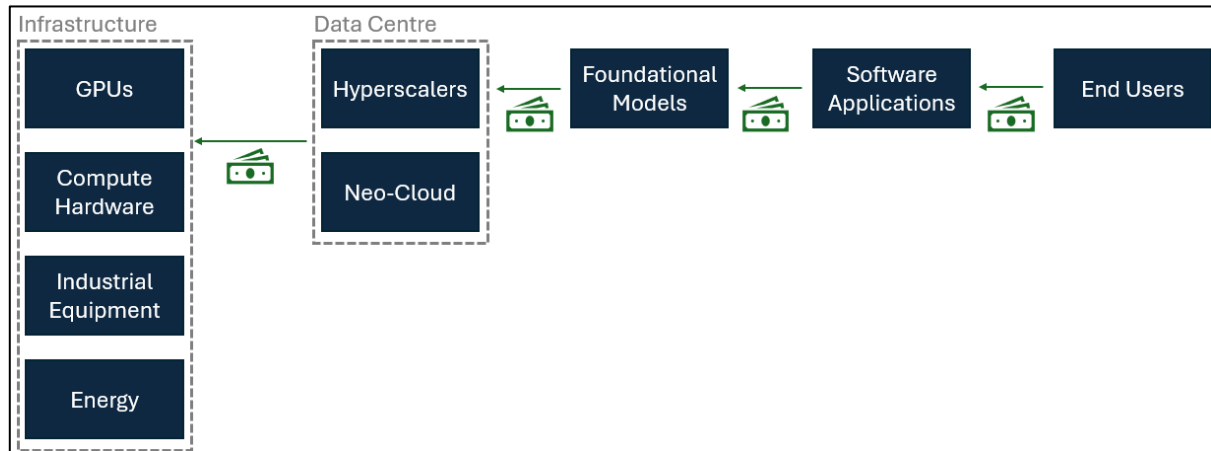


Figure 1: AI Ecosystem, source: Somerston

AI Infrastructure Spending

Researching, training and deploying AI models is a compute intensive process. As models become more complex and ‘training’ evolves into ‘reasoning’, the demand for compute capacity seems to rise considerably. Accordingly, Datacentres have deployed significant capital, which has primarily benefitted infrastructure providers whose profits have surged.

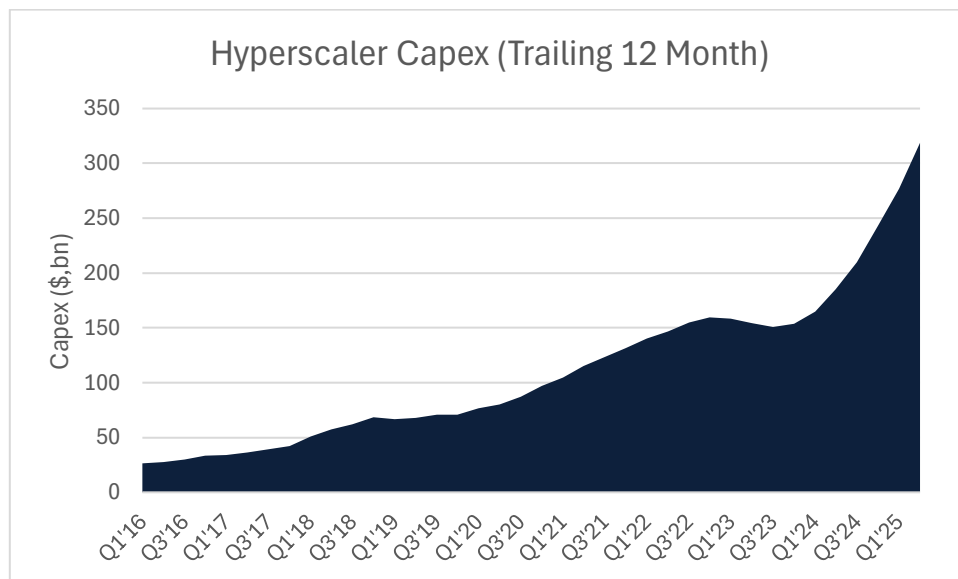


Figure 2: Hyperscaler Quarterly Capex (TTM), source: Bloomberg.

Figure 2 shows the trailing 12-month capital spending for the hyperscalers over the past 10 years. While clearly significant in dollar terms, the spending is not materially out of line with the longer-term trend, particularly if we account for the underinvestment in 2022 due to the ‘year of efficiency’ pursued by the likes of Meta. Nevertheless, importantly, the composition of this spending has changed over time, with specifically AI investments, such as GPUs, now accounting for a much larger share of total capex spend.

Financing Dependence and Loops

Hyperscalers are in an enviable position to fund this investment through material cash flows from operations and unprecedented strength of balance sheets. However, model builders (E.g. Open AI, Xai and Anthropic) face extraordinary costs to access this compute and rely on external financing. The cost of developing and running training and inferencing models run into tens of billions of dollars, which far outstrips their present revenues. Moreover, the requirement to invest further is as pressing as ever. OpenAI's reported \$300bn Oracle compute deal over 5 years dwarfs its current \$12bn in revenue. The gap between revenues from customer demand, has to be met by external financing and increasingly, we are seeing the required investment come from parts of the ecosystem that can afford these investments:

- Microsoft invests in Open AI, which buys Microsoft Azure compute.
- Nvidia invests in CoreWeave, which buys Nvidia GPUs.
- Broadcom invests in OpenAI, which is reportedly developing chips with Broadcom.

Perhaps the most eye-catching example came with Nvidia's \$100bn investment in OpenAI. Critics have compared this to plugging an extension cord into itself; capital flowing in a loop to sustain itself. Figure 3 shows the reality of the AI ecosystem compared to the previous theoretical diagram.

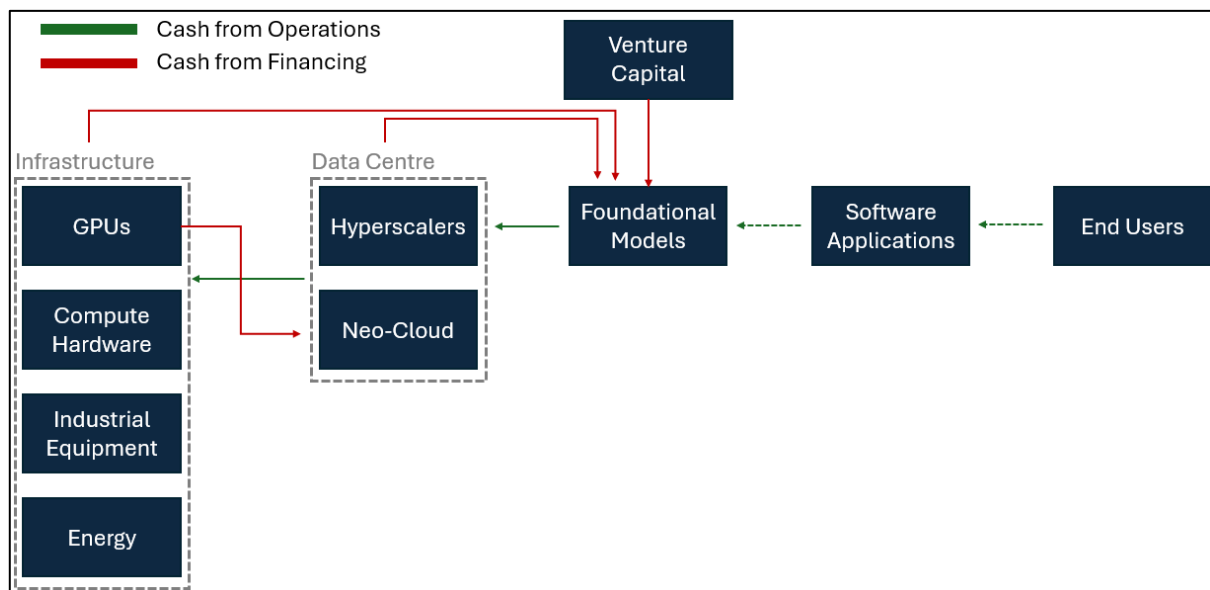


Figure 3: AI Ecosystem Funding, Source: Somerston

While comparisons to an extension cord or perpetual motion machine are provocative, we consider them lacking.

The crux of the AI industry today is that infrastructure companies have seen profits surge, hyperscalers are also generating substantial cash flows aided by incremental revenue through AI services, like Microsoft Copilot. By contrast model builders and software firms have not yet shown material AI-driven revenue growth. Salesforce and Adobe stock surged on initial AI product announcements, only to face scepticism from investors and AI growth appears elusive. Even direct-to-consumer subscription models like the Chat-GPT and Grok, have failed to generate material revenues. Cash revenues from end-user adoption must be the long-term engine of the ecosystem, but today, they are comparatively elusive and the cashflow gap requires external financing.

Clearly, the infrastructure providers are highly incentivised to keep the engine running and have the profits to do just this. We don't view these circular investments as a short-term way for Nvidia and peers to sustain their revenue growth, but as playing a vital role in ensuring the model builders have the ability to reach the end goal of a sustainable business model. We consider the comparison of TSMC investing in ASML to encourage EUV (which at the time was not an economically viable product) as the more appropriate analogy.

As with any enterprise that is reliant on external funding, this introduces risks. While we do not question the *ability* of Nvidia and peers to provide financing, we acknowledge that the ecosystem hinges on their *willingness* to do so. The crucial assumption behind their investment is that the end-user revenues will eventually take over and produce substantial profits, however, when will revenues materialise; how big will they be; will the infrastructure being built now already be obsolete by the time AI applications start significantly rolling out?

Why Adoption Lags: Waiting for Agents

When will AI revenues materialise?

One argument is that many end users simply aren't yet in the position to benefit from AI as their data is not in the correct format. Just as it took time for retail companies to adjust operations in order to meet ecommerce demand, changing operations to support AI is a long process. This argument is supported by the strength we've seen at data warehouse companies, like Snowflake and DataBricks (a private company), which are employed by businesses to do exactly this. However, this explanation is not complete as even companies that have already deployed such technologies have seen mixed results. For example:

- Taco Bell and McDonalds rolled back AI drive-through pilots following errors.
- Klarna reintroduced humans after chatbot complaints.
- IBM's HR chatbot failed on complex queries.

In these cases, the limiting factor is reliability. Hallucinations are when a model produces incorrect or irrelevant output. Technology analyst Benedict Evans has often asked "do the numbers need to be right or roughly right?". Being roughly right is often tolerable when an AI model is being used as an assistant to research or coding. Law firm Simmons & Simmons have introduced a tool to do exactly this, but, crucially, the work is checked by a human.

Currently, most AI applications are tools: they supplement human work, improving productivity. But they are not yet reliable **agents** that can fully replace human workflows. The difference between being a Tool or an Agent matters for answering the question regarding both the timing of revenues and the potential Return on Investment. A Chief Technology Officer needs to balance cost and revenues. A productivity tool is interesting if its priced correctly but an Agentic solution that is infinitely scalable is an entirely different proposition.

AI tools have proven themselves to be effective at enhancing worker productivity, but the magnitude of the investment we have seen, and the lofty valuations suggests that expectations stretch far beyond AI models being just being *useful tools*. We need to see more than incremental productivity gains if AI can be considered as revolutionary a technology as the internet. If AI remains just a productivity tool, the resulting revenue will struggle to meet the market's expectations.

We believe the long-term future for the AI trade depends on AI fundamentally shifting company workflows and this hinges on AI taking on an agentic role. In our view it is this move that will unlock the ROI-positive adoption which justifies the investment. Here, we do remain positive. We see genuine demand from companies to have AI take on this role, but as of today, the technology remains in development. However, the reliability of AI

Agents is improving as reasoning models become more widespread, and the pace of development has been impressive.

Conclusion

Capital continues flowing into AI infrastructure, supported by external financing and hyperscaler profits. Increasing public and private valuations help justify the investment, but in terms of cash generation, infrastructure vendors remain the only near-term winners. Without end-user demand translating into model and application revenue, sustainability of these investments and valuations cannot be assumed indefinitely. That said, the vast number of deals we are currently seeing every week suggests that this appetite to finance remains strong. It is also worth reiterating that these companies are very capable of sustaining this funding due to high levels of cash generation and rock-solid balance sheets. In this environment, the infrastructure companies, which sell the picks and shovels of the AI boom, will likely remain the near-term winners.

The Somerston Technology Fund has significant exposure to the AI theme through our holdings in Nvidia, AMD, Broadcom and Oracle among others. We are also seeing attractive opportunities among many SaaS application companies, where we view AI disruption fears as overblown. We recently added to Duolingo, Veeva and Intuit on that basis. The AI industry remains a fast-moving and dynamic industry, even by technology's historic standard. There are likely so many investment opportunities ahead of us.

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