



# SOMERSTON CORE EQUITY FUND

INVESTMENT LETTER AS AT 31 MARCH 2026

**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.

**Performance:** The Core Equity Fund (US1 class) fell by -8.5% in the month and fell by -13.7% over the last three months. The reference index fell by -7.9% during the month and fell by -3.7% over the last three months.

## Rolling Performance

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year
<b>US1</b>	-8.5%	-13.7%	-13.7%	-2.2%	16.7%	8.7%
<b>GB1</b>	-8.7%	-13.9%	-13.9%	-2.8%	15.4%	7.5%

\* The GB class launched May 2024, prior performance is based on the US1 Class.

## Geographical Allocation

<u>Region</u>	<u>% Fund</u>
North America	73.0%
Europe	20.8%
South America	2.2%
Cash & Equivalents	4.0%

## Sector Allocation

<u>Sector</u>	<u>% Fund</u>
Information Technology	18.3%
Industrials	17.9%
Health Care	14.7%
Consumer Discretionary	13.9%
Communication Services	13.7%
Consumer Staples	12.6%
Financials	5.0%
Cash & Equivalents	4.0%

## Top Ten Holdings

<u>Name</u>	<u>% Fund</u>
Alphabet Inc-CI A	7.5%
Amazon.Com Inc	6.6%
Nvidia Corp	6.2%
Meta Platforms Inc-Class A	5.2%
Stryker Corp	5.1%
Apple Inc	5.1%
Mastercard Inc - A	5.0%
Otis Worldwide Corp	4.3%
Pepsico Inc	4.1%
Microsoft Corp	4.0%
<b>Total for Top Ten</b>	<b>53.1%</b>

This factsheet shows the performance of Somerston's "Core Equity Strategy" from 31 March 2017 to 30 September 2023 then the Somerston Core Equity Fund from its launch on 02 October 2023.

**Performance US1 (%)**

	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	3.7	-1.1	-5.5	-2.8	8.9	4.6	<b>17.0</b>
<b>2024</b>	2.6	3.3	1.6	-4.2	4.0	2.1	0.3	3.3	0.8	-3.5	2.5	-2.1	<b>10.8</b>
<b>2025</b>	4.8	-1.9	-7.2	-0.7	7.4	3.6	0.4	1.4	0.1	2.3	-1.4	-0.3	<b>8.1</b>
<b>2026</b>	-1.4	-4.3	-8.5										<b>-13.7</b>

Total return since March 2017: 73.0%

**Performance GB1 (%)**

	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	3.7	-1.1	-5.5	-2.8	8.9	4.6	<b>17.0</b>
<b>2024</b>	2.6	3.3	7.4	-4.2	3.9	2.0	0.3	3.0	0.7	-3.6	2.5	-2.2	<b>9.9</b>
<b>2025</b>	4.8	-1.9	-7.0	-0.8	7.5	3.5	0.4	1.4	0.1	2.3	-1.5	-0.3	<b>8.0</b>
<b>2026</b>	-1.4	-4.4	-8.7										<b>-13.9</b>

Total return since March 2017: 71.1%

\* The GB class launched May 2024, prior performance is based on the US1 Class.

**Commentary**

The Somerston Core Equity Fund (US1 class) fell by -13.7% over the first quarter of 2026. While this headline figure is disappointing, it reflects a period of profound structural shifts within the "Quality" Universe.

For decades, the software sector was the poster child for high-quality investing, prized for its recurring revenue, asset-light balance sheets, and "sticky" customer bases. However, this quarter, that thesis faced its most significant challenge to date as the market faced the rapid acceleration of applied AI. We are seeing a stark divergence in the sector where many legacy providers now face a formidable choice: cannibalise their own high-margin products to integrate AI or risk technological obsolescence and the threat of new entrants. This shift is potentially exerting significant downward pressure on the leading margins investors once took for granted, as competition intensifies and business models require evolution. In response, we have proactively and selectively trimmed exposure to software companies lacking a defensible moat against AI-native entrants. A "buy-and-hold" approach to legacy software is no longer a viable proxy for quality in this new era.

The macro environment added further complexity to the quarter, as the escalation of conflict in Iran since March has acted as a significant drag on the portfolio. Unlike the digital disruptions seen in the tech sector, this is a crisis with immediate tangible consequences for global trade. Rising energy costs and systemic supply chain disruptions will increase input prices across the board (even if reported data does not show them yet), creating a ripple effect that touches nearly every corner of the economy. We have observed a direct impact on the forward revenue expectations for our holdings in the consumer goods and services sectors as we expect discretionary spending to tighten under the weight of these inflationary pressures.

Until a geopolitical resolution is reached, we expect the fund's near-term performance to remain highly variable. However, history suggests that periods of maximum uncertainty are exactly when the "Quality" factor truly earns its keep. We are leaning into companies characterised by fortress balance sheets capable of weathering prolonged periods of higher costs and those with the pricing power necessary to protect margins despite external shocks. Furthermore, we believe adaptive leadership will be the ultimate differentiator, as management teams must now navigate the dual-threat of a shifting tech landscape and a volatile macro environment. We remain committed to the belief that these resilient business models will not only survive this transition but will emerge with a significantly larger competitive share once the dust settles.

### Portfolio Leaders

**ASML** is the cornerstone of the semiconductor industry and entered 2026 with a record backlog of €38.8 billion, fuelled by the aggressive rollout of High-NA EUV lithography systems. As chipmakers race to build out 2nm (nanometer) capacity for the next generation of AI, ASML's monopolistic position in lithography provides a visibility of earnings that is rare in today's market. ASML is also experiencing a tailwind of EUV purchases in the memory market in an effort to boost high-bandwidth memory supply in coming quarters. The stock is up 21.5% on the quarter.

Consumer staples, in particular **Pepsico** rebounded in January and February as investors rotated out of higher risk technology stocks. The stock did however give back most of its gains in a broader sell off in March, owing to the Iran conflict as supply chains and inflation concerns will pressure global staples companies that are already battling with a weak consumer. PepsiCo finished the quarter up 8.2%

**Emcor** ended the quarter up 20.7% and was a new addition this period. Emcor is one of the largest specialty contractors in the United States, providing mechanical and electrical construction, industrial and energy infrastructure, and facilities services. It continues to be the quiet winner of the U.S. infrastructure and data centre boom. The company reported an impressive earnings beat in February (EPS of \$7.19 vs. \$6.68 expected), driven by the complex electrical and mechanical needs of new AI data centres.

### Portfolio Laggards

**Microsoft** is currently caught between two competing business priorities; the company must grow its Azure cloud revenue by renting GPUs to AI labs yet heavily invest in Office365 in order to defend the core productivity suite through Copilot. As a result, capital expenditure is surging to unprecedented levels. This quarter the market has been punishing heavy capex spend and Microsoft did not escape as it struggles to show it is converting this investment into earnings growth. However, if AI is the panacea it is reported to be, this spend will be crucial reinvestment to secure its software dominance. Additionally, Azure's growth of +38%, while robust, didn't exceed analysts expectations and looked less compelling relative to the pace of spend and the bookings growth. The stock is down 23.5% in the first quarter.

**Intuit**, provider of financial software, was our most challenged holding this quarter, down 34.7% YTD as AI disruption fears gained significant traction. The bear narrative suggests that large language models and AI agents could bypass traditional tax and accounting software. We are uncertain whether Intuit's moat is strong enough to defend against emerging AI products and AI agents, as a result we closed the position at the beginning of February until we can draw stronger conviction.

**Meta** shares declined 13.3% during Q1 2026. This weakness occurred despite resilient fundamentals in the core advertising business, where Q4 2025 revenue grew 24% year-over-year and Q1 2026 guidance implied continued strong momentum. The primary drivers of the pullback were aggressive AI infrastructure investments and legal setbacks. This shift toward a more capital-intensive model has compressed operating margins and slowed near-term EPS growth, prompting investor concerns over the pace of returns on these AI initiatives. Additionally, back-to-back court losses in late March related to claims of addictive platform features harming young users triggered sharp sell-offs and raised fears of broader litigation risks. While short-term margin pressure and legal uncertainty have weighed on sentiment, Meta's core advertising business continues to demonstrate robust user engagement and AI-enhanced performance. Upcoming Q1 2026 earnings, expected in late April, should provide greater clarity on execution and cost management.

### **Activity**

Early in the quarter we reduced exposure to software by closing positions in Roper, Autodesk, S&P Global and Intuit. Due to extended valuations, we took profits from Thermo Fisher and EssilorLuxottica. We rotated into Eli Lilly, Bio-Techne, Waste Connections, Emcor, SGS, Apple, Eaton, L'Oreal, Netflix; whose fundamentals and valuations appeared relatively attractive.

### **Outlook**

Looking ahead, our view is unchanged that the setup for prospective returns appears attractive, but the near-term price action is likely to show increased volatility. During the quarter across our universe one-year forward earnings estimates rose 3.8%, yet prices contracted 6.4% resulting in a valuation derating of 9.8%. With valuations reset lower and many quality compounders trading at discounts to their historical averages, we are optimistic for long term future returns. As investors refocus on fundamentals, we expect these businesses to deliver the compounding growth that has historically rewarded patient investors.

### **Somerston Investment Team**

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