SOMERSTON ASSET MANAGEMENT

SOMERSTON MULTI ASSET FUND

INVESTMENT LETTER AS AT 30 SEPTEMBER 2026

Portfolio Objectives: To maximise risk adjusted returns through a diversified portfolio across global equities, bonds, commodities and alternative strategies.

Strategy: We adjust asset class exposure tactically and strategically to align with market cycles.

Performance: The Somerston Multi Asset Fund (US1 class) fell by -2.7% in the month and by -0.6% over the last three months. Our composite reference index fell by -1.2% in the month and rose by +0.1% over the last three months.

Rolling Performance

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year
US1	-2.7%	-0.6%	-3.1%	-3.5%	25.4%	14.5%
GB1	-2.8%	-0.7%	-3.2%	-3.6%	23.9%	10.3%

Top Ten Holdings

Name	% Fund
US I/L 1 1/8 15 Jan 2033	9.5%
Somerston Technology Fund	7.2%
US I/L 1 1/8 15 Oct 2030	6.0%
US I/L 1 1/8 15 Apr 2031	6.0%
MSCI World Index	5.9%
S I/L 0 1/8 06 Jan 2030	5.5%
UKTI 0 ¾ 22 Nov 2033	5.0%
Kilo Gold Bars (32.15 oz)	4.9%
S&P 500 Dividend Aristocrats ProShares	4.9%
Invesco S&P 500 Low Volatility	4.9%
Total for Top Ten	**59.8%**

Currency Allocation

USD	96.9%
NOK	3.0%
SEK	0.1%
Total	**100.0%**

Asset Allocation

Name	Long %	Short %	Net %	
Defensive	9.7%		9.7%	↓
Technology Equities	7.2%		7.2%	↑
Quality Equities	5.9%		5.9%	↓
Value	3.6%		3.6%	↓
Resources	3.1%		3.1%	↓
Small Caps	2.3%		2.3%	↓
Equity Long Short	8.2%	-8.5%	-0.3%	↓
Equities	**40.0%**	**-8.5%**	**31.5%**	↓
Inflation Linked Bonds	35.2%		35.2%	↑
Bonds	**35.2%**		**35.2%**	↑
Gold Bullion	4.9%		4.9%	↓
Copper Derivatives	2.7%		2.7%	↑
Silver Derivatives	2.5%		2.5%	↑
Commodities	**10.1%**		**10.1%**	↓
Volatility and CTA	20.3%		20.3%	↑
Total All Assets	**105.6%**	**-8.5%**	**97.1%**	↓

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Performance US1 (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017				0.8	2.6	-1.0	0.5	0.5	-0.6	0.6	-1.3	1.8	**3.9**
2018	4.7	-3.8	-1.0	-1.1	0.7	-0.2	0.9	0.2	0.0	-2.3	1.7	-0.5	**-1.0**
2019	1.1	-0.7	2.7	1.2	-1.9	5.5	0.6	0.6	-0.7	2.0	2.7	3.3	**17.5**
2020	-0.4	-6.0	-8.6	6.9	2.4	1.7	7.3	3.0	-2.3	-1.0	5.1	5.1	**12.6**
2021	-0.4	0.7	-0.2	2.2	2.4	-0.3	2.1	0.4	-5.2	5.1	-1.7	3.1	**8.1**
2022	-6.0	-1.2	2.5	-3.6	-1.5	-4.2	4.2	-3.9	-5.0	1.2	3.6	-1.6	**-14.9**
2023	2.4	-4.1	2.8	1.0	-1.4	1.9	2.4	-1.3	-2.6	-0.7	6.2	4.6	**11.4**
2024	-0.1	1.1	3.1	-2.0	3.6	0.4	0.8	2.0	1.3	-3.7	0.9	-2.3	**5.1**
2025	3.7	-0.1	-1.1	2.2	2.6	2.0	-0.6	1.6	1.3	1.9	-1.3	-1.0	**11.6**
2026	1.5	0.6	-4.0	2.0	-0.1	-2.5	0.6	1.6	-2.7				**-3.1**

Total return since March 2017: 58.3%

Performance GB1 (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017				0.7	2.5	-1.1	0.4	0.4	-0.7	0.5	-1.3	1.6	**2.9**
2018	4.3	-3.9	-1.2	-1.2	0.6	-0.4	0.7	0.1	-0.2	-2.5	1.6	-0.7	**-2.9**
2019	0.9	-0.8	2.6	1.1	-2.1	5.3	0.4	0.3	-0.8	1.7	2.6	3.1	**15.1**
2020	-0.4	-6.3	-8.6	6.8	2.4	1.7	7.1	3.0	-2.4	-1.1	5.0	5.0	**11.5**
2021	-0.4	0.7	-0.3	2.2	2.3	-0.2	2.1	0.5	-5.3	5.0	-1.7	3.0	**7.6**
2022	-5.9	-1.1	2.5	-3.7	-1.6	-4.4	4.1	-4.2	-5.3	1.2	3.3	-1.7	**-16.1**
2023	2.3	-4.3	2.6	0.9	-1.5	1.8	2.3	-1.3	-2.7	-0.7	6.1	4.5	**10.0**
2024	-0.1	1.1	3.1	-2.1	3.6	0.5	0.8	1.8	1.2	-3.8	0.9	-2.4	**4.4**
2025	3.8	-0.1	-1.1	2.0	2.6	2.0	-0.7	1.6	1.3	2.0	-1.4	-1.0	**11.4**
2026	1.5	0.7	-4.1	2.0	0.0	-2.5	0.6	1.6	-2.8				**-3.2**

Total return since March 2017: 43.2%

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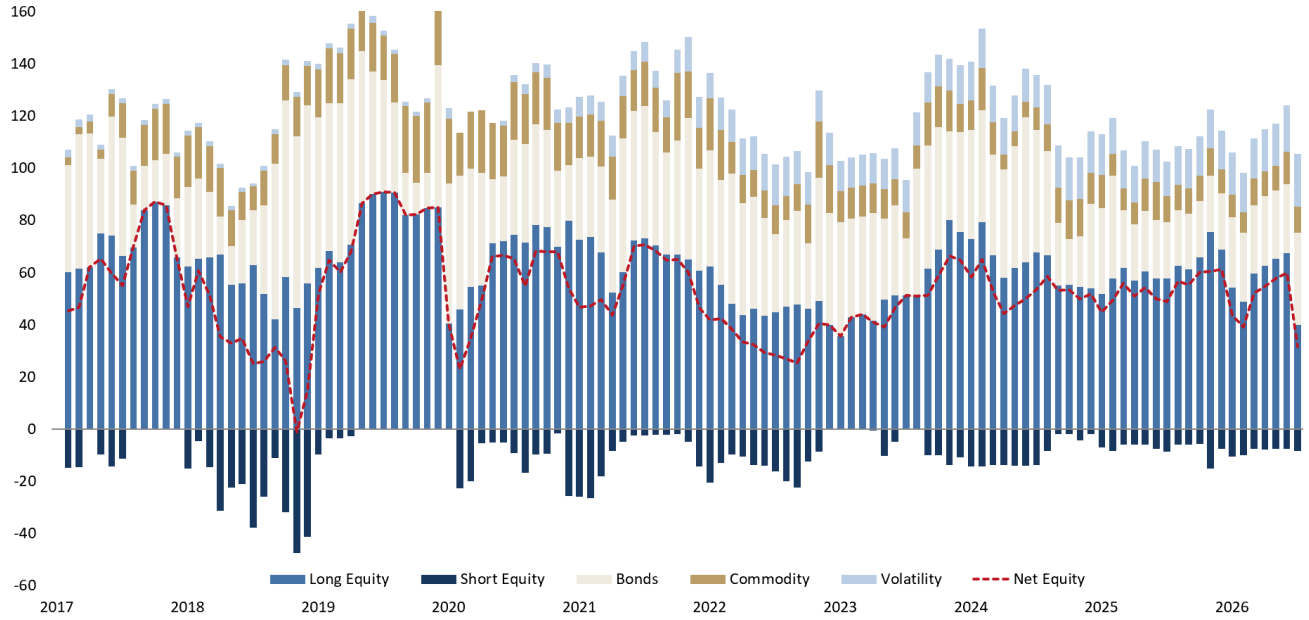
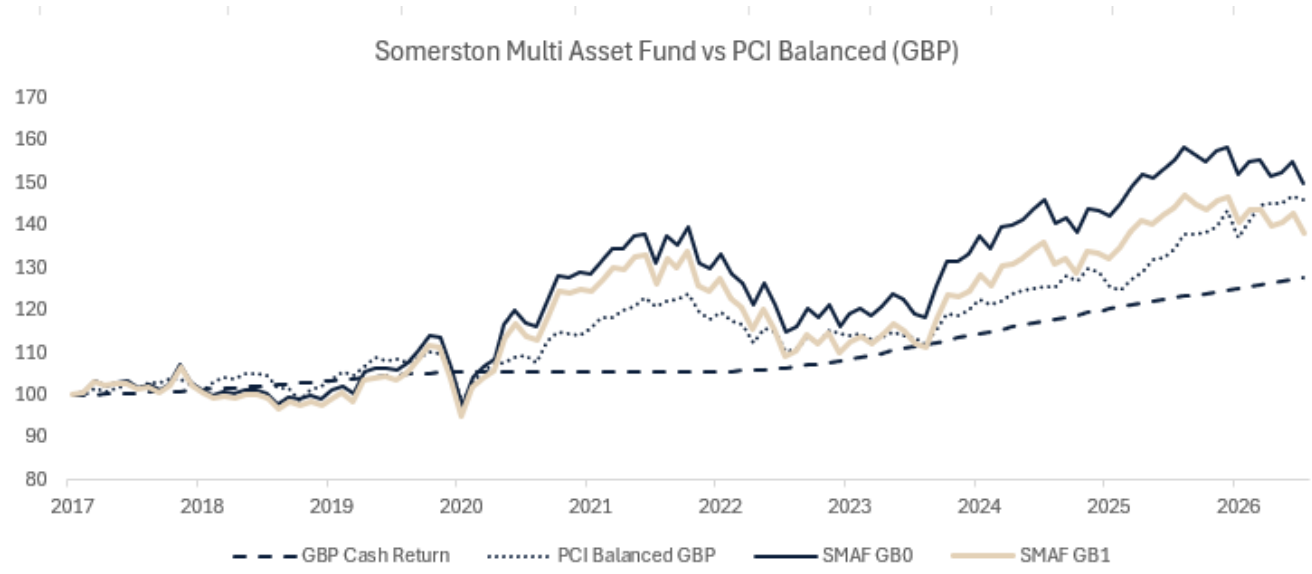
Evolution of Asset Allocation for Somerston Multi Asset Fund



Source: Somerston

Performance since inception



Source: Somerston, Suggestus, Bloomberg

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Commentary

The most important development has been the shift into 'Risk Off'. When our models shift in this way, there are crucial implications and a defined 'risk off' playbook.

Table 1: Asset class performance during 'Risk off vs Risk On' periods (last 25 years)

		MSCI World	Bloomberg Commodities Index	Gold	10 year Gov Bonds
Risk ON	Time : 73.2%				
	IRR	19.0%	7.9%	9.8%	2.0%
	Volatility	11.7%	15.0%	17.0%	4.3%
	Info.ratio	1.63	0.53	0.58	0.46
Risk OFF	Time : 26.8%				
	IRR	-16.5%	-8.8%	15.6%	5.8%
	Volatility	22.1%	19.2%	18.6%	5.9%
	Info.ratio	-0.75	-0.46	*0.84*	*0.97*

The Playbook

In a 'risk off' environment, equities (alongside other risk sensitive assets such as commodities and cyclical stocks (financials, industrials, discretionary), not only have a historic tendency to deliver terrible returns, but the volatility is almost double compared to returns during 'risk on' environments.

Conversely, on average, both Gold and Government bonds have delivered attractive risk adjusted returns during adversity.

Generalisations

While the general themes of the 'risk off' playbook are clear, there is always nuance with specific periods having variances to the 'typical' blueprint. For instance, while government bonds have a great track record during periods of adversity, they did very poorly in the risk off period between 2021-2022. That was a period dominated by demand inflation and a very low level of starting yields. Today, inflation seems to be more disruption led and yields are close to a 20 year high. While we are not yet positive on traditional government bonds, the stars are aligning.

Similarly, while technology companies have traditionally been highly susceptible in risk off environments, an argument can be made that capex is insensitive to interest rates or short-term cycles this time around. It is

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not a view we entirely subscribe to, but we acknowledge the unique circumstance that the roll out of AI may provide.

While gold as a risk off asset has context over centuries, it has already delivered a CAGR of 18.2% over the past five years. In contrast government bonds have suffered their worst rolling 10 year returns on record.

Strategy

1. We are at a significantly reduced level of overall equity exposure.
2. The equities we own are generally defensive/ low beta equities
3. At this time, we prefer shorter dated inflation linked bonds to traditional government bonds. That preference may change.
4. We own some precious metals but less than we would ordinarily, owing to historic levels of rolling returns.
5. We have a high level of exposure to long volatility strategies that profit from a rapid fall in prices.
6. We are holding short term T Bills.

Summary

We have published several longer articles this quarter via our Substack which describe our concerns about the structure of the market, the impact that capex is having on earnings and the interplay between higher long-term rates, interventions in capital markets and the potential growing distrust of governments.

The flip of our models to 'risk off' augment these concerns and drive an asset allocation that is both highly resilient and unlike any employed by other multi asset strategies.

We invite you to read our Technology Fund Q3 Letter here.

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