SOMERSTON ASSET MANAGEMENT

SOMERSTON MULTI ASSET FUND

INVESTMENT LETTER No.30 AS AT 30 SEPTEMBER 2024

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 (US0 class) rose by +1.3% in the month and rose by +4.3% over the last three months. Our composite reference index rose by +1.4% in the month and rose by +4.5% over the last three months.

Performance (%) US0 Class

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017				0.9	2.7	-0.9	0.6	0.6	-0.5	0.6	-1.2	1.9	**4.5**
2018	4.8	-3.7	-1.0	-1.0	0.8	-0.2	0.9	0.3	0.0	-2.3	1.8	-0.4	**-0.2**
2019	1.1	-0.6	2.8	1.3	-1.8	5.6	0.7	0.6	-0.6	2.1	2.8	3.3	**18.5**
2020	-0.3	-5.9	-8.5	6.9	2.4	1.8	7.4	3.1	-2.2	-1.0	5.2	5.2	**13.6**
2021	-0.3	0.8	-0.1	2.3	2.5	-0.2	2.2	0.5	-5.1	5.2	-1.7	3.2	**9.3**
2022	-5.9	-1.1	2.6	-3.5	-1.4	-4.1	4.3	-3.8	-4.9	1.3	3.7	-1.5	**-14.0**
2023	2.5	-4.0	2.9	1.1	-1.3	2.0	2.5	-1.2	-2.5	-0.6	6.3	4.7	**12.6**
2024	0.0	1.2	3.2	-1.9	3.7	0.5	0.9	2.0	1.3				**11.3**

Total return since inception 65.1%

Top Ten Equity Holdings

Name	**% Fund**
Alphabet Inc	2.9%
Meta Platforms Inc	2.8%
LVMH	2.6%
Mastercard Inc	2.5%
Assa Abloy AB-B	2.3%
Microsoft Corp	2.0%
Visa	1.9%
Diageo PLC	1.8%
ASML Holding NV-NY Reg Shs	1.7%
EssilorLuxottica SA	1.6%
Total for Top Ten	**22.1%**

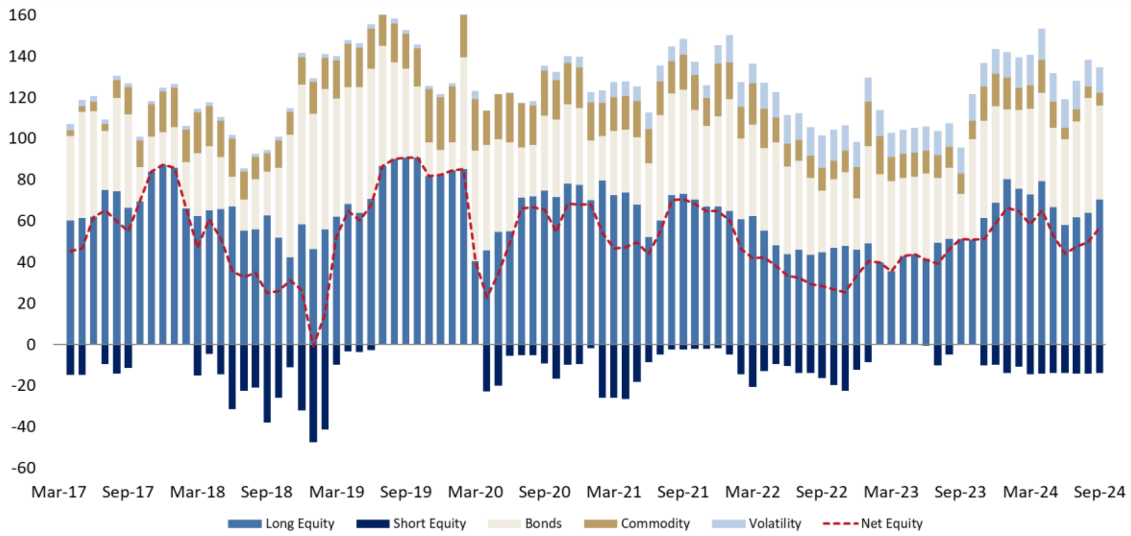
Currency Allocation

USD	76.1%
SEK	6.9%
GBP	5.3%
AUD	5.0%
NOK	5.0%
CHF	1.2%
EUR	0.6%
Total	**100.0%**

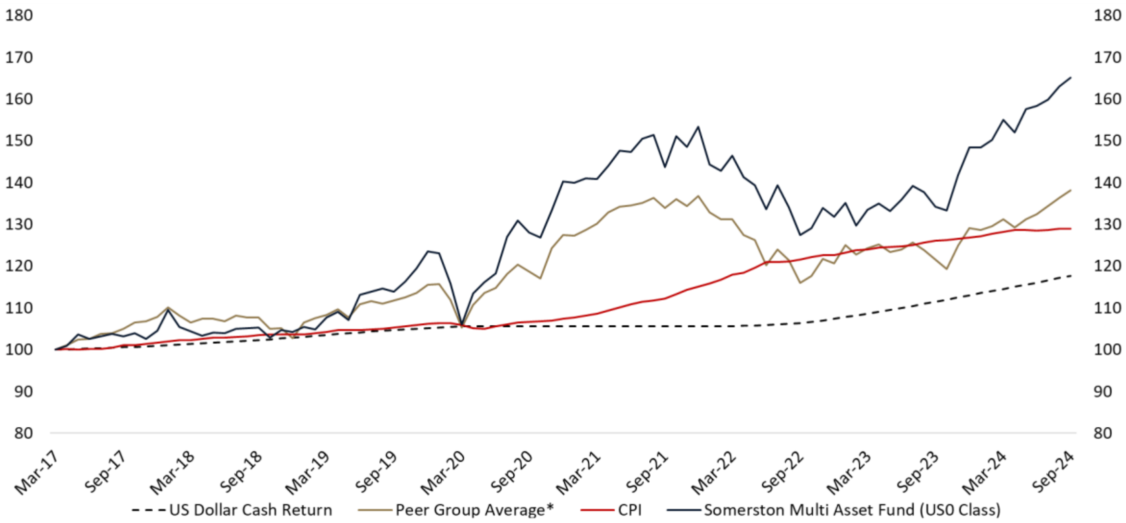
Asset Allocation

	Long	**Short**	**Net**	
Core Equity	39.3%		39.3%	↓
Real Estate Equities	1.5%		1.5%	↓
US Equities	7.6%		7.6%	↑
Defensive Equities	5.1%		5.1%	↓
Equity Long Short	14.1%	-13.9%	0.2%	↓
Equities	**67.6%**	**-13.9%**	**53.7%**	↑
Corporate Bonds	2.3%		2.3%	↔
Euro-Bund Futures	6.9%		6.9%	↓
US Govt 2 yr. Bond	10.6%		10.6%	↓
US Govt 10 yr. Bond	7.2%		7.2%	↓
Inflation Linked Bonds	20.1%		20.1%	↑
Bonds	**47.0%**		**47.0%**	↑
Gold Bullion Derivatives	6.0%		6.0%	↑
Gold Miners Equities	2.8%		2.8%	↑
Commodities	**8.8%**		**8.8%**	↑
Volatility and CTA	12.4%		12.4%	↓
Total All Assets	**135.8%**	**-13.9%**	**121.9%**	↓

Evolution of Asset Allocation for Somerston Multi Asset Fund



Performance since inception



* combines the top ten largest funds within our peer group with an aggregate AUM of over $100bn

Performance

- The Fund appreciated +4.3% over Q3.
- Core Equites contributed +1.3% in the third quarter, we invite you to read our latest commentary here.
- Our underweight equity allocation detracted from relative performance.
- The bond strategy added +1.1% to performance supported by the overweight allocation
- Macro Equity positions added +0.9%.
- Commodities and precious metals added +0.6% to performance and volatility detracted -0.3%.

Commentary

SMAF Performance Commentary

During the quarter US Equity markets were 5.5% higher and excluding the US, equity markets were 6.8% higher. This ‘snapshot‘ of performance masks some wild volatility. Emerging markets were exceptional and reacted abruptly to China’s four-day stimulus announcements.

Outlook

For several months we observed a trinity of high valuations, deteriorating economic reports and a complacent market structure. In recent weeks, we observe significant offsetting developments that lessen our caution - albeit perhaps only for the medium term.

1. The combination of a cooler summer, an economic slowdown, a significantly higher contribution from alternative energy sources in Europe, and a poorly executed OPEC strategy, has caused energy prices to fall substantially. On a Dollar neutral basis WTI crude is down 15% in the last 6 months, trading below $70 a barrel. Energy costs are one of the most significant burdens for industry and consumers alike, and lower energy prices are a material boost for the overall economy. Over the last 25 years, a strategy of buying equities whenever oil is down more than 5% over a 6-month period, has not only yielded returns that are twice that of average but does so with lower risk.
2. There has been a raft of interest rate cuts from Central Banks in both Developed and Emerging Economies. This is causing liquidity conditions to improve. Over the last 50 years, a strategy of buying equities (S&P500) when the Federal Reserve is cutting rates, bond yields are falling and the S&P itself is above its average level over the last 200 days, the S&P has gone on to deliver high teen annualised returns.
3. The 'safety trade' is overbought. We look at the performance of Gold vs Copper, the Utility sector vs S&P, Swiss Franc versus Australian Dollar and change in 30 year yields. All four series are close to their highest level in the past 100 days.

In summary, high valuations remain and the market is complacent on several measures, but on the heels of a wave of Central Banks cutting interest rates, global liquidity is once again reaccelerating in a meaningful way. Liquidity has been **<u>the</u>** trump card to all the Global Economy ills over the past 15 years and, irrespective of the macro view, our outlook needs revising in this context.

Chart 1 shows expected earnings growth over the next 12 months from the 500 largest companies in America ("S&P 500") is 13.37% (Blue). This is robust earnings growth by any historical standard. However, the US Conference Board Leading Economic Indicator remains deeply negative (red), yet to recover from the 2021/2022 slowdown. This chart clearly illustrates that while the equity market has been driven by a handful of stocks, the real economy is extremely lacklustre. With inflation trending down and close to target, **Central Banks now feel empowered to turn their attention to address the real economy** and do what they can to arrest the deterioration in employment. The US Federal Reserve's 0.5% rate cut was aggressive and showed a distinct intent to 'save' employment. If successful, we are likely to see the stock rally broaden out. Accordingly, over the medium term, we consider the most probable path for equity markets (and risk assets in general) is once again to the upside.

Chart 1 – Expected earnings growth (blue) vs Leading Economic Indicators (red)

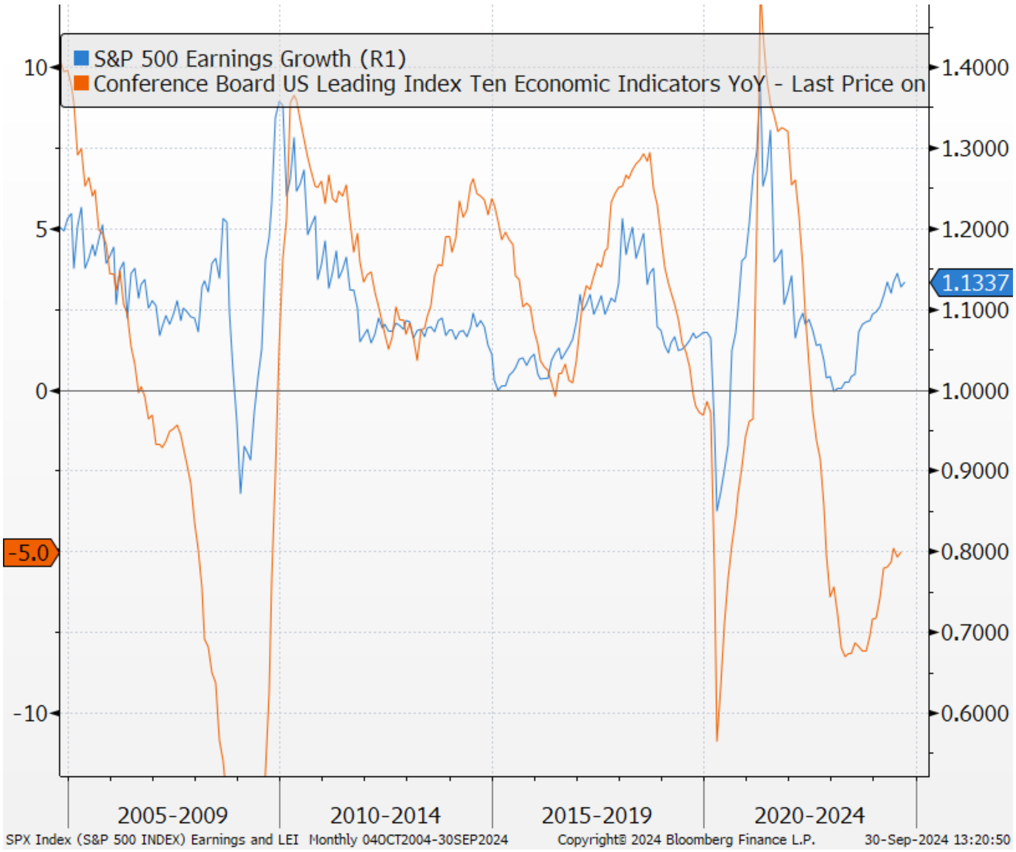
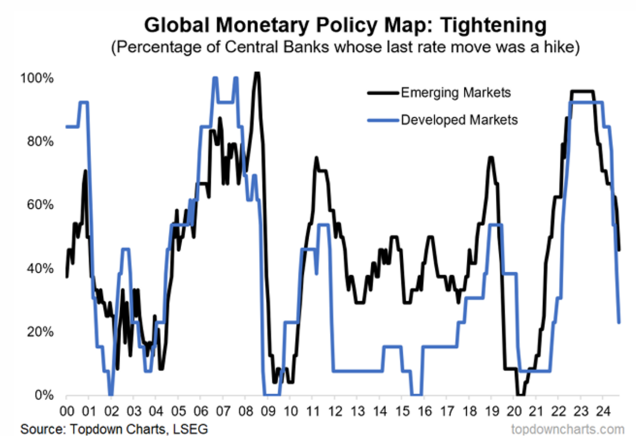
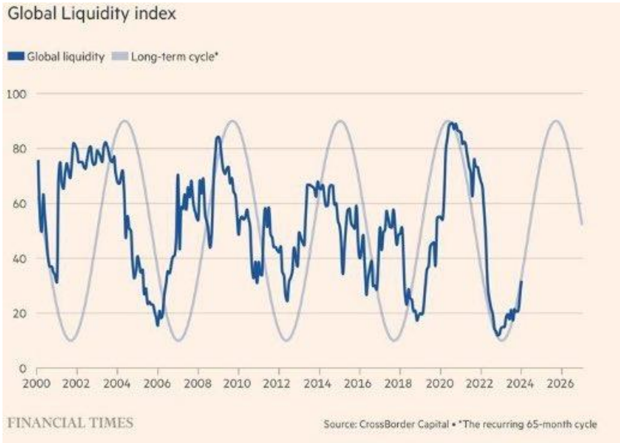


Chart 2 - Left shows how widespread interest rate cuts are amongst global central banks and, the chart to the right shows the resurgence in global liquidity as measured by Cross Boarder Capital

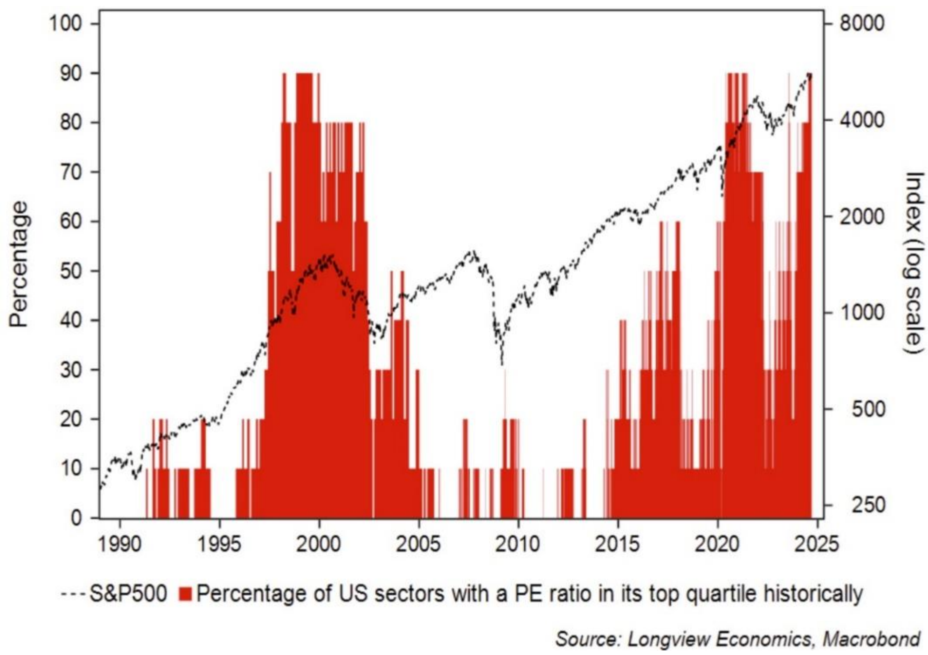




Strategy

Though the revised outlook gives cause for optimism, the chart below (constructed by Longview Economics) shows the S&P versus the percentage of sectors that have valuations in their highest historical quartile. It clearly shows how widespread over valuation has become.

Chart 3 - S&P versus the percentage of sectors that have valuations in their highest historical quartile.



Fortunately, there are several assets that do not suffer these extremes in valuation and remain attractive, both in valuation terms and with high sensitivity to improving liquidity.

- Within equities, we find compelling valuations in Europe, Australasia and Far East (EAFE) both in Large cap and Small caps.
- REIT's are both relatively attractively valued and will benefit from the downward trend in interest rates.
- Within the US, the cheapest stocks remain within historical ranges of the cohort of cheap stocks.
- Within currencies we find compelling valuations for the Scandinavian currencies and Australia, with the benefit of a US interest rate cutting cycle that is likely to put downward pressure on the US Dollar.
- Within commodities, Silver has largely underperformed Gold but appears to be breaking out above $30 and would need to surpass its all-time highs above $50, if it is to catch up with gold.
- Finally, within bonds, inflation linked bonds remain on attractive terms.

In summary, the strategy has evolved to benefit from a continuation in the liquidity upswing, without taking undue valuation risks. Though we should note, due to the overvalued and complacent nature of financial markets, we remain underweight both equities and bond duration, and we are also increasing exposures to long volatility strategies.

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