SOMERSTON
ASSET MANAGEMENT

SOMERSTON CORE EQUITY FUND

INVESTMENT LETTER AS AT 31 DECEMBER 2024

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 -2.1% in the month and fell by -3.2% over the last three months. The reference index fell by -3.0% during the month and fell by -3.2% over the last three months.

Performance US1 (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017				1.2	5.4	-0.2	0.4	-0.1	1.9	1.8	-1.8	2.1	**10.9**
2018	6.2	-4.6	-1.9	0.4	1.2	1.2	4.3	1.3	0.4	-8.5	2.7	-9.0	**-7.2**
2019	6.2	4.2	3.3	3.8	-4.0	5.7	0.6	0.8	-1.6	1.3	5.1	2.5	**31.1**
2020	0.9	-7.3	-14.3	12.5	5.8	2.6	4.4	5.5	-3.4	-3.8	9.7	2.9	**13.0**
2021	-0.6	1.7	3.3	5.0	0.2	3.4	3.1	2.2	-5.1	6.3	-1.6	2.9	**22.2**
2022	-8.3	-4.8	4.4	-9.4	-0.2	-8.8	10.4	-4.5	-8.6	6.6	4.7	-4.8	**-23.1**
2023	2.2	-3.8	5.3	1.8	-1.6	4.7	3.7	-1.1	-5.5	-2.8	8.9	4.6	**17.0**
2024	2.6	3.3	1.6	-4.2	4.0	2.1	0.3	3.3	0.8	-3.5	2.5	-2.1	**10.8**

Total return since March 2017: 85.4%

Geographical Allocation

Region	**% Fund**
North America	74.2%
Europe	22.9%
Cash and Equivalents	2.9%

Sector Allocation

Sector	**% Fund**
Information Technology	30.8%
Health Care	14.2%
Financials	15.0%
Communication Services	15.5%
Consumer Discretionary	9.5%
Industrials	6.1%
Consumer Staples	6.0%
Cash and Equivalents	2.9%

Top Ten Holdings

Name	**% Fund**
Alphabet Inc	8.3%
Meta Platforms Inc	7.2%
Mastercard Inc	6.9%
Synopsys Inc	5.7%
Microsoft Corp	5.6%
Visa	5.6%
LVMH	5.4%
Amazon.com Inc	4.1%
Intuit Inc	4.1%
EssilorLuxottica SA	4.0%
Total for Top Ten	**56.9%**

This factsheet shows the performance of Somerson'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.

GB1 Class Performance: The Core Equity Fund (GB1 class) fell by -2.2% in the month and fell by -3.4% over the last three months.

Performance GB1 (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017				1.2	5.4	-0.2	0.4	-0.1	1.9	1.8	-1.8	2.1	**10.9**
2018	6.2	-4.6	-1.9	0.4	1.2	1.2	4.3	1.3	0.4	-8.5	2.7	-9.0	**-7.2**
2019	6.2	4.2	3.3	3.8	-4.0	5.7	0.6	0.8	-1.6	1.3	5.1	2.5	**31.1**
2020	0.9	-7.3	-14.3	12.5	5.8	2.6	4.4	5.5	-3.4	-3.8	9.7	2.9	**13.0**
2021	-0.6	1.7	3.3	5.0	0.2	3.4	3.1	2.2	-5.1	6.3	-1.6	2.9	**22.2**
2022	-8.3	-4.8	4.4	-9.4	-0.2	-8.8	10.4	-4.5	-8.6	6.6	4.7	-4.8	**-23.1**
2023	2.2	-3.8	5.3	1.8	-1.6	4.7	3.7	-1.1	-5.5	-2.8	8.9	4.6	**17.0**
2024	2.6	3.3	0.0	-4.2	3.9	2.0	0.3	3.0	0.7	-3.6	2.5	-2.2	**9.9**

Total return since March 2017: 84.0%

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

Commentary

The Core Equity Fund US1 Class fell -3.2% in the fourth quarter and gained 10.8% for the full year.

Top contributors for the year were **Alphabet** (+2.3%), **Visa** (+1.8%), and **Mastercard** (+1.6%). Top detractors were **Adobe** (-1.0 %), **Novo Nordisk** (-1.0%) and **LVMH** (-0.9%).

Cash stands at 2.9%.

Activity

Since our Q3 letter we sold our position in **UnitedHealth Group, SGS, Reckitt Benckiser** and **Diageo**. We established new positions in **Unilever**, **IDEXX Laboratories** and **S&P Global**.

Comments

Global equity markets delivered a strong performance in 2024, which was largely unexpected by analysts who began the year with much more muted expectations. A primary driver of performance for the year was the continued strength of US technology stocks as companies prioritised AI investment. This was a factor that contributed to narrow leadership in the S&P 500 compared to history. Indeed, it was another year of the market-cap-weighted S&P 500 outperforming the equal weighted, something that has been a trend over the past few years, but an oddity compared to the longer-term history.

The fund returned 10.8%, which lagged our reference index by 7.7%. During the year, the portfolio's turnover was higher than it has been in recent history. We executed a number of changes, which have been detailed in prior letters, to reposition the portfolio. We have been pleased with the changes made to the portfolio and note that all of the fund's underperformance in the year was realised in the first six months of 2024, prior to making the majority of portfolio changes. While 2025 presents a number of challenges to economies and markets globally, the portfolio is strategically positioned to navigate these conditions and capitalise on potential opportunities.

Portfolio Leaders

Alphabet was the portfolio's top contributor in 2024, with the stock posting a 36.0% total return for the year. This strength was despite the overhang from two high-profile DOJ cases, which weighed on the stock price between July and September and caused a 22% pullback. As discussed in our Q3 letter for the Technology Fund, we do not believe the risks to the company are as material as the share price reaction implied. We therefore saw the weakness as offering an attractive risk/reward trade-off and added to our position to make Alphabet the largest holding. The trade was value-additive to overall performance, with the stock posting a strong finish to 2024. Despite the legal overhang, Alphabet's fundamentals in the year were impressive. Google Search benefitted from the integration of AI features into its algorithm, increasing ROIs for advertisers and encouraging incremental ad spending. Alphabet's Google Cloud Platform also performed well due to demand for AI services. We are encouraged by the Cloud business' performance relative to its main peers, Amazon's AWS and Microsoft's Azure, and see ample runway for further growth in 2025 and beyond.

Nvidia had another stellar year, with the share price gaining 171.2%. It was all the more impressive considering this followed a 238.9% increase in 2023. Remarkably, the share price growth over the past two years has been entirely driven by improving fundamentals rather than multiple expansion. Demand for AI technologies continued to support purchases of GPUs and other data centre computing equipment. We don't believe the growth story is over and continue to see multiple opportunities for ongoing earnings growth. While 2023's strength was all about Nvidia's GPUs for data centres, 2024 highlighted the strength in Nvidia's broader product suite. Data centre networking and automotive solutions performed well. The company also released the Jetson Orin Nano Super, a $250 small form-factor computer that can performance inference on LLMs locally. The release impressed industry developers and showed Nvidia's ambitions to expand its AI presence out of the datacentre to become more relevant for 'edge' applications, such as robotics. Though it is unlikely to move the dial for revenue in the near term, it is positive to see Nvidia succeeding in different parts of the AI ecosystem. As mentioned, the strong fundamental growth means that though the valuation is not cheap compared to the index, the shares trade on a multiple that is comparable to recent history. We continue to see Nvidia as an attractive investment opportunity.

Mastercard was a strong contributor to the portfolio during the year, with the stock achieving a 24.2% total return. Cross-border revenue, which is among the most lucrative transaction type for Mastercard, held up well in 2024 as the demand for international travel remained robust. Though there were pockets of weakness in US spending volumes, we believe the setup for 2025 is encouraging. The secular drivers of credit and debit card usage are intact, and the market is far from mature. Indeed, at Mastercard's investment day, management highlighted the $11tn in addressable global consumer flows that are currently done by cash and cheque. Value-added services, such as cybersecurity, continued to be an important driver of earnings growth throughout the year. Not only is the value-added segment an attractive avenue for growth, but it also provides diversification to the core payment network revenue.

Portfolio Laggards

It was a volatile year for **Adobe** stock as the market oscillated on whether the company would benefit from or be displaced by the advent of AI. Ultimately, the stock lost 25.5% during 2024 and was the portfolio's largest detractor. Though Adobe's AI product, Firefly, has been impressive and has seen its use accelerate throughout the year, rising competition from the likes of OpenAI's Sora caused investors to reconsider Adobe's competitive position. On earnings calls, management struggled to inspire the same level of excitement seen at other software companies, such as Salesforce. Despite this, Adobe retains a dominant role in the video editing element of the content creation process, and still commands an important position in the digital market ecosystem.

Novo Nordisk stock came under pressure in 2024 following a strong first half and ended the year 16.9% lower. The two leaders in the weight-loss market, Novo Nordisk and Eli Lilly, saw their stock prices fall as investors grew concerned about the competitive pressure from 'copycat' drugs. In addition, Novo Nordisk experienced a sharp decline following a trial result for its CagriSema drug which fell short of managements guide. While we remain cognisant of the risk of rising competition, we view Novo's early mover advantage as key to the company capitalising on the material growth for weight loss drugs in coming years. Following the share price decline, we consider the valuation to be attractive for such a compelling growth story.

LVMH continued to feel the pressure from a slowdown in luxury spending in China. Though the company was more insulated than those that target aspirational luxury spending, LVMH still felt the pinch from weaknesses in its leather goods and alcoholic drinks businesses. During the year, we reduced our position in the stock to reflect these risks, but we continue to view LVMH as a key long-term holding. The business is well-positioned to weather the macroeconomic environment due to its diversified product portfolio composed of best-in-class brands. In the company's 37-year history, it has navigated through periods of weaker spending and emerged stronger under the leadership of Bernard Arnault.

Activity

During the final quarter, we sold our position in the US health insurer, **UnitedHealth Group**. UnitedHealth Group had been a positive contributor to the fund's performance in 2024, gaining 13.7% until our first sale. However, with the election of Donald Trump to the White House, we have grown cautious about the managed care space in the US. We expect a period of heightened scrutiny on healthcare spending under the Trump administration, with UnitedHealth Group's role as a 'Pharmacy Benefit Manager', through its business Optum, as a key risk. Given the price gains seen in 2024, we no longer considered UnitedHealth Group to offer an attractive risk/reward profile and reallocated the capital to higher-conviction ideas.

We established a position in **Unilever** during the quarter. Unilever has been held in the portfolio in the past, so it is a company we know well. Management has an ambitious strategy to improve group volume growth by selling parts of its non-core food business and investing the proceeds into the group's top-performing brands. Unilever has an experienced management team, led by Hein Schumacher, who has a positive track record in portfolio optimisation from his time as CEO of Royal FrieslandCampina. Shares came under pressure in the final quarter of the calendar year, so we initiated a starter position. We will look to build on our holding in 2025.

IDEXX Laboratories was added to the portfolio during the quarter. IDEXX is a global leader in veterinary diagnostic systems and has a record of delivering strong financial performance, driven by its best-in-class product portfolio and resilient recurring revenue streams. Demand for diagnostic tools in veterinary practices benefits from favourable structural tailwinds, such as greater pet ownership, higher spending by younger consumers, and longer pet life expectancy. The company experienced a period of cyclical weakness in 2024 as clinic visits were weaker than market expectations. Nevertheless, IDEXX is a high-quality business, and we remain positive on the long-term outlook for growth, so we took advantage of valuation weakness to establish a position.

S&P Global provides credit rating, market intelligence and market indices. The high-quality company possesses a wide competitive moat driven by its scale and reputation for quality. We therefore see the company as well-positioned to benefit from the long-term trend of greater use of data analytics and risk management in financial markets. The company has several idiosyncratic opportunities to create shareholder value, such as realising synergies from the IHS Markit integration and driving recurring revenue. Similar to our other purchases, we initiated the position following a period of weakness caused by market factors that do not undermine the fundamental investment case.

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