# SOMERSTON CORE EQUITY FUND

SOMERSTON ASSET MANAGEMENT

INVESTMENT LETTER AS AT 31 MARCH 2025

**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 -7.2% in the month and fell -4.6% over the last three months. The reference index fell by -5.6% during the month and fell by -2.8% 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** |
| **2025** | 4.8 | -1.9 | -7.2 | | | | | | | | | | **-4.6** |

*Total return since March 2017: 76.9%*

**Geographical Allocation**

| Region | % Fund |
|---|---|
| North America | 73.3% |
| Europe | 24.0% |
| Cash and Equivalents | 2.7% |

**Sector Allocation**

| Sector | % Fund |
|---|---|
| Information Technology | 28.5% |
| Health Care | 15.6% |
| Communication Services | 14.5% |
| Financials | 12.9% |
| Consumer Discretionary | 10.3% |
| Consumer Staples | 8.8% |
| Industrials | 6.8% |
| Cash and Equivalents | 2.7% |

**Top Ten Holdings**

| Name | % Fund |
|---|---|
| Meta Platforms Inc | 7.4% |
| Alphabet Inc | 7.1% |
| Synopsys Inc | 5.8% |
| Amazon.com Inc | 5.6% |
| Microsoft Corp | 5.2% |
| Mastercard Inc | 4.9% |
| LVMH | 4.7% |
| Novo-Nordisk ADR | 4.4% |
| ASML Holding NV-NY Reg SHS | 4.4% |
| Visa | 4.3% |
| **Total for Top Ten** | **53.7%** |

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 -7.0% in the month and fell by -4.4% 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** |
| **2025** | 4.8 | -1.9 | -7.0 | | | | | | | | | | **-4.4** |

*Total return since March 2017: 76.0%*

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

## Commentary

The Core Equity Fund US1 Class fell 4.6% in the first quarter of 2025, underperforming our reference index by 1.8%. Global equity markets faced a challenging start to the year, with volatility driven by shifting macroeconomic expectations and sector-specific headwinds. A key trend over the past three months has been the divergence between technology stocks, which faced profit-taking after a robust 2024, and more defensive or operationally resilient sectors, which demonstrated greater stability. The continued strength of the US consumer, supported by a tight labour market, bolstered certain consumer-facing businesses, while uncertainties around trade tariffs and capacity constraints in high-growth areas like AI weighed on others.

When fear grips the market, stock correlations increase, and even good companies see their share prices dragged down by wider trends. In times like these, we focus on what we see as one of our key advantages: our long-term horizon. Though painful in the short term, we are finding valuations more compelling, and the activity in the portfolio reflects this. Neither we nor any market participant can say when the market will reach a bottom. However, we are confident that by deploying capital at more attractive valuations, we have positioned the portfolio to benefit in the medium to long term.

Top performers for the quarter were EssilorLuxottica (+17.5%), Visa (+11.1%), and Otis (+11.9%). The primary detractors were Alphabet (-18.2%), Novo Nordisk (-18%), and Nvidia (-19.3%).

**Portfolio Leaders**

**EssilorLuxottica** was a standout performer, gaining +17.5% and contributing +0.7% to the portfolio. The Lens, Eyewear and Sunglass company reported a strong Q4 and full-year 2024, with revenue growth of 9.2% in the final quarter and notable acceleration in North America. Its success has been underpinned by innovative product lines, such as the Ray-Ban Meta smartglasses, which hit two million units sold in 2024, and the Stellest brand, which saw 50% revenue growth in China due to its effectiveness in myopia management. The company's strategic push into wearables and its collaboration with Meta signal a thematic shift towards smart eyewear, enhancing its growth profile. We remain encouraged by its ability to blend innovation with a robust portfolio of premium brands.

**Visa** rose +11.1%, adding +0.6% to the fund's performance. The payment company delivered a strong Q1, with net revenue up 10% year-on-year, driven by a 16% increase in cross-border volume and resilient US consumer spending. Its focus on fraud prevention, bolstered by the recent Featurespace acquisition, and advancements in tokenisation have strengthened its competitive edge. Visa's ability to capitalise on digital payment adoption and international travel recovery underscores its high-quality, recurring revenue model, making it a steady performer in an uncertain market.

Elevator company **Otis** gained +11.9%, contributing +0.3% to the portfolio. Despite a weak new equipment market, Otis maintained a 20% market share in 2024, with its service business—high-margin and recurring—driving growth. Modernisation orders surged 18%, particularly in Asia Pacific, where ageing lifts are being upgraded, and the company captured share in China following stimulus measures. The resilience of its service segment, coupled with a record-high EBIT margin, reinforces our conviction in Otis as a long-term value driver.

**Portfolio Laggards**

**Nvidia** declined -19.3%, detracting -0.7% from the portfolio. While its Q4 earnings beat estimates, with strong demand for Blackwell GPUs and a doubling of enterprise revenue, the stock faced pressure from profit-taking after a stellar 2024. Gross margins weakened due to the costly rollout of its next generation of chips (Blackwell), though management expects a recovery to the mid-70s by year-end. Export controls on China also introduced uncertainty, contributing to the sell-off. Despite this, we see the underlying demand for AI compute as robust, supporting Nvidia's long-term growth trajectory.

**Alphabet** fell -18.2%, costing the portfolio -1.4%. Its Q4 revenue of $81.6 billion missed consensus slightly, with Google Cloud growth hampered by capacity constraints despite a 30% rise to $12 billion. Search and YouTube performed well, buoyed by AI innovations like Circle to Search and a reinvented Google Shopping experience, but the market reacted negatively to a $75 billion capex plan for 2025, exceeding expectations. China's revived antitrust probe into Android added further pressure. We view the sell-off as overdone, given Alphabet's leadership in AI and cloud monetisation potential.

**Novo Nordisk,** a leader in Diabetes management and weight loss drugs, dropped -18.0%, detracting -0.8%. After a strong Q4 2024, with revenue 6.7% above consensus due to US insulin adjustments, the stock weakened following disappointing CagriSema trial data in early 2025 and pricing pressure from US Medicare negotiations under the Inflation Reduction Act. However, the amycretin trial, showing 22% weight loss, bolstered confidence in its pipeline. Competition is rising, but Novo's early-mover advantage and manufacturing scale keep it well-positioned in the expanding obesity market. We see the current valuation as attractive.

**Activity**

During the quarter, we increased our Novo Nordisk position, reflecting our belief in its long-term growth story despite near-term volatility, and closed our position in Eli Lilly. The valuation difference between these two companies is now extreme in our view. We exited Adobe, where competitive pressures and a lack of conviction in its AI execution outweighed its strengths, and opened positions in Constellation Brands and Oracle. Constellation Brands offers a premium beer portfolio resilient to macroeconomic headwinds, while Oracle's $130 billion backlog and cloud revenue guidance signal strong AI-driven growth. We reduced EssilorLuxottica to lock in gains after its strong run and added to IDEXX Laboratories, capitalising on its leadership in veterinary diagnostics and structural tailwinds from pet ownership trends.

**Comments**

The first quarter of 2025 highlighted the importance of balancing growth and resilience in a volatile market.

While technology stocks faced headwinds from capacity constraints and geopolitical risks, companies with strong fundamentals and defensive qualities—like EssilorLuxottica, Visa, and Otis—provided stability. Our portfolio adjustments reflect a focus on high-conviction ideas with durable competitive advantages. Despite the 4.6% decline, we are encouraged by the resilience of our holdings and their positioning for the medium term. Global equity markets remain sensitive to tariff uncertainties and AI investment cycles, but we believe our concentrated approach focussed on fundamentals will deliver value as these trends evolve.

**Somerston Investment Team**

Nick.Wakefield@somerston.com

Arthur.Castle@somerston.com

Emily.Brown@somerston.com

**Investor relations:** ir@somerston.com

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