SOMERSTON ASSET MANAGEMENT

SOMERSTON MANAGED GROWTH FUND

INVESTMENT LETTER AS AT 30 SEPTEMBER 2026

Portfolio Objectives: The Fund seeks to grow capital over the medium term by predominantly investing in global equities and managing risks through tactical allocation and portfolio construction.

Strategy: The main focus of the strategy is to deliver attractive total returns through investment in global equities. Where the manager considers the manifestation of risk likely, risks may be reduced materially.

Performance: The Somerston Managed Growth Fund (US0 Class) fell by -2.7% in the month and by -1.0% over the last three months.

Rolling Performance

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year
US0	-2.7%	-1.0%	-1.1%			
GB0	-2.8%	-1.1%	-1.3%			

Top Ten Holdings

Somerston Technology Fund	10.7%
MSCI World Index	10.5%
US I/L 1 1/8 15 Apr 2031	9.5%
S&P 500 Dividend Aristocrats Prc	5.8%
Invesco S&P 500 Low Volatility	5.8%
Vanguard S&P 500 Value Fund	4.3%
Kilo Gold Bars (32.15 oz)	4.2%
1798 Bear Convexity Fund	4.1%
Ambrus Volatility Fund SP	3.8%
One River Dynamic Convexity	3.1%
Total for Top Ten	**62.0%**

Currency Allocation

USD	100.0%
Total	**100.0%**

Asset Allocation

Name	Long %	Short %	Net %	
Defensive	11.7%		11.7%	↓
Technology Equities	10.7%		10.7%	↑
Quality Equities	10.5%		10.5%	↓
Value	4.3%		4.3%	↓
Resources	3.7%		3.7%	↓
Small Caps	2.7%		2.7%	↓
Equity Long/Short	5.8%	-5.4%	0.4%	↓
Equities	**49.4%**	**-5.4%**	**44.0%**	↓
Inflation Linked Bonds	9.5%		9.5%	↑
Bonds	**9.5%**		**9.5%**	↑
Gold Bullion	4.2%		4.2%	↑
Silver Derivatives	2.2%		2.2%	↓
Copper Derivatives	1.8%		1.8%	↓
Commodities	**8.2%**		**8.2%**	↓
Volatility and CTA	16.5%		16.5%	↑
Total All Assets	**83.6%**	**-5.4%**	**78.2%**	↓

Performance calculations for the month are based on estimates and will be subject to change.

Performance US0 (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2025												-1.3	**-1.3**
2026	1.5	-1.4	-5.2	4.6	2.7	-1.8	0.4	1.4	-2.7				**-1.1**

Total return since December 2025: -2.3%

Performance GB0 (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2025												-1.4	**-1.4**
2026	1.5	-1.4	-5.4	4.5	2.7	-1.8	0.4	1.4	-2.8				**-1.3**

Total return since December 2025: -2.6%

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*

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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 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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