18 July 2025

Somerset Global Fund

June 2025 Investor Report

Dear Investors,

The Somerset Global Fund commenced investing in June and the fund's initial capital was gradually deployed over its first month of trading. By June 30, 76% of the fund's assets were invested in international equities across 25 positions. The fund also held 6% of its assets in gold bullion, with the remaining 18% held in cash in Australian Dollars.

The fund returned +1.1% in June. While nice to be off the mark in positive territory, the reality is we don't see short term moves as particularly meaningful. As we outlined in our Introductory Investor Letter, we invest with a 5-year horizon, and as such, long-term investment results are the real focus.

Whilst only a brief period has passed since we released our May Introductory Letter, we are pleased to now be able to share further details of how the fund has been initially invested.

As we explained in our Introductory Letter, the current investment environment is marked by strong economic conditions, with US unemployment at 4.2%, and a relatively uncertain short-term outlook due to President Trump's tariff regime. The outlook for inflation is especially uncertain, as tariffs tend to put upwards pressure on prices of imported goods. Fortunately for consumers, oil prices have been largely unaffected by the recent Israel-Iran conflict.

With this backdrop, we are therefore focusing on businesses with strong pricing power and secular tailwinds that are well placed to both withstand inflation and grow earnings, even if the economy slows.

While it is one thing to be an excellent business, it's another to trade at an attractive long-term valuation. When we evaluate investments, we seek opportunities where, on average, we believe we can double our money at least every six years. These sorts of investment metrics result in compound returns of +12% per annum.

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Geographic & Industry Exposure

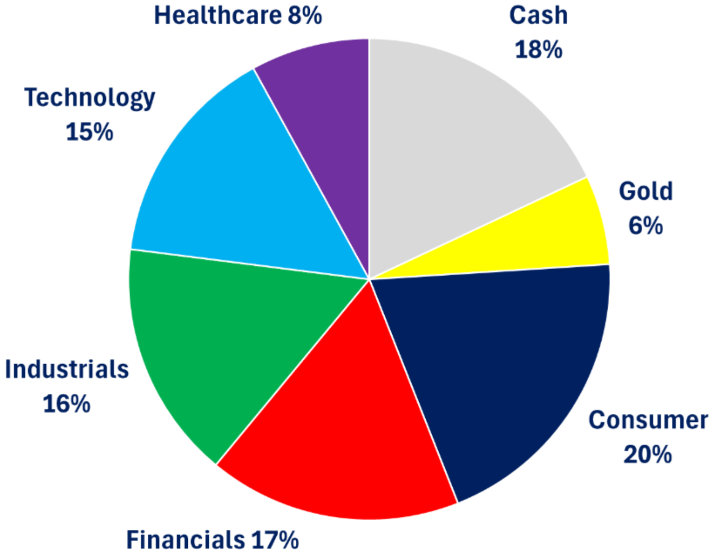
The fund's equities investments are all listed in North America and Western Europe, along with a single holding in South Korea. Given the shifting geopolitical risks the world currently faces, we believe this allocation is prudent. Our goals are to preserve capital first, and to achieve attractive long term returns second.

While the Israel-Iran War of June 2025 appears to be over faster than it began, the rivalry between the world's superpowers is not. For now, we are therefore strictly investing in US aligned countries.

Most of the companies in our portfolio are multinationals, which means they earn revenues across many parts of the world and in many currencies. The US dollar has recently been soft, and as we mentioned previously, the outlook for inflation is highly uncertain. Although 64% of our assets are invested in US-listed equities, we estimate US revenues represent around 40% of our total underlying investment exposure. In the long term, we believe the best strategy to deal with currency volatility and inflation is by investing in a globally diversified mix of high-quality businesses that have pricing power.

By industry, our assets are invested across industrials, consumer, technology, healthcare and financial services. Our average equity holding represents 3.0% of the portfolio, providing a comfortable level of diversification.

Somerset Global Fund – Industry Exposures
30 June 2025



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Top 10 Holdings

At 30 June, our Top 10 equity holdings represented 35% of the fund's assets. These positions are outlined in the following table:

Somerset Global Fund – Top 10 Equity Holdings 30 June

Company	Portfolio Weight
VISA	4.2%
Walt Disney	3.7%
GE Aerospace	3.5%
Honeywell	3.5%
CPKC	3.5%
Flutter	3.4%
CME Group	3.4%
MOODY'S	3.3%
Uber	3.2%
UNITEDHEALTH GROUP	3.1%
Other Stocks	41%
Total Equities	**76%**
Gold	6%
Cash	18%
TOTAL	**100%**

Many of these names will be familiar, while others may not. All share the qualities we seek in an investment: an enduring competitive advantage, long term growth potential, consistent cash flow generation, a conservative balance sheet, sound management and an attractive long-term valuation.

The most crucial thing we look for in a business is a sustainable competitive advantage, or what Warren Buffett calls a moat. We prefer to invest in resilient businesses that can sail through any storm and are positioned to thrive for years to come.

To provide a taste of how our investment approach is applied in practice, we have briefly outlined the thinking behind our largest positions.

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Visa

Our largest stock holding is **Visa**, a business we consider to be one of the world's best. Visa and Mastercard's card networks have a duopoly position in the world's payment system outside of China.

Card spending is growing by around 10% per annum, as payments gradually move from cash and cheque to card, and as digital and cross border payments take off. Visa acts like a toll collector on global card payments. The company earns 60% operating margins and very high returns on capital, creating a cash flow machine for shareholders.

Visa has a wide moat due to multiple factors, the most important being the powerful network effect arising from having thousands of banks, millions of merchants and billions of consumers relying on its card network every day of the week. Visa also has huge scale advantages and has built a trusted global brand.

Attempting to create a competing card network would be an unimaginably difficult and expensive task. Consumers know their Visa cards can be accepted everywhere, while merchants realize if they don't accept Visa and Mastercard, they won't have many customers. Cards are also a highly profitable business for the banks who promote credit and debit cards to their customers.

There are many things to like about Visa as an investment, including its long-term growth potential, the predictability of its earnings, its capital light business model, and its resilience to inflation. Visa's revenues are directly linked to nominal spending, resulting in the unique feature that it can act as an inflation-linked asset.

At its investor day in February, Visa outlined a huge remaining growth opportunity across consumer payments, commercial payments and value-added services. In consumer payments alone, Visa estimates the global card networks have captured less than 45% of their total addressable market.

Credit card fees sometimes come into the spotlight, as retailers would especially love to do without them. It is important to appreciate the bulk of credit card fees are paid to the banks, primarily the bank who issues the customer's card. Part of the bank's cut is then rebated to the customer via loyalty points. Visa's clip of the overall fee is relatively small. With just two major card networks and thousands of banks, we believe Visa and Mastercard are in a very strong negotiating position should there ever be downward pressure on card fees.

Over the past decade, Visa's earnings per share have grown ~17% per annum, while its share price has also returned ~17% per annum. We believe Visa has the potential to continue to grow earnings in the double digits over the next decade and expect the stock to be a long-term holding for the fund.

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The Walt Disney Company

Our second largest holding is **Disney**, a global icon that has fallen out of favour with the market, and we believe represents compelling long-term value. Over the past decade, Disney's share price has returned just ~20% compared to the S&P500 Index returning over 200%. The stock is now trading 40% *below* 2021 levels, when enthusiasm around the Disney+ streaming rollout was at a high.

Disney can be explained as two key businesses: a theme parks division, and a film and television entertainment business. The two reinforce each other – people watch the shows and then want to visit the theme parks, and vice versa.

Disney's theme parks division is an excellent business, attracting customers from across the globe and in 2024 generating over US$9bn in operating profit at a 27% margin. This business has steady long term growth potential as it continues to develop its large US real estate portfolio and it gradually opens additional international parks, with Abu Dhabi next off the rank.

Meanwhile, Disney's entertainment division has experienced a period of upheaval. This has been primarily due to the company's strategic decision to move into streaming, which required Disney to disrupt its highly lucrative but potentially obsolete pay-TV business. We believe this was a sound decision but one that required short term pain for long term gain, something the stock market does not always have the patience for.

After five years, Disney now has over 200 million subscribers across its Disney+, Hulu and ESPN platforms. Following a significant period of investment, Disney's direct-to-consumer entertainment business is now profitable, and the overall Entertainment division has returned to profit growth for the first time in years. In the six months to March, Disney Entertainment revenues grew +9% year on year, a trend that is creating significant operating leverage for the business (operating profit grew +79% year on year).

Disney is well positioned to be a long-term winner in streaming thanks to its scale advantages and its enormous catalogue of iconic intellectual property. Netflix has proven that streaming can be a highly attractive business model – it is achieving >30% profit margins and has a market value of more than US$500 billion.

We believe the value of Disney's streaming business is not properly reflected in its share price. We expect Disney's entertainment profits can steadily grow over the next 5 years and drive a rebound in the Disney stock price – a time frame that sits perfectly with our long-term investment horizon.

GE Aerospace

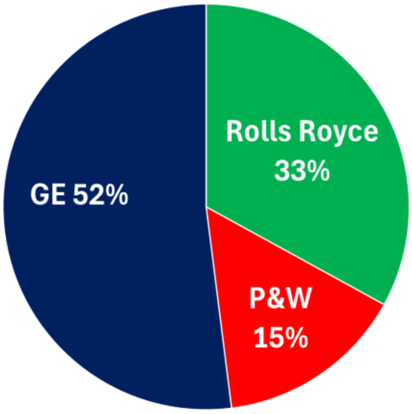
Our third largest holding is **GE Aerospace.** In 2024 the US industrial conglomerate General Electric was split into three different companies: GE Vernova, which focuses on power station turbines, GE Healthcare and GE Aerospace.

GE Aerospace was always the jewel in General Electric's crown. It is a global leader in the market for commercial aircraft engines. While the airline industry has historically been a terrible experience for investors due to its low barriers to entry, capital intensity, cyclicality and price competitiveness, the aerospace industry (providing the airlines their hardware) has generally been much better. This is because the incredibly sophisticated and expensive engineering required to design, build and maintain safe, reliable and efficient jet engines has led to an oligopoly industry structure where two companies dominate each major market segment.

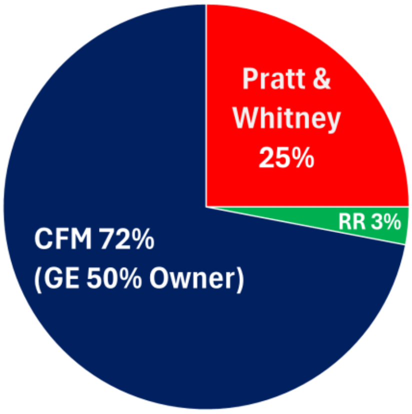
For widebody aircraft that fly long distances, GE primarily competes with Rolls Royce to provide the engines for Boeing and Airbus planes, while for narrowbody aircraft designed for shorter trips, such as the 737 or A320, GE has a 50:50 joint venture with French company Safran named CFM that competes with Pratt & Whitney. GE has the leading position in both market segments, as the following charts show.

Commercial Aircraft Engine Installed Base – 2024 Market Shares

Widebody Engines

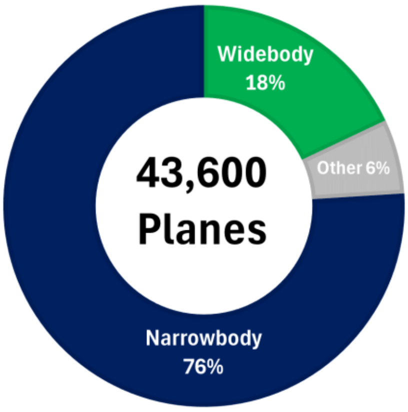


Narrowbody Engines



As demand for air travel steadily grows, and fuel efficiencies continually improve, the wait list to buy new planes keeps growing longer and longer. Boeing estimates there will be demand for over 43,000 new commercial aircraft over the next 20 years, compared to current deliveries of ~1,400 units per annum, and that the fleet of narrow and widebody commercial aircraft will roughly *double* over that period.

Boeing 2025-2044 Total Fleet Forecasts – Deliveries by Type



Aircraft engine manufacturers earn revenue from selling new engines and then servicing those engines over their useful lives, which can run for decades, as well as from sales of replacement parts. As the installed base of engines grows, this creates an ever growing, recurring revenue business model.

With demand for planes outstripping supply, we believe the aircraft engine companies are set to enjoy a highly favourable pricing environment for their products and services for the foreseeable future. This year, GE expects to grow revenues in the mid-teens and earnings more than 20%.

We believe GE is incredibly well positioned to experience double-digit profit growth over many years. While the stock has enjoyed a strong rally over the past year, we believe it still represents a highly attractive long-term risk/reward opportunity.

Other Top 10 Positions

After Visa, Disney and GE Aerospace, our remaining top 10 positions include:

Honeywell is a US industrial conglomerate that intends to break itself into three separate companies across automation, aerospace and advanced materials. Honeywell has some outstanding businesses, especially its aerospace division which is the market leader in Auxiliary Power Units for commercial aircraft. We believe Honeywell is undervalued by the market and a breakup will help crystalize value.

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Canadian Pacific Kansas City (CPKC) is a North American railroad company that owns and operates a major track network across Canada, the USA and Mexico. Railroads are infrastructure style assets that have huge cost efficiencies over trucking for long haul transport. CPKC was formed with the merger of Canadian Pacific and Kansas City Southern, completed in 2023, and is uniquely positioned as the only transnational rail company in North America. We believe uncertainty around US tariff policy helped create an attractive long-term opportunity in the stock.

Flutter is a global leader in sports betting. It has the leading position in the US market, which is growing rapidly as US states gradually legalize online sports betting. This year, Flutter expects its revenues and earnings to grow 14% and 30% respectively.

CME Group owns some of the world's leading derivative exchanges, specializing in interest rates, equity index, foreign exchange, energy and commodities. Derivatives exchanges are a high margin, monopoly style business, as buyers and sellers find the best terms at the marketplace with the most liquidity, which means one exchange tends to dominate each product market. CME's revenues are linked to trading volumes which have steadily grown over time, and often accelerate during periods of market volatility, creating a natural hedge for shareholders.

Moody's is one of the world's two dominant credit rating agencies, along with S&P Global. Credit ratings are a highly entrenched part of the global financial system and are relied on by investors worldwide. Nearly every government, bank or corporation that issues bonds to raise capital pays for a Moody's credit rating – as if they don't, their borrowing costs will be significantly higher than the cost of the rating. Moody's increase its prices by 3-4% every year like clockwork, allowing the company to consistently grow earnings across cycles.

Uber has established itself as the world's leading ride sharing network. Its revenues are growing in the mid-teens, and its profit margins are rapidly expanding. Uber has little debt and trades at a similar earnings multiple to the broader market. We believe Uber can more than double its profits in the next five years.

UnitedHealth Group is the largest healthcare company in the US, providing health insurance and health services to around 150 million customers. It has huge scale advantages, allowing it to provide more affordable services than its competitors. An attraction of the health insurance model is that claims are settled quickly, and pricing is predominantly rolled over annually, meaning health insurers are not exposed to the uncertain long-tail risks that arise from other insurance lines. Earlier this year, UnitedHealth's stock price *halved* in value, as earnings came under pressure due to rising medical costs. We believe these short-term issues can be resolved, and the selloff created an attractive long-term entry point for the stock.

Conclusion

Although stock markets are elevated, we have been pleased with the value we are finding across the industrial, consumer, financial, technology, and healthcare sectors. We would much rather be invested in stocks than sitting in cash, provided we can find genuine value.

While we invest on a long-term basis, the fund is also nimble and can move quickly should we believe the outlook has become less favourable.

As a reminder, our Foundation Investor offer runs until 31 December this year, where Foundation Investors will receive a permanent rebate on any performance fees paid on capital invested within the offer period. Further information is available in our Introductory Letter.

Please get in touch if you have any questions or would like to discuss the Somerset Global Fund further.

Yours faithfully,

Michael Young

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