CERNO CAPITAL

TM Cerno Global Leaders

UCITS Global Equity Portfolio (Class A)

Q4 2020

Investment Objectives

TM Cerno Global Leaders invests in global companies with sustainable competitive advantages delivering above average returns. Its target is to achieve long term growth in value. The fund will hold no more than 30 securities, equally weighted, selected according to a distinct investment thesis that accents industry structure, the sustenance of return on capital and secular growth. The fund does not invest in banks, commodity, fossil fuel or tobacco companies. The portfolio is fully invested at all times.

Fund Data

NAV/Share (Class A Acc)	£15.21
Fund Size (£mn)	109.8
Strategy Assets (£mn)	151.3*
Currency Share Class	GBP (Base)
Investment Management Charge	0.65%
Ongoing Charges Figure	0.84%**
Dealing Frequency	Daily
Legal Structure	OEIC (UCITS)
Number of Holdings	24
Active Share	97.3%
Lead Manager	James Spence
Inception Date Fund	2017
Inception Date Strategy	2014

**Includes all assets within the fund as well as other Cerno managed assets invested directly in to this strategy*

***OCF includes the Investment Management Charge*

Portfolio review

Following a review of returns for the quarter and the year we offer some comments on the investment style and portfolio approach. The main section of this report is given over to discussing some examples of notable acquisitions made by portfolio companies and an example of one that did not proceed.

In the final quarter of the year the NAV of GBP ‘A’ class increased by 9.4%. This was achieved despite the headwind from a strengthening British pound. The GBPUSD exchange rate moved up by 5.7% in the final quarter. For the year, fund NAV increased by 27.4% against 12.3% for the World Equity Index in GBP.

20 of the 24 names in the portfolio registered positive contributions in the quarter, reflecting the breadth of positive returns available from equity markets. Continuing the theme of broad contribution in the context of a concentrated portfolio we note that 6 positions provided attributable gains in excess of 1% at the portfolio level. These were Samsung Electronics, Aptiv, Nidec, TSMC, ASML and LVMH.

The fund passed its three-year anniversary in November and - based on data to end December - has returned 14.2% annualised since that inception point, representing outperformance of 4.0% per annum, after fees.

In the first quarter of this year, we plan to offer a Dublin domiciled variant of the fund, to be named Cerno Global Leaders (Dublin), with all major currency classes available. This fund will mirror the existing fund - the same holdings with the same weights – with the same Lead Manager and team and a flat priced share class, available in income or accumulation. If this is of interest to you or investors you represent, please email Tom Milnes and Joseph Joyce via dublinfunds@cernocapital.com

The underlying strategy for both funds has been existence since October 2014.

Portfolio changes

In the quarter, one stock left the portfolio on valuation grounds. **Ansys** is an estimable business, which, over 50 years, has become the largest engineering simulation company in the world. Its work is critical in a wide array of sectors: aviation, automobile, civil engineering, computers and mobile devices to name a few. Despite being a mid-cap in US terms, Ansys's economic value and spread of applicability has now been fully recognised by its market valuation. It drops out of the portfolio but remains on our approved list, tagged for possible future re-inclusion at a better valuation point.

Aptiv, which we wrote about in some detail last quarter, has joined the portfolio. Created via the demerger of auto supplier Delphi in 2017, Aptiv is the market leader for smart vehicle 'nervous systems' with a 25% share. Its business is focused on revolutionising vehicle architecture. Architecture in this context is conceived as the brain and nervous system required to enable autonomous driving. Electrical power consumption is up 60x since 1995 while signal distribution speeds have risen by a factor of 20. Today's vehicle data, signal, and power distribution systems rely on decades old technology. Autonomous vehicles of the future need to have networking capability to move vast amounts of data from the vehicle's eyes and ears (sensors) to the brain (compute platform) for analysis and decision making. Aptiv has expertise in both key domains, from connectors and distribution systems, to advanced software for passenger safety.

Update on portfolio management and style

Consistency is the key. The unifying principle of the fund is to look for companies in industries where we can gain high confidence from observable factors about i) long term growth and utility and ii) helpful industry structure dynamics. This approach serves up a wide array of industries.

As reported last quarter, the fund owns just 3 of the top 10 S&P/NASDAQ stocks by market capitalisation. In the words of Sir John Templeton "you can't outperform the market if you buy the market". Index returns from owning the largest companies has delivered in the past few years and can appear self-sustaining with the rise and rise of companies such as Amazon and Tesla. However, as the growing references to the end of the TMT boom in 2000 testify, this does not go on forever.

The portfolio, now and in the future, will have low index overlap and remain quite differentiated from other active global equity strategies.

What acquisitions reveal

When companies launch into the expensive, disruptive and time-consuming process of acquisition, it informs the investor of how company managements see their sector. Above and beyond bland quarterly updates, which have often become anodyne, acquisition strategies reveal carnal desire. And, as with love and lust, these impulses are fraught with risk, particularly for the CEOs who have to rationalise their desires into an information hungry marketplace. Acquisitions are notifiable events.

It is certainly not a prerequisite that the companies in the portfolio vigorously pursue acquisitions. The adage that you can't buy your way out of trouble often proves true in the corporate arena. There are owned companies that pursue no acquisitions and fund all expansion internally: **TSMC** would be the best example.

For most leading companies, though, they have the potential via their securities rating and their purview of their sectors to contemplate additions. They come in different shapes and sizes.

When **LVMH** bid for Tiffany, it had an eye to a further expansion into what is termed “hard luxury”, a sub-sector which is out growing the broader industry. It probably also spotted an opportunity to rejuvenate a brand which has stagnated in recent years. What LVMH did not know is that a global pandemic was about to break and the management sought to cancel or at least revise terms, an approach that was only partially successful.

Many acquisitions these days are driven by the desire to bring in house some complementary technology. We see technologies every where we look. In buying EnnisFlint, **PPG** has acquired a leader in road markings, unremarkable until you consider the growing importance of how vehicles, not just their drivers, need to recognise visual signs. Pioneer Electronics developed their “on-bike” meters with **Shimano** so it would have been a relatively easy combination. Measurement is a key theme in the wider portfolio and a broad swatch of cyclists are seeking to enhance their experience buy buying now-cheap tech previously reserved for professionals.

Global gas supplier, **Linde**, has the flexibility to invest across the whole spectrum of gases and adapt to usage. In helping UK company ITM Power with a fund raise in last 2019 it ended up with a 20% stake that is now worth in excess of £600mn. ITM Power constructs electrolysers which expand the provision of clean energy.

Finally, the one that got away. **VISA**’s failed bid for fintech Plaid - as in gentleman rarely wear – revealed some things about where the payments sector might be heading and may possibly flag a new age for US regulation. For the US Department of Justice to stamp on an acquisition that represented 1% of VISA’s market capitalisation on the basis of monopolistic practices suggests the agency has grown a new pair of spectacles. If prevention becomes the test as much as current market structure, then the Mark Zuckerberg era is decisively over.

James Spence

LVMH/Tiffany - a case of buyer's remorse?

When the Parisian luxury goods conglomerate LVMH announced its engagement with the American jeweller Tiffany & Co. on 25th November 2019, the market greeted the news with enthusiasm. The largest deal in the luxury sector came with a rich price tag of US$16.2bn ($135 per share), a price equivalent to four years of Tiffany's sales. However, just a few weeks after the announcement, Covid-19 became a global health and economic crisis with the luxury and travel sectors facing some of its worst effects.

By March, the prolonged realities of the pandemic set in and with it a probable case of buyer's remorse. Tiffany went from profit to loss in the first half as its retail stores closed worldwide, its share price dropped to $103, despite the practical underpinning of the share offer. Following 10 months of bitter exchanges and attempts to delay consummation of the deal, the two houses finally settled on a revised lower price of US$131.50 per share, representing a reduction in consideration of circa US$430mn versus the prior offer. Whether the 2.6% discount was worth all the trouble is a question that many around M. Arnault will have thought if not said. Ultimately, the legal drafting proved too robust for LVMH's inelegant chicanery.

Bernard Arnault (Source: LVMH)

LVMH's original motivation to acquire Tiffany stems from the desire to build up their so called "hard luxury" portfolio, which is an under-represented segment in the Group where their Watches & Jewellery division accounts for <10% of total revenues in 2019. This segment makes up roughly 20% of the global luxury market and is faster growing. The Tiffany acquisition allows the conglomerate to compete head-to-head with its Swiss peer Richemont, owner of Cartier and Van Cleef & Arpels.

Tiffany's heritage (founded in 1837) and brand identity with its iconic blue boxes makes an attractive target for the French conglomerate, despite having a more middle market image compared to its 2011 acquisition of Bulgari. Tiffany, like Bulgari at the time, is in need of a brand and executive makeover to restore its lustre, sales have languished (+1.9% revenue CAGR over the last five years), underperforming the wider luxury market. The importance of brand resilience was on full display in 2020. Top tier brands retained pricing power despite declines in volume, with a number of them raising prices (some on more than one occasion) by 5-25% across product lines over the course of 2020, while brands with less value attached to them suffered.

A World of Blue (Source: Tiffany)

LVMH is hoping to replicate the successful turnaround story of Bulgari, where it installed new management, pushed its brand positioning upmarket and expanded its footprint globally. Sales doubled and profits multiplied five-fold in decade after its takeover. In a similar fashion, LVMH swiftly appointed two new executives at Tiffany with good credentials in retail & marketing: Anthony Ledru (former executive at Tiffany, headed Louis Vuitton's jewellery category since 2014) to take over as chief executive and son Alexandre Arnault as his number two. Alexandre had been at Rimowa since 2016 where he and colleagues had very successfully revamped the brand through innovation and cross collaborations with, for example, Supreme & Dior. These injections of key staff signalled LVMH's intentions.

While luxury is not a sector that offers automatic synergies on the front-end, brands operating under a conglomerate umbrella with scale can however benefit from resources and negotiating power on the operating side. This includes more favourable terms for rent agreements (as luxury boutiques need to occupy prime real estate), advertising rates, as well as tech and logistics support to execute global expansion plans and e-commerce strategy. Digital strategies are becoming increasingly important, particularly in the era of Covid-19 and when physical stores are forced to close worldwide and mainland Chinese tourists that had made up 35% of sales are no longer travelling.

This drama-filled acquisition was completed on 7th January 2021.

M. Arnault has built a track record of successful M&As over the three decades. His decentralised management style gives creative directors enough artistic reign to curate their brands whilst alleviating the pressure on individual houses to divulge financials on a regular basis, given LVMH does not disclose performance of individual houses. It remains to be seen whether Tiffany will integrate smoothly as the 76th *Maison* of the Group without major culture shocks. Clearly the task at hand for the executive team is made harder by the current global climate. There is the crisis to manage but there will also, in time, be the rebound to manage. Tiffany could yet prove to be an excellent asset.

Fay Ren

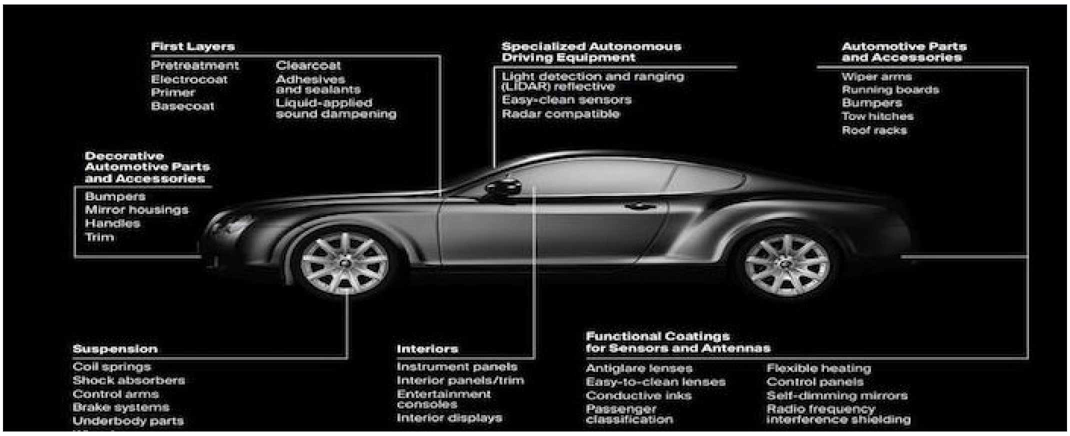
PPG/EnnisFlint – road side technology

At the tail end of 2020 PPG announced the acquisition of Ennis-Flint, a global coatings manufacturer based in North Carolina, USA for US$1.15bn. The company is a global leader in advanced pavement markings and traffic safety solutions, with a comprehensive portfolio of innovative products.

On the face of it the acquisition of a company which provides pavement paint might strike some as uninspiring. For PPG however, it is yet one more piece of a bigger mobility puzzle. Coatings are emerging as a critical layer in the infrastructure to enable advanced mobility. For example, they are important in determining the effectiveness of communication between vehicles and perception of the surrounding road environment. As autonomous driving complexity rises, so too must the functionality level of the coatings employed. Electrification also depends on coatings to enhance battery performance.

Mobility has been a strategic focus for PPG for some time. A mobility focused team was formed in 2017 but the company's products have been born from innovation going back decades. Ennis-Flint slots into a portfolio which is already broad, from cathode binders for battery packs, to lidar-reflective coatings and self-shedding surfaces.

The opportunity is significant. The company perceives the shift to autonomous, to electric and to a consumer aesthetic driven interior vastly increasing the 'amount of real estate' for PPG's solutions. For example, as the world transitions to electric vehicles, the coatings PPG has developed will be integral to the proper functioning of the battery pack, raising PPG's content per vehicle by 2-4x over a traditional drivetrain.



Source: PPG

The Ennis-Flint acquisition connects vehicle solutions to the external environment. This places PPG in a central role to provide solutions for the vehicles of the future. It is another example of how technology pervades the Global Leaders portfolio, residing in places that may surprise.

Michael Flitton

Shimano/Pioneer Electronics – elite measurement tools

As the leading manufacturer of bicycle componentry, Shimano relies on innovation, scale and distribution to maintain its competitive advantage. Acquisitions are rare so when they occur it is typically a sign of industry development.

In early 2020, Shimano acquired the cycle sport business of Pioneer Electronics. The important business line for Shimano is Pioneer's range of pedalling monitors, which are more commonly referred to as Power Meters alongside web interfaces. Pioneer's meters were designed to interface with Shimano equipment and therefore represented an obvious target should Shimano wish to develop an inhouse range of Power Meters.

Source: Shimano

The measurement of power output has become an important tool in the pursuit of excellence for competitive cyclists. A cyclist delivering 400 watts per hour at the pedals will dominate a cyclist of equivalent weight who is maxed out at 375 watts per hour. The fact that cycling involves the interface of human physiology and mechanical engineering provides scope for improvement through measurement and accuracy. In the specific case of power output, sensors are placed on the cranks, pedals or rear wheel to measure the force being applied by the cyclist. Armed with this information, the cyclist can observe improvement due to training and evolve methods to gain maximal efficiency. The data flows through to analysis of equipment and clothing choices.

Data measurement is endemic to elite sport and crosses over to many hundreds of thousands of cycling enthusiasts. Speedometers and cadence monitors have been in use for decades. However, it was the Heart Rate Monitor which revolutionised sports training and competitive cyclists were early adopters of the cumbersome devices which incorporated straps around the chest, clips on other body parts, wires and a bulky monitor worn on the wrist. Heart rate is an indicator of fitness which is easily understandable and provides some degree of entertainment.

Today, Heart Rate is a function on most smart watches which shows its ubiquity. Elite sports technology has trickled down to the mass market.

This trickle down of technology from high end equipment to lower price points is where Shimano excels – no other bicycle equipment maker markets product at all price points. To-date, power meters have been specialist items with a niche target market. They are typically after-market items however, there is a small but growing market for top-of-the-range bicycles with power meters already installed. The acquisition of power meter technology puts Shimano in a position to incorporate power output measurement across its range of components and to supply bike manufacturers with inbuilt power measurement at all price points. Shimano has already released its top end crank set with power meter built in – a sleeker, more integrated solution than the Pioneer retro-fit item. This will undoubtedly be followed by releases at lower price points.

Source: Shimano

Measurement is key to human development and we can observe industry change in response to adoption of new measurement technologies. If power measurement is to become ubiquitous for all cyclists, then Shimano's acquisition of technology from Pioneer puts it in pole position to lead the roll-out of equipment and strengthen its grip on the bicycle equipment market.

Fergus Shaw

Linde/ITM – activating clean energy

On October 3rd 2019 Linde plc participated in the fundraising of ITM Power (ITM LN), a British manufacturer of electrolysers for hydrogen generation.

The placement raised £52mn (versus the ITM's market cap of £160mn at the time of raising) and was anchored by an injection of £38mn by Linde, giving the firm a ~20% stake in the enlarged capital base.

Before we enter the specifics of ITM Power's activities and the rationale for Linde's investment it merits to take a birds eye view of hydrogen as a product and as an industry today.

Hydrogen (atomic symbol H/ gas symbol H2), the most simple and abundant element in the universe, has innumerable applications in modern civilisation. Highly combustible in its normal gaseous form, the concept of being used as a fuel has long excited discussions about alternative energy sources.

Although volumetrically not the most efficient fuel source, hydrogen has three times the energy per mass of methane or gasoline. Even more crucially its combustion produces no greenhouse gases.

Hydrogen powered fuel cells have been demonstrated empirically since 1838 and used commercially (in niche applications) since 1932 to power everything from submarines to NASA satellites. Although the holy grail (as with most fuel sources) is to power personal vehicles hydrogen has not found much traction in this space. The qualities discussed means it has lent itself more readily to larger vehicles such as buses or HGVs.

The drawbacks of hydrogen (other than its density challenges) are twofold. The first is its volatility and the attendant safety issues of storage and transport. The more intractable challenge however is the environmental costs of current hydrogen production methods.

Hydrogen is produced by three main methods, coal gasification, steam reforming and electrolysis of water. Without going into the chemistry minutiae of each process the key takeaway to note is that the first two methods result in considerable greenhouse emissions as a by-product of hydrogen production. They also account for the vast majority of hydrogen production (90% market share in 2020).

Water electrolysis (the separation of water into its constituent oxygen and hydrogen molecules) is an emission agnostic method on the other hand, with its environmental impact being dictated by the energy source that drives the electrolysis process. The hope, thus, is that the abundant renewable energy coming online globally could power electrolysis to make the entire production chain of hydrogen environmentally sustainable. Converting excess renewable energy into hydrogen could also circumvent the attendant inefficiencies of long distance electricity transmission and battery storage.

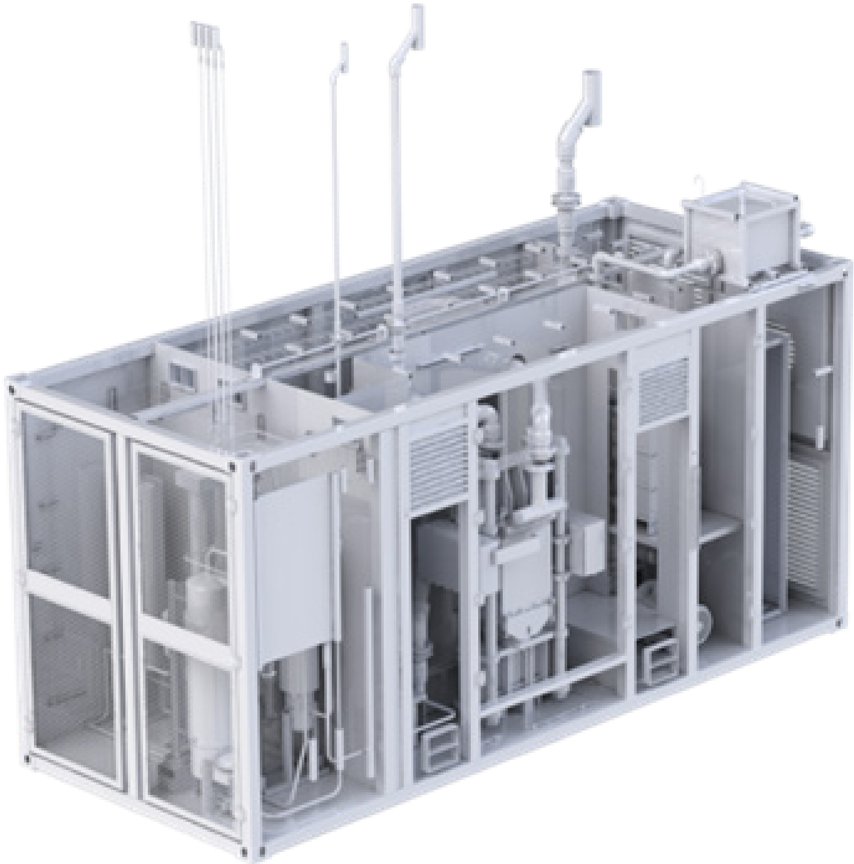
Linde already has strong production capabilities in extracting hydrogen via steam-forming using fossil fuels (denoted by the company as "gray" hydrogen) and a smaller capability for hydrogen production including carbon capture (denoted as "blue" hydrogen).

"Green" hydrogen production however, described by Linde as H2 produced by renewable energy sources, is a key growth area for the company.

The second element of Linde's participation in ITM Power's capital raise was a joint venture to develop and implement industrial scale electrolysers (10MW+) to projects requiring green hydrogen globally.

This JV has already borne fruit with ITM Power delivering the world's largest electrolyser (24MW) on Jan 13th 2021 for Linde to install in their Leuna Chemical Complex in Germany.

We think this positioning by ITM Power (and by extension Linde) is particularly attractive. It connects well with our thinking and preference for "picks and shovels" approaches to business. ITM Power/Linde does not have to identify what will be the winning source of renewable energy for hydrogen production (upstream). Neither does it hitch its bets on any particular winner in fuel cell technology or end application of hydrogen fuel (downstream).



ITM Power Electrolyser (Source: ITM Power)

The specific challenge is to ensure that their electrolysers capture a sufficient market share of the installed base for hydrogen production via electrolysis.

ITM Power has utilised the proceeds of the October 2019 placement and subsequent capital raises to move into a new facility in Bessmer Park, UK. The factory in question allows ITM to scale up production of its electrolysers to 1,000MW (1GW) per year or the rough equivalent to one of the eight nuclear power plants currently in operation in the UK.

Since this fundraising, the market seems to be awakening to the opportunity set (albeit somewhat exuberantly) and shares in ITM Power have increased 1,226% in the subsequent 15 months to today, taking Linde's stake to a value of £604mn.

Share prices can sometimes run far ahead or behind a businesses prospects (ITM is expected to report 2021 sales of £7mn) and the stake represents only 0.6% of Linde's total capitalisation. Nevertheless, we think this acquisition represents a successful marker of Linde's ongoing intentions to remain the global leader in industrial gases worldwide with the most relevant product set for global demand.

Ion Sioras

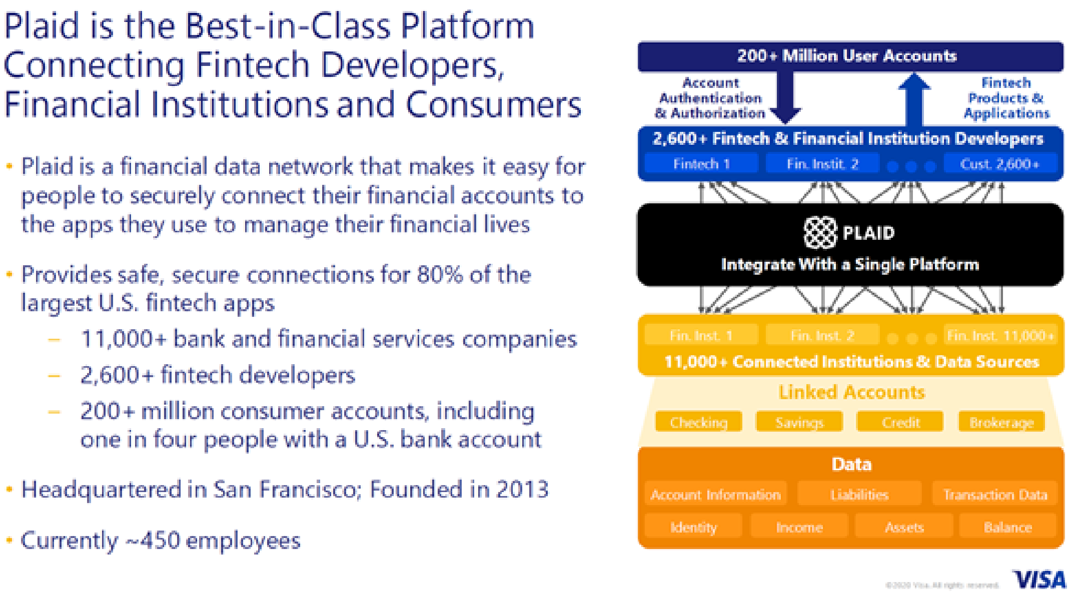
VISA/Plaid – the acquisition that did not take place

As we consider the M&A arena for companies in the portfolio, it is also instructive to consider notable transactions which did not proceed.

One year ago, on 13th January 2020, VISA announced the planned acquisition of Plaid, a fintech company that is building a bank-linked payment network that will remove the necessity for merchants to transact via debit cards. Almost exactly a year later, the parties announced that the transaction would not be taking place, a decision foist upon it by the 5th November announcement of the US Department of Justice (DoJ) to investigate the transaction on anti-trust grounds.

Whilst the posited transaction value at US$4.9bn was a mere 1% of VISA's market capitalisation, the planned transaction was significant for VISA, meriting plenty of comment in investment bank hosted seminars even if those comments were couched around other technology extensions in related areas.

VISA Investor Relations own slides described Plaid as follows:

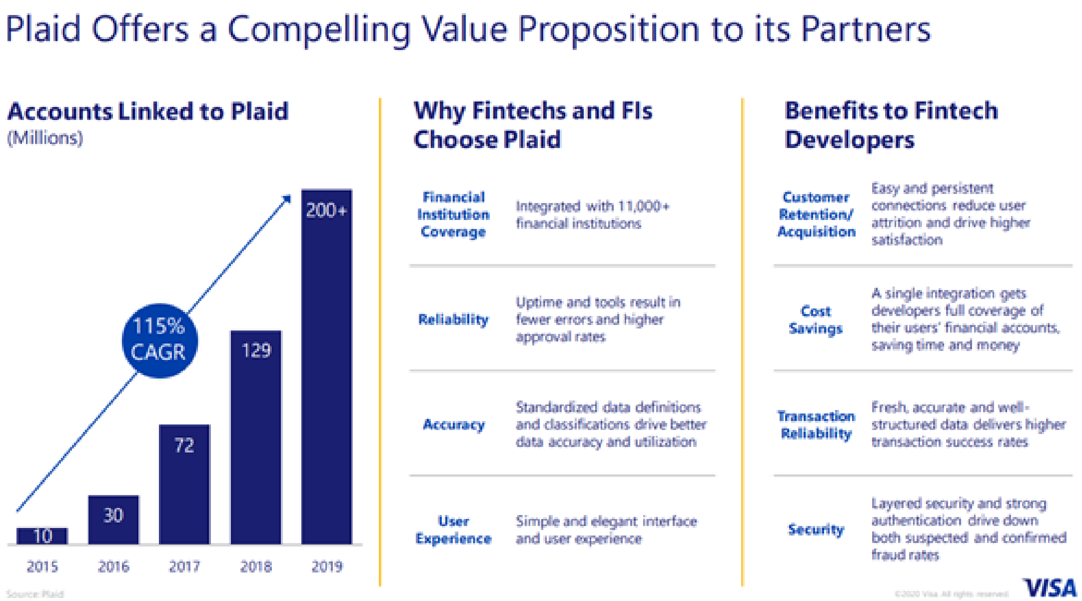


Source: VISA

The key application of Plaid is software programming around the Application Programming Interface (API) intermediary to create safe links between banks, merchants and customers. API is a generic application most commonly seen in smartphones, social media and applications. APIs permit the safe organisation of and access to data from multiple applications. APIs are either public (where a develop wishes to encourage others to use its standard) such as in the case of Shopify or private where a company uses APIs as the key connectors to allow apps to talk to one another.

Plaid is both a developer of a standard used by other fintechs and a growing intermediary in the payments arena. Its small size (founded in 2013, less than 500 employees and 2019 revenues of between US$100mn and US$200mn) understate its disruptive potential in the payments sector where VISA has ridden the growing use of debit cards, whose growth exceeds that of the credit cards it is better known for.

In the same slide pack, VISA depicted Plaid's proposition as follows:



Source: VISA

The DoJ did not mince words in its filing of an antitrust suit. The Attorney General lodging the department's key objection: "If allowed to proceed, the acquisition would deprive American merchants and consumers of this innovative alternative to VISA and increase entry barriers for future innovators."

Plaid was recognised as "the leading financial data aggregation company in the United States". In accusing VISA of operating a monopoly in debit cards and citing exclusionary tactics and by mentioning Mastercard by name, the DoJ has perhaps signalled that payments will remain on its radar.

Other contributory factors are statements made by VISA executives which indicate that the proposed transaction was as much tactical as strategic. In the DoJ's bold print some of these comments look unfortunate, if grounded in truth. Here we quote an entire paragraph of the DoJ's notification of 5th November.

"The complaint alleges that Visa's CEO viewed the acquisition as an "insurance policy" to protect against a "threat to our important US debit business." This acquisition is the second largest in Visa's history, with an extraordinary price tag of $5.3 billion. Visa's CEO justified the deal to Visa's Board of Directors as a "strategic, not financial" move, and noted that in part because "our US debit business i[s] critical and we must always do what it takes to protect this business." Unless acquired, Visa feared that Plaid "on their own or owned by a competitor [was] going to create some threat" with a "potential downside risk of $300-500M in our US debit business" by 2024. If Plaid remained free to develop its competing payment platform, then "Visa may be forced to accept lower margins or not have a competitive offering.""

The proposed transaction was cancelled by VISA and Plaid on 12th January of this year, suggesting a difficult digestive moment along with the turkey and sprouts.

The line VISA took on that day was to suggest that whilst they were confident that litigation against the DoJ would ultimately have proved successful, they did not wish to disrupt their further plans with the cost and time of so doing. VISA's CEO took issue with the DOJ's description of the competitive landscape: "…the reality is that the debit market is highly competitive and highly complex. Our debit business faces intense competition from a variety of players, including 10 different debit networks, and we face vigorous competition from other form of payments including cash, checks and credit."

The lost opportunity was described by VISA's CEO as follows: "[Plaid]…happen to be a network where the fuel is data, whereas we move funds. So, obviously, by not owning Plaid, we won't have the ability to kind of have that data movement network under our roof as a potential revenue stream. But we are going to be able to work with Plaid and other data extraction players around the world to be able to replicate the capability that will allow us to get in the middle of other aspects of, for instance, a capital account movement, whether that's the actual movement of funds or selling value-added services".

Plaid CEO Zach Perret (Source: Forbes)

So, what might we conclude from this episode, in relation to the VISA holding, the payments ecosystem and the wider application of antitrust actions in the US?

Plaid does not publish financial statements but its 2019 but it has been suggested that its 2019 revenue was between US$100mn and US$200mn. VISA itself had forecast that, had the transaction gone ahead 2021 group sales would have risen by a meagre 1% on the back of it and earnings per share (EPS) fallen by 1%. Whilst expensive, the transaction was not material in an immediate financial sense but why was it significant? The answer was provided by VISA CEO, Alfred Kelly in his above quoted comments in which he pointed out the differences between networks delineated by data (Plaid) and those driven by the movement of funds (VISA). It is easy to see how the marriage between the two would have been powerful. The implicit suggestion is that the market is moving at speed and VISA may not have all the tools to achieve the penetration afforded by a data rich offering.

A possible attrition of VISA's market position is seldom far from our minds and, in one respect, it is welcome that individual names arise from the morass of fintech start-ups. As a parallel exercise, we spend a good amount of time looking at innovation and trends in payments in China whose payments sector is developing at light speed and where consumer and merchant appetite is even greater. Whilst remaining positive on the outlook of incumbent global players, we wait to see the level of DoJ interest in the existing structure of the US card industry.

A second question is whether this signals a new trend for the US federal authorities to assess future scope of industry structure as against its more common scrutiny of mega-players seeking horizontal combinations. In this case, the DoJ has stamped on a company buying something one hundredth of its size. If this becomes a trend, then Big Tech transactions that have "insurance policy" logic attached to them will face greater scrutiny. It would be hard to imagine Facebook pulling off acquisitions of WhatsApp (2014) or Instagram (2009) today.

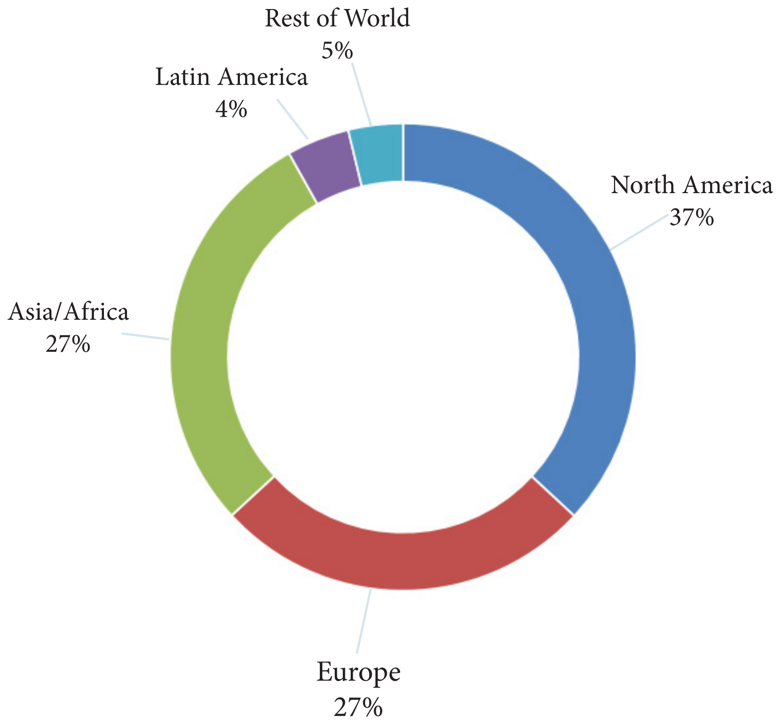
James Spence

Holding History

Company Name	Description	Holding Period*
Samsung Electronics	Dominant in semiconductor memory chips and leader in smartphones	>7 years
Nestle	Diversified global food & beverage company	>7 years
Visa	Largest global electronic payments network	>7 years
Zimmer Biomet	Leading orthopaedic care specialist	>7 years
Linde	Largest industrial gas provider in the world	>6 years
Renishaw	Engineering specialist focused on equipment for precision measurement	>6 years
Johnson & Johnson	Global healthcare company spanning pharma, medical devices, consumer	>6 years
PPG	Coatings company leading in the industrial/specialty business	>6 years
Shimano	Dominant supplier of cycling componentry	>5 years
Givaudan	Leading player in the Flavours and Fragrance industry	>5 years
Novozymes	Produces enzymes which application in a wide variety of daily products	>5 years
Assa Abloy	World's leading manufacturer of security locks and automatic doors	>5 years
LVMH	The largest luxury goods conglomerate and most diversified	>4 years
EssilorLuxottica	Vertically integrated producer of luxury, fashion and sports eyewear	>3 years
Fresenius Medical	The foremost player in dialysis care active along the entire value chain	>3 years
Heineken	Brewer with a strategic bias to premium beer, interests in low alcohol/craft	>3 years
Atlas Copco	Dominant producer in air compression and vacuum techniques	>3 years
TSMC	World's largest pure-play semiconductor foundry	>2 year
ASML	Leading photolithography tools manufacturer for the semiconductor industry	>1 year
Nidec	Global top supplier of brushless DC motors for a diverse set of applications	>1 year
Microsoft	Dominant player in computing operating system and business software platform	>1 year
Philips	Healthcare technology company serving professional and consumer markets	>1 year
Accenture	Independent technology consultant and outsourcing provider globally	<1 year
Aptiv	Leader in smart vehicle architecture enabling autonomous driving	<1 year

**Holding periods since inception of strategy*

Sales by Geography



Global Leader companies are, by definition, global in their sales. Their domiciles are not an investment consideration and most of the companies have outgrown their home market base many decades ago.

The perceived reliability of the earnings of constituent companies and the fact that they have commanding market shares in their industries means that they will trade at a premium to wide equity market aggregates. The question is how much? The portfolio has an aggregate Return on Equity of 18% versus 11% for the World Equity Index.

We aim to rationalise margins, earnings consistency and economic value against the price paid. The fund's approach to vaulation could be described as growth at a reasonable price (GARP).

Performance

Year ended	Dec 2020	Dec 2019	Dec 2018	Since Inception*
Net Performance	+27.4%	+26.3%	-5.2%	+52.2%

**The fund was launched on 1st November 2017*

Source: Cerno Capital

Past performance is not a reliable indicator of future results.

Characteristics	Global Leaders*	S&P 500
Return on Equity (%)	18.3	11.1
Return on/Cost of Capital (%)	1.3	N/A
Gross Margin (%)	47.7	33.7
Operating Margin (%)	18.6	10.3
Net Debt/Equity (%)	27.6	75.2
Dividend Yield (%)	1.6	1.7

Key Fund Information

Investment Objective	To achieve long term growth in value
Sector Exclusions	Banks, Fossil Fuels, Commodities, Tobacco, Armaments
Savings Structures	Suitable for SIPPs and ISAs
Key Fund Documents	https://cernocapital.com/cerno-global-leaders
ACD	Thesis Unit Trust Management Limited (Authorised and regulated by FCA) Exchange Building St John’s Street, Chichester, West Sussex PO19 1UP
Fund Custodian	The Northern Trust Company
Auditor	Pricewaterhouse Coopers LLP
Ongoing Charges Class A (incl. Management Fee)	Management Fee 0.65% Other Fees (Inc running costs) 0.19% OCF 0.84%
Initial Charge	5%-waived as standard
Contact	Tom Milnes 0207 036 4126 tom@cernocapital.com

Fund Codes

	ISIN:	SEDOL:	Bloomberg:
A Acc	GB00BF00QK62	BF00QK6	TMCGLAA LN
A Inc	GB00BF00QJ57	BF00QJ5	TMCGLAI LN

Cerno Capital Partners LLP 34 Sackville Street, London, W1S 3ED

Telephone: +44 (0) 207 036 4110   Website: cernocapital.com