CERNO CAPITAL

TM CERNO *Global Leaders*

UCITS Global Equity Portfolio (Class A)

Q4-2023

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)	£17.04
Fund Size (£mn)	104.61
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	27
Active Share	95%
Lead Manager	James Spence
Inception Date Fund	2017
Inception Date Strategy	2014

RSMR RATED FUND

Portfolio Review

The fund's net asset value increased by +11.7% in the quarter to bring the full year return to +16.7%. The quarter was defined by a significant rally in equity markets, encouraged by what is assumed to be the end of the interest rate cycle.

Within the quarter, the largest positive attributions were obtained from Novozymes (+1.2%), Assa Abloy (+1.0%), Atalas Copco (+0.9%) and ASML (+0.8%). The largest negative attributions were from Aptiv (-0.4%) and Nestlé (-0.1%).

The most remarkable aspect of 2023 was how good performance was based on supressed or even outright weak sentiment. People routinely agree that the world is a dangerous place and this operates as a natural check on risk appetite. But as Billie Jean King said: "you have to be in it to win it" and, in the context of a fully invested strategy, we are always in it. Whilst every piece of poor news is discounted, we are open to all the unanticipated good developments.

Perhaps it is the case that we have had too much of a good thing, in equity markets, in 2023, and 2024 will act as a leveller. We will see. What can be stated with greater surety is that the companies within the portfolio are in fine fettle. They have strong managements, they are superb operators, they have excellent products and they are financially strong.

In this report, Oscar Mackereth describes in depth the new formulations of anti-obesity drugs (GLPs) and how their approval and prescription had significant effects on the share prices of both the makers, Eli Lilly and Novo Nordisk but also a raft of consumer companies where share prices discounted meaningful shading of their growth profiles. Less appetite, less consumption was the theme for the year. We argue that most of these share price adjustments, up and down, look overdone.

We also reflect on the life and times of Charlie Munger, Warren Buffet's investing partner since 1955. Your lead portfolio manager has long followed Charlie Munger's views, on life as well as investing, and many of his tenets are absorbed into the thinking behind the Cerno Global Leaders fund.

Finally, we review our stewardship activities through the past year in a report that details our engagement with a host of issues within companies across the portfolio. Companies featured include LVMH, Assa Abloy, Philips, TSMC & Linde. Investing is not "a game of perfect" so we expect to hold divergent views with many detailed aspects of corporate management, especially board management. We have departed the world where "activism" is some specialised activity and, under the wider aegis of engagement, we are active in respect of your interests. As Charlie Munger said: "The number one idea is to view a stock as an ownership of a business".

There were no changes to companies held during the quarter.

James Spence

DEEP DIVE

Oscar Mackereth

Anti-obesity drugs: risks, opportunities and possible long-term impacts on listed companies

Introduction

Few pharmaceutical advancements in recent memory have garnered as much attention as glucagon-like peptide-1 receptor agonists (GLP-1RA). These drugs, initially formulated for diabetes treatment, have emerged as powerful treatments for obesity and addictive tendencies, resulting in speculation on their potential for improving public health and the future of the healthcare and fitness markets. However, there are obvious concerns in several consumer sectors as to their potential to disrupt consumption patterns.

To date the following national medical authorities have approved their use for remedial treatment for obesity: European Medicines Agency, U.S. Food and Drug Administration, U.K. National Institute for Health and Care Excellence, Health Canada, Australian Therapeutic Goods Administration, Japanese Ministry of Health, Labour, and Welfare, as well as several others in Asia, Latin America and the Middle East.

The redeployment of the group of drugs has had significant consequences for the equity value of both pharmaceutical companies engaged in their manufacture and food companies that have been deemed to be negatively impacted by curtailed consumption of their products.

For example, in 2023 the market capitalisation of Novo Nordisk and Eli Lilly have risen by US$362bn in aggregate (Novo moved from being a US$308bn company at the beginning of the year to a US$453bn company by year's end and Eli Lilly from US$365bn to US$583bn.

By contrast, US$63bn market capitalisation has been shaved off the following four companies: Inspire Medical Systems, Pepsi Co, Kellanova and Coca-Cola

GLP-1RA

GLP-1RA are large-molecule biologics drugs which replicate the action of the natural hormone, GLP-1. GLP-1RAs bind to the GLP-1 receptors and stimulate insulin secretion, reduce glucagon secretion, slow gastric emptying, and decrease appetite. These processes counteract the underlying mechanisms of diabetes through preventing insulin resistance and glucose overproduction-based hyperglycaemia, preventing postprandial spikes in blood sugar levels.

The first GLP-1RA to be discovered and approved for clinical use was exendin-4[1], first identified in 1992 by Dr John Eng, a veterinarian researcher in New York, who isolated the hormone from the saliva of the venomous lizard – the Gila Monster. Exendin-4 was patented in 1995 and licensed to Amylin Pharmaceuticals in 1996, who partnered with Eli Lilly & Co to develop and market it as a diabetes treatment.

Soon after, it was developed into a synthetic peptide called Exenatide, which received FDA approval as a diabetes medication in 2005 and is still in use today through the Byeetta[2] and Bydureon[3] formulations.

The Gila Monster

GLP-1RA drugs were first identified as having weight loss potential in 2010[4] in animal studies, which were reinforced in a 2012[5] meta-analysis. However, it wasn't until Novo Nordisk's clinical trial of Semaglutide, that the public attention was captured. The trial[6] sought to demonstrate the efficacy and safety of Semaglutide as a long-acting pharmaceutical aid to reduce body weight and improve metabolic outcomes in people with obesity. The 68-week randomised, double-blind, placebo-controlled trial[7] ran across 129 sites, in 16 countries. All 1961 participants were non-diabetic adults with a BMI of 30+ or 27+ with weight-related conditions, who had previously failed to lose weight via diet. Both groups were prescribed a 500-calorie deficit per day diet, 150 minutes per week of physical activity and either a Samglutide or placebo dose.

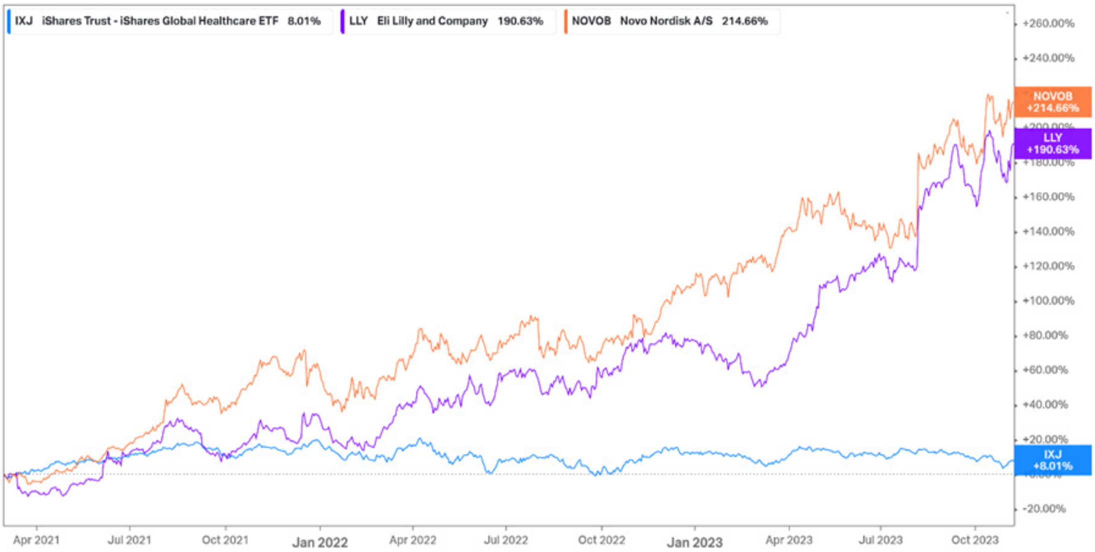
81.1% of all participants adhered to the treatment which resulted in an average reduction of 14.9% (15.3kg) of bodyweight, versus -2.4% (2.6kg) for the placebo group. The Semaglutide group also demonstrated greater improvement with respect to cardiometabolic risk factors and physical functioning, with 84.1% reverting to normoglycemia, relative to 47.8% of the placebo group. The study found that weight loss via Semaglutide was driven by a reduction in energy intake from similar mechanisms to those which are useful in diabetes treatment – the slowing of gastric emptying, increased insulin resistance and glucose regulation.

However, importantly, results also showed a significant reduction in energy intake due to decreased appetite, which the authors stipulated was a result from GLP-1RA interacting with those receptors which are present not just in the gut, but also in the brain, which are associated with appetite regulation and reward recognition.

[1] https://www.multivu.com/assets/53897/documents/53897-Exenatide-History-FINAL-original.pdf
[2] https://www.diabetes.co.uk/diabetes-medication/diabetes-and-byetta.html
[3] https://www.diabetes.co.uk/diabetes-medication/bydureon.html
[4] https://www.sciencedirect.com/science/article/abs/pii/S0168827810009487
[5] https://www.bmj.com/content/344/bmj.d7771
[6] https://www.nejm.org/doi/full/10.1056/NEJMoa2032183
[7] https://i-base.info/ttfa/8-clinical-trials-and-research/8-7-randomised-double-blind-placebo-controlled-trials/

The magnitude of these results fuelled public enthusiasm. By June 2021, Novo Nordisk received FDA approval for Wegovy (Semaglutide), as a weekly injection for chronic weight management solution for adults with obesity or overweight with related conditions. Almost immediately, Wegovy was in global shortage, driven by extreme demand, and supply shortages driven by issues such as COVID-19, the Suez Canal blockage, limited raw materials and insufficient manufacturing capacity. In addition, Ozempic, a lower dosage Semaglutide formulation designed for diabetes, also faced shortages as individuals increasingly sought off-label[8] alternatives. Novo has rapidly sought to rectify the issue through controlling demand through measures such as patient prioritisation, prescription limitations, restriction of off-label use, allocating quotas to different markets, aggressive invesmtent into additional production capacity. The business has also engaged a second Contract Manufacturing Organisation to initiate production[9]. At time of publication, all Novo Nordisk GLP-1RA formulations are in shortage, with the supply issues expected to last until mid-2024[10].

Market reaction



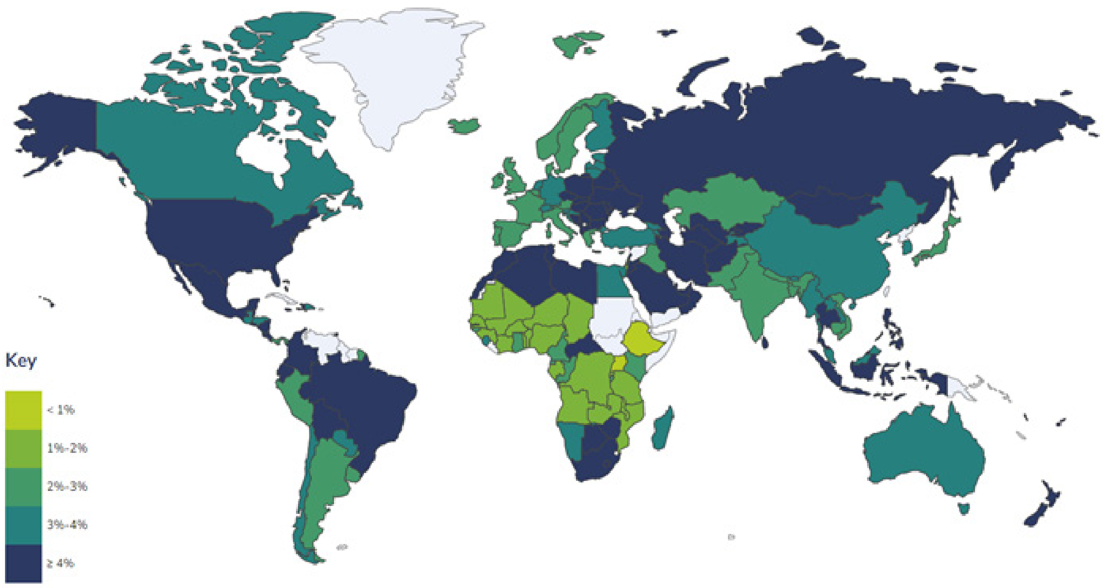
GLP-1 producer outperformance over global healthcare: March 21 – November 23

The public fervour around and extensive press coverage of these new drugs has been well observed by Cerno Capital. Primary beneficiaries have been Novo Nordisk, producer of Semaglutide based Ozempic and Wegovy, and Eli Lilly, producer of Tirzeptide based Mounjaro. Mouranjo, is a dual action formulation, containing GLP-1RA, as well as gastric inhibitory peptides. Whilst it has already received FDA approval for Diabetes treatment, recent trial results indicate superior performance to Wegovy in both weight loss and blood sugar control .

Since the publication of the Semaglutide study in March 2021, Novo Nordisk's share price has risen 192% and Eli Lily's 174% with their Price to Earnings ratios expanding from 24.9x to 42.2x (69.5%) and 32.3x to 68.2x (111%) respectively. Their combined market capitalisations have grown during that time from US$355bn to US$921bn, representing US$566bn in capital gain. Over the same period, the wider global healthcare industry has been relatively stagnant, as large cap pharmaceutical businesses slow post COVID. Reverse DCF analysis of suggests an expected EPS CAGR of 18% for Novo Nordisk over a five-year period, suggests that for Novo Nordisk and Eli Lilly to be fairly valued at these levels, they would need to register revenue CAGRs of 24.7% and 32.4% respectively over the next 10 years.

[8] Meaning outside of its approved license
[9] https://www.novonordisk-us.com/supply-update.html
[10] https://assets.publishing.service.gov.uk/media/651196ffbf7c1a0011bb46a0/Ozempic.pdf
[11] https://investor.lilly.com/news-releases/news-release-details/lillys-tirzepatide-achieved-157-weight-loss-adults-obesity-or

The economic burden of obesity



GLP-1 producer outperformance over global healthcare: March 21 – November 23

To consider the rationality of such aggressive forecasts, it is prudent to consider both the scale of the problem they propose a solution to, that being cases of obesity and weight related health problems, as well as their ability adequately address those issues.

The global impact of obesity and weight related health implications are multifaceted and manifest in direct economic cost, secondary opportunity costs and in social contexts. National economies are burdened through both escalating healthcare expenditure and productivity restrictions, creating drags for businesses and national economies alike. Moreover, the social experience of those burdened with such conditions is riddled with stigma and emotional strain.

As a result of the size of the issue, the global weight loss and management industry, which includes dietary, fitness and medical procedures and products was valued at US$224bn in 2021 . Yet, it is characterised by inefficiencies and has failed to offer enduring or efficacious solutions. The number of people suffering from obesity globally has risen by 929%, from 100 million in 1975 (2.5% of global population)[14] to 1.03 billion in 2022 (13.0% of the global population)[15], resulting in a global cost of US$2 trillion per year, averaging at ~2.19% of GDP per country per year[16]. The number of people forecast to be obese by 2035 is 1.9 billion (21.4% of the global population), with related expenses projected to rise to 3.29% of GDP on average in 2060[17].

It is not that all weight reduction and management products and procedures are totally ineffective. Research has shown that rapid weight loss, utilising a variety of non-invasive approaches can be successful. However, over 80% of individuals who do succeed in initially reducing their body weight regain weight after 1 year, rising to 85% over 2 years and 95% over 3 years , with most regaining more weight than was initially lost . However, those who do successfully maintain weight loss over 2 years have a higher chance to maintain that weight loss over long time horizons . This is likely due to the fact that long term weight loss and maintenance requires long term behavioural changes in order to avoid falling into the historical behavioural patterns which caused the initial weight gain. Companies which offer services which target short term results, such as calorie restriction plans and meal alternatives are as such, targeting temporary results.

[12] https://data.worldobesity.org/economic-impact-new/?mapid=totgdp&year=2060
[13] https://www.globenewswire.com/en/news-release/2023/02/09/2604662/0/en/Latest-Global-Weight-Loss-and-Weight-Management-Market-Size-Share-Worth-USD-405-4-Billion-by-2030-at-a-6-84-CAGR-Growing-obesity-rate-to-propel-market-growth-Facts-Factors-Industry.html
[14] https://www.who.int/news/item/11-10-2017-tenfold-increase-in-childhood-and-adolescent-obesity-in-four-decades-new-study-by-imperial-college-london-and-who#:~:text=Global%20data%20for%20obesity%20and%20underweight&text=The%20number%20of%20obese%20adults,below%20the%20threshold%20for%20obesity
[15] https://www.who.int/news/item/04-03-2022-world-obesity-day-2022-accelerating-action-to-stop-obesity
[16] https://gh.bmj.com/content/7/9/e009773
[17] https://gh.bmj.com/content/7/9/e009773

A lack of post diet care means that as soon as the individual stops restricting their calorie intake, they will regain weight. As such, it is not surprise that every year, nearly 50% of American adults attempt to lose weight .

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Against this backdrop, GLP-1RA drugs acquires significance. They have demonstrated substantial potential to disrupt these norms which are fraught with economic and social complexities. These drugs not only promote weight loss through slowing gastric emptying but encourage behavioural changes through inducing feelings of fullness and reducing appetite through interaction with neural reward systems. There are even early indicators that through interacting with brain based GLP1 receptors, which are responsible for the signals which reward addictive behaviours that these drugs could offer additional benefits to the 20% of adults who are addicted to food[22], or the ~40 million people dealing with some form of addiction[23].

Animal spirits

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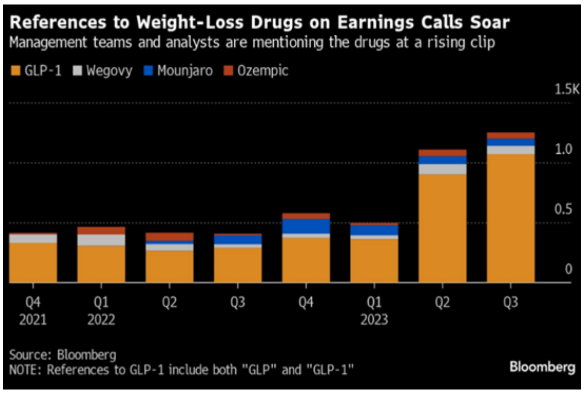
Nearly half of the US adult population technically qualify for GLP1s, according to Wegovy's prescription guidance[24]. Unsurprisingly, optimism of for the value generation potential of these drugs within healthcare space has been tangible with market participants simultaneously becoming acutely aware of their potential for disruption.

Alongside the clinical evidence presented by Novo & Lilly's compound trials, evidence has been mounting of the real-world change in GLP1RA users, with data demonstrating a 6.8% reduction in total food consumption on average, compared to a 1.2% increase for the average American. This data has been widely reported, with major publications such as the Washington Post printing emotive headlines such as: 'Food, clothing, airlines: Ozempic is coming for these industries and more'[25]

[18] https://pubmed.ncbi.nlm.nih.gov/23859104/
[19] https://pubmed.ncbi.nlm.nih.gov/22475574/
[20] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6022235/
[21] https://www.cdc.gov/nchs/data/databriefs/db313.pdf
[22] https://onlinelibrary.wiley.com/doi/epdf/10.1002/erv.2878
[23] https://fherehab.com/addiction-statistics/
[24] https://www.accessdata.fda.gov/drugsatfda_docs/label/2023/215256s007lbl.pdf
[25] https://www.washingtonpost.com/business/2023/10/09/ozempic-weight-loss-drugs-impact/

Unsurprisingly, these narratives have brought about a period of significant volatility across a range of industries, with related stocks pricing for the scenario of maximum GLP1RA adoption. In this hypothetical future, GLP 'losers' of the first order will be those with products which will become less appealing to consumers through the pre-emptive stimulation of the GLP receptors. Thus, consumer discretionary and staples sectors, which includes food, beverage and tobacco producers and retailors have performed poorly relative to local and global markets. For example, on the 17th of October 2023, Eli Lilly generated a flurry of headlines Tirzepatide met late-stage trial goals. The same day, analysts at Goldman Sachs forecast a 2030 GLP market value of US$100bn. Consequentially, global hedge funds sold consumer staples in October at the fastest rate of the past five years, with short-sales outpacing long-buys in a ratio of 4:1[26]. In response, GLP drugs were referenced during earnings calls over 100% more during the quarter than the year prior[27]. By month end, several large cap U.S. consumer staple organisations, usually characterised as defensive, had fallen ~10%.



Source - Bloomberg

GLP 'losers' of the second order would be those companies whose products and services would reduce in value or necessity in a peak GLP1RA adoption scenarios.

One example would be the MedTech sector, in which many participants offer products and services which treat both obesity and its related ailments. Despite a plethora of growth avenues which are unrelated to Obesity and generally strong fundamentals, the U.S. Med Tech sector has declined ~23% between August and November 2023, as markets priced in a worst-case scenario, defined by 'fear and doubt'[28].

GLP-1 producers & perceived losers: Market Cap & PE progression [29, 30]

However, whilst the market response to GLP progression, demonstrated in the positive pricing action in the drug producers, as well as the negative in potentially disrupted industries was decisive, management responses have been far less clear. Responses ranged from refusal to speculate[31], speculation of mass savings[32], tangible shifts in consumer purchasing patterns[33] opportunities to develop companion products[34], and expanding TAMs[35].

[26] Goldman Sachs Data
[27] Bloomberg Data
[28] https://www.medtechdive.com/news/medtech-glp-1-obesity-drugs-fear-stocks/696515/
[29] Perceived GLP Losers: Nestle, Mondelez International, Kraft Heinz, Pepsi, Coca Cola, Mc Donalds, Restaurant Brands International, ResMed, Zimmer Biomet, Smith and Nephew.
[30] GLP Producers: Novo Nordisk & Ely Lilly
[31] Philip Morris International
[32] Multiple Airline Operators
[33] Walmart
[34] Nestle SA
[35] Zimmer Biomet

Cerno Opinion

The social and commercial consequences of these compounds clearly have vast potential. Market participants have congregated into a consensus opinion on the future of the healthcare sector defined by duopolistic perspectives. Primary GLP organisations (the drug producers) have been priced for the most optimistic outcome. At the same time, those businesses with secondary exposure have been priced for severe, immediate, and enduring disruption to the public demand profiles which fuel their long-term operational and financial profiles.

The rationality for such perspectives is not difficult to understand. Any national or international reduction in obesity rates will be positive for productivity levels, reduced weight-related burdens on the healthcare systems, government social spend requirements and is likely to be of net benefit for the consumers quality of life. As such, it is easy and perhaps comforting to envisage a future defined by maximum consumption of these compounds, mass reduction of obesity and a sever reduction in demand for those businesses which supply obesity facilitating goods and services which treat the symptoms.

Holdings in the Cerno portfolios have not been immune to such animal spirits. Nestlé is trading near three-year lows as investors weight the potential change in food consumption patterns for its frozen food and confectionary categories. Zimmer Biomet is trading near one-year lows as investors articulate concerns over reduced demand for orthopaedic procedures, which are often related to obesity related joint and bone conditions. Renishaw is also trading at multi-year lows due to concerns over demand for sleep apnoea devices in a post-obesity world.

We believe that whilst these observations are valid and the GLP advent will certainly be relevant for these sectors, there are some facts that will likely pose headwinds for some of the anticipated scenarios. The primary counterfactual is that without maximum adoption of GLP-1RAs in their most efficacious long term clinical doses, the impacts of the drugs will be less severe than forecast. The accessibility of these drugs is a key barrier to adoption, with the challenge coming down to two key factors.

Firstly, the sheer number of number of people who may benefit from them and who would pursue treatment. In the USA alone, 40% of adults are obese and may be eligible for a course of treatment, if current prescription eligibility remains in place. By the end of CY22, on-label prescriptions for GLP-1RA derived obesity treatments hit 9 million and excessive global supply and improper manufacturing processes drove global supply chain issues which resulted in large proportions of diabetes patents being unable to fulfil their prescriptions.

Globally, Obesity affects more than 764 million people[41], exacerbating the issue once international penetration begins to accelerate. Secondly, is the issue of cost. Novo Nordisk's Wegovy has a list price of over US$16,000 dollars per year. Consequentially, should J.P. Morgan forecasts for GLP uptake materialise in the U.S., the total cost of the compounds would amount to roughly US$50bn or 10% of 2021 US outpatient drug spend[42]. Naturally, a broad-based reduction in obesity rates would drive greater savings in the long term, with estimates of US$700bn over 30 years[43]. However, due to the long-term nature of obesity related ailments, it would be several iterations of clinical treatments before those savings could be realised. For example, if only 10% of USA's Medicare participants took the medicine, it would cost ~US$27bn per year. Currently, Medicare is legally barred from paying for weight-loss drugs, under the proposition that obesity is a lifestyle choice, rather than a medical condition.

[36] Global Leaders
[37] Global Leaders
[38] Resmed
[39] https://www.trillianthealth.com/reports/2023-health-economy-trends
[40] https://www.pharmaceutical-technology.com/comment/novo-nordisks-wegovy-supply-challenges/
[41] https://investor.novonordisk.com/q2-2023-presentation/?page=21
[41] https://investor.novonordisk.com/q2-2023-presentation/?page=21
[42] https://aspe.hhs.gov/sites/default/files/documents/88c547c976e915fc31fe2c6903ac0bc9/sdp-trends-prescription-drug-spending.pdf

Whether this and other insurance regimes will change, will likely depend on the ability for supporters to highlight the treatments reduction in weight adjacent ailments and the ability for those regimes to handle the short-term expenses for long term benefit. Likely the situation will change in the future, given investment into more robust supply chains, a likely reduction in pharmaceutical cost due to operating leverage and greater competitive forces. However, without wider acceptance and coverage, full penetration is unlikely in the medium term.

Patient Type				Type of Healthcare Insurance		Coverage >>	Low	High	Out of own pocket		Adoption		Patients ending up on GLP-1	
									Low	High	Low	High	Low	High
Obese >>	109mn	Diabetic	10mn	Insured	92%	100%			n/a		20%	33%	1.8mn	3.0mn
				Uninsured	8%	n/a			n/a		n/a		0.0mn	0.0mn
		Non-diabetic	99mn	Any Private Plan	66%	Covered	20%	50%	n/a		5%	15%	0.7mn	4.9mn
						Not covered	80%	50%	5%	25%	5%	15%	0.1mn	1.2mn
				Any Public Plan (incl. Medicare and Medicaid)	26%	Covered	20%	50%	n/a		5%	15%	0.3mn	1.9mn
						Not covered	80%	50%	5%	25%	5%	15%	0.1mn	0.5mn
				Uninsured	8%	n/a			0%	5%	5%	15%	0.0mn	0.1mn
Overweight >>	80mn	Diabetic	6mn	Insured	92%	100%			n/a		20%	33%	1.2mn	1.9mn
				Uninsured	8%	n/a			n/a		n/a		0.0mn	0.0mn
		Non-diabetic	74mn	Any Private	66%	Covered	0%	35%	n/a		5%	15%	0.0mn	2.6mn
						Not covered	100%	65%	5%	25%	5%	15%	0.1mn	1.2mn
				Any Public Plan (incl. Medicare and Medicaid)	26%	Covered	0%	35%	n/a		5%	15%	0.0mn	1.0mn
						Not covered	100%	65%	5%	25%	5%	15%	0.0mn	0.5mn
				Uninsured	8%	n/a			0%	5%	5%	15%	0.0mn	0.05mn
Total number of patients on GLP-1													**4.2mn**	**18.8mn**
-as a share of total US adult population													*1.6%*	*7.2%*

Secondly, is the question of adherence, as much of the market analysis, including that done in this paper, works of the presumption of a supply deficit. In the clinical studies published by Novo Nordisk and Ely Lilly, discontinuation rates were largely driven by adverse gastrointestinal events, such as nausea, diarrhoea, vomiting and constipation, which led to discontinuation rates of 5.1% and 9.9% respectively. However, a recent meta-analysis[44] retroactively studied the real-world adherence[45] and persistence[46] of nearly 13,000 obese adults with type 2 diabetes who were prescribed GLP-1RA and reported poor persistence at 2 years, compared to other less invasive glucose-lowering agents (48.8% vs 72.7%). Type 2 Diabetes, unlike Obesity, requires permanent treatment after hypoglycaemia has been initially addressed, giving greater rationality to the persistence for these patients. Whilst no analysis on the causes of non-persistence or adherence was given, analysts have pointed to unpleasant side effects and formulations[47] as a likely cause. Therefore, it may be reasonable to assume similar or elevated levels of non-persistence in obesity patients who are prescribed the drug. Given that most Semaglutide trial participants regained by nearly two-thirds of weight lost the in the year after the conclusion of the trial[48], a high likelihood of non-adherence and persistence in obesity patients raises questioning on the feasibility of a GLP facilitated obesity free future.

The secondary counterfactual to consider is the likelihood that, even if a maximum adoption scenario materialises, one should expect quality companies and management teams, such those found in Cerno's Global Leader and Pacific portfolios to pre-emptively adjust to the parameters of the new consumption environment and capitalise on new avenues of growth. This can be demonstrated through each of the previously referenced holdings. ResMed, the largest supplier of sleep apnoea devices, a holding in the Pacific portfolio, has derated near two standard deviations from its 5 year mean forward Price to Earnings ratio of 33.7x to a low of 18.3x, due to fears that approximately two-thirds of obstructive sleep apnoea sufferers are overweight or obese, with studies demonstrating a linear relationship between weight loss and symptom reduction. Thus, projections of a GLP dominated future result in simple extrapolations of Sleep Apnoea equipment redundancies.

[44] https://link.springer.com/article/10.1007/s13300-023-01382-9
[45] The extent to which patients take their medication as instructed, such as dose, frequency, and timing.
[46] The duration between treatment initiation and discontinuation despite continuing to be prescribed the medication.
[47] Weekly subcutaneous injection
[48] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC9542252/

However, these expectations are hypothetical in nature. ResMed has reported little to no change in PAP adherence or in resupply programs for those patients also undergoing GLP treatment, indicating a stable cohort of patients on combined therapies. Moreover, the sleep apnoea market remains largely unpenetrated, with 936 million sufferers estimated in 2015. Resmed, the global leader in Sleep Apnoea treatment, reports only 20 million users of its AirView System. ResMed and its peers still have ample opportunity to out-grow it's TAM in the long term.

Thus, in a hypothetical GLP1RA driven eradication of the 2015 obese PAP base, the total number of global sufferers would still be 312 million, 15x more than ResMed's current customer base. ResMed maintains a forward-looking epidemiology model for the core sleep apnoea market which, utilising aggressive GLP uptake scenarios, projects the number of sleep apnoea sufferers grow from ~900mn to 1.4 billion people in 2050. Thus, given the low penetration rates of the treatment currently, despite slowing condition growth due to potential obesity avoidance,

Similarly, Nestle, globally associated with confectionary items, such as KitKats, HotPockets and Haagen-Dazs Ice cream is trading near two-year lows as investors weigh the potential impact of GLP-1RAs on food spending patterns. Pricing has been particularly volatile after Walmart's U.S. branch CEO noted pullback in food consumption in GLP participants.

Category	GLP-1 Users	Total US	Difference
Meat Snacks	-27.2%	-1.5%	-25.6%
Snack Seeds, Nuts & Trail Mixes	-30.6%	-5.4%	-25.2%
Popcorn	-27.4%	-3.5%	-23.9%
Crackers	-22.5%	0.7%	-23.2%
Chips	-18.8%	-0.7%	-18.1%
Packaged Portable Sweet Snacks	-11.3%	3.3%	-14.6%
Total High Sugar/Carb	*-14.0%*	*0.4%*	*-14.5%*
Baking & Cooking	-7.8%	5.0%	-12.7%
Packaged Cookies	-10.5%	1.4%	-11.9%
Soft Drinks	-15.1%	-3.9%	-11.2%
Total Packaged Food	*-10.1%*	*1.0%*	*-11.1%*
Canned	-11.0%	-0.4%	-10.6%
Pasta & Noodles	-3.2%	7.3%	-10.5%
Deli & Prepared Foods	-12.4%	-2.2%	-10.2%
In-Store Bakery	-7.8%	2.4%	-10.1%
Frozen Foods	-6.7%	2.2%	-9.0%
Total Fresh	*-6.8%*	*1.2%*	*-8.0%*
Total Food	**-6.8%**	**1.2%**	**-8.0%**
Packaged Bakery	-6.4%	1.6%	-8.0%
Puffed Snacks	-0.2%	7.8%	-7.9%
Meat	-8.2%	-0.5%	-7.7%
Produce	-4.1%	3.5%	-7.7%
Other Non-Alcohol Beverages	-3.0%	4.2%	-7.2%
Pretzels	-4.1%	2.8%	-6.8%
Dairy	-4.1%	1.8%	-5.8%
Nutrition and Wholesome Bars	-11.6%	-6.9%	-4.8%
Herbs & Spices	1.2%	4.9%	-3.7%
Condiments	2.0%	2.3%	-0.2%
Bakery - Sweet Goods	-1.2%	-1.9%	0.6%
Alcoholic Beverages	-0.8%	-5.7%	5.0%
Breakfast	4.6%	-2.3%	6.9%
Shelf Stable Meals	12.8%	1.5%	11.3%

Goldman Sachs: Average changes in consumption patterns for GLP1RA users, vs USA average

Given that data has demonstrated a -14% reduction in high sugar/carb consumption from GLP-1 users and Nestle's confectionary portfolio contributing ~9% of FY22 sales, the reaction is understandable. Other exposed segments include diary and ice-cream, and convenience meals & cooking aids which represent a further 12% and 13% of FY22 revenue respectively. However, impact is likely to be highly variable between product lines and with varying levels of drug uptake. For example, whilst Ice-Cream consumption will likely decline with GLP users, research data has demonstrated a substantial increase in consumption of protein rich foods, such as yogurt, as people look to offset lost muscle mass[49]. Health focused products such as Nature's Bounty and Boost are likely to benefit as consumers looks to offset lower calorie diets with a sufficient nutrient profile, likely achieved through a balance of dietary modification and supplementation.

[49] https://www.morningstar.com/news/marketwatch/2023101636/what-exactly-are-patients-taking-new-weight-loss-drugs-eating-and-what-are-they-avoiding-bernstein-asked-them

In addition, Nestlé CEO Mark Schneider[50] recently noted that the group is working on developing additional 'companion products' for people who use the weight loss drugs, to ensure a nutritionally complete diet, retain lean muscle mass and prevent immediate weight re-bound in the likely scenario that they eventually stop their regular prescription. These may go to market as soon as CY24 and should offer additional growth avenues, alongside the tailwinds granted to existing lines such as the 'Lean Cuisine' frozen meal brand.

Finally, Zimmer Biomet, the global leading producer of orthopaedic reconstructive devices over the past year has been exploring the impact of GLP1RA compounds on medical device adoption, representing one of the first endeavours to do so outside of the diabetes sector. Four broad conclusions from the assessment[51] can be drawn. Firstly, whilst obesity is a causative factor for osteoarthritis, the two states do not have linear correlation, meaning that osteoarthritic degradation is not reversed by weight loss. Consequently, there has been no attributable change in current TAM with the recent uptake of Ozempic. Secondly, patients

Thirdly, obesity is not the sole cause of osteoarthritis. Management have identified the prescription of increasing activity levels among GLP patients as a potential cause of more sports-related injuries. Small body size and improper nutrition as a result of excessive dieting are also causative for bone degradation, which all may be exacerbated by GLP1RA mechanisms. Lastly, Zimmer Biomet points to the 500% increase in bariatric sleeve surgeries in the US between 2011 and 2021. The procedure is medial efficacious but has failed to slow the growth of obesity and joint replacement therapies, which have grown at ~2% and ~5% CAGR over the same period. Whilst bariatric surgeries are more invasive than GLP-1RAs, they similarly have significant label, cost, and side effects, require ongoing treatment to maintain weight loss, and have presented no evidence of OA reduction. As such, there is little historical evidence to suggest that a new methodology for obesity reduction will reverse net obesity rates and obfuscate Zimmer's business. Counterintuitively, the evidence suggests a reduction in the most severe cases of obesity would be a net positive. Thus, GLPs will likely only impact the demand profile at a point of maximum adoption, at which they serve as a preventative measure for the broader population ever becoming overweight to the point of osteoporosis, rather than being used as a reactive treatment. Despite this, Zimmer Biomet's share price declined 29% between July and October, evidencing the sentiment of 'fear and doubt' defining the market and any stocks associated with the GLP impacts.

As such, whilst these segments of the portfolio have been negatively impacted by speculation on the impact of GLP-1RA drugs, our conviction in the investment thesis remains the same. Market participants have priced these businesses through a lens of dependence on cyclical patterns of over-consumption and their treatment on the corresponding ailments for revenue generation.

Conversely, minimal consideration is being given to the multiple headwinds for GLP penetration. Despite the prevailing sentiment of fear and doubt, each of these case studies have demonstrated the benefits of a portfolio of quality equities. All are beneficiaries of deep growth trends which structural in nature and unlikely to be derailed through new market forces. The companies are also generally sufficiently diversified in geography, product, and demand forces, that lessening in demand in any one segment can be counteracted by increasing investment into others. Finally, and likely most importantly, quality businesses are led by forward thinking and experienced management teams who can reliably guide their businesses through periods of market turbulence and identify new areas for future growth.

Oscar Mackereth

[50] https://www.bloomberg.com/news/articles/2023-10-19/nestle-s-sales-growth-slows-as-volumes-drops-again
[51] https://investor.zimmerbiomet.com/~/media/Files/Z/ZimmerBiomet-IR/reports-and-presentations/assessing-the-potential-impact-of-glp1s-final2.pdf

Charlie Munger 1924-2023

"The big money is not in the buying and the selling, but in the waiting"

The closest I got to Charlie Munger was 152 yards. Some years ago, I was taken out by a member to play Los Angeles Country Club's South golf course. I was teeing up my ball on the par 3 17th and my host stopped me "Don't hit James, you're going to kill Charlie Munger!" Mr. Munger was finishing off on the green, so I then stepped back so he could get out of harm's way. He waved at me and I waved back. Fortunately, for the shareholders of Berkshire Hathaway and the wider world of investment, he survived and this piece is my contribution to the memory of his 60 plus years career as an investor.

Munger's broad thinking about investment has influenced the philosophy that underpins the Cerno Global Leaders Strategy. He has been a rich topic of study throughout his career. One of his principal ideas is the simple maxim of holding good and great companies for the long term. It is the nature of the human brain to dwell more on the buying and the selling, noteworthy events but it is the holding of positions that conveys the return. This is, to our event driven brains, more prosaic. Uneventful, in fact. Holding positions is perhaps a bit more difficult than it looks at first glance. Like life, there are plenty of vicissitudes along the way, divisions that don't deliver, results that are temporarily shy of forecasts, CEOs that come and go. Reporting windows often have volatility around them and the sell-side firms who dominate coverage of listed companies make their money when clients buy and sell.

For all of his time at Berkshire, Munger played second fiddle to Warren Buffet, and this was a very happy arrangement for both of them. Buffet lived in a house he bought in 1958 in Omaha. Munger, also born in Omaha, worked as a youth in Buffet's grandfathers grocery store. When the US army sent him to study meteorology at Cal Tech in Pasadena, California more or less became his base and certainly full-time since 1962. Munger had trained and practiced as a lawyer after World War II and ran an investment partnership along side his lawyering before devoting himself fulltime to investing from 1975 when he became a director of Berkshire.

Buffet credits Munger with having changed his approach to buying companies. For the first few decades of Buffet's investment career, working in the thrall of Benjamin Graham who advanced strong theories about value management, he bought cheap companies, sometimes the cheapness could be measured against price to cash or price to book but other times it was on the basis of low nominal value prices. Buffet referred to some of these stocks as "cigar butts" that could offer a few puffs before expiry. Munger advanced a modified approach of buying good companies with defensible economic moats and seeking reasonable prices for these. More on less, that is what they have done within Berkshire since.

Munger's contribution has become better known in recent years, partially on account of wider YouTube viewings of their double act at the annual shareholders' meeting in Omaha. For whilst it was always Buffet that did most of the speaking, it is Munger's interjections that create the theatre. You sense, as does Buffet, they are coming but not exactly when or their nature. His ancedotes are choice, his put-downs memorable and his common sense peerless.

There are many distinctive aspects of Munger as an investor and these have been accrued over a long-time span. It is hard to rank them, but here are the ones that have stood out to me. In no particular order:-

Reading habits. Munger was a voracious reader, joking once that his grandchildren perceived him as "a book with legs on". He was particularly interested in biographies, I think because, in these, you can marry the person with events and consequences. What did somebody do, given what they knew at the time and how did it pan out?

Interpersonal relations. His crusty edge became an asset but he, like Buffet, clearly cared about people and maintained a distinctly ethical viewpoint. "The best thing a human being can do is help another human being know more". When he and Buffet retreated from their bank holdings, about which Munger was ambivalent, he said something along the lines of "they're not our type of people Warren".

Decision making systems/systems of thought. He developed his own views about how decisions are made and the psychological and emotional underpinnings of these. He was a keen student about ways of thinking, referring to "latticework" as his physical analogy for the myriad ways in which facts intersect with thoughts and the causal underpinnings of decision structures. Most importantly, he was committed to learning. "You must know the big ideas in the big disciplines, and use them routinely – all of them, not just a few". "People calculate too much and think too little."

Keeping things simple. Munger returned to this thought again and again: "the reason that our ideas have not spread faster is they're too simple". He was anti-complexity in business and in investing. When the probabilities are conditional on other conditionals and the mental calculation becomes too complex, the line of action can very easily be lost. Part of the necessary humility that long term investors develop derives from a ready acceptance of the limits of personal knowledge. It is natural to have expectations, without them we would not rise from our beds but one should always be suspicious about, or at least not over rely, on forecasts. "Projections are put together by people who have an interest in a particular outcome, have a subconscious bias, and its apparent precision makes it fallacious."

Waiting for the fat pitch. A sporting metaphor borrowed from baseball. The operating idea is to be patient until stock prices align and then be greedy when they do. This is perhaps the most difficult aspect to achieve consistency on.

Ownership. We should pay attention to his main investing idea: "The number one idea is to view a stock as an ownership of the business". The portfolio application for us to ask the question. If I could own just 25-30 businesses and the stock market closed for the next 10 years, which businesses would I wish to own? That is the basic idea behind Cerno Global Leaders.

And, finally retain a sense of humour and perspective. Munger was a tremendous joke teller and his jokes always appeared to be based on real interactions: "I think the reason why we got into such idiocy in investment management is best illustrated by a story that I tell about the guy who sold fishing tackle. I asked him, "My God, they're purple and green. Do the fish really take these lures?" And he said, "Mister, I don't sell to fish."

James Spence

Investment Stewardship in Action – 2023 review of main actions

Portfolios managed by Cerno Capital are run in accordance with the UN principles of Responsible Investment, to which we have been signatories since 2020. These principles help guide our actions in the discipline of long-term investment, which according to our philosophy, entails two structural modalities. First, is the absorption of information with respect to a company's historical path and current conditions. Second is the forecasting exercise of developing theses as to the possible future paths to growth and the challenges of these paths. These two are distinct, yet intrinsically interconnected as company and industry forecasts cannot be reasonably made without timely access and analysis of accurate information, obtained both through observation and directly from the portfolio companies in question.

The Global Leaders portfolio is first and foremost managed with the aim of generating sustainable long-term returns for investors. We consider this to be a combination of capital appreciation and the security of that appreciation, relative to wider economic scenarios. Our investment horizon and the time frame which we are most concerned with is those which extend beyond five years. As stewards of assets over long timeframes, we are empowered to make decisions on behalf of our investments which potentially have impacts beyond the scope of financial outcomes. This requires us to understand and respond to the short- and long-duration consequences of corporate actions within your portfolio.

Due to our long-term investment horizon, we expect to encounter issues that are dissonant with our preferred outcomes over our holding period. Selling those assets into the secondary market is always a possibility and often offers a sense of resolution. However, we are cognisant of the idea that upon sale, those issues which objectionable to us will persist and continue to be harmful. Therefore, our preferred cause of action is to engage on such issues and work to promote superior outcomes in both financial and non-financial matters.

As such, to our mind, we have three courses of action which, in order of preference, are as follows:

1.Retain the asset and engage on the issue, stating our reservations and assessing the responses we receive.

2. Retain the asset and engage with other stewards of capital and policymakers to form a joint or combined approach.

3. Sell the asset and communicate the reasons for sale to relevant persons of responsibility.

In the calendar year 2023, our engagement has primarily centred around issues of corporate governance. Our approach to governance looks to assess the ability of an appropriately experienced Board to act independently in the interests of long-term shareholders. We look for clearly documented procedures and a prudent approach with regards to management of financial matters and for governance to promote openness and a culture that commits the long-term success of both businesses and industries. Our comfort in the ability, and tendency, of management to act in the best interests of all stakeholders helps to navigate around investments which may ultimately destroy value.

This approach is evidenced through the following case studies, where we highlight votes of significant in the exceptional or annual general meetings of Global Leaders portfolio companies:

LVMH

Enhancing responsibility and disclosure: Advocating for transparency and accountability in family-owned and majority-controlled public companies

Our concerns primarily revolved around the lack of transparency regarding 'Agache' related party transactions, which involve Bernard Arnault's family holding company. Such opacity raises questions about the alignment of interests and potential conflicts of interest within the company.

Furthermore, the lack of independence on the board, particularly in the context of a family-controlled public company, is a matter of concern. We firmly believe that an independent and diverse board is crucial for effective governance and safeguarding the interests of all shareholders.

In addition, we find the sub-par disclosure on the compensation and remuneration policies for Bernard Arnault and Antonio Belloni to be unsatisfactory. As shareholders, we expect best-in-class disclosure, enabling us to make informed decisions and assess the alignment of executive compensation with long-term shareholder value creation.

We understand that such non-normative business structures are not uncommon in family-controlled and operated public businesses, often arising due to the coexistence of family-oriented management approaches and public shareholder ownership. However, these structures should not facilitate the obfuscation of operational ongoings, nor be unnecessarily opaque, as transparency is vital for fostering trust and ensuring the integrity of corporate governance.

We expressed our discontent via proxy voting at the recent AGM votes, in which we voted against several measures:

- Item 4a: We voted against the approval of the auditor's special report on related-party transactions, as the company failed to provide sufficient information with respect to Agache, thus making us unable to ascertain that the continuation of this agreement is in alignment with shareholder interests.

- Items 5-7: We voted against the re-election of several non-independent nominees, given the lack of independence on the board.

- Items 14, 15, 17 & 18: we voted against the approval of CEO and Vice CEO compensation, given the lack of disclosure on short and long term incentive conditions that vested during FY23, with criteria appearing insufficiently challenging and not truly met.

- Items 28: We voted against the authorisation of up to 1% of issued capital for use in stock options for employees and corporate officers, on the basis of insufficient disclosure.

Assa Abloy

Promoting Shareholder Rights: Advocating for transparent information dissemination and facilitating granular voting rights on critical matters.

Our concerns regarding Assa Abloy revolve around several key issues. Firstly, we expressed dissatisfaction with the bundling of directors in the election vote, which restricts our ability to express satisfaction or dissent against individual board members. This lack of granularity in the voting process prevents us from directly addressing our concerns and holding specific members accountable for their performance or suitability.

Furthermore, we find the independence level of the audit committee to be insufficient. It is crucial for the audit committee to consist of independent directors who can provide objective oversight of financial reporting and internal control processes, free from any conflicts of interest. A robust and independent audit committee is essential for maintaining transparency and safeguarding the interests of shareholders. Additionally, we have reservations about candidate Johan Hjertonsson's potential over-boarding, given his commitments at four other institutions. Over-boarding can compromise a director's ability to dedicate sufficient time and attention to each position, potentially affecting their effectiveness and ability to fulfil their responsibilities.

If we had the opportunity, we would have voted against these structures in a more direct manner. However, the current voting structure limits our ability to voice our concerns and hold specific committees or directors accountable. We believe that shareholders should have the ability to vote on individual directors and committees, as this empowers them to exercise their rights to express opinions on a granular level and encourage proper corporate governance. While Assa Abloy's governance structures are generally coherent and disclosure levels are acceptable, we stress the need for voting procedure to prioritise active shareholder participation.

Moreover, the poor disclosure of long-term incentive rewards awarded to directors in 2022 is another area of concern. The referenced performance period is insufficiently short at less than three consecutive years, and the performance targets for long term incentives were not disclosed. We emphasise the importance of comprehensive disclosure to enable shareholders to assess the alignment of executive compensation with long-term performance and shareholder value creation.

To express our discontent with the referenced issues, we voted in the following manner:

- Item 12: we voted against the election and re-election of all standing directors, as a reflection of our dissatisfaction with the limitations on imposed on our ability to vote on specific committees and directors.

- Item 17: we voted against the approval of the performance share matching plan for long term incentives in 2023.

Koninklijke Philips

Fostering accountability and responsive governance: holding management accountable and advocating for responsible decision-making.

Our concerns primarily revolved around the remuneration structure and the actions of the former CEO. While we typically align with standard voting practices, we decided to deviate from the norm in this case. We voted against the discharge of management but in support of all forward-looking voting items. This was done in order to expressing our dissatisfaction with the ex-CEO's performance and refusal to act in line with companywide remedial actions for shareholder failures, whilst supporting the responsiveness of ongoing management.

A key concern was the remuneration report presented in the 2022 Annual report. Last year, Cerno Capital, as part of a cohort of 80% of all shareholders, voted against the report due to apprehensions regarding the adjustment of Short-Term Incentive (STI) and Long-Term Incentive (LTI) outcomes, in light of the product recall. We believed that the justification provided for the adjustment was insufficient, especially considering the company's poor operational performance during the ongoing product recall procedures since 2021.

Management's response to the dissenting vote was encouraging. They acknowledged the need for transparency and clarity and made commitments to enhance the understanding of potential adjustments and rewards for performance. New targets have been set and disclosed, based solely on adjusted EBITDA metrics. Moreover, a well-defined set of adjustment mechanisms were established, for use in future scenarios. These steps demonstrated their willingness to address our concerns and improve shareholder engagement.

In consideration of the company's performance amid supply chain challenges and the product recall, and in acknowledgement of shareholder grievances, the supervisory board and the board of management made additional commitments to waive any 2022 payouts and vesting of 2020 long-term incentive grants, aligning incentives with shareholders' best interests. We supported the new performance-based management incentive payouts and appreciate management's acknowledgement and responsiveness to sub-par shareholder experiences over the past two years.

However, the departure of former CEO Frans van Houten raised concerns. It appeared that he was unwilling to sacrifice his STIs in line with other members of management. While a majority of his STIs remained unpaid, a portion was payable based on undisclosed non-financial metrics, in addition to a termination benefit, resulting in a total payout of EUR 3,276,264. We deemed this payout inappropriate, considering the company's recent financial performance and ongoing operational challenges.

In response, Cerno Capital voted in dissent against the discharge of the management board via voting item 2.e. This vote indicated our dissatisfaction and lack of confidence in their performance during the preceding year. Simultaneously, we supported all other voting items, recognising the forward-looking nature of these decisions and ongoing management's receptiveness to shareholder experiences. Our approach aimed to express our concerns while acknowledging management's commitment to shareholder engagement.

Taiwan Semiconductor Manufacturing Company

Advocating for superior public divulgence in strategic initiative risk management: Emphasising the importance of facilitating informed shareholder action via detailed public disclosures.

TSMC proposed an increase in the upper limit for guarantee provisions, allowing endorsement/guarantee provided by TSMC and/or its subsidiaries to reach 40% of the consolidated company's net worth. Some guidance was provided regarding limitations on individual guarantees, such as capping the total amount provided to any individual entity at 10% of the lower of the company or entity's net worth. However, these limitations were discretionary in nature and subject to board approval and could be lifted in their entirety for wholly owned subsidiaries.

Cerno Capital voted against the provision due to the lack of sufficient justification. Although the additional endorsements and guarantees were intended to support the funding needs of TSMC's international manufacturing footprint expansion, the level of disclosure regarding the specific purpose of the additional funding and the entities benefiting from it was insufficient. Additionally, there was no guarantee that the recipient companies would be under TSMC's overarching control, raising concerns about potential risks associated with such a provision.

Our opposition to the proposal stems from the inadequate disclosure and the unanswered questions regarding the potential risks involved. However, we remain open to reconsidering our position in the future if TSMC publishes more detailed disclosure, allowing us to assess the potential benefits of such a transaction and evaluate the adequacy of the risk mitigation measures in place. Transparency and clear communication are essential in enabling us to make informed voting decisions that align with the best interests of the company and its shareholders.

Linde

Protecting minority shareholder rights: preventing potential management entrenchment and advocating for an inclusive corporate governance framework.

Cerno Capital supported a shareholder resolution in 2022 calling for the adoption of a simple majority vote requirement at Linde, replacing the existing supermajority vote requirement. Our rationale for supporting this resolution was based on the belief that supermajority requirements often serve to block proposals that are supported by the majority of shareholders but opposed by a status quo management and a few major shareholders.

We view such mechanisms as detrimental to shareholder rights within company decisions. The previous requirement for 75% of all shares in float to vote in dissent in order to prevent management proposals is illogical, especially considering that typically only 80% of total shareholders vote at each meeting.

Last year, this resolution was passed as a shareholder proposal via a simple majority approval (52%), leading the board to propose a reduction of the supermajority vote requirement where permissible under Irish company law. The proposed changes would alter the vote requirement in several scenarios, such as amending the rights of any specific class of shares, issuing shares of capital stock with unpaid amounts, converting issued shares of capital stock to redeemable shares, treating reduction of share capital as a realised profit, and engaging in a merger or similar transaction with a party that acquired 10 percent or more of shares with potentially hostile intentions.

Cerno Capital maintains the view that a simple majority vote is sufficient protection from outside influence, considering the size of the company and the absence of controlling shareholders. The Vanguard Group holds 9.5% of shares. As a result, there are no beneficial shareholders who could automatically pass simple majority votes.

Nevertheless, the top 5 shareholders collectively hold 21.9% of the free float. Under the previous supermajority voting system, only an additional 3.1% of abstain or refusal votes would be required to veto an amendment. This highlights the potential for management entrenchment and the blocking of amendments that could be in the best interest of shareholder rights.

Cerno Capital's support for a reduction in the supermajority vote requirement aimed to protect the rights of smaller shareholders and promote a more equitable decision-making process within Linde.

Microsoft

Protecting minority shareholder rights: preventing potential management entrenchment and advocating for an inclusive corporate governance framework.

Prioritising ethical governance and accountability: encouraging responsible decision making to ensure the long-term interest of shareholder and uphold Microsoft's corporate values.

Our commitment to responsible investment and our duty of care to our shareholders led us to address two items during the FY23 Annual General Meeting (AGM).

One of our concerns revolves around the re-election of Mr. Reid G. Hoffman to Microsoft's board of directors. Reports have raised questions about Mr. Hoffman's historical association with Mr. Jeffrey Epstein, including alleged visits to Epstein's properties. We find it disconcerting that a director's position appears contradictory to Microsoft's commitment to corporate governance and social responsibility.

Another concern pertains to a shareholder proposal addressing the risks of operating in countries with significant human rights concerns. In response to significant consumer demand, Microsoft announced a plan in 2021 to build out 100 new data centres each year. Saudi Arabia, which scores poorly on numerous human rights and economic freedom indices, is a targeted area for construction. In this AGM, the Human Rights Watch called on the company to delay the buildout of new cloud data centres in Saudi Arabia, until it could sufficiently demonstrate it's ability to mitigate the risk of facilitating and benefiting from human rights violations. The proposal, whilst co-signed by 12 other human rights groups did not pass and was met with a response by management. Management drew attention to the well-defined human rights practices, which are disclosed in the annual human rights report. However, we believe the language used to address this issue lacks specificity and robustness, potentially leaving the company exposed to risks such as forced labour deployment and reputational damage. We urge Microsoft to provide greater clarity on the specific steps taken to mitigate these risks in high-risk areas.

Although we voted against these items in the AGM, they did not receive sufficient shareholder support to pass. As such, we have escalated our response and initiated an engagement process with Microsoft's management directory, posing questions regarding Mr. Hoffman's association and the company's approach to human rights risks. Our aim is to ensure transparency, accountability, and the long-term comfort as shareholders. By actively participating in the governance processes, we seek to protect shareholder value, foster corporate responsibility, and contribute to the sustainable growth of our investments. We will continue to address these concerns and actively engage with Microsoft's management to ensure alignment with our long-term objectives as the company continues to grow.

Oscar Mackereth

CERNO CAPITAL

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FUND FACTS

Holding History

Company Name	Description	Holding Peirod*
Samsung Electronics	Dominant in semiconductor memory chips and leader in smartphones	>10 years
Nestle	Diversified global food & beverage company	>10 years
Visa	Largest global electronic payments network	>10 years
Zimmer Biomet	Leading orthopaedic care specialist	>9 years
Linde	Largest industrial gas provider in the world	>9 years
Renishaw	Engineering specialist focused on equipment for precision measurement	>9 years
PPG	Coatings company leading in the industrial/specialty business	>8 years
Shimano	Dominant supplier of cycling componentry	>8 years
Givaudan	Leading player in the Flavours and Fragrance industry	>7 years
Novozymes	Produces enzymes which application in a wide variety of daily products	>7 years
Assa Abloy	World's leading manufacturer of security locks and automatic doors	>7 years
LVMH	The largest luxury goods conglomerate and most diversified	>6 years
EssilorLuxottica	Vertically integrated producer of luxury, fashion and sports eyewear	>6 years
Heineken	Brewer with a strategic bias to premium beer, interests in low alcohol/craft	>5 years
Atlas Copco	Dominant producer in air compression and vacuum techniques	>5 years
TSMC	World's largest pure-play semiconductor foundry	>4 years
ASML	Leading photolithography tools manufacturer for the semiconductor industry	>4 years
Microsoft	Dominant player in computing operating system and business software platform	>3 years
Philips	Healthcare technology company serving professional and consumer markets	>3 years
Accenture	Independent technology consultant and outsourcing provider globally	>3 years
Aptiv	Leader in smart vehicle architecture enabling autonomous driving	>2 years
Techtronics	Global leader in power tools and floor care	>1 year
Adobe	Dominant digital creativity software and marketing CXM tool provider	>1 year
Rockwell	Largest pure play in industrial automation and control processes	>1 year
Thermo Fisher	Diversified provider of scientific instrumentation, medical reagents and consumables	>1 year
Keysight	Global leader in testing and validation of products utilising the electromagnetic spectrum	>1 year
Ansys	Leading developer of digital simulation software for product development	>1 year

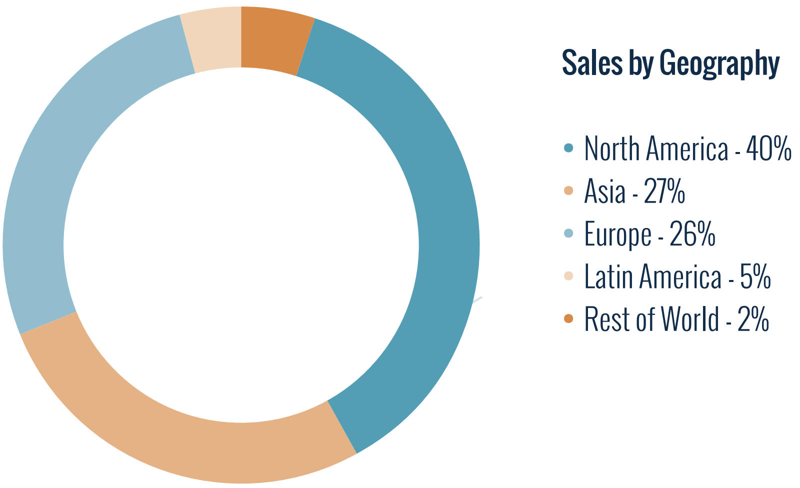
*Holding periods since inception of strategy

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 24% 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 2023	Dec 2022	Dec 2021	Dec 2020	Dec 2019
Net Performance	+16.7%	-17.8%	+16.7%	+27.4%	+26.3%

Fund Codes

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

Key Fund Information

Investment Objective	To achieve long term growth in value
Sector Exclusions	Banks, Fossil Fuels, Commodities, Tobacco, Armaments
Authorised Corporate Director	Thesis Unit Trust Management (Authorised and regulated by FCA) Exchange Building St John's Street, Chichester, West Sussex PO9 1UP
Fund Custodian	The Northern Trust Company
Auditor	Pricewaterhouse Coopers LLP
Fund Legal Structure	UK OEIC (UCITS)
Inception Date - Fund	November 2017
Fund Saving Structures	SIPPs, ISAs & JISAs
Key Fund Documents	cernocapital.com/cerno-global-leaders
Ongoing Charges - Class A (incl. Management Fee)	Management Fee 0.65% Other Fees (incl. running costs) 0.18% OCF 0.83%
Transaction Costs	Explicit Costs 0.01% Implicit Costs 0.08%*
Initial Charge	5% - waived as standard
Contact	Tom Milnes 020 7036 4126 tom@cernocapital.com

We have only started calculating this data from 1st July 2021, and as such this is an estimate based on the available data so far

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