CERNO CAPITAL

TM Cerno Pacific

UCITS Regional Equity Portfolio

Q2 2020

Investment Objectives

The Cerno Pacific portfolio is a geographically specific fund, which invests primarily across the Pacific area but also the wider emerging markets. The fund’s objective is to produce capital growth over the long term through a focus on companies that are judged to be innovators or are beneficiaries of innovation through their products, services or business models. The optimal route to access the full benefit of innovation is likely to be, directly or indirectly, in the form of equity, which will be the predominant asset class in the portfolio. The manager takes an active approach to currency exposures and may hedge where deemed appropriate.

Fund Data

NAV/Share	£16.02
Fund Size (£mn)	£28.8mn
Currency Share Class	GBP (Base)
ACD	Thesis Unit Trust Mgt
Custodian	Northern Trust
Legal Structure	OEIC (UCITS)
Inception Date - Fund	Jan 2017
Inception Date - Strategy	Oct 2009
Saving Structures	SIPPs & ISAs
Share Type	Acc & Inc

Q2 20 Investment Report

Fund Activity

Performance commentary and position changes during the quarter

CSL - Liquid Gold

Leading global supplier of blood plasma derivatives

Sea Ltd - ready, aim, Free Fire!

Leading ASEAN gaming and e-commerce platform

Fund Managers

Fay Ren - Co Manager
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Michael Flitton - Co Manager
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Fund Activity

The fund returned +30.2% in Q2 against the benchmark MSCI AC Asia Pacific Index, which rose +16.1% in GBP. This takes the cumulative 2020 performance to +24.4%. With the broader market flat on the year this represents a pleasing outperformance. Stock markets globally have shaken off the malaise from the first quarter and resumed buoyancy as sentiments became more bullish and economies re-opened around the world.

Every position in the portfolio made a positive contribution bar one name, and around half of the portfolio holdings contributed over +100bps each, demonstrating broad based positive performance. Leading the pack were three Chinese businesses: Kingdee (+260bps contribution), Bilibili (+231bps) and Tigermed (+218bps), illuminating the three themes that continue to benefit beyond the initial Covid-19 shock: enterprise software, online entertainment and healthcare, respectively. Digitisation in both the corporate and consumer space are long-term structural trends, along with healthcare, where there has been a forced acceleration in expected growth as a result of this pandemic. Companies that are able to adapt their business model to leverage online platforms and distribution channels will fare better.

The single negative contributor was Japanese cosmetics maker Kose (-1bps), suffering from the termination of tourism in Japan and lower demand more generally under a lockdown environment. However, we still think the Asian cosmetics market is attractive over the long-term, and took the opportunity to top up the position.

Currencies contributed positively as well (+155bps), primarily a function closing out the remaining 10% hedge in Sterling (was 30% after the major depreciation against the US Dollar in Q1). We chose to hedge our Australian position to avoid any unwanted movement from a highly cyclical, commodity driven economy.

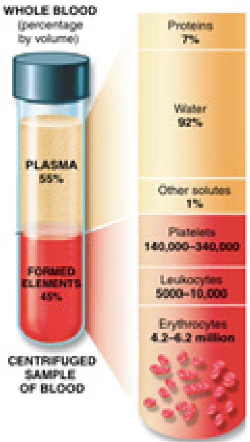
Activities in the fund were limited aside from a few rebalances, trimming the well-performing names such as Kingdee, Bilibili, and Globant (digital consultant) and rotating into consumer names that were slower to recover, including Kose and Midea (China household appliances). The major change in the portfolio this quarter was the switching of Alibaba from the originally held US ADR into its second listing in Hong Kong, to mitigate any tail risk of a future US de-listing, given tensions between the two countries. Alibaba was the first of the of major US-listed Chinese companies to dual list in Hong Kong in December 2019, several other prominent names have followed suit since, including JD.com and Netease. Post this transfer, we now have two US-listed Chinese companies remaining: Trip.com and Bilibili, which collectively represent 6% of the portfolio.

As before, in the next section we profile two companies, both were introduced to the portfolio in Q1. The first is CSL, a high-quality Australian healthcare leader specialising in plasma derivative products, and secondly SEA, a rapidly growing ASEAN market focused e-commerce and gaming company based in Singapore.

- Fay Ren

CSL - Liquid Gold

CSL is a global leader in the manufacturing of blood plasma derivative and recombinant products. The firm is based in Australia with over 25% share in a $17 billion plasma market and owns over 30% of collection centres worldwide. It operates in a highly consolidated and vertically integrated industry where three players account for over 75% of the market, competing primarily Baxalta (subsidiary of Shire/Takeda Pharmaceuticals) and Grifols.



Source:Internet

Around 50% of human blood is made up of plasma, it is the composite mixture of over 350 proteins that are vital for the efficient functioning of the human body. To date it has not been possible to mass produce plasma synthetically. As a result plasma-based product can only be extracted from human donors and can be considered a scarce resource, with stringent regulatory restrictions surrounding collection and distribution.Plasma derivatives have critical uses in many therapies including the treatments of haemophilia, primary immune deficiencies, hereditary angioedema, respiratory and neurological disorders. The most valuable component extracted from plasma is immunoglobulin (Ig), which represents c.40% of CSL's plasma portfolio. Key indications for Ig have gown strongly in

the last few years at a CAGR of 13%, particularly in the immunodeficiency and neuropathy areas. Current explorations of new applications in cardiovascular (heart attack prevention) and organ transplants (rejection prevention) can potentially extend this franchise much further.

We consider innovation to be a broad church. The more measurable factors, like patents, represent only one facet of the IP of an innovative business. In the case of CSL their competitive advantage lies in scale efficiencies and technical know-how surrounding manufacturing and formulation methods. Stable high-quality sourcing and a pristine track record are critical, given the highly sensitive regulatory risks surrounding the safety of blood-related source materials. CSL owns all of its plasma collection centres, giving it full control over supply.

We are interested in industry structure, and the blood plasma industry has high barriers. The lengthy lead times requisite for plasma collection and fractionation (extraction of useful components) means that smaller players may find it difficult to build up the capacity and the reputation to compete with the large fractionators, especially those with advanced technologies. The typical time frame of conversion to final product is around 8-9 months. A new collection centre takes 2-3 years before operating at peak efficiency, and building a fully operational fractionation facility is an even longer process between 5-7 years, after clearing all regulatory hurdles.

Source:Internet

CSL's scale also allows it the necessary R&D budget to amass a portfolio of high margin, differentiated products (often low volume high price). Speciality Portfolio currently represents 20% of CSL's revenues, the highest amongst its peers. The specialty arena has a long runway for growth; of the full spectrum of proteins, still only a very small fraction has been 'harvested'. Any new discoveries drop straight through into profits. Effectively you have found revenue stream for components that would have subsequently been discarded in the fractionation process. Hence, the Tier 1 large players enjoy an average margin gap of over 20% above the small producers.

Developing a differentiated portfolio of high value-add novel therapies to treat rare diseases or find new indications have become an increasing focus for Tier 1 firms such as CSL, as opposed to life-cycle management that defined their competitive edge in the previous decades. CSL invests over half of the R&D budget on new product development compared to just a quarter 10-15 years ago.

CSL - Liquid Gold

As with all successful business models after enough time disruption becomes the key risk. For CSL it is the advancements in gene therapy which potentially supplant the need to use plasma based therapies to cure hereditary conditions. CSL is actively preparing for this, adapting its R&D pipeline and gaining exposure strategically via partnerships and acquisitions. The company has shown an ability to adapt before including successfully evolving its research effort to pursue recombinants (non-plasma derived products that treats same disease), which had disrupted its haemophilia business in the past. It has also demonstrated operational excellence when it acquired Novartis' loss-making influenza vaccine business in 2015 and turned a profit within 3 years. It is now the world's second largest influenza vaccine provider with sales >$1bn.

CSL is a new position initiated in Q1, taking advantage of the price volatility during March to gain entry into a high quality healthcare name. Plasma demand is expected to grow at 8-10% over the next 5 years, above its historical average of 6-8%, with product innovation, new indications and geographic expansion being the key drivers for CSL. Plasma collection will be challenged under Covid-19 environment, however given the long-lead times, supply is broadly secure for this year, and CSL confirmed their target for the FY20. Product continuity for FY21 could become an issue if social distancing measures remain in place, which we will be watching closely for any development in the near-term.

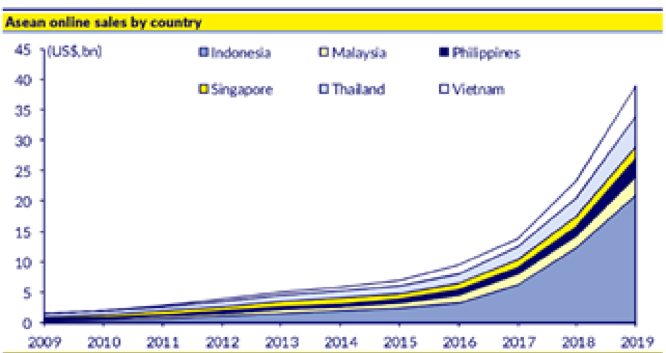
- Fay Ren

Sea Ltd - ready, aim, Free Fire!

Sea Ltd is a Singapore based platform focusing on the ASEAN (plus Taiwan) region. The company began life in 2009 as a game publisher, but has since opportunistically expanded into ecommerce and the provision of financial services.

Being a platform business is an attractive idea in Asia. The human potential of the region is vast, but the competition is intense. Sea is differentiated through its stable gaming core, unique go-to-market in ecommerce and high-quality management.

Sea's Garena is the leading games publisher in the region with an exclusive arrangement with Tencent (also a minority owner of Sea), which supplies a pipeline of franchise hits. Garena adds value through sympathetically tailoring games to the culture and language of different markets. Given the diversity of South East Asia this is an important aspect for developers. More recently the company has begun developing in-house games. Their first independently developed game, Free Fire, has become a global hit helping drive Garena active users up 48% year over year in Q1 to over 400m. Free Fire has also opened up the Latam market for Garena, which has a similar population and gaming penetration opportunity as South East Asia. Garena supplies not only growth (revenues +74% p.a. since 2016) but cash to fund the rapidly ecommerce venture, Shopee.



Source: CLSA, Google-Temasek, Euromonitor

Shopee was launched in 2015 and is now the number one marketplace in south east Asia by orders and order value. It is the number 1 ranked ecommerce app across ASEAN. Promotions, cross-funded by Garena, have played their part in propelling growth but it is Shopee's unique go to market which allowed it to aggressively take share. Shopee's strategy has focused on long tail products, including fashion, health, beauty and home & living. This compares to competitors focused on the 'classic Cs': computers, cameras and cell phones. In turn this has allowed Shopee to grow a diverse customer base with superior engagement (22 minutes per day). The larger product set is also harder to replicate. At Q1 Shopee revenue rose 110% over Q1 19. Shopee's runway for growth is long. E-commerce has erupted in ASEAN over the last couple of years, up 67% in each of the last two years. CLSA analysis suggests ASEAN is still 6-7 years behind China in terms of e-commerce penetration.

Alongside ecommerce and gaming, the company has developed its own e-wallet solution, AirPay. This division is best seen as a complimentary tool for other businesses to internalise traffic and drive user engagement of the ecosystem. We do not expect it to be a profit contributor over the near term.

The evolution of the company has been shaped by the founder and CEO, Forrest Li. Mr Li, who undertook his MBA at Stanford, was at the graduation ceremony where Steve Jobs gave his now-famous 'stay hungry, stay foolish' speech. He has been an avid follower of Mr Jobs' approach ever since. Creativity and a willingness to innovate have been core strengths of the business. We like to own companies capable of adaption. Under Mr Li, Sea has the management with the ability to react positively to opportunities not yet presented.

Mr Li and Tencent both have sizeable stakes in excess of 30% in the business, which helps to align interests with shareholders and maintain a balance of power.

The company has the tools in its locker to succeed. Nevertheless, it is at the foothills of its S curve operating in an environment where the investment requirements for growth are high and competition is fierce. While Shopee is in the ascendancy Alibaba, owner of key rival Lazada, is unlikely to step away from its regional proxy war with Tencent. We expect bumps in the road.

Sea Ltd - ready, aim, Free Fire!

For that reason, the Sea carries a relatively low weight within the portfolio. We would hope to increase the weighting over time as the business matures. For now, the market has been quick to reward Sea for its exposure to trends in consumer behaviour accelerated by the current pandemic (+174% from our purchase level in Q1).

Within the portfolio Sea sits alongside other online disruptors. These are companies reinventing the delivery of products, services and experiences to both consumers and business. Currently these firms represent c20% of the portfolio. This is not a top down allocation but arises organically from where we see the best opportunities.

- Michael Flitton

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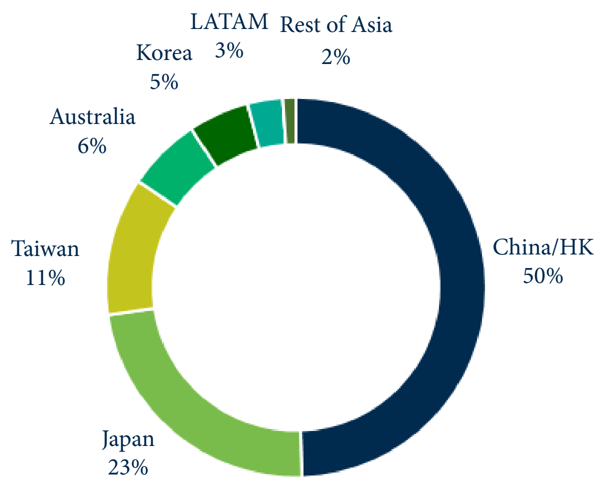
Top 10 Holdings

Tencent	6.7%
Wuxi Apptec	5.7%
Nidec	5.3%
Alibaba	5.0%
TSMC	4.9%
Samsung Electronics	4.9%
Hangzhou Tigermed	4.4%
Kingdee	4.2%
Tokyo Electron	3.8%
Globant	3.2%

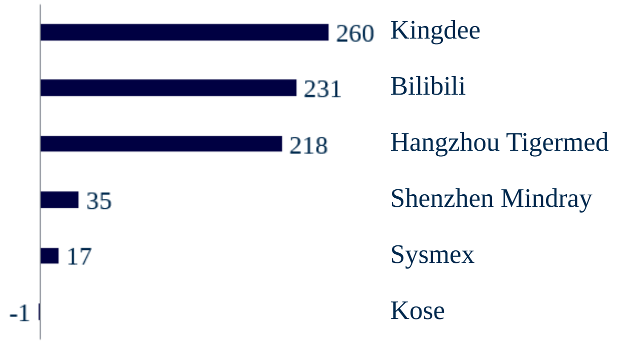
Geographic Allocation (Ex Cash)



Allocation by Theme

Information Technology	32%
Health Care	19%
Industrials	15%
Customer Discretionary	18%
Communication Services	14%
Cash	2%

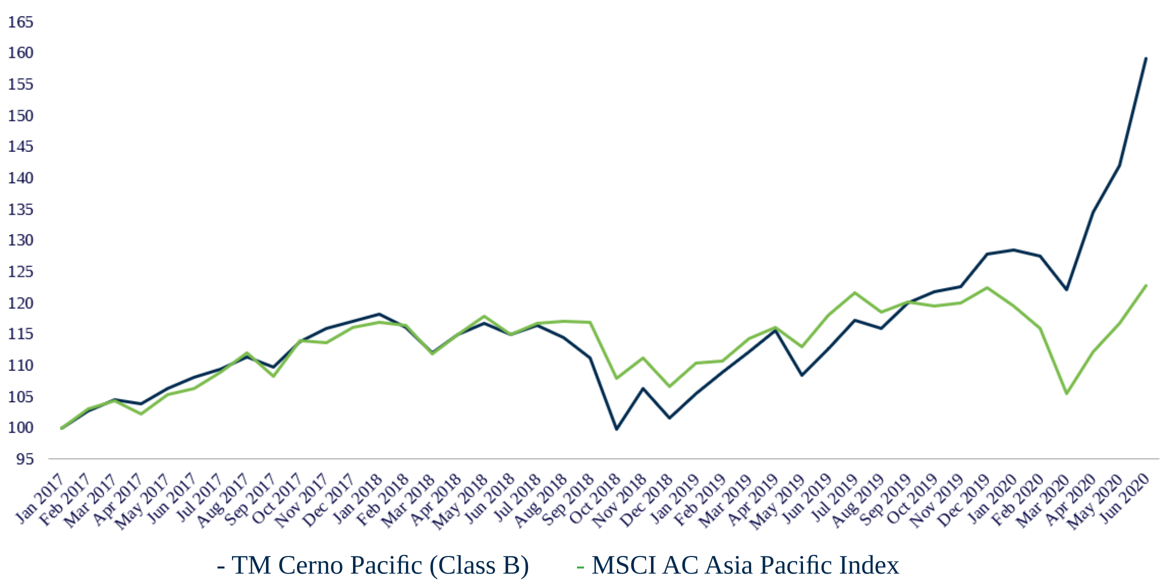
Top/Bottom Quarterly Contributors



Track Record

Year Ended	**June 2020**	**June 2019**	**June 2018**	**Since Inception***
Fund (Class B)	+41.1%	-1.9%	+6.3%	+59.1%
MSCI AC Asia Pacific	+4.1%	+2.6%	+8.2%	+22.8%

**Inception as a UCITS: 27 January 2017*



Performance is based on a Net Asset Value (NAV) price basis with income reinvested, net of fees. Past performance is not a guide to future performance.

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Key Fund Information

Ongoing Charges	Class A Management Fee 1.00% Allocated manager's Fees 0.14% Other Fees (Inc running costs) 0.54% OCF 1.68% Class B Management Fee 0.75% Allocated manager's Fees 0.14% Other Fees (Inc running costs) 0.54% OCF 1.43%
Counterparties	Authorised Corporate Director: Thesis Unit Trust Management Trustee: NatWest Trustees Custodian: Northern Trust Auditor: Grant Thornton UK LLP
Contact	Tom Milnes 0207 036 4126 tom@cernocapital.com

Fund Codes

	ISIN:	SEDOL:	Bloomberg:
A Acc	GB00BDCJ9Z32	BCDJ9Z3	TMCPEAA LN
B Acc	GB00BDCJB138	BDCJB13	TMCPEBA LN