

TM Cerno Global Leaders

Global

Introduction

The TM Cerno Global Leaders fund is a high conviction and concentrated portfolio of global companies which are leaders in their field. The fund is fundamentally driven with a focus on sustainable competitive advantages in their given sector. The fund is restricted to 30 companies and seeks long term growth in capital.



[Click here to read the Cerno Capital approach to ESG investing.](#)

Why RSMR Rate this Fund

- There is a large degree of fundamental research undertaken in identifying companies' competitive positioning.
- The focus is on strong companies which can be stronger and entrench their positions in industries.
- The need for global positioning of investee companies ensuring a diversification of revenues.
- Equally weighted portfolio ensures investee companies justify their place in a concentrated portfolio.

Fund Process

For companies to be included in the Cerno Global Leaders Strategy, a distinct set of investment principles must be adhered to:

- Strong and defensible competitive position or business franchise
- Management with a high level of integrity
- Above sector average growth prospects
- Cash returns delivered at significant excess to their cost of capital
- Revenue is generated from multiple markets or company is in the process of extending a strong domestic position internationally
- Companies with a robust balance sheet and low leverage

The Cerno team believe that those companies which have attractive Return on Capital metrics for their particular industry often attract competition, however there are companies which can earn attractive returns over an extended period of time, and it is these companies that the team will seek out. The team are interested in industries or sectors which are consolidating or have consolidated. A fragmented industry with many players in transition has the possibility for consolidation to take place, allowing for a smaller number of companies to establish their competitive positions. Most attractive are those companies which are self-sustaining in their ability to finance their own growth and that are operating in secular growth industries with a company able to grow with positive tailwinds.

The Economic Value Add that a business produces is analysed. The portfolio is equally weighted and capped at 30 stocks and so all holdings must contribute rather than relying on the top weighted positions. If a stock moves +/-20% from its target weighting, then the portfolio is automatically rebalanced.

The portfolio has a number of exclusions which are made on the basis of complexity – companies not able to build a competitive position and companies where revenues are tied to one country or region with no plans to expand this. Banks, energy and basic materials are excluded and has been part of the process since inception.

Evaluation

The fund is expected to perform strongly where company fundamentals are being recognised by the market. Where there are strong momentum-led or value rallies in markets the fund is expected to underperform.

Application

The fund can be used as a satellite holding. It is heavily concentrated, but holdings are large cap companies and are very liquid. The portfolio is quality growth and so it can be blended with either trackers or other active funds to diversify a portfolio.

Our Opinion

The portfolio management team undertake a large amount of qualitative research into companies which gives them an in depth understanding of the sector and of company dynamics. Companies which are a key part of the end product in a structurally growing sector are preferred. There may periods where momentum takes over markets and this will lead the fund to underperform. An equal weighting across the portfolio allows the managers to reallocate capital within the fund, trimming winners and topping up laggards.



Important Notice

This document is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

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