

Cumulative Return: +40.2% Since Kernow Inception

Kernow Asset Management is a contrarian investment manager focused on All Cap UK equities on both the long and short side. We seek opportunities with highly asymmetric return characteristics where the investment thesis is differentiated relative to consensus.

The Kernow Portfolio - August 2021

Manager Commentary

In August, the strategy delivered a gain of +1.4% for the month, compared to the FTSE All Share, which advanced +2.0%.

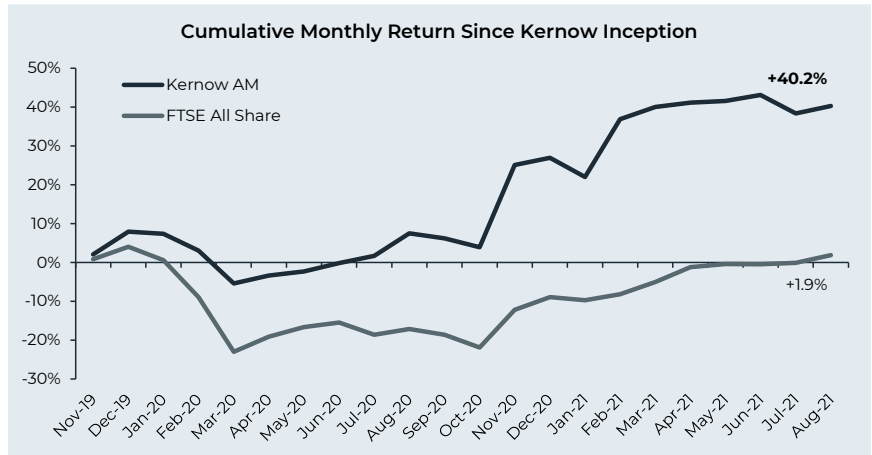
Since the beginning of 2021, UK-listed companies have launched share buyback programmes worth more than £14bn. It is unlikely to be a coincidence that two of our strongest contributors last month have particularly large capital return programmes in place. The UK market consensus view is that if the aim is to return money to your investors, it is better to pay a dividend than implement a share buyback scheme; however, we believe this attitude may be starting to change.

After looking deeper into the data, we found the companies that issued “real” share buyback strategies (i.e. buying in the market and cancelling from treasury, not to gain shares to satisfy management share option schemes), had material price gains over time and beat the index by a significant margin. The recent share buyback rush is largely because of the Covid-19 pandemic – as the crisis deepened, companies with both weak, *and strong* balance sheets issued equity. For the stronger companies, some of this capital is now seen as excessive idle cash, and as such they have launched share buyback programmes. Of course, this UK share buyback activity pales in comparison with what is happening in the US, which is the home to the best performing of the developed stock markets.

We think it is fair to say that “real” share buybacks are superior for investors because (a) they increase corporate financial leverage, boosting returns, (b) they increase earnings per share growth, (c) they signal management confidence, (d) there is a chance they bid up the price of stocks, and (e) they provide a tax benefit over a dividend pay-out.

An often-used tool in a management teams’ defence of underperforming companies, or ones that are involved with activists, is to set in motion share buybacks. If management teams do not want their companies to be taken over by a private equity fund on the cheap, or underperform the index, share buybacks can be used to increase operational metrics and often their valuation. It is a shame that Morrisons looks set to sell rather than borrow against its asset base and do extensive buybacks, with investors perhaps forgoing the potential for a longer-term doubling of their investment for an immediate one-off gain.

Since inception in November 2019, the Kernow strategy is up +40.2%, compared with the FTSE All Share which has gained +1.9% over the same period. The collective upside in the portfolio is worth more than +298% as of the end of August 2021.



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Monthly Performance

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total | BELSI* | FTSE All Share** |
|------|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|--------|--------|------------------|
| 2021 | -3.9% | +12.2% | +2.3% | +0.8% | +0.3% | +1.1% | -3.3% | +1.4% | | | | | +10.5% | +9.4% | +11.9% |
| 2020 | -0.5% | -4.0% | -8.2% | +2.1% | +1.1% | +2.2% | +1.9% | +5.7% | -1.2% | -2.2% | +20.4% | +1.5% | +17.6% | +9.2% | -12.5% |
| 2019 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | +2.1% | +5.7% | +7.9% | +2.7% | +4.1% |

* Barclays Equity Long/Short Index; ** Source: Eikon

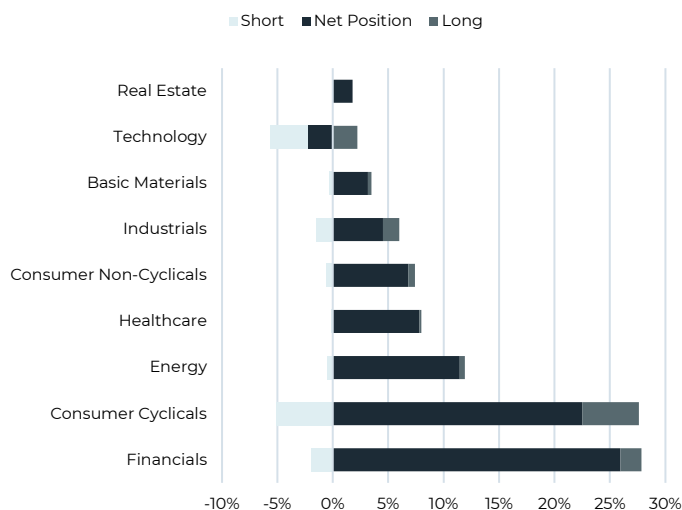
Top Five Holdings

| Company Name | Portfolio Weight |
|----------------|------------------|
| Frasers Group | 9.9% |
| Caretech | 9.9% |
| Dignity | 8.8% |
| Berkeley Group | 8.5% |
| Saga | 8.3% |

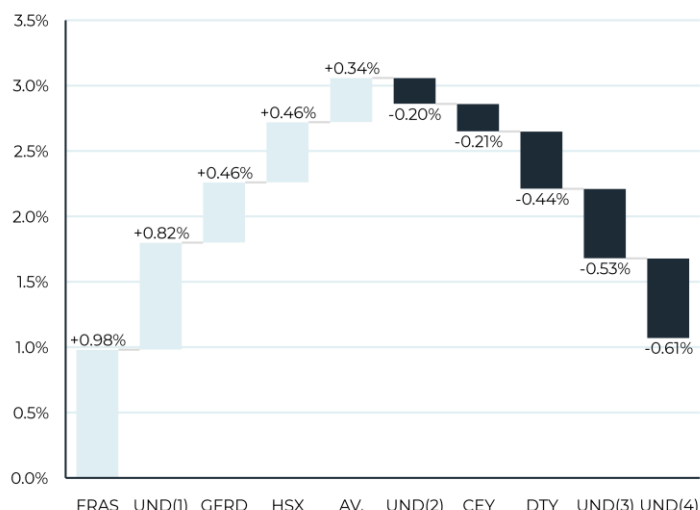
Portfolio Statistics

| Median Average | Longs | Shorts |
|----------------------------|-------|--------|
| Forward P/E | 18.3x | 58.2x |
| Last Return on Equity | 7.0% | 11.9% |
| Market Capitalisation (£m) | 4,813 | 5,855 |
| Dividend Yield (mean) | 1.6% | 1.5% |
| Eikon ESG Score | 51 | 45 |

Portfolio by Sector



Top 5 Performers vs Bottom 5 Detractors by contribution in month



Key Details

| | |
|-----------------------------------|--|
| Region | UK All Cap |
| Instruments | Equity Long/Short |
| Exposure | Up to 200% gross (10-30 long & 0-20 short) |
| Risk | High (equivalent KIID 7) |
| Minimum Investor Time Horizon | 5 years |
| Annual Management Charge (AMC) | 1.50% |
| Founder Share Class AMC | 0.75% |
| Incentive Fee | 15.00% |
| Founder Share Class Incentive Fee | 10.00% |
| Subscriptions | Weekly |
| Redemptions | Weekly |

Disclaimer

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Performance information for the Kernow Asset Management track record is confidential, unaudited and should not be relied upon in whole or in part by potential investors and is not an indicator of any future performance expectations. The historic performance combines two managed accounts, one from 1 November 2019 to 30 October 2020 and the second from 1 November 2020 to date. All other client accounts follow the same model portfolio and investment strategy, subject to client-selected risk limits.

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Please note that this Factsheet is not approved for retail distribution. We invite you to contact our Head of Compliance Edward Hugo (edward@kernowam.com) to receive the current status.

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