CERNO CAPITAL

CERNO *Global Leaders (Dublin)*

Cerno Investment Funds ICAV (Class A)

Q1-2023

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.

Portfolio Review

The portfolio returned +8.5% in the first quarter of the year. Combined with the +3.9% return in the last quarter of 2022, this represents a significant recovery from the lows recorded in 2022. The low NAV of the past 12 months £8.02 recorded on 17th June so the return from that date to the end of the first quarter has been +18.0%.

Part of this has been the recovery in valuations of the types of leading companies that the fund specialises in. Looking back, we can surmise that the valuation drop that took place in the first half of last year, which averaged 10 full Price to Earnings points, took the group from significant overvaluation to mild undervaluation. The recovery, therefore, has made logical sense.

James Spence

Fund Data

NAV/Share (Class A Acc)	£9.46
Fund Size (£mn)	31
Currency Share Class	GBP (Base)
Investment Management Charge	0.65%
Ongoing Charges Figure	1.36%*
Dealing Frequency	Daily
Legal Structure	ICAV
Number of Holdings	27
Active Share	95%
Lead Manager	James Spence
Inception Date Fund	2021
Inception Date Strategy	2014

RSMR RATED FUND

The other factor that has played across valuations in this quarter has been the re-emergence of banking worries with the failure of Silicon Valley Bank and the forced take-over of Credit Suisse First Boston by UBS (more on banks to follow). Whilst this has had a clear impact on banks, it also has bled into the path of relatively highly indebted non-bank companies. Being outside that realm in this strategy, there has been some buttressing of valuations of high cash generating, lowly indebted companies such as the type we invest in.

Looking across the generally positive attributions of the quarter, the top contributions were obtained from, as follows Ansys, LVMH, TSMC, ASML, Aptiv and Microsoft. Large technology companies are well represented (where momentum selling was significant last year) and the sharpest recoveries in the companies that were punished last year (Ansys, Aptiv).

There were no changes to companies held during the quarter.

Why we don't invest in banks

Banks are an easy exclusion from the Global Leaders remit. Easy on account of the fact they fail three critical tests for inclusion.

Banks are leveraged, banks are complex, banks are not truly global.

The portfolio as a whole has a current debt to equity ratio of 0.3 (or 30%). Taking an on average capital base of 8% equity, banks are inherently leveraged. If we consider the rest of banks' balance sheet to be in the form of leverage, a conventional calculation would yield 11.5x leverage. That means that banks are, on average, 38x more leveraged than the average of invested Global Leader companies. If banks held to the leverage parameters of our holdings, they would earn a Return on Equity of less than 1%. De-natured from their economic purpose, banks equity would have to be supplied by their home market government, as they are sometimes forced to do.

The pertinent risk here is that banks do not necessarily have holding power to survive deep economic cycles. Being the inverse of economic activity – banks' debits being companies' and individual credits – they suffer disproportionately despite holding collateral.

Banks are complex in two ways: the diversity of their operations in wholesale, retail and merchant banking activities and then also in their opacity. This tendency to opacity is not willful but more the consequence of aggregation. For, when a bank publishes its balance sheet, everything within may be accounted accurately but the risks are often difficult or impossible to discern.

There is an enormous contradiction inherent in banks in that they are charged both with taking risk and managing risk. The awkwardness of this paradigm lies within the question of whether these skills should reside within individuals or be separated by departments. The legendary bankers of yesteryear: from the Rothschilds and the Warburgs to John Pierpont Morgan all had something of both natures fused within them. As banks have got larger and their operations more dispersed, their CEOs have less ability to define both sides of risk.

The final aspect is their geographic remit. Whilst some banks do have operations all over the world: Santander, HSBC, BNP Paribas, JP Morgan being examples, when trouble looms their main recourse is to their home market regulator and Treasury. This, to our minds, matters a great deal more than the headquarters location of a non-banking corporation.

In certain contexts, particularly Emerging Markets, banks have operated as consumer proxies for equity managers looking to build out their portfolios. This approach looks forced and unsurprisingly the managers of Cerno Pacific do not have banks as part of their remit either.

- James Spence

DEEP DIVE


James Spence


Fergus Shaw


Michael Flitton


Fay Ren


Ion Sioras


Oscar Mackereth

Growth vectors – new tricks by old companies

Whilst the constituent companies of the Global Leaders portfolio are, for the most part, well established, they are also masters of adaption. Adaption can often be regarded as a series of defensive measures to address competition but it is as easily understood, in the context of companies that outperform endemic growth rates, as grasping new and developing opportunities.

In this Deep Dive article we identify developing growth vectors for companies in the portfolio. We define growth vectors as elements of each companies' business that will generate super-normal (that is above the endemic growth rate of a sector) for at least the next 10 years.

The profiled companies VISA, Accenture, Atlas Copco, Adobe, Thermo Fisher, Linde, Rockwell, Nestlé, Microsoft and Novozymes all contain significant divisions within that are outgrowing the core and will therefore become core. In future Investment Reports we will identify comparable phenomena in other portfolio companies.

VISA: partnering with FinTech

A common view of VISA (applicable also to MasterCard) is that it will inevitably be swept aside by financial innovation. It has an enviable and therefore breachable moat based upon the tight and mutually beneficial relationship with issuing banks. It possesses a 40% market share in global payments volumes. It enjoys very high margins. Aspects of its business ecosystem would look very different if that ecosystem was established from scratch today. Our relationship with plastic is undergoing change.

Upon inspection, though, we find that the relationship between financial incumbents and emergent financial technology (FinTech) innovators is multifaceted, with the two often simultaneously acting in collaboration and competition. In 2019, 64% of consumers worldwide had used at least one FinTech platform, up from 33% in 2017. The global FinTech market attained a market value of US$194bn in 2022, which is expected to grow at a CAGR of 16.8% to reach a value of US$493bn by 2028.

VISA's response has been to establish itself as a partner of choice through facilitating new markets and services in a drive to benefit from the new solutions looking to address pain points in the commerce value chain and mitigate the disruptive influences. Through establishing a VISA-centric ecosystem, VISA has supported the industry through connecting FinTech services to its partners to deliver new commerce experiences at scale.

This is achieved through a two-pronged method. Firstly, a "open network" business model stimulates consistency across global payment experiences via open interoperable standards. Secondly, it's "network-of-networks" strategy promotes universally accepted media of transaction by providing single points of connection. VISA argues that through bringing traditionally competitive closed-loop players into its partnership-based open-loop environment, VISA is able to both share (and set) the standards for a global secure and trusted network, protect its market share and grow marketplace acceptance.

The security aspect should not be underplayed. As we will see in the profiles that follow, financial fraud (amateur and professional, highly organised and opportunistic) is the most reliable bull-market at work in the world today. VISA (MasterCard and American Express) are global experts in transacting high volumes at low risk.

VISA currently has 3.5 billion issued cards in circulation today and 2 billion accounts. However, VISA has partnered with over 4,000 startups since 2015 via through programmes such as the *VISA Everywhere* initiative, adding over 1.5 billion non-cardholder credentials, resulting in >6.5 billion endpoints and raising more than US$16bn in funds. Moreover, working with these providers have enabled new acceptance methods, with Alipay and WeChat alone opening up acceptance in China, adding roughly 65 million new acceptance locations for VISA users in China.

Accenture: new aspects to digital transformation

Accenture is the digital transformation leader among consulting groups. In providing advisory services to its clients, the company itself must be at the forefront of evolving technology, in every major pillar. Accenture was an early adopter in Cloud computing, which has grown US$1bn business in FY12 to US$26bn by FY22, +38% CAGR over the last decade. The laws of large numbers means that that initial hypersonic growth rate has cooled but it continues to be in in double digits.

Security is another vector of growth for Accenture. Revenues from this segment have increased from US$2.5bn to US$6bn over the last three years. This has been driven by higher prevalence of large scale cyberattacks as companies become more digital.

Collectively, strategic growth priorities including Cloud, Industry X, Song, and Security have seen >30% CAGR over the last 3yrs and these four pillars make up in excess of 75% of group revenues.

Faced with disruption, CEOs are speeding up transformation initiatives to position their businesses for the next decade. Accenture identifies four key pillars in which it can add value and grow alongside their clients:

• **Ongoing technology revolution:** whereby they help clients understand and leverage existing commercial technologies from cloud, Artificial Intelligence (AI), and security to nascent fields from metaverse, quantum computing, to space.

• **Total enterprise reinvention:** helping clients build their digital core, optimising operations, accelerating growth through the harnessing data and AI whilst finding new ways of working and engaging with customers.

• **Talent:** helping clients access and unlock talent potential, reducing recruitment time through training and upskilling—from the ways they organise and work, to culture.

• **Sustainability:** embed industry-specific sustainability into how companies and governments operate, offer skills and expertise in ESG analytics, nonfinancial reporting, net zero strategies.

The company is in a unique position to support their clients' growth and cost-saving objectives through their broad-spectrum offerings across 38 industries. In many cases the projects involved will require multiple areas of industry specific expertise, which Accenture's matrix approach in pulling together different teams has the capability to provide, compared to smaller peers. This proves especially valuable when servicing large scale multinational clients, where Accenture has 272 Diamond Accounts with contracts >US$100mn (FY22).

Sustainability is a prime example. Currently only around US$1bn revenues, it is expected to grow into a multi-billion dollar business for Accenture. The major differentiating value proposition lies in its ability in connecting digital transformation agendas with sustainability commitments, which for governments and enterprises alike, will no longer be optional.

Atlas Copco: machine vision

Atlas Copco has a century long history manufacturing compressors. One of its core competencies is the continuous iteration to improve its products, where compressors still make up over 50% of their business. The company also has a good track record expanding adjacencies. Its last significant venture was into industrial vacuum in 2014 through the initial acquisition of Edwards Group. Vacuum generated c.+20% revenue CAGR for the Group between 2014-2020 via a combination of organic growth and bolt-on acquisitions. It has grown into the second largest of the Group's five divisions, representing >25% of Group sales, having geared into the fast growing capex expansion trend in the semiconductor end vertical over the last several years.

Another growth vertical that Atlas has set eyes on is machine vision (MV), where the company had made two acquisitions in the past two years: Perceptron (2020) and ISRA Machine Vision (2020). ISRA, the #5 player in the sector, is a leader in 3D vision for robot guidance, surface inspection and 3D metrology. Collectively, the two acquisitions grant Atlas access to c.5% market share in a US$6bn MV market growing at >10% long-term CAGR, currently dominated by players including Cognex (US) and Keyence (Japan). Atlas seeks to be #1 or #2 in niche markets, and their go-to-market strategy is to make application specific solutions rather than standardised hardware.

Integrated into their Industrial Techniques division, machine vision currently represents only c.2% of group sales (or c.10% of Industrial segment sales), but there is clear strategic alignment that complements Atlas' existing offerings with cross-selling opportunities into its Compressor, Vacuum and Industrial divisions. Atlas' end-markets span a vast number of manufacturing verticals including automotive, food & beverages, semiconductors, life sciences, to name a few.

While machine vision is not a new technology, recent developments in AI-driven image processing combine digital advances with cheaper high-end hardware including cameras and sensors to capture data and aid decision-making in manufacturing processes. The long-term opportunities in industrial automation, metrology, re-shoring, and logistics to enable higher efficiencies for cost savings or demographic reasons means a structurally growing addressable market for the machine vision sector. Management indicated that, like Vacuum, Machine Vision has the potential to grow into a standalone division should it scale effectively into the future.

Adobe: new opportunities created by text to image AI

Adobe's intention to purchase Figma has been a contentious proposal for both market participants and competition authorities.

Adobe is the world leader in content creation and digital design tools across visual medias.

Although it has grown to a near monopolistic position in these segments through its Creative Cloud suite, it has not made itself immune to disruptive challengers in a space that is notorious for its short incumbency lifespans.

The acquisition of Figma was not so much a case of Adobe trying to refresh a maturing product base, the company has still compounded revenues at an annual rate of 17 – 18% over the past 5 and 10 years.

Figma's growth rate however is of an entirely different cadence. As a private company incepted in 2016, Figma has grown to US$400mn of annual recurring revenue in 2022, quintupling the US$80mn of ARR it achieved in 2021. It sits within a market segment - collaborative design tools - that is growing at 6 – 7% per year with an estimated addressable market of US$16bn by 2025.

The acquisition of such a fast growing competitor and credible threat explains both the price paid by Adobe (US$20bn, 20x sales) and the raised hackles of antitrust enforcers.

However, during Adobe's journey to identify vectors of future growth that it has pursued through the avenue of acquisition, a potentially gigantic vector has arisen organically.

The breakthrough in performance of text to image models such as DALL-E, Stable Diffusion and Midjourney AI has for the first time created the possibility to generate novel visual content synthetically at minimal cost.

Adobe's *raison d'etre* has always been to provide the tools to process and edit organically produced content. Being able to create the content that is then used within the Creative Cloud suite would be a powerful type of vertical integration up the "supply chain" of visual media.

Adobe Firefly is a generative AI model that produces visual content based on textual prompts by the user. It is trained on data sets derived from Adobe's extensive licensed image library and natively integrated into the rest of the Creative Cloud suite to allow seamless integration between the production of an image and its manipulation.

To give a sense of this emergent opportunity set, DALL-E (a competing model) is producing 2 million images per day versus the entire Getty library of 80 million images. In this case organic growth vectors may prove more valuable than those acquired.

Thermo Fisher: achieving sweep by adding contract research

Thermo Fisher (TMO) is the largest, most diversified participant in the Tools sector. The company provides analytical instruments, consumables, and services to customers in the biopharma, academic, applied, industrial and diagnostic markets.

Through its products and services TMO is a central enabler of healthcare innovation. Its business spans the full breadth of the sector with participation throughout the value chain in each vertical. It is this uniquely expansive offering which has allowed the company to steadily grow market share over time as customers increasingly desire a one-stop-shop supplier.

In this pursuit of breadth TMO has proven itself a highly successful acquiror and integrator of businesses. PPD is the most recent addition to the TMO stable, acquired for an enterprise value of US$20.4bn in 2021. The business is the second largest contract research organisation (CRO) globally. CROs provide outsourcing services to the biopharma industry to bring drugs successfully to market. Its role is to plan and execute clinical (in human) trials on behalf of companies with the purpose of gaining FDA approval.

Clinical trial services are a natural extension of TMO's capabilities to meet the needs of pharma and biotech customers. PPD fills a gap in the portfolio, which enables TMO to partner with their customers as they move from scientific idea to approved medicine.

From a business perspective PPD adds significant synergies. Its lab supplies business has gained a captive customer. The cost of customer acquisition for its contract manufacturing arm has been greatly reduced. The examples are many and explain why PPD was much more valuable inside TMO than as a listed, independent entity.

PPD represents just over 10% of the combined business. At 20%, PPD's organic growth rate is comfortably in excess of the group total of 14%. As well as this internal growth engine PPD is set to generate revenue synergies for adjacent businesses in the portfolio. Alongside these mechanical effects its inclusion is likely to result in a higher sustainable growth rate for TMO as a whole as a result of network effects attracting customers to an overall more attractive partnership.

Linde: supply of hydrogen to a world hungry for cleaner energy

Hydrogen is fast becoming a key growth area for Linde, due to the company's existing compatible industrial gas operations and its evolving credibility as a potential solution to key hydrocarbon challenges.

Through incumbent synergies, Linde has established a US$2+ billion revenue business unite, spread across the entire hydrogen value chain, holding near 200 hydrogen fuelling stations and 80 electrolysis assets worldwide. Most recently, Linde has identified an US$10bn hydrogen investment opportunity with scope for further investment, dependent on scalability and double-digit IRR potential. These funds are due to be deployed across the opportunity set, defined by their three-pronged energy transformation framework:

1. Short term - Decarbonising hydrocarbon fuels through currently available technical processes such as carbon sequestration, oxy combustion, and dry reforming, to drive the decarbonisation consumer operations.

2. Medium term - Replacing combustion-based hydrocarbon fuels with hydrogen-based fuels and/or ammonia. Whilst Linde already maintains a leading share in hydrogen-based fuel substitutes, through servicing rocket RP-1, broader adoption will dependent upon wider technical advancement in engine, fuel injection, drive train, and fuel storage systems. Once feasible, Linde is well positioned to capitalise via it's US$100bn of pre-existing compatible assets.

3. Long term - Electrification of the economy. Whilst the most significant vector of change, this is also the most complex. Hydrogen should pose solutions to the renewable intermittency issue through acting as a superior medium for transport and storage. However, grid-scale electrolyser viability is a key challenge. Despite this, Linde has pre-emptively instituted itself through its minority acquisition and partnership with electrolyser leader ITM power.

Forecasts indicate a 10.5% CAGR for hydrogen generation market through 2027. So far, Linde's sustainable hydrogen activities are largely expenses through capacity development, with US$33bn deployed in hydrogen specific or compatible assets. However, once technically viable, Linde's ecosystem will allow it to retain a leading market share, providing lower-risk exposure to the industry, relative to the more speculative pure-plays competitors.

Rockwell: cybersecurity

Cyberattacks on industrial control systems are rising as businesses digitise their factories to optimise manufacturing and supply chains. In 2021, over a third of industrial control systems were victims of cyber-attacks, with high-profile incidents shutting down critical infrastructure that threatened energy, water, and food supplies. Ransomware attacks were most prominent, with companies being forced to pay millions of dollars, in conjunction with further millions lost from downtime and remediation processes. A security breach impacting assets that control physical and kinetic systems can potentially damage equipment, workers, and the wider environment. Thus, strong cybersecurity in industrial infrastructure is developing into a must-have practice.

Rockwell has invested heavily in cybersecurity, protecting customers from forced downtime and damage. It has invested heavily in both organic R&D and acquisitions, acquiring Avnet and Oylo and establishing partnerships with organisations such as CrowdStrike, Claroty, Cisco, Dragos, Fortinet, and the US Cybersecurity and Infrastructure Security Agency. Since 2021, it has opened a cybersecurity centre in Israel and 15 satellite centres, through which it brings forward services ranging from consultation to threat detection, real-time asset monitoring and incident response, covering operational/information technologies and industrial control systems.

Despite increasing awareness of the significance of these risks, for decades companies and consumers have directed their cyber focus toward personal computing. Rockwell's 2022 survey found that fewer than 40% of organisations lack real-time threat detection and fewer than 30% having cybersecurity plans in place to identify and address their vulnerabilities. Thus, whilst only currently making up 28.4% of Rockwell's annual revenue, the software and controls segment is a key area of short- and long-term growth, having achieved organic revenue and income CAGRs of 9.6% and 12.1% over the past three years, outpacing gross organic revenue and income growth 7.0% and 6.2% over the same period. Moreover, as the segment grows and continues to benefit from scale and capacity expansion, Rockwell is targeting double digit annual organic growth and expecting contributions of over US$1.1bn by 2025.

Nestlé: portfolio switching emphasising pets and nutrition

Between establishment in 1866 and its current position as the largest publicly owned food company in the world, Nestlé has demonstrated an ability to identify categories of consumption that have the potential to deliver long lasting growth. The company is best known for its coffee and confectionary divisions and coffee in particular remains an important contributor to revenue growth via its Nespresso brand which is expected to maintain its circa 7% annual revenue growth profile over the medium term. However, Nespresso generated just 6.8% of Nestle's 2022 CHF94bn revenue while the rest of the Powdered and Liquid Beverage category delivered 19.9% of that revenue, but is growing at a more pedestrian pace. The nature of this type of business is to have products at various stages of lifecycle which confirms continual investment for growth.

Nestlé's 2022 Annual Report was notable for the substantial jump in Petcare revenue as the company was able to pass through substantial input price increases. Petcare has featured in Nestle's portfolio for 90 years and successful management of this category has resulted in Petcare accounting for 19% of total revenues. While the most recent year revenue growth figure of 14.5% can be viewed as an outlier, medium term revenue growth expectations in excess of 7% for a division which delivers a profit margin in excess of 20% demonstrates the importance of nutrition for companion animals to the company outlook.

A more nascent compartment in Nestlé's portfolio is Nestlé Health Science which sits within the Nutrition division. Here, the portfolio continues to evolve with the result that this compartment delivers below company average margins on 6% of total company revenues. Nonetheless, by applying its management and distribution muscle along with rigorous business review to the combination of Health Science and Nutrition, the company is laying the foundations for another long-term growth success.

Microsoft: security

Until recently, the Microsoft investment case has been powered by Azure, its cloud behemoth. Beneath the surface however, another juggernaut has been quietly amassing scale. Cyber security is now a US$20bn business, roughly 10% of the group. Two years ago, it barely got a mention in quarterly results. Business momentum has been impressive with growth running at 30% per annum, three times that of the group. We think it likely security cements a position as a core pillar of future growth.

Satya Nadella, Microsoft's CEO, argues that all companies will become digital companies, underpinned by a distributed computing fabric. As this digitalisation plays out cyber security is becoming increasingly mission critical.

Microsoft's use case for the customer is compelling and revolves around simplicity. It contends that choosing a bundled security option with Microsoft could save a company 60% compared to multiple individual licences from specialist competitors. This benefits the budget but also reduces complexity, a proxy for risk the world of cyber security. This proposition is possible in part due to Microsoft's unique position through the computing stack, from infrastructure to software. It is also, clearly, a benefit of scale.

There is still a joker for Microsoft to play: OpenAI. Microsoft's canny investment has rapidly established it amongst the industry elite. AI may be far from the finishing post when it comes to affecting our daily lives but it lays up well for sharpening the effectiveness of cyber security products. The market is also pushing companies up the technology ladder. Cyber security insurance providers are requiring more advanced threat intelligence to issue policies. Integrating AI into its security suite would embed Microsoft as an industry leader and significantly raise the bar for the competition.

Microsoft's breadth allows for innovative businesses to be internally seeded and gain rapid scale. It is unlikely we will be able to predict ahead of time where the next vector for growth will come from. However, this speaks to how we think about the opportunity in companies. We want to own businesses with an innovative culture and a management team with the skill set to execute on opportunities that present themselves. We do not need to predict the future but own companies where multiple futures are embedded.

Novozymes: the power of combination in micrology

In December 2022, Novozymes announced its intention to acquire Chr Hansen, an approved but not invested Global Leader company. Novozymes is the global leader in the deployment of enzyme technologies to nutrition, consumer products and industrial processes. Although these applications have resilient and secular growth profiles, many are at the mature phase of their addressable market. The average annual growth rate of Novozymes revenues has been just under 4% over the past 7 years.

The acquisition of Chr Hansen, which we see as complementary (as we have discussed in previous publications) added a number of vectors for growth to Novozymes. Chr Hansen is the global leader in the application of bacterial cultures to a range of end markets very similar to Novozymes.

With its expertise and research capabilities in the manipulation of bacterial cultures, Chr Hansen has identified a number of nascent opportunities for the application of its technologies, dubbed "strategic lighthouses".

These strategic lighthouses are namely bio-protection, plant and human health, HMOs and alternative plant bases for fermentation processes. Each business is expected to have potential for at least EUR100mn of annual revenue and the highest growth rates in the Chr Hansen group.

Indeed looking over the past few quarters of Chr Hansen results, the "lighthouses" have achieved year on year growth rates of 14% (Q422), 29% (Q322) and 12% (Q222).

The contribution of these growth vector businesses may be small in the context of Chr Hansen, and even less tangible in the ~3.5bn to 4bn of expected revenues from the combined group. However, compounding such rates of growth, even from a low base, should make these measurable contributions to both top and bottom-lines in the years to come. The combined addressable markets for the "lighthouse technologies" are expected to reach EUR1.2 to 1.3bn by 2025.

- James Spence, Fay Ren, Fergus Shaw, Michael Flitton, Ion Sioras, Oscar Mackereth

CERNO CAPITAL

CERNO *Global Leaders* (Dublin)

FUND FACTS

Holding History

Company Name	Description	Holding Peirod*
Samsung Electronics	Dominant in semiconductor memory chips and leader in smartphones	>9 years
Nestle	Diversified global food & beverage company	>9 years
Visa	Largest global electronic payments network	>9 years
Zimmer Biomet	Leading orthopaedic care specialist	>9 years
Linde	Largest industrial gas provider in the world	>8 years
Renishaw	Engineering specialist focused on equipment for precision measurement	>8 years
PPG	Coatings company leading in the industrial/specialty business	>8 years
Shimano	Dominant supplier of cycling componentry	>7 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	>5 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	>3 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	>2 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

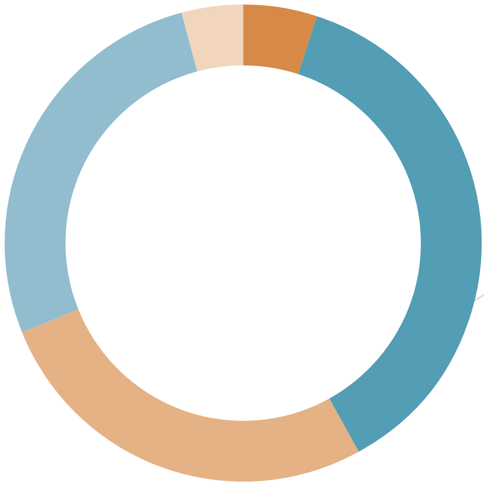
*Holding periods since inception of strategy

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).



Sales by Geography

- North America - 39%
- Asia - 28%
- Europe - 26%
- Latin America - 4%
- Rest of World - 3%

Performance

Year Ended	March 2023	Since Inception
Net Performance	+0.4%	-5.4%

Fund Codes

	ISIN:	SEDOL:	Bloomberg:
A Acc	IE00BMG4G674	BMG4G67	CEGLANH ID

Key Fund Information

NAV/Share Class (Acc)	£9.46
Fund Size (£mn)	31
Currency	GBP (Base)
Administrator	Maples Fund Services (Ireland) Limited
Fund Custodian	Sumitomo Mitsui Trust (UK) Limited
Auditor	Grant Thornton
Fund Legal Structure	ICAV
Inception Date - Fund	February 2021
Key Fund Documents	cernocapital.com/cerno-global-leaders-dublin
Ongoing Charges - Class A (incl. Management Fee)	Management Fee 0.65% Other Fees (incl. running costs) 0.71% OCF 1.36%
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