CERNO CAPITAL

TM CERNO *Global Leaders*

UCITS Global Equity Portfolio (Class A)

Q2-2024

Fund Data

NAV/Share (Class A Acc)	£17.76
Fund Size (£mn)	113.8
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	29
Active Share	95%
Lead Manager	James Spence
Inception Date Fund	2017
Inception Date Strategy	2014

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 fund's NAV declined by 0.11% in the second quarter and appreciation for the first half of 2024 was +4.23%.

The better performing companies in the second quarter were Philips, TSMC, SK Hynix and Atlas Copco. Negative contributions were recorded from Zimmer Biomet, Keysight Technologies, PPG Industries and Aptiv.

As we survey the companies owned and the trends in their operating data, we note that industry specific dynamics remain to the fore, more so than prevailing global concerns about geopolitics and cross regional tensions. When we seek to understand what may have boosted or detracted from returns over the recent period, it remains very much in the company and industry data rather than any prevailing global forces. That is for now, and it will be interesting to see whether that remains the case in the eventuality if the cold war on trade and regional bloc-isms develop further than they have had to date.

The recent period was notable for considerable activity in recruiting new names into the portfolio, companies on which we have undergone deep study and analysis over the past few years but, in some cases, stalled on acquisition as we judged their valuations as not being in range. The bulk of this quarter's investment report is given over to profiling these four new names: Diageo, S&P Global, SK Hynix and IQVIA.

All four of these companies possess large and valuable franchises, in the case of Diageo, S&P Global and IQVIA, the largest in their respective industries (SK Hynix is second to Samsung Electronics in memory chips but the largest pure player in the world).

Diageo's share price and valuation have plotted large ranges in the past 5 years. It was a beneficiary of the re-opening that took place after the COVID lockdowns. It scored notable successes in the growth of premium tequila consumption. The stout beer Guinness cemented its position as the most recognised beer brand in the world. However, the sudden passing of its former CEO and some adverse overstocking trends within its distribution lines contributed to some stalling of earnings momentum, and a de-rating from its price to earnings ratio from the middle twenties to the middle teens. It is at this rebased level that we have used to invest.

S&P Global and IQVIA are thematically linked in respect of the value of their respective data sets. One of the discoveries of the new wave in AI investment is the value of data. It is an extraordinary thought that the machines populating large language models can circumscribe the whole of the web in their training modes.

S&P Global owns conventional financial data (such as the S&P Index) and is itself a credit ratings agency, but also a huge array of specialised and often unique data sets: machine readable transcripts, ship compliance, the output of individual oil-wells in Texas to name a few. It has assembled these troves through many acquisitions. IQVIA was formed via the merger of IMS Health and Quintiles and in the process became the world's largest health database of patients. So called CRO are a necessary part of the modern health industry as their databases and datasets are required to monitor and approve pharmaceutical compounds (drugs). Given the potential for AI tools to speed up drug discovery, an inevitable consequence is more patients receiving more treatment. IQVIA fits our favourite theme of accessing "picks and shovels" within industries as a reliable way to achieve growth in value.

In the period, two companies left the portfolio.

Techtronics, which makes power tools left the portfolio. As a firm, we have divested all positions from China and Hong Kong and this was the sole portfolio company owned in that country and jurisdiction (being Hong Kong listed).

LVMH, which has been owned within the portfolio since 2016, was sold in full in April. The achieved sale price was €795 per share and the share has declined since to €719. Although we remain long-term positive on the luxury segment and there is no single decisive factor that causes us to question the strategic direction or management competency of the group, we do believe that some of the tailwinds that have aided the progress of the group have abated. The return obtained over the nine year period of ownership within the portfolio has been 26% per annum. It may be the case that the de-rating of the shares which is taking place provides us with an opportunity to re-invest at a compelling valuation.

Please read on the report for more detailed evaluations on the four companies that have been added to the portfolio.

As of the time of writing the price earnings ratio of the fund is 23.5x. Portfolio companies have a 20.3% EBIT margin in aggregate, 20.6% ROE and net debt to equity ratio of just 28.6%.

James Spence

DEEP DIVE

NEW POSITIONS IN THE FUND

Diageo

Diageo is the global leader in the beverage alcohol (TBA) industry, with a broad 200 brand portfolio spanning heritage and new products, with a focus on premium spirits and exposure to value spirits, stout beer, and wine. Leadership is maintained in most categories, with brands such as Johnie Walker, Crown Royal, Smirnoff, Captain Morgan, Baileys, Don Julio, and Tanqueray. Diageo also maintains leadership positions in the stout beer segment through Guiness, as well as a 1/3 stake in LVMH's Wine and Spirits division, resulting in exposure to champagne (Moet & Chandon) as well as Cognac (Hennessey).

Market Overview

We are particularly attracted to Diageo's strategic focus on 'premium' and 'super-premium' spirits, which differentiates itself through superior growth rates, both through absolute growth and market share capture from value spirits, beer, and wine. The attractiveness of premium spirits to our mind is threefold.

Firstly, we observe broad changes in consumption habits in the form of 'premiumisation' where customers trade up from value products. This can be understood through the rise of health-aware consumers drinking 'less but better', and a broader move towards more conscious drinking with growing preferences for differentiated and 'authentic' experiences. Spirits are uniquely placed to satisfy these emergent desires, thanks to the category being multi-faceted, high-value and aspirational in both off and on-premises settings.

Secondly, the industry structure is attractive, with high barriers to entry for disruptive players. Premium spirits are inherently capital intensive to launch, given the cost of distilling facilities, ageing facilities, distribution channels and quality ingredients. Moreover, high-value products require significant brand equity, primarily derived from brand loyalty, heritage, or association to cultural events, all difficult to generate for new entrants. Consequentially, the premium spirits landscape may be considered oligopolistic, with Pernod Ricard being the primary competitor across the breadth of the portfolio.

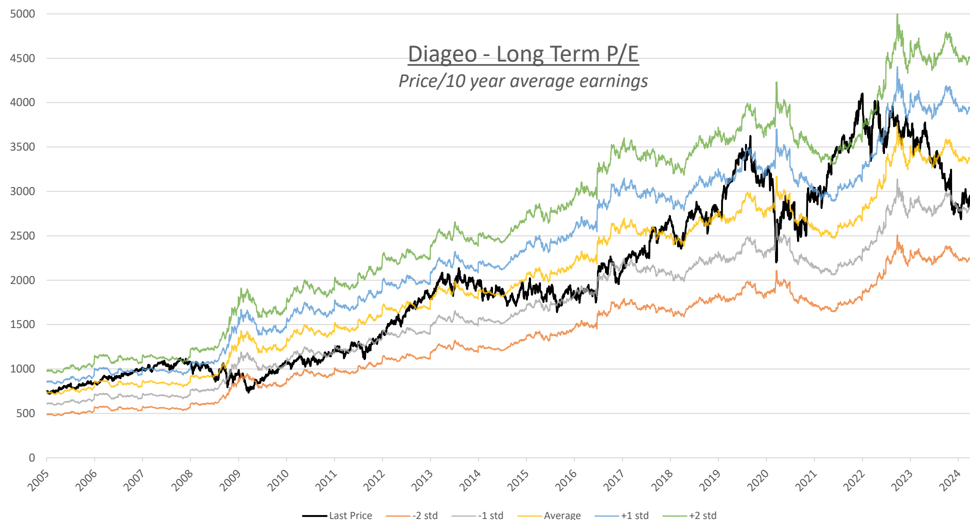
Thirdly, we appreciate the brand equity intrinsic to premium spirits. This serves as a key enabler for rapid value generative participation in emergent beverage categories such as RTDs or no-and-low goods, and existing product innovations, both of which are essential to long term growth.

Management Overview

Diageo's commitment to premium spirits has been a multi-year journey. Significant milestones were met under previous CEO Sir Ivan, such as the acquisition of Don Julio and Casamigos in 2014 and 2017 respectively, and the disposals of Seagrams Canadian Whisky and Romana Sambuca in 2018. Corporate actions such as these, whilst appearing expensive at the time, form a fundamental part of the business' enduring 'growth algorithm', which deploys organic innovation, inorganic portfolio management, and operational investments to target excess top and bottom-line growth.

The business is currently led by Debra Crew, previously president of Diageo North-American, who was promoted after the unfortunate passing of Sir Menezes. Whilst the market is yet to familiarise itself with Crew, engagement with management has strengthened our confidence in the enduring quality of the business, with a long-standing business structure covering products, innovation, portfolio management, and SG&A both domestically and internationally.

Valuation over time



For Diageo, COVID was defined by excess consumer capital and a lack of general-retail and on-premises spend resulting in super-normal product demand, resulting in a period of market exuberance. Since 2022, the business has experienced the whiplash of with a challenging consumer environment, initiated by inventory and macro-economic driven organic sales decline in Latin America and Caribbean (LAC) as some consumers retreated to value categories and distributors underwent a period of inventory depletion in H1FY24. Moreover, North America also registered slower growth due to the re-invigoration of 'on-premises' drinking resulting in a higher proportion of alcohol spend going to the 'premises', and inventory shipments lagging retail depletions as distributors normalised inventory levels.

The share price reaction to these developments was significant and, in our view, accentuated by a lack of familiarity with the new CEO. Despite these concerns, we view this to be an opportunity to own a high-quality global leader at a reasonable price. We take confidence from management's actions to normalise global inventory levels, and the business' s continued ability to produce high growth at a product level through innovations. This can evidence Crown Royal's 29% growth in March due to the launch of the new Blackberry flavour. Further innovations have been deployed in June, with Don Julio entering into partnership with BlockBar to release five new limited-edition cask finished expressions, and the creation of a new single-malt Crown Royal expression. The premiumisation trend may be normalising from COVID driven front-loaded demand, and the business will not be immune from a weakening of consumer purchasing power. However, we have confidence in the enduring nature of the premiumisation trend and believe Diageo to both attractively priced and be best placed to capitalise through its execution quality, portfolio breadth and global distribution advantage.

S&P Global

S&P Global is the world's leading diversified information services business, providing mission critical data, research, and analytics on the financial, commodity, and automotive industries. The company has built a strong competitive position over the decades through continuous portfolio management with a comprehensive product suite, resulting in a highly profitable business model that is geared into multiple growth opportunities.

S&P Global holds a dominant position in several key markets, particularly in credit ratings and market indices. The company is the largest of the 'big three' credit rating agencies with c.50% share, followed by smaller peers Moody's (31%) and Fitch (11%). It is also the provider of S&P 500 and Dow Jones Industrial Average indices, the two ubiquitous benchmarks for US equities.

However, its portfolio goes far beyond this, operating five major business segments:

BUSINESS SEGMENT	% OF REVENUES	TTM SEGMENT OP PROFIT %	SEGMENT DETAILS
MARKET INTELLIGENCE	35%	33.1%	Comprehensive suite of data, analytics, and research solutions through various platform interfaces e.g. Capital IQ
RATINGS	26%	58.5%	Issues a broad spectrum of global scale credit ratings for fixed income market participants incl. govts, corps, structured credit etc.
COMMODITY INSIGHTS	16%	46.4%	Provides benchmark prices and analytics on >1000 commodities (Platts), foundational upstream and downstream data & research
MOBILITY	12%	38.6%	Information spanning the entire auto supply chain incl. production, sales & marketing, purchasing behaviour, aftermarket
INDICES	11%	69.3%	Provides financial benchmark indices across a variety of asset classes and geographies with brands incl. S&P, DJ, IHS Markit, iBoxx

Source: SPGI data, as at Q1 FY24

S&P Global enjoys several key competitive advantages that strengthen its market position and profitability.

First is global brand recognition. Data integrity is fundamental in any industry, as clients rely on these to make informed investment or purchase decisions, often involving high stakes. SPGI's reputation had been built over decades, if not more than a century, and difficult to dislodge. The S&P 500 Index dates back to 1923, Poor's Publishing issued its first credit rating in 1916, and Platts was first established to track petroleum prices in 1909.

This brand equity creates a significant barrier to entry, through network effect. The value of the company's products and services increases as more market participants adopt them. For example, the widespread use of S&P's credit ratings and indices creates a self-reinforcing cycle that attracts more issuers and investors and enables SPGI to command premium pricing. Given the heavily regulated nature of the financial industry, switching of benchmarks may require regulatory approval, or in the case of rating, regulation dictates that every new issuance must be accompanied by a credit rating from one or more approved agencies.

The divisions are also complementary, with many cross-sell opportunities facilitating a high operating leverage business model and therefore maintain high margins. The platform-based Market Intelligence business can source data from other divisions to increase value proposition without the additional costs of licensing third party data. And a single dataset can derive multiple monetisation streams (e.g. Index -> derivatives, ETFs, benchmarking).

Which brings us to SPGI's intellectual property. It has amassed a vast amount of high-quality proprietary data and developed sophisticated analytical tools which is difficult to replicate and provides a competitive edge in delivering high-value solutions to clients.

The value of this data can be even more enhanced with Artificial Intelligence (AI), which the company has been an early adopter and increasingly investigating. S&P Global is exploring the use of natural language processing (NLP) and machine learning (ML) to aid credit analysis process, automate reporting, build predictive analytic models etc. These technological advancements can drive innovation, create new revenue streams, whilst protecting its moat, as recent Gen-AI related lawsuit trends lean in favour of the owners of proprietary data.

S&P Global has positioned itself to capitalise on several growth opportunities in the coming years. The company has identified the following i) the secular shift to passive investing; ii) Emerging markets financial maturity; iii) ESG/sustainability prevalence; iv) energy transition (renewables, electric vehicles), and v) private markets, as some of the areas where there will be increased demand for data-driven insights and investing resources to broaden offerings.

The company does operate in cyclical end-markets, thus not immune to sales and earnings volatility (e.g. credit issuance volume, asset-linked fees in ETFs). However, with 55% of revenue derived from subscriptions and recurring contracts, much of their offering is still deemed non-discretionary, regardless of financial conditions. This provides a degree of stability on cash flow and economic downside protection.

S&P Global presents a compelling investment case. We are attracted by its high operating leverage business model, competitive advantages, and growth opportunities (potentially enhanced by AI). With its strong franchise and commitment to innovation, the company is well-positioned to deliver long-term value for shareholders.

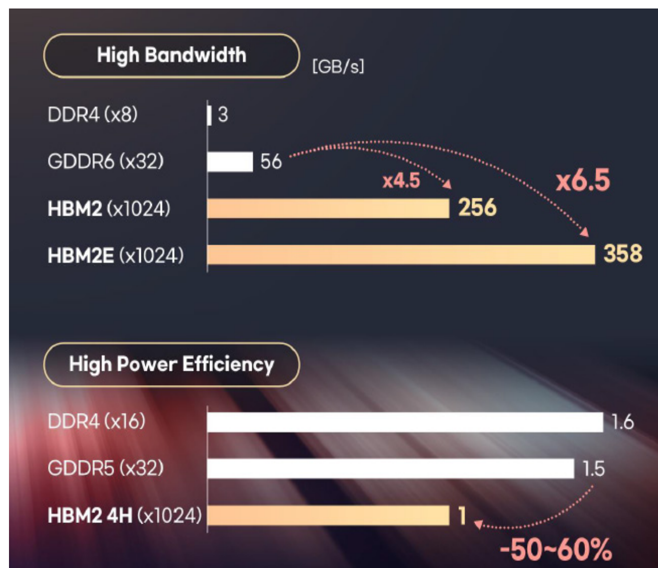
SK Hynix

SK Hynix is a Korean manufacturer of memory semiconductors. Formed out of a combination of Hyundai Electronics' semiconductor business and LG Semi in 1999 the firm was acquired out of financial distress by the SK conglomerate in 2012.

Unlike Samsung, Hynix is a pure memory semiconductor business. DRAM represents the bulk of revenues with NAND contributing around one third. DRAM is the most widely used memory in electronics. It temporarily stores data while the CPU performs other tasks thus enabling faster processing of the device. NAND is a type of non-volatile memory, which is more durable than DRAM and does not require power to retain the data. It therefore performs a long-term storage function for compute. As with Samsung, the profit dynamic in Hynix heavily favours DRAM in large part due to the fragmented industry structure in NAND. In DRAM Hynix operates alongside Samsung and Micron in an oligopoly structure. In 2000 there were around 10 industry players in DRAM but technological demands and capital intensity has winnowed the players down to 3. This consolidation has allowed more disciplined supply and higher through cycle profit margins than NAND.

The memory industry tends to be viewed as the less glamourous sibling to logic and firms like TSMC. This is a function of both lower returns on capital and a higher cyclicality to returns. By nature, memory is a more commoditised product than logic semis, which are designed for the specific application needs of each client. However, AI is starting to change memory's junior status as it emerges as a crucial bottleneck in meeting industry demands for progress.

Specifically, High Bandwidth Memory (HBM) has become a critical component of AI chips, including GPUs and ASICs. HBM is ideally suited to AI applications as it offers a combination of multi-channel processing of large data sets, low latency, and low energy consumption. This allows a more efficient, faster chip with a more compact form factor than traditional DRAM.



Source: SK Hynix

Hynix has led the industry in developing leading HBM through its innovation in packaging. The company's MR-MUF (Mass Reflow Moulded Underfill) technology allows more efficient 3D stacking of HBM chips at commercial scale compared to efforts from Micron and Samsung.

Micron estimates that total memory industry revenue will more than double by 2030 (vs 2021) to US$330bn. AI demand will be a key driver of both HBM and broader DRAM demand. According to CLSA, typical servers have 500GB of DRAM and no HBM. AI servers have 500GB+ of HBM and 2-4TB of DRAM.

As a cyclical industry, memory companies have traditionally traded in a range based on Price to Book. The evolution of memory towards more customised, high margin products like HBM, as well as the attractive growth profile may allow a more longer-term PE-based re-rating to develop. Today, Hynix trades on 11x forward PE compared to TSMC on 22x.

IQVIA

IQVIA was formed in 2016 through the merger of IMS Health, the dominant provider of pharmaceutical market data, with Quintiles, the world's largest provider of clinical research and integrated healthcare services.

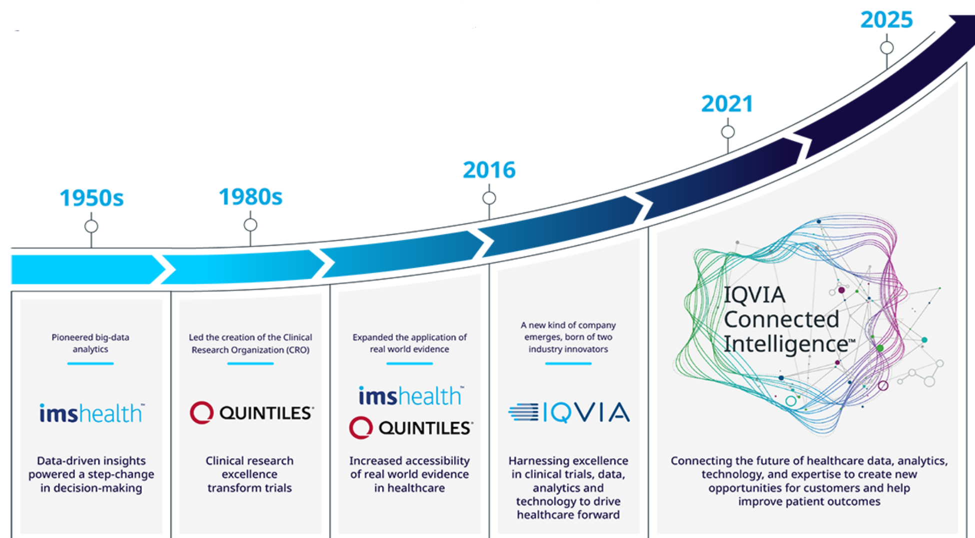


Figure 1: IQVIA

IQVIA is the world's largest (measured by enrolled patients in its databases) Contract Research Organisation (CRO).

The purpose of the merger was the creation of a 'smarter CRO', offering superior pharmaceutical R&D capabilities through the utilisation of the largest real-world evidence (RWE) and connected health database in existence, in conjunction with technology-led commercial operations. The utility of such an organisation is in its unique ability to address the endemic decline of pharmaceutical R&D productivity.

The current clinical pipeline of the biopharma industry is largest and most diverse in history, with novel drugs in development growing from ~3,000 in 2012 to ~6,000 in 2022[1]. However, the pharmaceutical industry is facing a historically large 'patient cliff', with nearly 50% of all current drug revenues expected to lose patent coverage by 2030, increasing need for new revenue generating compounds to fill the void[2].

However, endemic inefficiencies have emerged in pharmaceutical R&D productivity, marked by declining success rates and escalating development costs. Over the last decade, large cap pharma R&D spend has increasing by 96.3% (52.5% inflation adjusted)[3], whilst the number of novel drug approvals per year has stagnated. This, in part, has been driven by development constraints with the rate of clinical trial participants enrolled per site per month declining by 14% and 54% between 2012 and 2014, and 2021 and 2023 respectively[4]. Over 2001-2020, nearly

[1] Speed up biopharma clinical trials to boost R&D output | McKinsey

[2] Big pharma Merck, Bristol Myers, J&J prepare to lose revenue (cnbc.com) – find a better source

[3] IQVIA Institute

[4] Home | ClinicalTrials.gov – example used: oncology phase 2 trials

half of large cap pharma organisations needed to compensate at some point for negative R&D productivity through value accretive M&A, and 57% of all drugs launched over 2011-2020 were unprofitable when accounting for R&D spend[5]. Currently only ~20% of clinical trials finish on time[6], with development making up 60-70% of total costs[7].

Consequentially, industry participants are seeking expediated methods for the demonstration of drug efficacy and safety. Contract Research Organisations operate primarily to meet that demand, offering improved efficiency in the research, development, and commercialisation of products through the outsourcing of R&D activities to organisations with dedicated therapeutic expertise and economies of scale. R&D outsourcing penetration has grown at 145% over the last decade, whilst large pharma R&D spending has grown at a 7% CAGR over the same time period. The trend is expected to continue into the long term, primarily driven by the need by pharma organisations to generate fresh revenue streams, address growing cost pressures, and compensate for a lack of inhouse capacity to address the growing complexities of modern development programs or facilitate novel practices such as decentralised trials and RWE deployment.

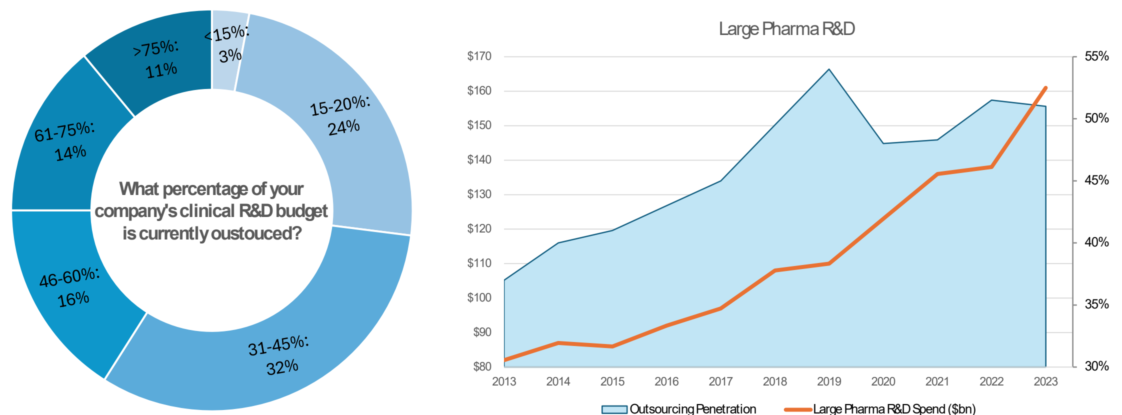


Figure 2: Cerno Capital, Goldman Sachs

The merger of Quintiles and IMS was designed to address exactly this, through the creation of new type of intelligent CRO. Today, IQVIA is the leading global provider of advanced analytics, technology solutions and clinical research services to the life science industry and the largest CRO by revenue. It maintains leading domain expertise in intelligent connections across the healthcare industry, exhibited through its proprietary capabilities in pharmaceutical analytics, transformative technology, and big data resources. Customers benefit from exclusive insights generated through access to the largest RWE dataset across all clinical development pathways, driving efficiency gains via lower costs, faster revenue realisation and superior R&D productivity.

[5]https://www.alexandria.unisg.ch/bitstreams/2ffb25cf-da59-42c3-bbfa-9fe647da78f2/download

[6]Online Patient Recruitment in Clinical Trials: Systematic Review and Meta-Analysis - PMC (nih.gov)

[7]https://phrma.org/-/media/Project/PhRMA/PhRMA-Org/PhRMA-Refresh/Report-PDFs/P-R/PhRMA_membership-survey_2022_final.pdf

Market Position

The CRO industry can be broadly divided into pre-clinical and clinical services, with preclinical organisations focusing on discovery services and lab and animal testing before the drug is introduced to human patients. Clinical CROs tailor to Phase I through IV human clinical trials, providing either full-service outsourcing, including end-to-end involvement in the entire spectrum of the clinical trial, or functional services provisions, focusing on specific capabilities in which the customer lacks expertise. Global CROs offer both full-service and FSP services, with an increasing number of clients opting for hybrid options.

Whilst IQVIA does provide some analytical services for pre-clinical stage trials, it primarily operates within the clinical trial segment. In a recent market survey conducted by Goldman Sachs, IQVIA along with Thermo Fisher Scientifics's PDD were highlighted by industry participants as either the leading or second player for the majority of CRO selection criteria. IQVIA's leadership is held specifically in areas of clinical and RWE collection and deployment, positioning them as the key beneficiary for technology derived growth avenues such as decentralised clinical trials.

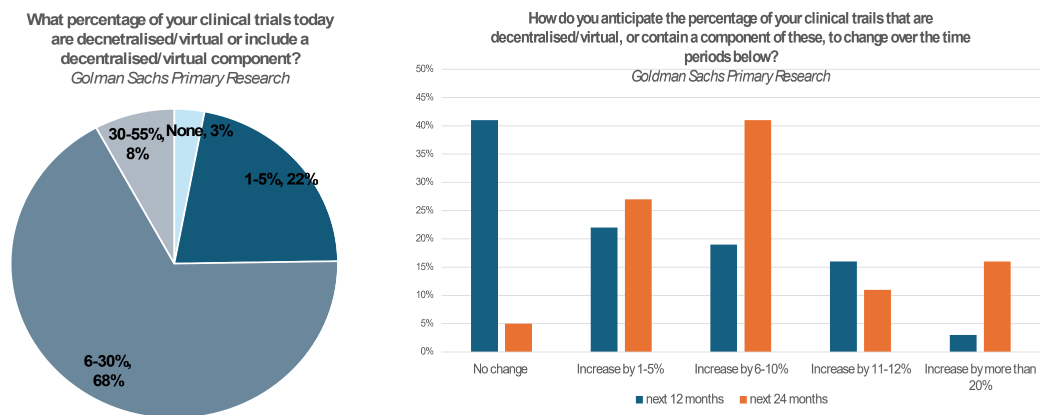


Figure 3: Cerno Capital, Goldman Sachs

Why now?

IQVIA was first admitted to Cerno Capital's approved list in 2019, based on the leading capabilities of the business, derived from the ownership and utilisation of its proprietary assets, as well as the structural value of the services it provides. However, with the business trading at an average of trailing twelve months price earnings ratio of 83.4x between 2019 and 2021. Valuation constraints at that time prevented the business from entering the Global Leaders Portfolio.

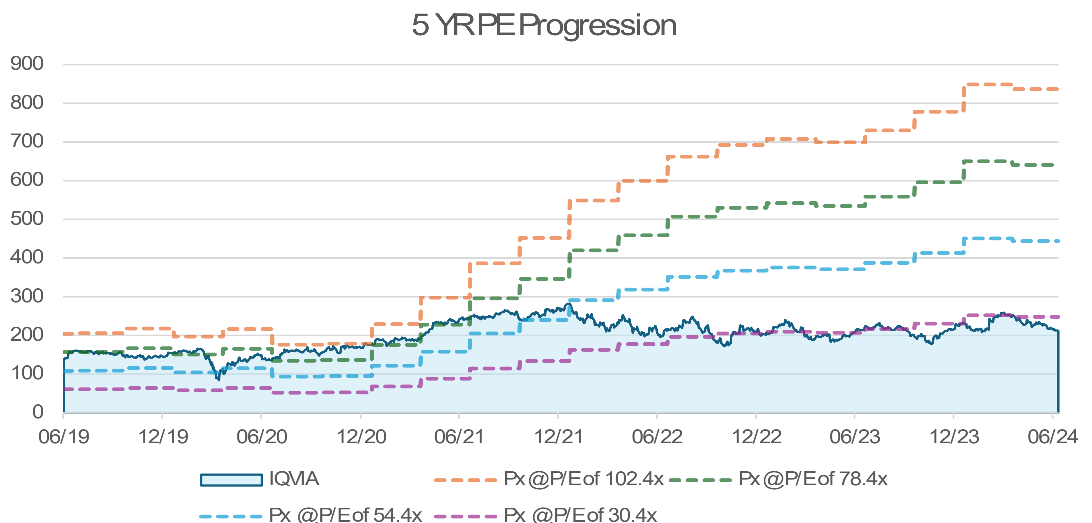


Figure 4: Cerno Capital, Bloomberg

Since 2021, the business has traded sideways despite continued earnings progression, resulting in a mechanical re-rating to the current TTM P/E ratio of ~26x and a forward P/E of ~18x, a much more reasonable rating. This has primarily been driven by the whiplash of COVID, which saw record levels of biotech funding, facilitated through both a low cost of debt and extreme optimism around the long-term growth potential of life-saving therapies. However, as Central Banks began to target restrictive monetary policy the market transitioned away from irrational exuberance, macro-economic conditions became more obstructive to pharmaceutical innovation and market participants realised that the industry had benefited from a pull-forward in investor appetite.

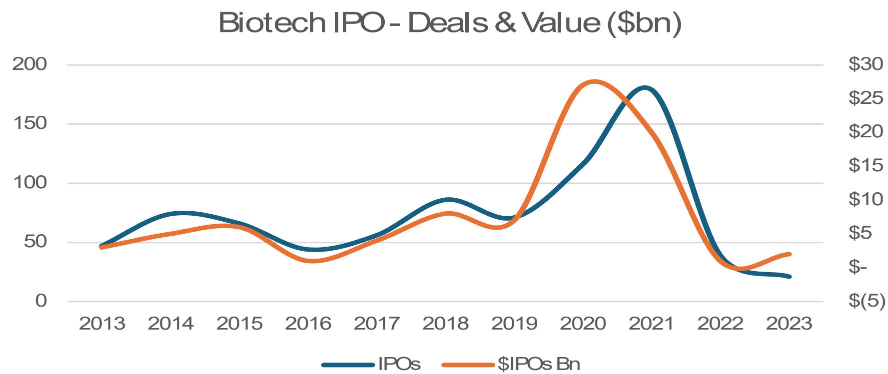


Figure 5: Cerno Capital, Goldman Sachs

The ensuing funding lag resulted in extensive cost-cutting and budget re-prioritisation across the biopharma landscape, slowing growth in IQVIA's technology and analytics segment (TAS: 39% of sales), with lower demand for the discretionary efficiency focused services such as consulting, analytics, and some areas of RWE. Moreover, in the CRO Research and Development Solutions segment (RDS: 56% of sales), COVID demand resulted in significant temporary sales growth, resulting in difficult comparisons in the following years, with revenue step-downs disguising high single-digit to low-double-digit organic growth and healthy margin expansion in core earnings.

However, these headwinds appear to be transitory in nature. Whilst the TAS segment has underperformed in the context of industry budget re-prioritisation, rebounding levels of development activity gives visibility to revenue re-acceleration. Biopharma M&A witnessed a rebound in 2023, with deal values up by 79% YoY[8]. 55 new drugs were approved by the US FDA in 2023 alone, the second-highest number after the 59 approvals in 2022[9]. Moreover, with the 2030 patient cliff already overlapping the 10–15-year average development & approval timeline[10], the impetus for expediated capital deployment into de-risked compound development is large, resulting in an ongoing tilt towards IQVIA's core competencies in Phase III+ commercial activities.

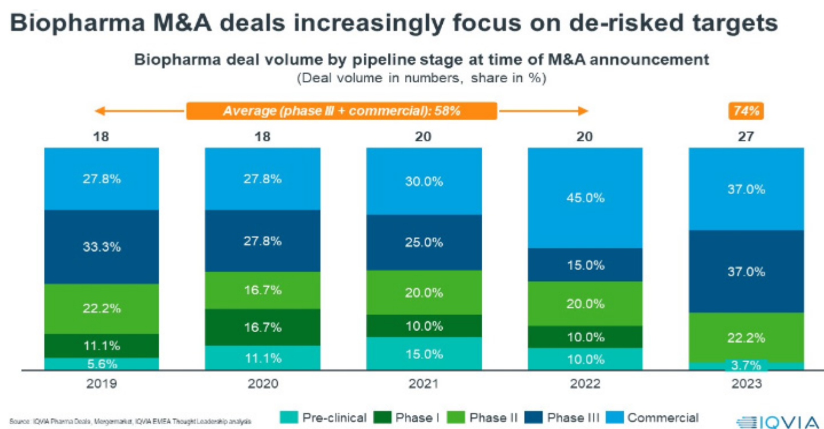


Figure 6: IQVIA Institute

[8] IQVIA institute

[9] Novel Drug Approvals for 2023 | FDA

[10] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC10699228/

Whilst ~60-70% of IQVIA's TAS segment can be considered discretionary, it offers a highly attractive utility proposition of greater operational and cost efficiency for drug development and maintains market leadership in this area. Management continues to promote visibility on a market leading pipeline and improving customer segment. Given that ~50% of new launch spend is deployed by pharmaceutical companies in the first two years of development, the segment would appear to be primed for a growth rebound in the short-term.

Furthermore, investors have focused on the stepdown of COVID revenues in the RDS segment. As of Q1FY24, management has guided for approximately US$300 million of COVID-related revenue step-down in FY24, resulting in a ~200bps headwind to organic growth expectations. However, a recovery in performance and sentiment seems similarly close for RDS, as strong organic execution, evidenced by quality revenue growth and margin accretion, has been masked by the low of low-margin COVID-related sales. Thus, with headwinds beginning to dissipate, the opportunity for a re-emergence of market-leading quality growth across all segments is a positive development to which little credit has been assigned.

Finally, we believe that the industry leading technology and data solutions presented by IQVIA's data capabilities and proprietary assets, paired with high quality clinical CRO capabilities are unique for the industry and positions the businesses favourably across most major growth avenues for the industry. IQVIA believed that the TAM of all end markets to be ~US$200bn in FY23, of which outsourced R&D made up only 25%. The business already generates roughly 40% of revenue through its data-based TAS segment and has forecast long-term growth in the high single digits. This not only is a driving factor for the segment itself but serves as a key competitive advantage for the clinical trial business. Here, IQVIA stands to benefit from the anticipated budget re-allocation and market consolidation as the industry continues to reward the advantage of data utilisation in reduce development times and costs.

However, considering the recent developments in Artificial Intelligence and the proliferation of large language models, we consider IQVIA's data assets to have become significantly more valuable as key source of competitive differentiation from peers. Quintiles referenced its leading position in automated data analytics and machine learning as early as Q1FY14. With healthy investment since, the business boasts a market leading library of proprietary Artificial Intelligence and Machine Learning capabilities. According to IQVIA, it's 'NLP Data Factory' has been proven to be capable of extracting critical data from >10 million unstructured data sources per hour and driving a 12x acceleration in clinical endpoint extraction. Case studies boast of 95-99% accuracy in identifying real world outcomes in heart failure patients[11], a timeline reduction of 50% from target identification to clinical trials, and up to 99% reduction in time required to identify one patient with a specific condition[12]. Thus, the combination of the largest RWE data base in existence with a long history of investment, we believe, places IQVIA has optimally placed to benefit from the continued growth of AI in the healthcare space.

[11] https://www.iqvia.com/solutions/real-world-evidence/health-data-transformation/nlp-data-factory

[12] https://www.iqvia.com/solutions/real-world-evidence/iqvia-nlp-platform

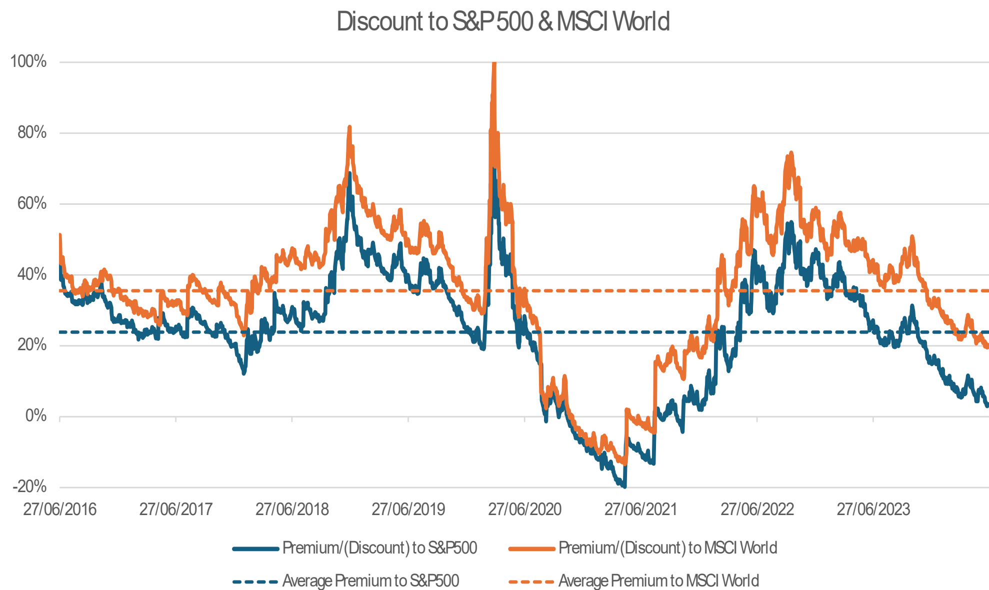


Figure 7: Cerno Capital, Bloomberg

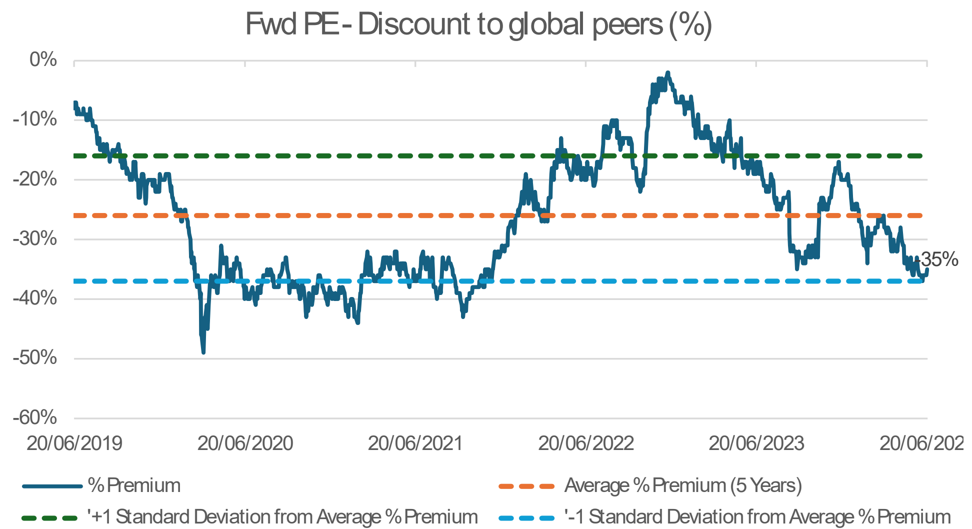


Figure 8: Cerno Capital, Bloomberg

Peers include ICON, Charles River Laboratories, LabCorp, Medpace, Lonza, Catalent, Rede D'OR Sao Luiz, WuXi AppTec, Wuxi Biologics & HealthEquity.

Therefore, whilst IQVIA has been facing headwinds over the last two years, we believe that the quality of the business' value proposition and unique means of fulfilling them, stands it as a candidate for strong long-term growth and market share capture. Market participants appear to be focused on the businesses' headwinds and unappreciative of both the green shoots of recovery, and growing value of its unique operational assets. Thus, we see the relatively low multiple vs it's historical range and its unusual discount to peers as an attractive entry point for the Global Leaders portfolio.

TM CERNO *Global Leaders*

FUND FACTS

Holding History

Company Name	Description	Holding Period*
Samsung Electronics	Dominant in semiconductor memory chips and leader in smartphones	>11 years
Nestle	Diversified global food & beverage company	>11 years
Visa	Largest global electronic payments network	>11 years
Zimmer Biomet	Leading orthopaedic care specialist	>10 years
Linde	Largest industrial gas provider in the world	>10 years
Renishaw	Engineering specialist focused on equipment for precision measurement	>10 years
PPG	Coatings company leading in the industrial/speciality business	>9 years
Shimano	Dominant supplier of cycling componentry	>9 years
Givaudan	Leading player in the Flavours and Fragrance industry	>8 years
Novonesis	Produces enzymes which application in a wide variety of daily products	>8 years
Assa Abloy	World's leading manufacturer of security locks and automatic doors	>8 years
EssilorLuxottica	Vertically integrated producer of luxury, fashion and sports eyewear	>7 years
Heineken	Brewer with a strategic bias to premium beer, interests in low alcohol/craft	>6 years
Atlas Copco	Dominant producer in air compression and vacuum techniques	>6 years
TSMC	World's largest pure-play semiconductor foundry	>5 years
ASML	Leading photolithography tools manufacturer for the semiconductor industry	>5 years
Microsoft	Dominant player in computing operating system and business software platform	>4 years
Philips	Healthcare technology company serving professional and consumer markets	>4 years
Accenture	Independent technology consultant and outsourcing provider globally	>4 years
Aptiv	Leader in smart vehicle architecture enabling autonomous driving	>3 years
Adobe	Dominant digital creativity software and marketing CXM tool provider	>2 year
Rockwell	Largest pure play in industrial automation and control processes	>2 year
Thermo Fisher	Diversified provider of scientific instrumentation, medical reagents and consumables	>2 year
Keysight	Global leader in testing and validation of products utilising the electromagnetic spectrum	>2 year
Ansys	Leading developer of digital simulation software for product development	>2 year
S&P Global	Diversified information service provider for the financial, auto & commodity industries	<1 year
Diageo	Leader in alcoholic beverages, with a broad portfolio spanning classic to premium products	<1 year
SK Hynix	Leading pureplay memory chips manufacturer leveraged to the AI revolution	<1 year
IQVIA	Global leader in clinical research & trial outsourcing services	<1 year

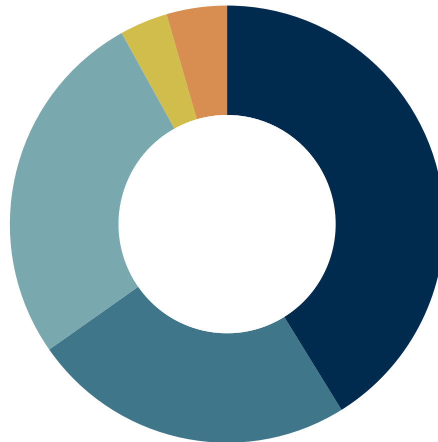
*Holding periods since inception of strategy

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 21% versus 15% 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 - 41%
- Europe - 24%
- Asia - 27%
- Latin America - 4%
- Rest of World - 4%

Performance

Year Ended	June 2024	June 2023	June 2022	June 2021	June 2020
Net Performance	+9.8%	+17.3%	-17.7%	+28.8%	+16.2%

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) 0.19% OCF 0.84%
Transaction Costs	Explicit Costs 0.01% Implicit Costs 0.06%*
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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