

Performance

Period ending 31 July 2023	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	7 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	1.58	4.84	13.58	11.91	8.94	11.63	12.56	11.25
MSCI All Country World Index (Net Dividends Reinvested) (\$A)	2.40	6.41	15.24	16.92	12.73	10.38	11.75	9.96
Out/(under) performance	-0.82	-1.57	-1.66	-5.01	-3.79	1.25	0.81	1.29

Notes: Performance returns are calculated net of management fees and are pre-tax in \$A. Past performance is not a reliable indicator of future performance. The numbers are rounded to two decimal places.

Portfolio Review

We closed our position in Disney in July. We closed our position in Disney during the period after taking a more negative overall view on the direction and economics of the company's transition from linear TV to content delivered increasingly through Disney+, the company's OTT streaming service launched in late 2019. While the early magnitude of Disney+ success was accretive to revenue as the pandemic accelerated streaming adoption, we have developed a more negative long-term view regarding the terminal profitability of this business, particularly relative to the company's Linear Networks segment, its largest profit pool. While we continue to recognize the powerful network effects of streaming in combination with Disney's experiences and Parks business, we have decided to close our position as we view more attractive long-term opportunities in the media and entertainment space.

Market Outlook

As a manager focussed on company by company analysis, in the large part to the exclusion of macroeconomic work, at times we inevitably bypass economic news of significance in these commentaries. So when material positive change occurs, it is worth taking note.

Economic prognostications across the market at the start of the year were almost universally negative. For example, in January the Bloomberg Economics probability model suggested a 100% chance of a US recession in 2023, and not long before then JP Morgan CEO Jamie Dimon told investors to brace themselves for an economic 'hurricane'. So, perhaps inspired to smell the roses by the summer season in London, we note today of the US, still the world's largest national economic engine (approximately 70% of which is driven by the consumer), that consumer spending data remained solid into July, unemployment was at 3.6% in June, and employee wage growth remains healthy, all while inflation has cooled to around 3%. And, even as it raised rates another 25 basis points during July to the highest level in 22 years, the Federal Reserve took time to say that it expects a recession-free 2023. So while we remain sceptical of the ability of anyone to forecast macroeconomic outcomes with consistent accuracy, and, lest optimism overwhelm us, would also note that even as this note was drafted we saw Fitch downgrade the US's credit rating (citing risks from political polarisation and rising debt levels), it remains a simple and quite cheering statement of fact that current conditions in the US are far better than anticipated at the start of the year.

But to get deeper into the weeds, July saw many companies announce their Q2 results, which provided an opportunity to assess how businesses globally are navigating the tension between the need to assert pricing power in an environment of still above trend inflation, and the potential impact of these efforts on demand. Beyond the portfolio, we saw some evidence of strong pricing power at Coca-Cola, which raised prices 10% in the second quarter while reporting no impact on volumes, and conversely of apparent struggles at Reckitt and Unilever, which both reported volume declines in response to price increases, with Europe in particular seeing weakness for both firms as stretched consumers trade down to private market products. While a single quarter's results are certainly more anecdote than evidence, continued observation of long-term trends will aid us with future capital allocation decisions.

Elsewhere, the interplay of rising political competition and business conflict between China and the US continues to have global impacts, affecting several companies across Intermede's global and international portfolios. Given that these developments appear likely to affect corporate fortunes in hard to predict but definite ways, it seems sensible to trace some of the paths of influence. One of these starts with the small print contained in the \$280bn of subsidies offered via the Biden administration's CHIPS Act, which offers huge subsidies to manufacturers of semiconductors in (for

About Intermede

Intermede is a London-based, specialist global equities manager. It aims to outperform global equity markets by identifying well-managed companies with strong market positions in attractive industries and purchasing them at discounts to intrinsic value. In particular Intermede looks for companies with a demonstrated sustainable competitive advantage.

Key Facts

Investment objective

The Fund invests in an actively managed portfolio of companies listed (or expected to be listed) on share markets around the world. The Fund is not hedged to the Australian dollar. The Fund aims to deliver a return that exceeds the Benchmark (before fees) over 7-year periods.

Index

MSCI All Country World Index (Net Dividends Reinvested) (\$A)

Performance inception date

27 February 2015

APIR code

PPL0036AU

mFund

INT01

Management costs (including GST)

0.99% p.a.

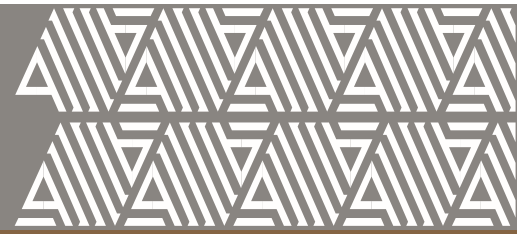


example) Korea and Taiwan, but which prohibits recipients from expanding or upgrading advanced chipmaking facilities in China for ten years. At the same time the US has pressured Dutch manufacturer of lithography equipment ASML to restrict deliveries of its advanced equipment to China. Given that more than half of South Korea's chip shipments in 2022 went to China (South Korea leads globally in the production of memory chips), the potential impact to Korean chip producers is clear. But the additional layer of complexity becomes clear when one realises that much of Korea's memory chip production occurs in China itself. And elsewhere, the potentially distorting effects on global competition of subsidies outside the US (€43bn of subsidies announced under the European Chips Act are undoubtedly a response to the US's earlier moves) were pointedly noted during July by the CEO of TSMC's competitor, Global Foundries, who said in an interview with the Financial Times, "if a subsidy benefits one dominant player disproportionately, there is real risk of dependence on a single supplier, market foreclosure and less resilient supply chains". TSMC is rumoured to be receiving a subsidy equivalent to 50% of the construction cost of its planned fabrication plant in eastern Germany.

In Japan, the final day of July saw a sharp rise in bond yields to a nine-year high of 0.61% after BoJ Governor Kazuo Ueda took steps to loosen the central bank's control of long-term bond yields. Specifically, while the bank's official 0.5% cap on yields is unchanged, the band around that level within which yields will be permitted to move has been expanded to permit a rise to 1%, which has been received by the market as a significant step towards policy normalisation after decades of deflation and seven years of negative rates (which remain in place at the short end of the yield curve, Japan now the only country where this is the case). The extent of liberalisation should not be exaggerated however, as in the first days of August the BoJ repeatedly intervened to slow further gains in yields, taking action two days in a row to cap the further daily gain in yields to 5 basis points.

July also saw an interesting response to the sheer scale of the largest mega-cap technology businesses by NASDAQ, the provider of the widely followed NASDAQ 100 index. After sharp price rises, the seven largest mega-cap businesses in the index (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla) have come to constitute 61% of the market capitalisation of the index (up from 53% at the start of the year), making it difficult for index funds that track the index to comply with their diversification rules. So for the first time, NASDAQ will apply a reweighting formula to the index to reduce the concentration problem. If the combined weight of stocks that exceed 4.5% of the index exceeds 48%, NASDAQ will now undertake a 'special rebalance' to cut the aggregate weight to 40%, and increasing the weight of the remaining 93 companies in the index. This raises a philosophically interesting question for managers whose performance is measured against a cap-weighted benchmark, given that (for example) Apple, which at a \$3trn market cap is now larger than any of the Russell 2000 in the US, the UK's FTSE 100, or France's CAC 40, now constitutes 5% of the MSCI ACWI index. This means that simply not holding Apple now implies a materially sized negative bet, which can have a significant effect on relative investment performance in a period in which Apple does well, or poorly. This said, we note a comment during July from the research house Bernstein noting that technology is now trading at a 54% earnings premium to the broader market, its highest level since the dotcom era in the late 1990s, and that in aggregate (looking at the largest 1500 US technology stocks, on a market cap weighted basis), for the year to date share price appreciation of approximately +38%, more than the entirety of that gain has come from multiple expansion. And, perhaps trying to reassure ourselves after a period of extremely strong performance for highly valued stocks, we noted with interest a study conducted by the team responsible for updated editions of Jeremy Siegel's classic book 'Stocks for the Long Run'. Specifically, they undertook a study of the subsequent returns of highly valued companies, defining that category as those with a minimum of a 40x historic price to sales multiple and a 25x forward price to sales multiple (coincidentally quite neatly mirroring current revenue multiples for NVIDIA). The results revealed that of the group of 231 companies reaching these lofty valuation heights, 80% underperformed the S&P500 in the subsequent year (with median underperformance being -36%), and 90% materially underperformed the S&P500 over the next 3, 5, and 10 years. Perhaps making clear that as hard as identifying in advance the companies that will soar to these extraordinary valuations, it is then keeping hold of the wealth that for most of their shareholders has historically only been fleeting.

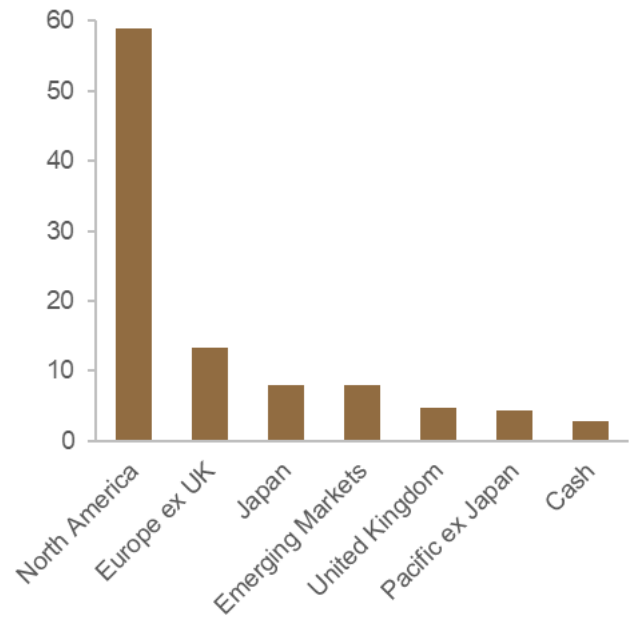
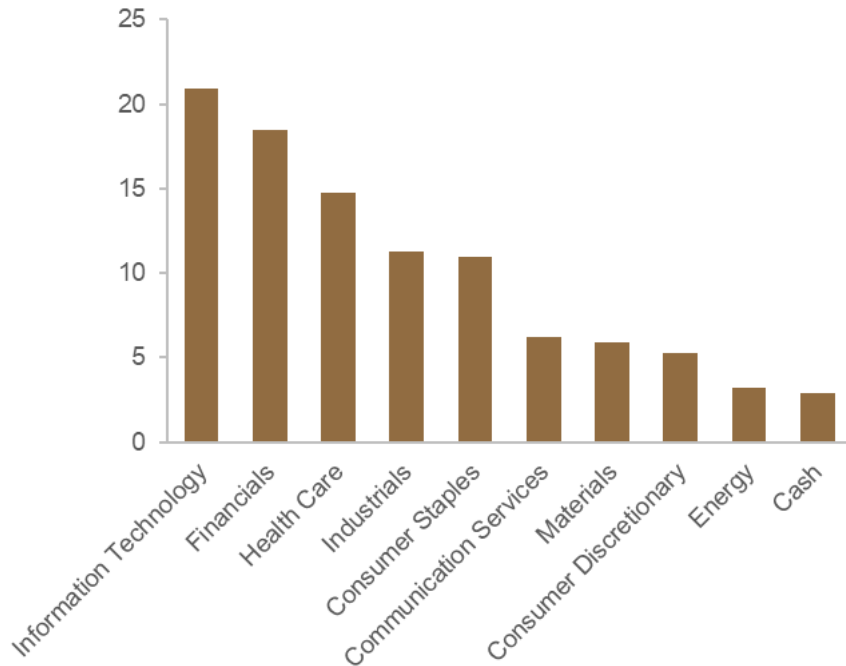
With respect to our own portfolio, our primary mission remains to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations. We believe this remains the most prudent path to capital appreciation in the long term.

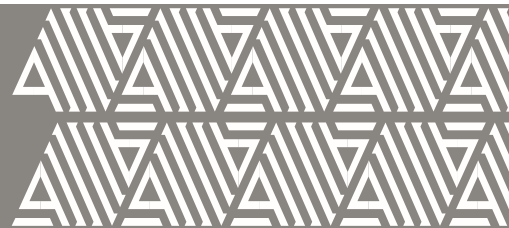


Top 10 Holdings

Company	Country of Domicile	Sector
Alphabet Inc.	United States	Communication Services
Microsoft Corporation	United States	Information Technology
Linde Plc	United Kingdom	Materials
Amazon.com, Inc.	United States	Consumer Discretionary
Schlumberger N.V.	United States	Energy
Adobe Incorporated	United States	Information Technology
CME Group Inc.	United States	Financials
Haleon plc.	United Kingdom	Consumer Staples
Danaher Corporation	United States	Health Care
HDFC Bank Ltd.	India	Financials

Sector and Regional Weights %





Sector Positioning

Most active overweight owned sectors for July 2023

Financials	Our portfolio weighting to companies operating in the financial services industry is higher than the index, however, the characteristics of our holdings differ materially to an index dominated by developed market banks and insurers. We tend to find more attractive long term investment opportunities in emerging markets, such as HDFC Bank in India and Asian life insurer AIA, and in less capital intensive areas such as global derivatives exchange CME, US investment services firm Charles Schwab, financial information provider S&P Global and insurance broker/consultant Marsh & McLennan. All of these businesses benefit from strong competitive positions in industries with high structural growth prospects.
Consumer Staples	Our consumer staples holdings are concentrated in companies with the pricing power to largely or entirely offset the effects of raw material cost inflation. Haleon, a consumer health company with a relatively low ratio of input costs to sales, is our top holding in the space, followed by Nestle, Heineken, Kerry, and Shiseido. Nestle's strong position in coffee and pet care, two categories with low demand elasticities, has helped the company manage through this period. Heineken has long experience managing through inflation given its substantial presence in volatile markets. For Kerry much of its business has pricing mechanisms embedded that link to raw material costs. Shiseido is the number 3 beauty company globally and has substantial presence in the Asian skincare market, with Chinese consumers of key importance. The company has undergone significant transformation in recent years, the benefits of which have been masked by the effects of the pandemic. With Covid restrictions lifted in China the medium-term outlook for the company is much improved.

Most active underweight owned sectors for July 2023

Energy	We are underweight the Energy sector because the companies that account for the majority of the Index are large integrated or national oil companies that do not meet our growth criteria. This is because their revenues are directly tied to oil and gas prices, which the market expects to fall in coming years due to supply and demand factors (i.e. the forward curve is in backwardation). However, we do see strong growth potential in the Oilfield Services and Equipment sectors, where we own Schlumberger, due to the strong outlook for exploration and production capex deployment by customers, both onshore and offshore. Schlumberger is fundamentally a technology provider, with a strong track record of innovation, and we anticipate that as the world moves away from fossil fuels and towards 'Net Zero', they will successfully grow in the energy transition (e.g. carbon capture) and new energy (e.g. hydrogen electrolysis) markets.
Consumer Discretionary	We continue to be highly selective within the consumer discretionary space and remain underweight the sector. Our two holdings are Amazon and LVMH. We continue to consider a variety of potential opportunities in the sector but are mindful of pressures on consumers globally from elevated inflation and economic uncertainty.

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