INTERMEDE
INVESTMENT PARTNERS

Intermede Global Equities Fund

Monthly Report 31 May 2021

Performance

Period ending 31 May 2021	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	0.11	8.89	8.65	21.04	18.61	16.20	13.99
MSCI All Country World Index (Net Dividends Reinvested) ($A)	1.35	8.85	10.41	21.64	13.00	12.67	10.60
Out/(under) performance	-1.24	0.04	-1.76	-0.60	5.61	3.53	3.39

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

During the month of May we opened one new position, namely Toyota Industries, and closed one existing position, Adidas AG.

Toyota Industries' two main operating businesses are exposed to compelling structural growth drivers in the form of e-commerce, automation and electric vehicles. The Materials Handling business (79% of EBIT) is the global #1 in forklifts, including e-forklifts, and #3 player in Warehouse and Distribution Centre Automation (i.e. a beneficiary of e-commerce growth and the shift to low-emission battery operated equipment). TICO is also the global #1 in compressors for automotive AC systems (~8% of EBIT), of which 20% of which are for electric vehicles and expected to grow at a 38% CAGR over the next five years. Overall, we are forecasting 7% medium-term organic growth post-COVID, and also see good potential for margin expansion from pricing, mix, volume and operating efficiencies. Toyota Industries was the original holding company in the Toyota Group and holds shares in a number of group companies, including ~7% of Toyota Motor.

We sold out of our remaining position in Adidas after a strong share price performance during the month on the back of a positive earnings report for the March quarter. We had a position in Adidas for more than five years and it was the largest holding in the portfolio for a period of time. We continue to see excellent growth potential for the business long-term along with more potential to expand margins as the channel mix shifts from wholesale to direct-to-consumer. Our concerns rest primarily on the outlook for the company's prospects in China (34% of earnings), which have steadily increased over time as the space expansion opportunity has been tapped and as domestic brands have gained consumer mindshare. The later issue has been intensified by the Xinjiang cotton controversy.

Market Outlook

While Intermede's investment team focuses the substantial majority of our time on stock specific research, macro-level factors including central bank stimulus programs and inflation currently loom large as part of the market background against which our portfolio companies operate, so we ensure to spend sufficient time to understand at least the direction of the data, and the institutional priorities of the leading central banks.

While we rarely (if ever) derive specific investment conclusions from such work, it certainly helps refresh our confidence that our time is best deployed researching and meeting with potential and current portfolio companies that we believe to be capable of generating reliable compounding of earnings and cash flows over the long term.

To illustrate why this is the case, we can review the current debate regarding Eurozone inflation and European Central Bank (ECB) policy. The ECB is currently undertaking a policy review, with results to be announced in September. A primary focus of debate appears to be the possibility of adopting a looser inflation target than the current benchmark of 'near but less than 2%'. Such a move would echo the Fed's decision, following its own policy review in 2020, which led to the announcement of a new policy framework, to tolerate an overshoot of its own 2% target in an attempt to ensure that companies expect rates to remain low, and therefore prioritise spending over saving. Speculation about the outcome of the ECB's review has intensified in recent days with the release of Eurozone inflation figures for May, which hit 2% for the first time since 2018.

An additional development currently subject to widespread speculation is the potential introduction of yield curve control by the ECB, with some prominent analysts arguing that this is already occurring by stealth, with the rate of asset purchases by the ECB having risen from an average of €18bn per month over the year to March, to €25bn per month during the first two months of the second quarter. And strongly dovish voices certainly exist within the ECB, for example Italian ECB board member

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.

Fabio Panetta, who stated in an interview in the Nikkei newspaper in May that it would be premature to scale back asset purchases at the June meeting.

So perhaps, even in a more inflationary environment, continued aggressive stimulus will remain the policy path adopted by the ECB, even despite the strongly expressed objections of powerful stakeholders including Bundesbank President Jens Weidmann, who stated in an interview during April that the ECB should be willing to tighten policy.

But for Intermede's investment team, whose primary duty is to select as portfolio investments from a small set of companies with a set of distinctive financial and competitive characteristics in common, what use can speculating on the outcome of such debates serve be?

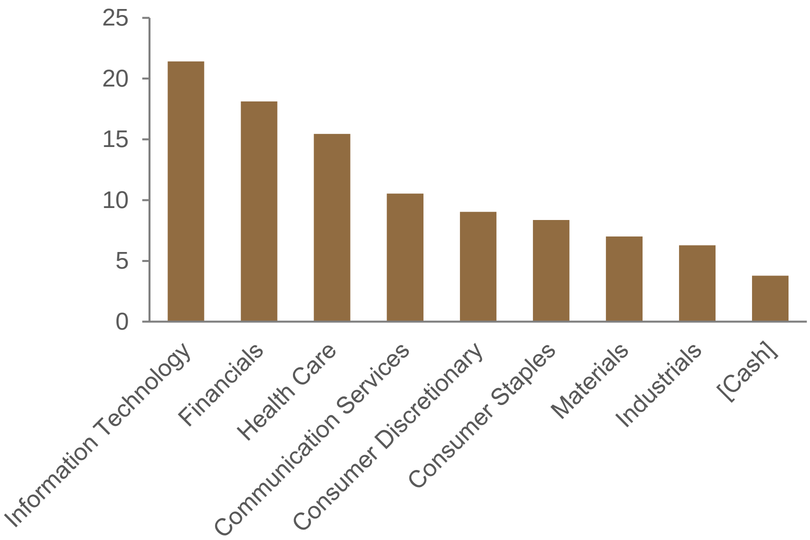
Minimal, we think, and to assign more time than the little we currently do would risk indulging in a form of Kremlinology, where excessive levels of meaning are assigned to snippets of second hand information, generating false confidence regarding the inner workings of bureaucratic processes that should properly be regarded as opaque, unlike (crucially) the operations and management teams of the businesses that through detailed research we can come to know well over time.

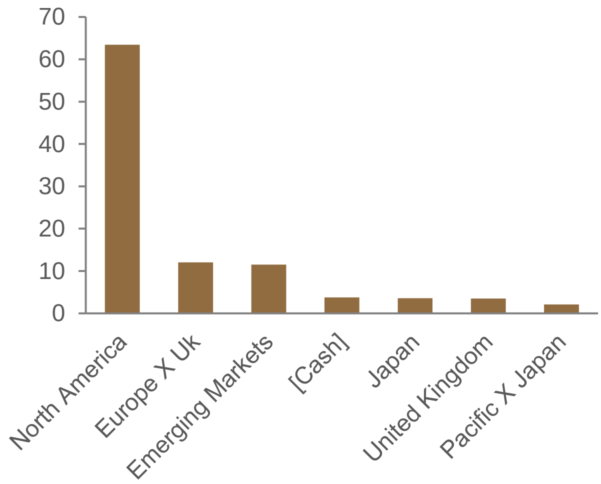
Therefore, and as always, our primary mission remains to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations. We believe this remains the most prudent path to capital appreciation in the long term.

Top 10 Holdings

Company	Country	Sector
Charles Schwab Corporation	United States	Financials
Alphabet Inc.	United States	Communication Services
Nestle S.A.	Switzerland	Consumer Staples
Danaher Corporation	United States	Health Care
Linde Plc	United Kingdom	Materials
Samsung Electronics Co., Ltd.	South Korea	Information Technology
CME Group Inc.	United States	Financials
S&P Global, Inc.	United States	Financials
Zoetis Inc.	United States	Health Care
Taiwan Semiconductor Manufacturing Co., Ltd.	Taiwan	Information Technology

Sector and Regional Weights %





Sector Positioning

Most active overweight owned sectors for May 2021	
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 Asian life insurer AIA and Indian housing finance company HDFC, 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.
Healthcare	We are overweight the healthcare sector where we see attractive and potentially accelerating growth trajectories for our portfolio companies. The focus of our portfolio is in companies that provide healthcare consumables, tools for research and diagnostics or products which are mission critical in the manufacturing of drugs. These companies tend to have strong competitive advantages typically deriving from high switching costs combined with the low overall cost of our companies' products to their customers. We do not find the pharma sector attractive and have no direct exposure. We think that returns on R&D are and will be impacted by a combination of accelerating drug pricing legislation and intensifying competition to acquire the most attractive drug development candidates. We do have exposure to the animal pharmaceutical sector which we think benefit from a wave of new innovations originally developed for the human health market. This combined with a growing pet population provides an attractive growth opportunity for our portfolio.
Most active underweight owned sectors for May 2021	
Industrials	We are underweight in industrials with a focus on leading companies that can benefit from structural growth trends, increase market share and improve margins. Within the sector, holdings include Allegion (a leader in electro and mechanical locks) and Canadian National Rail (one of the seven North American Class 1 railroads). In the near-term, the outlook for certain end-markets remains dependent on COVID and vaccine roll-out (e.g. airlines, energy, restaurants). However, we see a strong opportunity set in terms of i) fundamentally good companies that should rebound once restrictions are lifted and demand normalises, and ii) secular growth trends such as electric vehicles, the Internet of Things (IoT), robotics/automation and intermodal transportation.
Consumer Discretionary	We continue to be highly selective within the consumer discretionary space and remain modestly underweight the sector. We have favoured areas with strong secular tailwinds such as sporting goods, luxury and internet retailing with Alibaba, Amazon and LVMH our top holdings in the sector.

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