

Performance

Period ending 31 May 2022	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	-1.00	-7.95	-16.38	-5.74	11.64	11.72	11.04
MSCI All Country World Index (Net Dividends Reinvested) (\$A)	-0.82	-4.81	-10.40	0.59	10.42	9.82	9.16
Out/(under) performance	-0.18	-3.14	-5.98	-6.33	1.22	1.90	1.88

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 closed two positions and opened two positions. The positions we closed were Aptiv Plc and Apple Inc and the newly opened positions were Adidas AG and Microsoft Corp.

Aptiv is a Tier 1 auto supplier and leading provider of technology for Advanced Driver Assistance Systems (ADAS) and power distribution systems for Electric Vehicles. Although we continue to see compelling structural growth drivers behind electrification and autonomous driving, we believe that the environment for auto suppliers is now very challenging. On the demand side, the consumer is being pressured by rising interest rates and rising vehicle prices. On the supply side, Aptiv is continuing to face challenges in terms of supply chain (delays, shortages of components), compounded by China lockdowns, and raw material price inflation. Historically, passing on rising costs to large OEM customers has not been easy for tier 1 suppliers. Indeed, annual price-downs are generally the norm in the industry. Given these risks, we therefore decided to sell our position at the beginning of the month.

We closed our position in Apple during the month of May. Over the last three years and through the pandemic, Apple stock has enjoyed a substantial re-rating in the market (forward P/E multiples have risen from ~15x to the current ~25x), as the market now views the company as an ecosystem-driven services provider, rather than simply a hardware manufacturer. Apple has successfully complemented its technology leadership in hardware with new software and service offerings such as App Store, Apple Pay, Music, and TV, leveraging its large installed base of iOS devices to grow new higher margin, recurring revenue streams that fundamentally change the profile of earnings. That said, looking forward from here, we take more cautious view. Rising inflation and interest rates plus the potential for weakening global consumer spending are increasing risks, particularly for Apple given its high price and premium position in the electronics market. This orientation leaves the company marginally more vulnerable to low-cost alternatives or more users deciding to delay upgrade cycles in the face of pressure on household real incomes. Rising geopolitical uncertainty, highlighted by Russia and China, are also introducing incremental risk, manifest in continued challenges for the global technology supply chain. As such, we now see more limited upside potential in the stock and have decided to close our long-standing position.

We added Adidas to the portfolio in May. It is a name that was sold in June 2021. At that time we were concerned about the company's outlook in China and increasing signs of waning brand momentum. The business in China did get more difficult and we expect China's contribution to profits to be down to 24% in 2022, down from 34% in 2019. Longer-term the outlook for sporting goods remains solid in China. Outside of China the business is doing well with organic sales growth of 13% in Q1 2022 and with growth of over 20% expected in the second half of the year. We view the shares as very attractively priced given normalized growth of 9-11% in the sector with margin expansion from a channel shift to more direct selling. Based on our estimates Adidas trades at 16x 2023 earnings and with a free cash flow yield of >6%. Adidas hasn't been this inexpensive since early 2011 and then only briefly.

We opened a new position in Microsoft in May. Although we have followed the company for many years, we have recently grown more positive as the market for cloud-based services has evolved through the pandemic. Microsoft has clearly demonstrated the competitive strength of its Azure cloud infrastructure offering, as evidenced by its market-leading growth and rising scale and profitability. At the same time, the company has successfully migrated its Office suite to a SaaS model, which enables Microsoft to capture more revenue share from users in a hybrid/work from home environment. Additionally, we believe that Microsoft is well positioned to weather a worsening economic landscape, as its core productivity tools are designed to help businesses and consumers reduce cost and improve efficiency. These services are increasingly valuable in an inflationary environment where the need to manage expenses is heightened. Finally, we believe the current market is presenting an attractive opportunity to buy shares. While Microsoft has long been just outside our comfort zone on valuation, the recent de-rating across the technology space presented us with a relatively rare moment in time to capture upside to our price target.

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

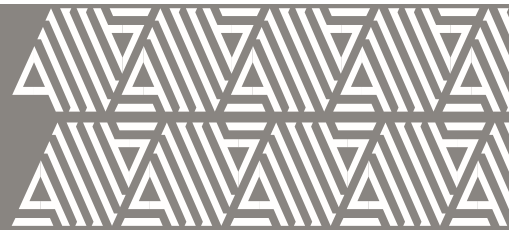
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mFund

INT01

Management costs (including GST)

0.99% p.a.



Market Outlook

During what was a busy month for macroeconomic news, one item of particular note was the decision by the ECB's Christine Lagarde to take the unusual step of publishing an essay outside the central bank's regular meeting schedule in which she outlined a rationale for the ECB to end a decade of dovish monetary policy, and committed the bank to two rate hikes by September (which would bring European rates back to zero). The Euro strengthened against the dollar by over a percentage point on the day of the announcement, a direction of travel that will (if sustained) bolster the corporate profits of US multinationals with significant overseas earnings.

Conversely, comments during May from Fed official Raphael Bostic (Head of the Atlanta Fed) that a pause in rate hikes as early as September could make sense also emerged as the first hint of dovish tone from US monetary authorities in several months, and strengthened the market perception that the previous policy divergence between a hawkish Fed and a more dovish ECB may be unwinding.

Elsewhere, corporate earnings were scrutinised closely against an uncertain background during the month, with earnings misses punished sharply by the market, for example with Snap Inc. shares falling by more than a third after announcing that earnings would be at the lower end of expectations. Relatedly, after a long period during which upward earnings revisions were the norm, a broad survey of company reporting shows that reductions to forward estimates currently outweigh increases. As ever however, it is important to look behind the numbers, and while weakness in guidance is widespread, a review by Factset shows that difficulties are most prevalent for companies selling big ticket items of the sort that sold well during the pandemic, and for previously high growth technology companies, while sellers of services are currently seeing strong growth.

The difficulties of sellers of big ticket items in a post-pandemic stimulus period were also reflected in the fact that US inventories were also a major market theme during the month, as several large US retailers noted elevated inventory as one of the factors (alongside inflation-driven increases in wage, fuel and other input costs) leading them to reduce earnings guidance. On the day of Wal-Mart's earnings announcement shares in the company fell 11%, the biggest one day drop since 1987, with the shares of smaller retailers including Target dropping more than twice as far.

While we generally avoid macro statistics, the US national accounts present a stark picture of the extent to which rising inventories have driven recent US growth, with the 'Change in Private Inventories' category contributing 2.2% of the 2.3% annualised real GDP growth reported for Q3 2021, and 5.3% of the 6.9% reported for Q4. Equally, in Q1 2022, when overall GDP growth declined by 1.5%, 1.1% of that was due to a decline in private inventories. In other words, a necessary destocking process is underway, which may continue to inhibit US growth for some time, but which, like all such processes, will work itself out of the system in due course.

The ongoing Ukraine conflict continues to sharpen supply-side pressures that are behind rising energy and food prices. While the 33% rise (year on year) in the broad World Bank index of food prices is eye opening, the price of fertilizer essential to maintaining crop yields in future growing seasons has risen 151% over the same time period, and troubling potential problems with food supply are beginning to emerge, particularly in the many countries that historically depended heavily on exports of Ukrainian grain that will no longer be available (for example Lebanon relied on Ukraine for 85% of its annual wheat supply, and Russia for almost all the rest).

In China the overall economic picture remains somewhat murky, with material stimulus measures being enacted while harsh lockdowns remain in place for tens of millions of citizens. The government was active during the month in rolling out policies to mitigate the negative economic aspects of its Covid suppression policy, with the State Council unveiling an extensive package of stimulus measures including substantial tax rebates, subsidies for vehicle purchases, and issuance of RMB300b of railway construction bonds. Additionally, the PBOC made two easing decisions during May, cutting the five-year loan prime rate by 15bps to 4.45%, and also reducing the floor of the first-home mortgage rate by 20bps (to 4.40%) earlier in the month. However, it remains the case that extremely stringent lockdowns of major urban areas including Shanghai remain largely in place. While by late May very gradual easing of the Shanghai lockdown appeared to be commencing, the economic impacts of a frozen system remain substantial. The knock-on supply chain effects for certain Intermede portfolio companies came into focus during May with businesses including Apple and Danaher making direct reference to these challenges and quantifying their economic impact during earnings calls.

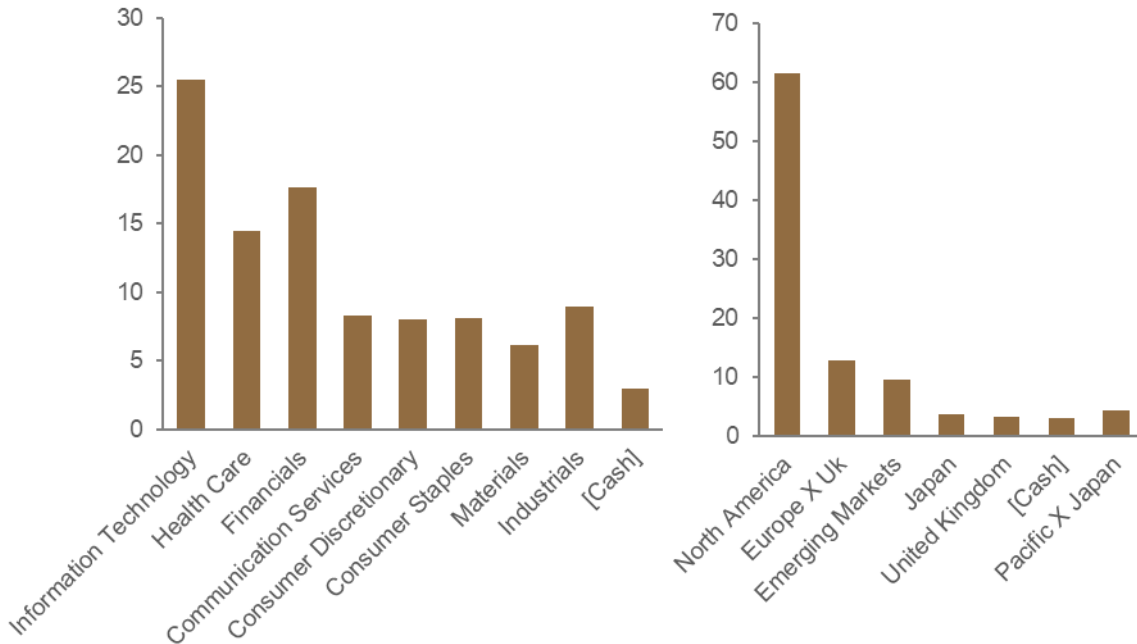
Against an uncertain growth background, we believe that the most resilient businesses, which our process is focused on identifying, will stand out. Furthermore, our avoidance of the most richly valued, long duration businesses also means we are less exposed to the sort of multiple contraction that can be driven by inflation and consequently rising rates. 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.

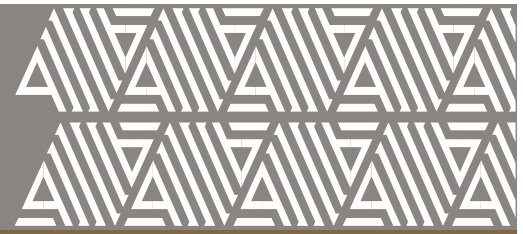


Top 10 Holdings

Company	Country of Domicile	Sector
Charles Schwab Corporation	United States	Financials
Alphabet Inc.	United States	Communication Services
Linde Plc	United Kingdom	Materials
Danaher Corporation	United States	Health Care
Nestle S.A.	Switzerland	Consumer Staples
CME Group Inc.	United States	Financials
Zoetis Inc.	United States	Health Care
Fidelity National Information Services, Inc.	United States	Information Technology
Adobe Incorporated	United States	Information Technology
Microsoft Corporation	United States	Information Technology

Sector and Regional Weights %





Sector Positioning

Most active overweight owned sectors for May 2022

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.
Information Technology	We are overweight in the information technology space as we see attractive opportunities for long-term value creation for those companies that can drive growth in digital businesses, including cloud software and services, electronic payments, and mobile applications. That said, our approach to investing in IT remains disciplined, focusing on companies with sustainable market leadership, proven and profitable business models, and attractive valuation. In May, our best performing stock in the sector versus benchmark was Autodesk, the global leader in design, engineering, and construction software.

Most active underweight owned sectors for May 2022

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 Techtronic Industries (the leading manufacturer of cordless power tools). In terms of near-term outlook, the Covid pandemic has resulted in prolonged supply chain challenges that are likely to last into the second half of 2022 or 2023. This has been exacerbated by China's recent tightening of lockdown measures. This has slowed production and resulted in rising input costs. Rising interest rates, higher fuel prices and other inflation generally are also likely to weigh on consumer spending, which we expect to be negative for sectors like Automotive. However, longer-term, we see a strong opportunity set in terms of i) fundamentally good companies that should see growth accelerate once constraints ease, and ii) secular growth trends such as Electric Vehicles, IoT, robotics/automation and intermodal transportation.
Consumer Discretionary	We continue to be highly selective within the consumer discretionary space and continue to be underweight the sector. Our top holding is Amazon and our next largest holding is Dollar Tree a leading discount retailer in the US currently undergoing a major change in pricing architecture. We added Adidas to the portfolio in May and we are currently considering a variety of additional potential opportunities in the sector but are mindful of increasing pressures on consumers globally from elevated inflation and economic uncertainty.

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