Intermede Global Equities Fund

Monthly Report 30 June 2022

Performance

Period ending 30 June 2022	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	-4.23	-9.10	-21.08	-14.05	8.20	11.15	10.26
MSCI All Country World Index (Net Dividends Reinvested) ($A)	-4.47	-7.90	-15.61	-8.02	6.93	9.37	8.38
Out/(under) performance	0.24	-1.20	-5.47	-6.03	1.27	1.78	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 June we closed one position, Toyota Industries.

Toyota Industries (TI) is a leading global supplier of Materials Handling equipment and a key automotive supplier to Toyota Motor (including compressors for AC). We started to sell out of our position in mid-May due to concerns about the Materials Handling segment and Automotive market. In terms of Materials Handling (~79% of EBIT), segment sales are split ~82:18 between the Forklift business and the Automated Systems business. Key competitors include Kion and Jungheinrich, which prior to the sale had seen their share prices approximately halve in USD terms versus TI's -20% YTD. Both German companies cut guidance at the time of the calendar first quarter results due mainly to cost pressures negatively impacting margins (which are not high in the Forklift business to begin with), particularly in relation to steel and electronics. Kion also commented that large warehouse automation projects are being pushed out, partly due to macro uncertainty and partly due to recent high capacity additions in the e-commerce market (driven by Covid). Given rising interest rates and other pressures on the consumer, we have also turned more bearish on the automotive market in the near term. Automotive parts (mainly AC compressors) and car assembly make up the bulk of TI's remaining businesses. TI also holds 7.3% of Toyota Motor stock, the MTM value of which is approximately equal to TI's market cap and the dividends from which represent ~30% of TI's Profit before Tax. Toyota Motor guided down significantly on rising COGS after F4Q22 results and initiated FY23 guidance far below consensus. Furthermore, we do not expect a fast resolution to the supply chain constraints that are limiting the ramp up of light vehicle production, and light vehicle demand would be significantly impacted in a recession scenario.

Market Outlook

June concluded the worst first-half year for equity markets in decades, with the S&P 500 falling by 20.6%. Rising inflation, supply chain woes intensified by ongoing zero Covid measures in China, and war in Ukraine, have sent a wave of uncertainty across the global economy. Reduced expectations for growth have seen the US ten year treasury yield decline to around 2.9% from a peak of 3.5% earlier in June, and while equity market valuation arithmetic may receive some support from lower yields, this may be offset by the possible impact on earnings of a more vulnerable growth picture.

However, it is precisely at times when sentiment can seem uniformly negative that it can be most helpful to be alert to any contrary and more positive signs. With this in mind, we note that the market appears to be becoming more sanguine on inflation risk, which is perhaps the foremost threat to equity valuations given how rising prices can shrink profit margins (for example via higher input costs) while also pushing up the discount rates used to value future profits, potentially leaving investors owning shares valued at a lower multiple of a lower level of profits.

While as recently as March the five year breakeven inflation rate (calculated by comparing the yields for nominal and inflation protected US Treasuries) was 3.5%, it has now fallen to 2.6%, while the market's longer term expectations (the 'five year, five years forward' rate) has fallen back to around the Fed's official 2% target. And while of course market expectations do not in fact prove that long term inflation risk has passed (markets are often wrong), to add detail to the picture it is also instructive to review price data from various of the economic components that feed into overall inflation data.

Freight rates, for example, which exploded during 2021 and were illustrative of supply chain snarl ups globally, have fallen sharply in recent months. Additionally, certain major commodity prices have also fallen sharply, with industrial metals for example experiencing their largest quarterly prices falls since 2008 in the second quarter, and the MSCI index of commodity producers having underperformed the broad MSCI ACWI index by around 10% since mid-June. Overall, while we do

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.

not venture any long term predictions with respect to the macroeconomic picture, we would simply state that conditions are showing certain signs of improvement that are perhaps not widely acknowledged.

Elsewhere, the complexity of the post-invasion economic picture in Russia, and the unpredictable effects of a forced decoupling of many aspects of an economy from its global partners, is evidenced by the fact the Ruble has now risen more than 170% from its March 7th lows (up 65% from the pre-invasion levels). On one hand this indicates that widespread predictions of a long-term collapse in the value of the Russian currency were wrong. Conversely though, the strength of the currency also underscores the effectiveness of sanctions in cutting the country off from many normal channels of world trade (in a pre-invasion world, imports, which have now largely ceased, would have been a significant source of foreign currency demand and downward pressure on the Ruble). A further effect of sanctions in late June was Russia's first default on external debt since 1998. Russia claims a willingness and ability to pay interest to external bondholders, but argues that sanctions mean payments are no longer possible.

This strained background continues to present challenges to the region's central bankers. The ECB's head, Christine Lagarde, noted at the central bank's annual forum in Portugal that they would act in a 'determined and sustained manner' against inflation that has been intensified by fuel price increases, a hardening of previous rhetoric. Lagarde's ECB ended its program of bond buying in late June and plans to start raising rates (with a quarter point rise) in July for the first time since 2011, with a larger move to come in September if there is no rapid improvement in the inflation outlook.

The economic tightrope policymakers need to walk in Europe remains challenging, with a tension between the need to exit a decade of ultra-loose monetary policy (heightened by inflation seen rising at 8.1% in May's most recently available figures for the bloc), and the risk of a return to debt crisis among weaker nations if borrowing costs rise too far. June saw Italy issue EUR6bn of five and ten year bonds at its highest borrowing costs since the eurozone debt crisis. To mitigate the potential risk of Eurozone fragmentation due to divergent borrowing costs, in June the ECB governing council pledged to create a new 'anti-fragmentation instrument', although there is at present no visibility on the form this might take.

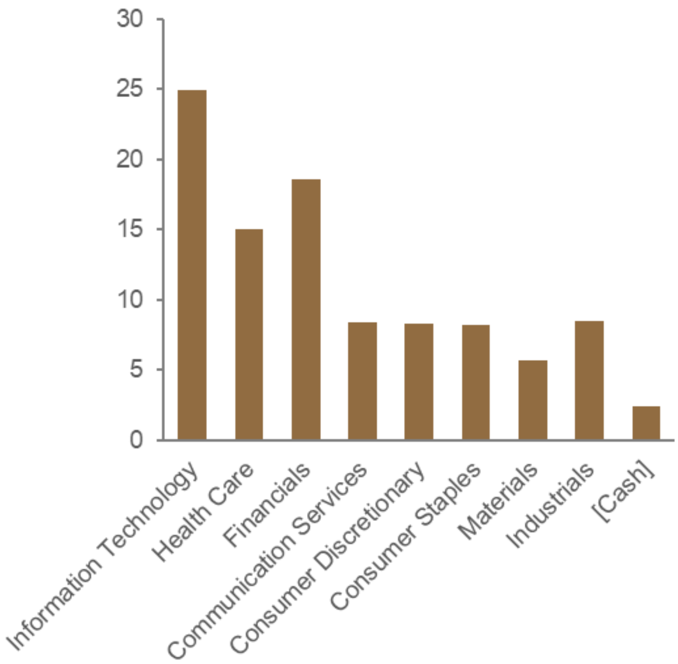
At the corporate level in the Eurozone, the strains of the current environment for lower quality businesses are becoming apparent through a rapid increase in the face value of the debt of Eurozone businesses classified as 'distressed' (yielding more than ten percentage points above the Eurozone benchmark rate). The stock of such debt doubled during June and now accounts for 8.8% of the overall euro-denominated high yield bond market, up from just 1.3% at the end of 2021, while the cost of credit default swaps for the high yield market in Europe has risen to levels last seen in April 2020. In the US, a similar rise has been observed, with 7.8% of the US high-yield market now trading as distressed.

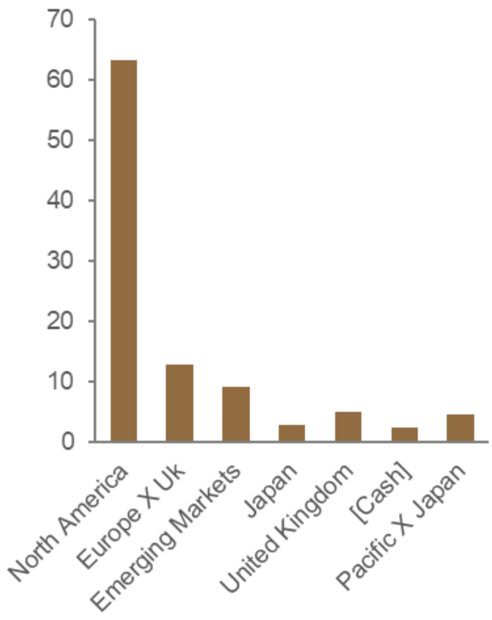
Closer to home however, no such distress is observed in Intermede's portfolio, which combines low debt and high returns on equity with consistent and predictably growing revenues to support the delivery of compelling growth in earnings and cash flows. Our most recent review of the growth prospects of the portfolio indicates that, while medium term earnings growth prospects have ticked down slightly, the anticipated portfolio level EPS growth rate remains approximately double that of the broader equity market. We believe that extended ownership of such businesses, purchased at attractive valuations and protected by durable competitive moats, remains the most prudent path to capital appreciation over the long term.

Top 10 Holdings

Company	Country of Domicile	Sector
Alphabet Inc.	United States	Communication Services
Charles Schwab Corporation	United States	Financials
Danaher Corporation	United States	Health Care
Nestle S.A.	Switzerland	Consumer Staples
CME Group Inc.	United States	Financials
Linde Plc	United Kingdom	Materials
Microsoft Corporation	United States	Information Technology
Zoetis Inc.	United States	Health Care
S&P Global, Inc.	United States	Financials
Amazon.com, Inc.	United States	Consumer Discretionary

Sector and Regional Weights %





Sector Positioning

Most active overweight owned sectors for June 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 June, our best performing stock in the sector versus benchmark was Accenture, the global leader in IT services and consulting.

Most active underweight owned sectors for June 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.

Contacts

Email

client.services@mlcam.com.au

Phone

1300 738 355

Website

www.mlcam.au/intermede