INTERMEDE
INVESTMENT PARTNERS

Intermede Global Equities Fund

Monthly Report 31 July 2022

Performance

Period ending 31 July 2022	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	7.01	1.47	-12.53	-11.89	9.61	12.90	11.15
MSCI All Country World Index (Net Dividends Reinvested) ($A)	5.43	-0.11	-9.33	-5.71	8.08	10.81	9.05
Out/(under) performance	1.58	1.58	-3.20	-6.18	1.53	2.09	2.10

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

There were no newly opened or fully closed positions in July.

Market Outlook

Among the key financial market developments during July was a rapid and large decline in developed market bond yields. The US 10-year Treasury yield, which rose to 3.5% in June, has since declined almost a full percentage point. In Europe, the German 10-year bond has declined a similar amount from a lower base, dipping below 1% by month end.

This change has been accompanied by a continued softening of market expectations for inflation, and also strengthening expectations that the peak of the US rate hike cycle may be approaching, with US markets now pricing in a peak range for rates of 3.25-3.5% in December of this year (100 basis points above the current level), with rate cuts to follow in 2023.

Several factors, including rising recession fears and uncertainties relating to the ongoing war in Ukraine have contributed to these recent changes. However, when it comes to what matters most for Intermede's portfolio, namely the performance of our individual businesses, July saw generally robust financial results often greeted positively by a market that had clearly been expecting worse news.

Heineken’s first half results provided another example of a portfolio business managing successfully to pass on costs, achieving an average drink price 8.9% higher in the first six months of 2022 than the same period in the previous year. The company is also seeking to navigate input cost increases by, for example, switching away from the use of gas where possible at its European manufacturing plants (the Heineken CEO Harold can den Broek noted on the results call that gas prices in Europe were currently ten times higher than the average over the last decade).

Elsewhere in the portfolio, the results’ calls for Amazon and Microsoft, both dominant competitors in the public cloud space with their respective AWS and Azure offerings, featured comments from management that stressed that a challenging economic environment can play to the cloud’s strengths. Amazon’s Chief Financial Officer, Brian Olsavsky, noted that periods of economic stress in both 2008 and 2020 had seen AWS’s customer base respond positively to the ability of the cloud to help optimise their own cost bases by materially reducing the upfront spend required to initiate projects. Microsoft CEO, Satya Nadella, noted during his results comments that current demand uncertainty was one factor driving ‘an increased shift towards the cloud’, as businesses become increasingly keen to ‘shape their spend with demand uncertainty’.

Further to this, we also noted with interest a point made on the prominent finance podcast, Invest Like the Best, by well known finance professor Aswath Damodaran, namely that subscription business models (which as noted encompass large parts of Amazon and Microsoft’s businesses, but also other global portfolio holdings such as Adobe and Autodesk) have historically been less likely to be treated as discretionary items in a spending crunch.

This distinction was one reason for our recent switch from Apple, which despite a growing subscription business still makes the substantial majority of its revenues and profits from the iPhone, into Microsoft, which has successfully navigated an evolution from a business whose primary activity was periodic sales of new Windows software packages, to a subscription powerhouse through offerings such as the Azure platform and Office 365 tools, now much less reliant on periodic discretionary purchases that can be delayed in times of economic stress.

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.

Another key theme during the first half results season has been the impact of a strong dollar on the results of US companies with broad global footprints. Sell-side research by Credit Suisse indicates that an increase in the value of the US dollar against a basket of currencies of 10% decreases overall S&P 500 earnings by around 1%, and an index of US companies with large international exposures compiled by Goldman Sachs has fallen around 20% year-to-date, roughly double the decline seen by the index of domestically-focussed US businesses. While it remains vital to focus on the underlying performance on individual businesses and not to be distracted by non-fundamental issues, we are watching the effect of the strong dollar on portfolio companies closely.

In China, we noted with interest the announcement that ex-portfolio holding Alibaba will seek a dual primary listing in Hong Kong, which could allow mainland Chinese investors to invest in the business via the Southbound channel to the Hong Kong Stock Connect program. However, after rising ~4% on the day of the announcement that the listing would be sought, almost immediately an announcement by the SEC that Alibaba has been added to a list of Chinese companies that may be delisted in the US by 2024 if access to audit documents is not provided to US regulators had an equivalent negative impact, highlighting the extent to which the fortunes of the company are currently affected by the intersection of political and regulatory issues in both the US and China. More broadly, a degree of uncertainty remains in China as to the potential for demand destruction from the ongoing Covid suppression policy, and tensions also continue to flare up in the crucial property sector, with widespread organised programs of refusal to pay mortgages on stalled development projects being reported across the country during the month.

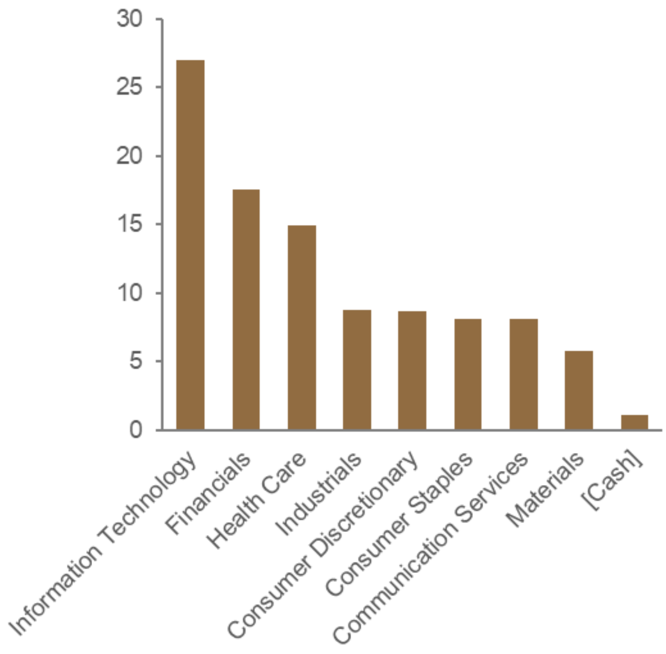
Elsewhere, we touched last month on the difficult tightrope walk currently being undertaken by Christine Lagarde's ECB in Europe. The Bank's most recent meeting in late July took place exactly ten years since Mario Draghi's famous 'whatever it takes' moment, since when the ECB's balance sheet has expanded from EUR3.18tr to EUR8.8trn. The Bank is now simultaneously undertaking the first rate increases since 2011 while also putting in place unprecedented new powers for bond buying with the newly announced Transmission Protection Instrument ('TPI'), somewhat of a contradiction in terms. And as more details have emerged of the shape that the TPI will actually take, what is most starkly new about it is that any government bond purchases, which can be undertaken without limit, will not need approval of EU finance ministers (as was the case with all the previous asset purchase schemes undertaken by the Bank in the last decade). The departure during the month of Draghi himself as Italian Prime Minister has added additional complexity to the European political and financial picture.

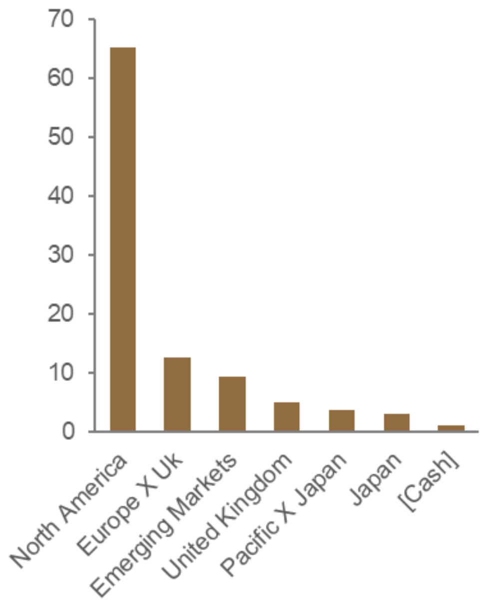
Against this challenging macroeconomic background, the clarity and simplicity of our primary mission remains paramount - to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations, which we believe to be the most prudent path to capital appreciation in the long term.

Top 10 Holdings

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

Sector and Regional Weights %





Sector Positioning

Most active overweight owned sectors for July 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 July, our best performing stock in the sector versus benchmark was Autodesk, the global leader in design, engineering, and development software.

Most active underweight owned sectors for July 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 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