INTERMEDE INVESTMENT PARTNERS

# Intermede Global Equities Fund

Monthly Report 31 October 2022

## Performance

| Period ending 31 October 2022 | 1 month (%) | 3 months (%) | 6 months (%) | 1 year (%) | 3 years (% pa) | 5 years (% pa) | Since inception (% pa) |
|---|---|---|---|---|---|---|---|
| Intermede Global Equities Fund | 5.21 | -3.88 | -2.47 | -15.13 | 6.88 | 10.37 | 10.19 |
| MSCI All Country World Index (Net Dividends Reinvested) ($A) | 6.62 | 0.78 | 0.67 | -5.98 | 7.48 | 9.13 | 8.85 |
| Out/(under) performance | -1.41 | -4.66 | -3.14 | -9.15 | -0.60 | 1.24 | 1.34 |

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 opened one new position during October; Tokyo Electron. In October, we initiated a position in Tokyo Electron, a leading semiconductor equipment manufacturer based in Japan. We believe Tokyo Electron to be among the best positioned semiconductor equipment companies given its key position in the semiconductor manufacturing landscape. Tokyo Electron's equipment is necessary to produce the most cutting-edge technology, with every advanced semiconductor in the world at one point utilizing equipment manufactured by the company. In addition, its culture of innovation and responsible investment has created sustainable competitive advantages in its highly complex equipment, and driven key partnerships across the semiconductor value chain, cementing the company's position within the broader semiconductor landscape. We purchased shares at a cycle-low valuation, as we believe Tokyo Electron is better positioned than its US-based semi-cap equipment peers given the company's domicile in Japan and the ability to avoid the worst of the China/US trade escalations regarding the production of leading-edge semiconductors.

There were two fully closed positions during the month, Tencent and Applied Materials. We closed our Tencent position prior to China's 20th National Congress meeting due to its high uncertainty. Post the National Congress, the new 7-member Poliburo Standing Committee triggered a selloff of Chinese stocks as the leadership reshuffle reinforced General Secretary Xi's dominant power and suggested a potential delay of the China Reopening. With this new team, visibility into further economic stimulus plans is also low and we would like to wait for the December Poliburo meeting and next year's Two Sessions for more clarification on China's economic focus. We exited our position in Applied Materials during the period, following new restrictions enacted by the US government regarding semiconductor companies selling to and operating within China. While the initial impact appears manageable, given Applied Materials noted a $400M quarterly impact from the new restrictions, representing about 5% of total revenue, our view is that the new restrictions signal a material deterioration in relations between the two countries. Given the risk of escalating trade tensions, we view Applied Materials as particularly vulnerable given the company derives about 30% of its total revenue from the Chinese market. As a result, we have shifted capital from shares of Applied Materials to Tokyo Electron, a semi-cap equipment company benefitting from many of the same long-term tailwinds as Applied Materials, but insulated from the worst impacts of restrictions given its domicile in Japan.

## Market Outlook

In what was another busy month for non-business news, the most significant event for global investing was perhaps the long awaited seven day National Congress of the Chinese Communist Party. The high level outcome of this was that it became clear that in China, political considerations will continue to dominate economic ones. The conference has been widely discussed, but perhaps the most powerful symbol of the arrival of a new era was the extraordinary unscheduled physical removal during a live meeting of former leader Hu Jintao from the seat adjacent to Xi Jinping (this footage is widely available on the internet, and is worth watching). We claim no insight into the underlying cause of this event (health reasons have been rumoured, for example), but a more powerful image signalling transition from a previous political arrangement with multiple poles of power somewhat offsetting each other, to consolidation of power solely with Xi, can hardly be imagined.

To add additional details of this restructuring of power, the removal of all representatives of the Communist Youth League from the leadership has been widely interpreted as signalling the end of the reform era. The main distinguishing characteristic of the new (albeit not yet confirmed) number two to Xi, Premier Li Qiang, appears to have been the loyalty he displayed in imposing an ultra-strict lockdown in Shanghai earlier in 2022. We also note that Xi Jinping used the explicitly Maoist term 'struggle' 22 times in his key speech.

## 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.

With respect to the level of priority for Chinese business among the newly consolidated political elites, an FT journalist who reviewed the full invitee list for the Congress over successive events has noted a precipitous drop in the level of representation for business owners and executives among the delegates, with the number halving since Xi's first congress in 2012. And perhaps more importantly, the number of representatives from large Chinese businesses (measured as individuals ranking among China's richest 500 individuals) has fallen to zero, with all current business attendees taken from small and medium enterprises noted primarily for their loyalty to the party. This material continued negative adjustment to business conditions within China has made it difficult to maintain conviction in the ability of domestic Chinese businesses to drive their own growth unencumbered by state headwinds, so we took the decision during the month to further shrink our (already reduced) exposure to Chinese stocks.

Elsewhere, an area of close investor focus remains the decision making and messaging of the US Federal Reserve. The extent to which this is a fruitless exercise can perhaps be illustrated by a brief recap of the movements of market sentiment during the month. Following the previous rise and fall of a 'pivoting' narrative, a Wall Street Journal article widely understood to have been approved by the Fed ('Fed Set to Raise Rates by 0.75 Points and Debate Size of Future Hikes', 21st Oct) noted that some Fed officials had begun signalling their desire to 'stop raising rates early next year'. However, the actual Fed meeting minutes and Chairman Powell's subsequent press conference made clear that the likelihood of a pause to rate hikes in the New Year appears remote, and that a lot of investor energy and attention had been wasted on weeks of speculation prior to the meeting.

Intermede's approach to a fast changing rate environment has been, as always, to try and strike an appropriate balance between deeply researched conviction in the prospects of our portfolio companies, and a prudent level of caution with respect to valuation. One way that this has manifested itself recently is some modest continued trimming to positions that, while remaining robust in their fundamentals, are more richly valued than other holdings, for example West Pharmaceutical in the global portfolio.

With regard to prospects for corporate earnings, we note that a rising level of caution with regard to a possible US recession has seen sell-side analyst earnings estimates for the 2023 and 2024 financial years trimmed quite materially in recent weeks, and that actual results (in particular in the technology sector which saw some material share price falls on earnings disappointments) have been quite weak, with (according to review of sector specific earnings details from Factset) the earnings of US equities actually declining year on year in the most recent reporting period if the remarkably strong earnings of the energy sector are excluded. As always, close attention to the earnings prospects of Intermede's portfolio companies remains a central aspect of what we do.

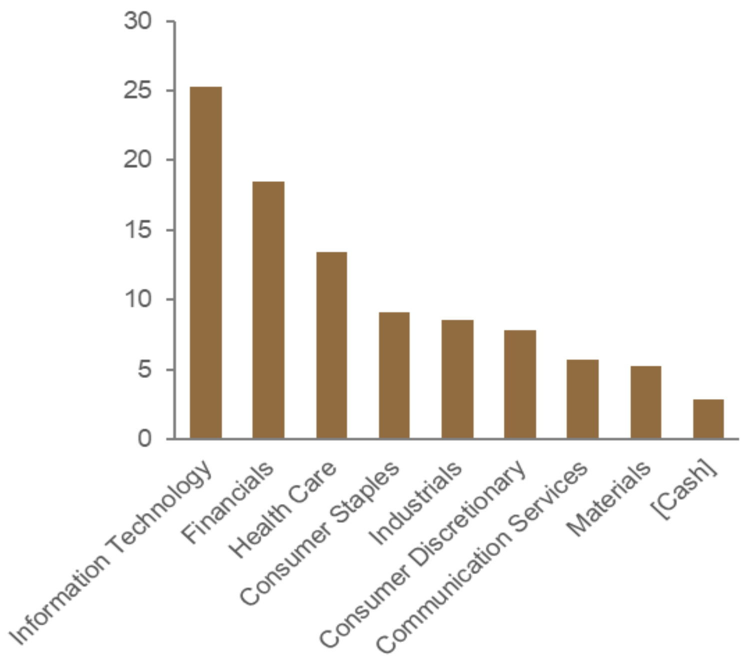
On that note, some perspective is required in relation to the recent results and weakness of portfolio technology companies, perhaps using Alphabet as an example. Firstly, in advance of Alphabet's results, noting the potential for some slowdown in the advertising market, we did reduce the position size, which dampened the effect of disappointing results. However, we also note that the weaker than expected headline numbers (which saw revenue grow just 6%, the slowest rate since 2013 excluding the early pandemic period) were impacted by a material currency impact from the strong dollar (growth was several percentage points stronger on a constant currency basis), and the quarter's metrics suffered from comparison with an extremely strong prior year growth comparison, which will roll off as we enter 2023. Equally, valuation is looking attractive, with the shares trading on approximately 19x our estimate of forward earnings, which we believe looks cheap for such a dominant and well-diversified global franchise.

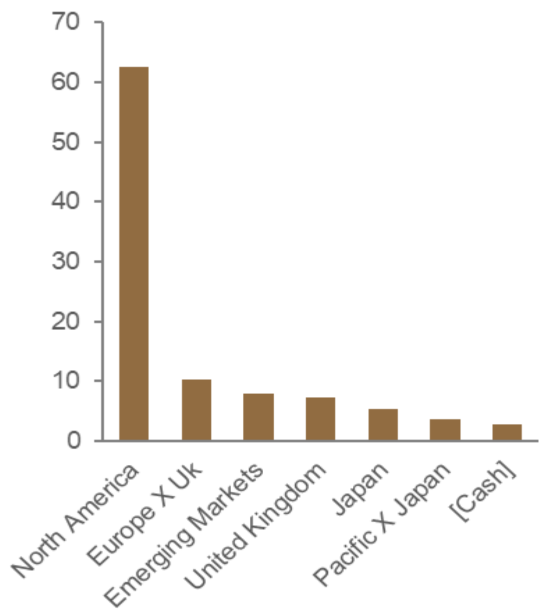
Overall, against this uncertain macroeconomic background, the clarity and simplicity of our primary mission remains paramount - to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations, which we believe to be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

## Top 10 Holdings

| Company | Country of Domicile | Sector |
|---|---|---|
| Charles Schwab Corporation | United States | Financials |
| Danaher Corporation | United States | Health Care |
| SLB | United States | Energy |
| CME Group Inc. | United States | Financials |
| Linde plc | United Kingdom | Materials |
| Housing Development Finance Corporation Limited | India | Financials |
| Microsoft Corporation | United States | Information Technology |
| Alphabet Inc. | United States | Communication Services |
| Adobe Incorporated | United States | Information Technology |
| Amazon.com, Inc. | United States | Consumer Discretionary |

## Sector and Regional Weights %



## Sector Positioning

| Most active overweight owned sectors for October 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 from 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 October, our best performing stock in the sector versus the benchmark was Adobe, the global leader in digital content creation and marketing software. |

| Most active underweight owned sectors for October 2022 | |
|---|---|
| Energy | We are underweight in 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 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 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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