INTERMEDE
INVESTMENT PARTNERS

Intermede Global Equities Fund

Monthly Report 31 January 2023

Performance

Period ending 31 January 2023	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	3.73	2.51	-1.47	-13.82	4.05	10.15	10.20
MSCI All Country World Index (Net Dividends Reinvested) ($A)	3.14	0.67	1.46	-8.01	5.02	8.50	8.65
Out/(under) performance	0.59	1.84	-2.93	-5.81	-0.97	1.65	1.55

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 Equifax in January.

In January, we initiated an investment in Equifax, a leading consumer data and analytics provider. Equifax is one of three global credit bureaus, an oligopolistic industry with high barriers to entry benefitting from secular demand trends for increased data, analytics and insights. Equifax also has a differentiated employment data asset, with a monopoly type competitive position and significant growth opportunities through penetration, pricing, product enhancements and new verticals/use cases. Following the well-publicised data breach in 2017, an impressive new management team has been installed who have spent $1.5bn upgrading to a best in class, fully cloud native technology system, which improves security, reduces costs and accelerates product development, in addition to a well executed bolt-on M&A to enhance existing offerings and add faster growing verticals. We have been following Equifax for several years but have been waiting to enter at the optimal point in the US mortgage market cycle, with 20-30% of group revenues sensitive to origination volumes. We were reluctant to invest during the temporary boom driven by falling rates post covid, since this appeared to be over-extrapolated, and then held back last year amid uncertainty regarding where and when the mortgage market would bottom, as rates moved up significantly. With mortgage rates now seeming to have peaked, origination volumes appear likely to trough in the coming quarters, leading us to initiate our investment at an attractive price ahead of a likely acceleration in revenue growth.

Market Outlook

While commenting on the market in January, it would be remiss not to mention events of the first day of February, which saw an extremely strong market reaction to Fed Chair Powell's post-FOMC meeting press conference. Specifically, Powell's comment that 'the disinflationary process has started' appears to have been taken by the market to signal that a pause in US rate hikes is imminent. US money market futures now predict just one more 25 basis point increase, to the 4.75% - 5.0% range. US employment data released the previous day also provided evidence of easing wage pressures, further encouraging bullish investors. Equity market participation data suggests that retail participation as a percentage of total equity market volume has jumped suddenly back to levels last seen at the height of the pandemic-era day trading boom, and numerous unprofitable technology stocks that were prominent high flyers during the 2020-21 period and subsequently fell 90%+ have rallied strongly.

But while a potential rate hike pause in the US is the market story receiving the most attention, we note that bond buying (and therefore effective monetary easing) being undertaken by the Bank of Japan, to defend the yield curve control policy level of 50 basis points, since it was adjusted up from 25 basis points in late December has quietly dwarfed the tightening measures being taken by other major central banks in recent weeks. To put some simple numbers on it, the BoJ balance sheet has risen by a USD equivalent of $614bn since the start of December, while the combined decline at the Fed, ECB and Bank of England was just $357bn. At the current rate of purchases, the BoJ's already swollen balance sheet would have almost doubled by the end of 2023, a rate of growth that to the lay observer would seem challenging to maintain given the practical limits posed by the size of the JGB market (the IMF estimates that the BoJ currently holds 70% of all outstanding 5 and 10 year Japanese government bonds, for example). Meanwhile, strong evidence of wage inflation continues to emerge in Japan, with the approaching spring round of wage bargains likely to see the biggest increases since the mid-1990s.

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.

At the portfolio level, one of the ways that Intermede seeks to ensure a prudent risk profile for its portfolio is to typically avoid highly leveraged companies, whilst a debt heavy balance sheet will accentuate returns in good times, the stresses caused by debt in an environment in which both rates and costs are rising can profoundly impair a business's ability to compound investor wealth over the longer time horizon with which Intermede seeks to invest. Recent weeks have thrown up two interesting case studies of the danger of excessive leverage.

One is currently occurring in the US healthcare services, facilities and managed care sectors (in which Intermede is not currently invested), with many companies currently sinking into debt distress as they contend at once with rising rates and labour costs after a period in which the sector (largely driven by private equity firms aggressively issuing debt to roll up disparate companies into larger groups) borrowed heavily to fund a dealmaking boom. After many years of generating wide profit margins in a low rate environment, which provided the confidence to add this leverage, such healthcare companies now account for over a fifth of distressed debt in the US according to the most recent data.

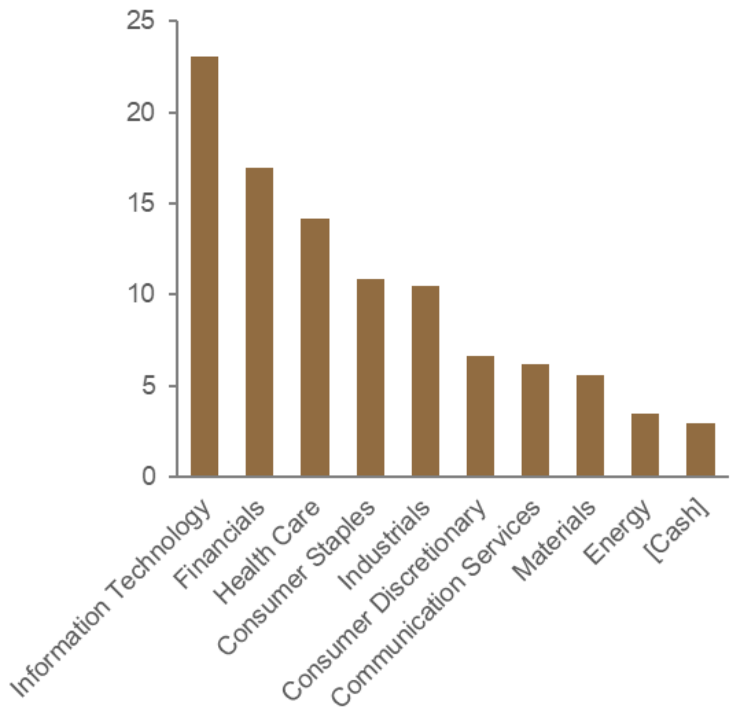
Another cautionary tale regarding the perils of leverage arose in India during the month, with a short-selling report by Hindenburg Research on India's Adani group causing a more than 50% decline in the company's share price, erasing well over $100bn of shareholder wealth. While the company rejects Hindenburg's claims of accounting irregularities and stock manipulation, the undisputed fact that appears to have caused shareholders to abandon Adani so swiftly, is the scale of the company's debt burden, which has more than doubled, to over $30bn, in the last four years, equating to a net-debt to EBITDA multiple at the group level of over 10x on the basis of the company's most recent financial results (and up to 15x at large group subsidiaries). The resistance to taking on excessive leverage that is embedded at the heart of Intermede's investment approach has a permanent place for a reason.

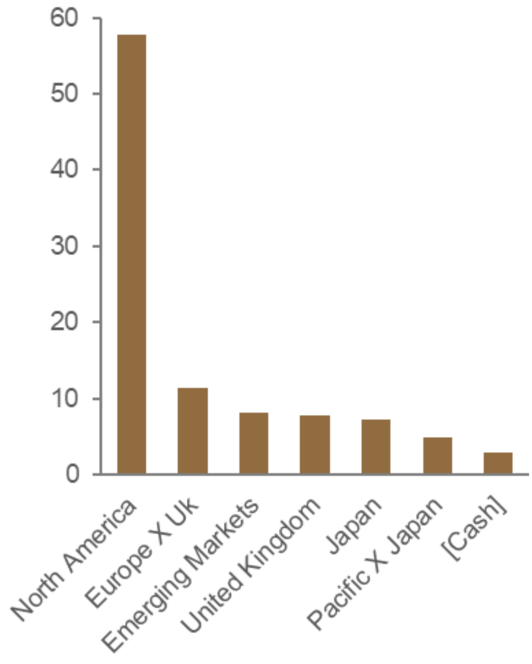
In terms of the Intermede team's recent activity, as always, we continue our program of company research to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations, which we believe to be the most prudent path to capital appreciation in the long term.

Top 10 Holdings

Company	Country of Domicile	Sector
Danaher Corporation	United States	Health Care
Schlumberger N.V.	United States	Energy
Alphabet Inc.	United States	Communication Services
CME Group Inc.	United States	Financials
Linde plc	United Kingdom	Materials
Charles Schwab Corporation	United States	Financials
Housing Development Finance Corporation Limited	India	Financials
Haleon Plc	United Kingdom	Consumer Staples
Taiwan Semiconductor Manufacturing Co., Ltd.	Taiwan	Information Technology
Microsoft Corporation	United States	Information Technology

Sector and Regional Weights %





Sector Positioning

Most active overweight owned sectors for January 2023	
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 advanced semiconductors. That said, our approach to investing in IT remains disciplined, focusing on companies with sustainable market leadership, proven and profitable business models, and attractive valuations. In January, our best performing stock in the sector versus benchmark was TSMC, the global leader in semiconductor foundry services.
Consumer Staples	Our consumer staples holdings are concentrated in companies with the pricing ability to largely or entirely offset the effects of raw material cost inflation. Haleon, a consumer health company with a relatively low ratio of input costs to sales, is our top holding in the space, followed by Nestle, Heineken, Kerry and then Shiseido. Nestle's strong position in coffee and pet care, two categories with low demand elasticities, has helped the company manage through this period. Heineken has long experience managing through inflation given its substantial presence in volatile markets. For Kerry much of its business has pricing mechanisms embedded that link to raw material costs. Shiseido is the #3 beauty company globally and has substantial presence in the Asian skincare market with Chinese consumers of key importance. The company has undergone significant transformation in recent years, the benefits of which have been masked by the effects of the pandemic. With Covid restrictions easing in China the medium-term outlook for the company is much improved.

Most active underweight owned sectors for January 2023	
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 in 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.

Contacts

Email

client.services@mlcam.com.au

Phone

1300 738 355

Website

www.mlcam.au/intermede