

Performance

Period ending 28 February 2023	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	0.72	0.20	4.02	-6.38	5.55	10.64	10.19
MSCI All Country World Index (Net Dividends Reinvested) (\$A)	1.50	-0.69	5.04	-1.28	7.19	8.93	8.77
Out/(under) performance	-0.78	0.89	-1.02	-5.10	-1.64	1.71	1.42

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 February.

Market Outlook

The dominant market story during February was a shift in the consensus on peak rates that prevailed at the start of the year, with the market now anticipating higher terminal rates from the Federal Reserve. However, the more interesting (and underappreciated) macroeconomic story may be the scale of liquidity creation at the Bank of Japan since early December, which has offset tightening at other major central banks over the same period (with global liquidity in aggregate having risen once China's recent credit creation is also taken into account). BoJ balance sheet expansion since early December now exceeds \$600bn in US dollar terms (an increase of ~11.5% over the period), with a contraction of approximately the same scale occurring as a result of the joint actions of the US Federal Reserve, ECB and Bank of England (a decline of ~3.4% over the same period).

March 10th will see the farewell policy meeting for BoJ Governor Kuroda, and the reins passed to his successor Kazuo Ueda, a former BoJ policy board member, who will need to navigate two structural challenges. First, deciding what to do with a yield curve control policy that currently sees the Japanese yield curve artificially flattened on maturities around ten years (the specified target duration of the 0.5% yield cap) before rising sharply on longer maturities. This policy appears unsustainable (the current rate of balance sheet expansion would see the BoJ own the whole JGB market by 2025) with three possible exit paths, including a shortening of the target duration (which would reduce the rate of required purchases), widening the band around the existing ten year target, or exiting the policy altogether. Any of these options could have material market consequences, one of which could be a large scale repatriation of overseas capital if the yield differential between foreign and domestic assets (currently large after sustained policy hikes outside Japan) suddenly narrows.

The second challenge is one that potentially makes indecision regarding the first impossible. Specifically, the growing evidence that material wage inflation is taking hold in Japan, with backward looking wage data for December showing the largest annual increase in wages in Japan since 1997 (+1.9%), and large Japanese corporations contemplating materially larger forward-looking wage increases in the annual round of spring 'shunto' pay negotiations (for example, Uniqlo owner Fast Retailing has committed to increase wages by as much as 40%). At a hearing in front of the Japanese parliament at the end of February, Ueda himself noted that "If the outlook for the price trend improves significantly, we will inevitably have to consider a move towards policy normalisation, including a review of yield curve control". We will watch his progress on this tightrope with interest.

At the portfolio level, results from Nestle showed that while consumer businesses are still achieving material pass-through of inflation, shoppers are alert to these increases and controlling their spending accordingly. In the US, results from retail giants Wal-Mart and Home Depot (not currently held) both also noted consumer behaviour responding to price increases, with higher income shoppers turning to Wal-Mart for bargains, and Home Depot customers becoming warier of paying the higher prices that sustained its business in the recent inflationary environment. All this said, elsewhere in the portfolio, luxury goods conglomerate LVMH reported continued strong growth, with annual sales having risen to almost EUR80bn in 2022, now having almost doubled since 2017, suggesting that the trend in which higher end consumption remains strong against a gloomier backdrop remains intact for now.

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.



February also saw rapid continued adoption and widening influence of AI. Google responded to Microsoft's Open AI partnership by launching its own chat service, Bard, which provided incorrect answers during the initial live demo to a question about space exploration, wiping \$100bn from Google's market cap, with investors focusing on the implied threat to the search business model from AI. Conversely, we note that it is precisely this tendency of large language models to confidently provide inaccurate answers that may limit their usefulness as a substitute for existing search tools. In addition, research from Bernstein during the month estimated that the cost of servicing a single search via AI is around \$0.04, vastly in excess of the cost of servicing a google search, also raising questions about the cost structure and potential profitability of the model.

The inherent unpredictability of AI was evidenced later in the month by Microsoft's own Bing-integrated chat function, with many users uncovering a combative and at times aggressive alternate personality existing within the system, called 'Sydney'. Prominent technology and media analyst Ben Thompson was among many who used widely shared prompt techniques to 'release' Sydney and then interact with it, resulting in an experience he described as 'the most surprising and mind blowing computer experience of my life'. His article describing this experience, provides extensive details of his interactions (and those of others) with Sydney is freely available under the title 'From Bing to Sydney', and is well worth reading to get a sense of the accelerating strangeness of an AI world. Chat GPT was barely released 100 days ago, but its aftershocks will continue to resonate.

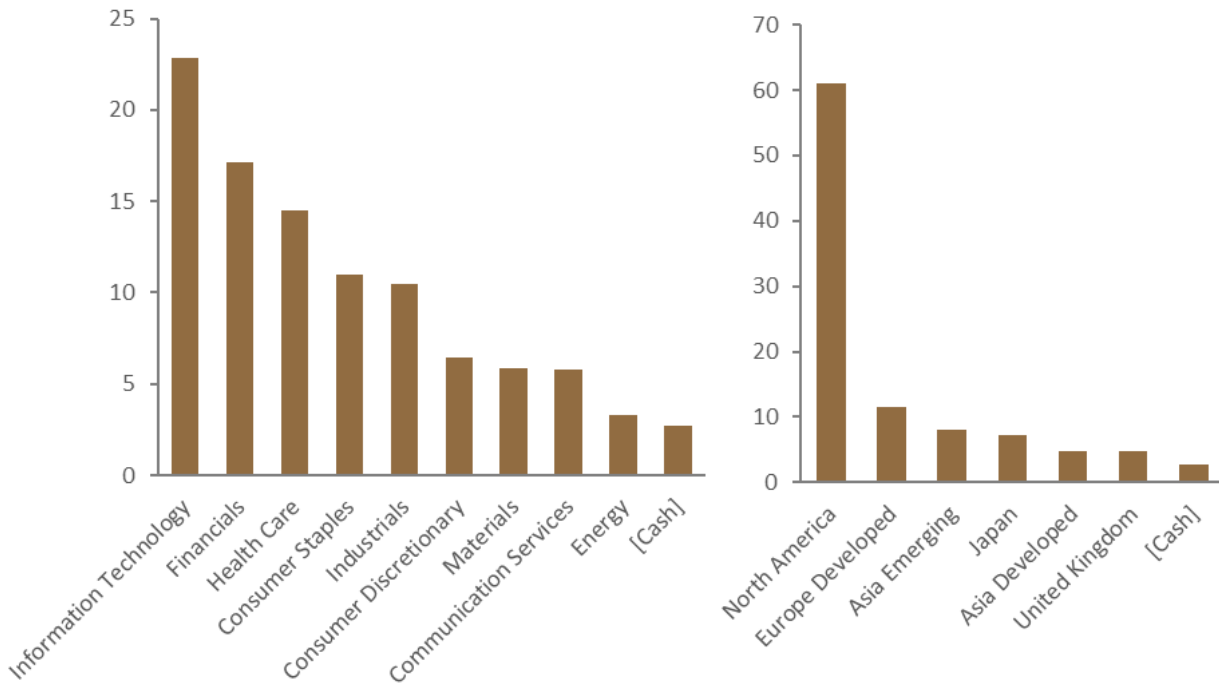
Overall, against a still uncertain macroeconomic background, the clarity and simplicity of our primary mission remains paramount - to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations, which we believe to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

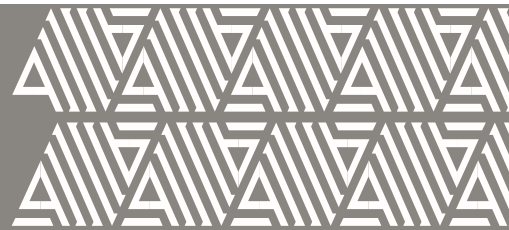


Top 10 Holdings

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

Sector and Regional Weights %





Sector Positioning

Most active overweight owned sectors for February 2023

Health Care	<p>Given the defensive nature of the sector's revenues, we are overweight the Healthcare sector as it offers investors above-GDP growth with potentially lower risk. Whilst we are of no doubt that sectors such as pharmaceuticals and the innovation produced benefit society broadly (over the long term), the fundamentals of the pharmaceutical businesses (high competition, binary risk, patent expiries) make them relatively unattractive from an investment perspective. We find more attractive investment opportunities in businesses that help to facilitate this innovation either as part of the research and development process or the drug manufacturing (Danaher) and packaging process (West). These companies rely more on innovation occurring than on who is successful or not and typically have oligopolistic market positions. Some exceptions exist, such as our investment in Novo Nordisk, the world's largest producer of diabetes and obesity medications, where competition is more limited and the addressable market vast. We also find specific medical device markets attractive, typically mission-critical but low-cost products that are not easily substituted, such as those produced by Becton Dickinson. We find other attractive investments in animal health and optometry, given the growth in spending on pets and the global proliferation of conditions like myopia. Overall, we aim to position our portfolio to grow faster than the broad sector whilst avoiding many of the typical risks of investing in Healthcare.</p>
Consumer Staples	<p>Our consumer staples holdings are concentrated in companies with the ability to take enough price 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 a 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.</p>

Most active underweight owned sectors for February 2023

Energy	<p>We are underweight 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.</p>
Consumer Discretionary	<p>We continue to be highly selective within the consumer discretionary space and continue to be underweight the sector. Our top holding is Amazon, then LVMH followed by 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.</p>

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