

Performance

Period ending 31 July 2021	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	4.39	9.77	20.51	31.15	20.70	18.35	15.24
MSCI All Country World Index (Net Dividends Reinvested) (\$A)	2.84	8.87	18.57	29.94	14.13	14.57	11.55
Out/(under) performance	1.55	0.90	1.94	1.21	6.57	3.78	3.69

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 the month of July there were no newly opened or closed positions.

Market Outlook

July was a positive month for equities, with mega-cap US tech companies in particular reporting strong growth in revenues and profitability. Taking one example from the global portfolio, Facebook doubled its net income for the second quarter on a year-on-year basis, to US\$10.4bn, driven by rapidly rising advertising revenues. Portfolio positions Apple and Alphabet also reported record quarterly profits of US\$21.7bn and US\$18.5bn respectively. Such extraordinary expansion of the 'E' that functions as the denominator in the 'P/E ratio' is perhaps instructive of the potential risk of overfocusing on short term valuation multiples when assessing high growth businesses with strong competitive positions.

Elsewhere, two themes dominated the market during July, namely inflation and the continuing regulatory focus on certain business sectors in China. We are in no doubt that investors will be reading significant volumes of commentary on both issues from their investment managers, so for this month at least we will limit our focus to China.

The basic facts are that July saw Chinese authorities widen the crackdown on private business, with action taken against the ride hailing company Didi, and the language tutoring sector. The (now formerly) large cap tutoring firms New Oriental Education and TAL, both saw most of their equity value wiped out (for example the NYSE listing of TAL, which traded over US\$90/share as recently as February, fell below US\$5/share) after the sector was converted overnight to a nonprofit basis, with restrictions on teaching hours introduced. The broader technology sector also declined during July on investor concerns that a wider clampdown would ensue.

Much effort has been expended by the financial commentariat to explain these recent moves by the Chinese authorities. Explanations we have come across included the following: i) the government acted against the technology platforms because their growing economic power was becoming a threat to SMEs that are a source of much of job creation in China; ii) the growth of the payments systems of Tencent and Alibaba / Ant Financial was threatening to disintermediate the banking system (which is a key locus of control for the Party); and iii) the government's efforts to de-emphasise growth in sectors that are not truly economically productive (like gaming and social media) was the flipside of its rapidly increasing allocation of resources to 'productive' sectors such as chipmaking, electric vehicles, biotech, green energy and artificial intelligence that make more tangible contributions to the country's industrial (and military) capabilities. Additionally, it has been widely argued that sensitivities resulting from the recent 2021 centenary of the founding of the CCP, and the major Party conference scheduled for 2022, may both have acted as catalysts for an accelerated period of enforcement activity.

But of course, the answer is that we really do not know why these actions have been taken, and we should probably be skeptical of anyone who claims to possess special insight. So how do we respond at Intermede, given that a Chinese variable interest entity (VIE) (Alibaba) still makes up a small percentage of our portfolio.

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.



In short, it is reassuring to say that our clearly defined process is well suited to such situations, because rather than claim any ability to predict the likely future fate of VIEs, or of CCP industrial policy, we can simply ask ourselves if risk has increased relative to prior periods. We believe that it has and have therefore amended our models and investment theses to reflect this thinking. While the outcome of this work suggests that a knee-jerk sale of our remaining China exposure would likely be premature (China remains the largest single consumer market globally, with growth rates that remain significantly in excess of those in developed markets, and a still unresolved historic imbalance towards investment led growth which will likely remain a strong incentive for the government to support growth in consumption), we will continue to monitor the situation closely.

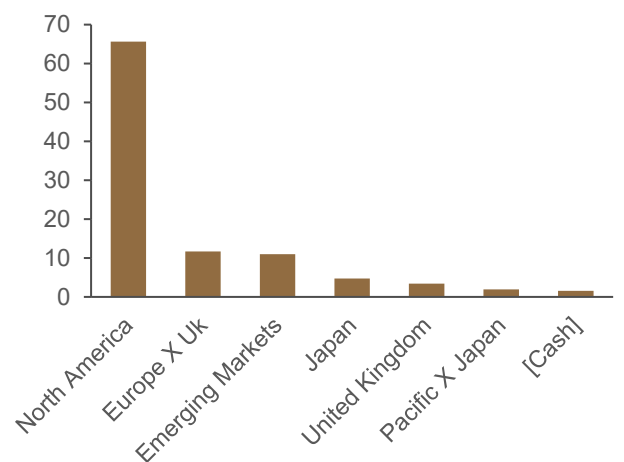
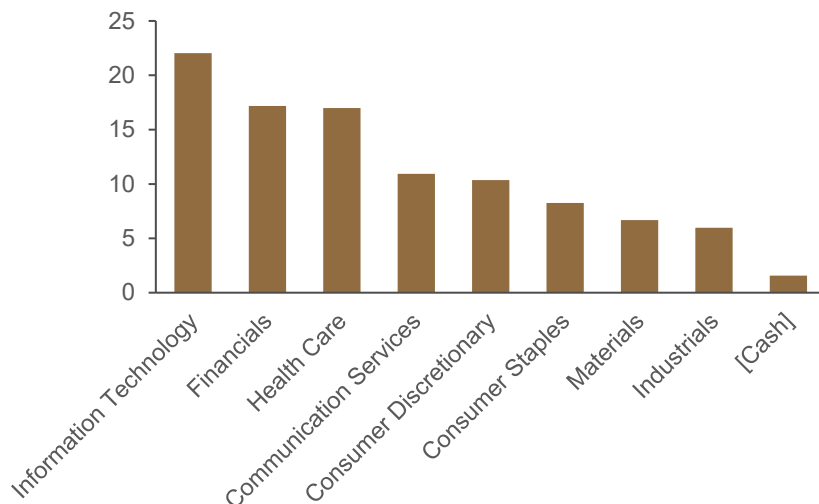
Elsewhere, we would note that a perhaps underdiscussed feature of the market landscape during July was the fall in real US treasury yields to record lows (the 10 year fell below negative 1.1%), with similar market action seen in the Eurozone, where record lows of negative 1.65% were observed. It is worth recalling how recently rising yields were the primary focus of market discussion, which reinforces our sense that our finite time is best deployed on company specific research.

Therefore, and as always, our primary mission remains to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations. We believe this remains 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
Alphabet Inc.	United States	Communication Services
Danaher Corporation	United States	Health Care
Nestle S.A.	Switzerland	Consumer Staples
Zoetis Inc.	United States	Health Care
Linde Plc	United Kingdom	Materials
CME Group Inc.	United States	Financials
S&P Global, Inc.	United States	Financials
Samsung Electronics Co., Ltd.	South Korea	Information Technology
Taiwan Semiconductor Manufacturing Co., Ltd.	Taiwan	Information Technology

Sector and Regional Weights %





Sector Positioning

Most active overweight owned sectors for July 2021

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.
Healthcare	We are overweight the healthcare sector where we see attractive and potentially accelerating growth trajectories for our portfolio companies. The focus of our portfolio is in companies that provide healthcare consumables, tools for research and diagnostics or products which are mission critical in the manufacturing of drugs. These companies tend to have strong competitive advantages typically deriving from high switching costs combined with the low overall cost of our companies' products to their customers. We do not find the pharma sector attractive and have no direct exposure. We think that returns on R&D are and will be impacted by a combination of accelerating drug pricing legislation and intensifying competition to acquire the most attractive drug development candidates. We do have exposure to the animal pharmaceutical sector which we think benefit from a wave of new innovations originally developed for the human health market. This combined with a growing pet population provides an attractive growth opportunity for our portfolio.

Most active underweight owned sectors for July 2021

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 Canadian National Rail (one of the seven North American Class 1 railroads). In the near-term, the outlook for certain end-markets remains dependent on COVID and vaccine roll-out (e.g. airlines, energy, restaurants). However, we see a strong opportunity set in terms of i) fundamentally good companies that should rebound once restrictions are lifted and demand normalises, and ii) secular growth trends such as electric vehicles, the Internet of Things (IoT), robotics/automation and intermodal transportation.
Consumer Discretionary	We continue to be highly selective within the consumer discretionary space and remain modestly underweight the sector. We have favoured areas with strong secular tailwinds such as luxury and internet retailing with Alibaba, Amazon and LVMH our top holdings in the sector.

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Contacts

Email

client.services@mlcam.com.au

Phone

1300 738 355

Website

www.mlcam.au/intermede