

Performance

Period ending 31 May 2023	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	0.52	8.12	8.34	9.96	7.85	11.57	10.92
MSCI All Country World Index (Net Dividends Reinvested) (\$A)	1.02	7.79	7.05	11.79	11.00	10.16	9.48
Out/(under) performance	-0.50	0.33	1.29	-1.83	-3.15	1.41	1.44

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 May.

Market Outlook

May was a divergent month for markets, as while technology investors' animal spirits were further refreshed by evidence of NVIDIA's successful monetisation of the AI trend, clouds gathering elsewhere in global markets became apparent with strengthening evidence of a faltering recovery in China, and growing signs of financial distress among indebted firms in the US. One way of capturing this bifurcated reality is a comparison of the performance of the market cap weighted S&P 500, up approximately 10% on a year to date basis, with its equally weighted twin, which has fallen by around 1% for the year. The magnitude of the uptick in NVIDIA's reported sales of data centre GPUs, and an aggressive increase to forward guidance, drove the firm's share price up 26% on the day of its quarterly results, with the firm's market cap later hitting \$1trn for the first time. And more broadly, the extreme concentration of outperformance among a handful of technology mega-caps during May meant that the US equity rally during the month was driven by the narrowest leadership in a rising stock market since the 1990s, according to research by JP Morgan.

Conversely, S&P's latest report on the US speculative grade credit market saw an extremely sharp rise in the level of predicted defaults, to 4.25% of issuers in the next 12 months (up from a 2.5% rate at the end of last quarter). May also saw eight US firms with more than \$500m in liabilities file for bankruptcy, including five in a single day. In 2022 the monthly average number of Chapter 11 filings for equivalent sized firms was three. Yields on junk bonds in the US have now more than doubled from the lows seen in 2021. Elsewhere, mounting evidence is emerging of a slowdown in China, where corporate revenues grew at just 1.5% in the first quarter, and profits fell. Data for industrial production, property sales and credit growth also all showed weakness, with the latter up by just RMB720bn (\$103bn) in April, half the level projected by analysts. Consumer spending, which had initially jumped after Covid-19 controls were scaled back at the start of 2023, also appears to be falling back, and reported youth unemployment hit 20% for the first time in May. Beijing's official GDP growth target for 2023 remains set at 5%, but this currently looks like an optimistic figure.

An intriguing article in the Financial Times examined the relationships between the input costs and profit margins of consumer firms, those of the retailers that stock their products, and consumer behaviour. In summary, large retailers are noting that during a period in which input costs rose rapidly in a highly visible way, shoppers accepted that steep price increases were inevitable. However, now there has been significant abatement in some input costs (including food oils and polyethylene), there is greater resistance from shoppers (and therefore from retailers) to accepting further price increases from consumer firms. This occurs against a backdrop in which the margins for many consumer companies had already been negatively impacted from pre-pandemic levels (gross margins for Procter & Gamble, Coca-Cola, PepsiCo, Kimberly Clark, Mondelez, Colgate-Palmolive and Clorox were all lower in 2022 than in 2019). The CEO of Reckitt, Nicandro Durante is quoted as saying "I don't see a lot of price rises going forward in 2023". While none of the aforementioned companies are held in Intermede portfolios (we typically favour companies operating in more favourable categories and geographies), we will continue to watch the progress of our own consumer holdings closely.

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.

The ongoing trend for increased buybacks continues apace, such that after tripling over a decade to \$1.3trn during 2022, they are now approaching dividends (which have only grown by around 50% for the 1200 largest global companies over the same period, according to research by Janus Henderson) in scale as a means for companies to return shareholder capital. The substantial majority of buybacks, approximately \$1trn of the total in 2022, still take place in the US but the trend has also been accelerating fast in the UK and Europe. The energy sector, where companies have been rewarded by the market for returning capital to shareholders rather than investing in production, has been the leading recent source of this growth, repurchasing \$135bn of stock in 2022, a 400% increase over the previous year.

While the subject of dividends versus buybacks has been much discussed over the years, it is worth rehearsing the basics. Buybacks give companies more control over the timing of cash flows (versus the implicitly permanent cash flow represented by dividends, which can be viewed very negatively by the market if cut) and can also be treated more favourably for tax purposes. And while buybacks have received negative publicity for their potential to be used to boost EPS figures by management teams seeking to massage their own incentive targets, and also to paper over large issues of stock-based compensation, if used wisely with purchases made at lower valuations, they can be a powerful tool to enhance the wealth of business owners. One somewhat under-the-radar illustration of this power is occurring at Oracle. Despite revenues having increased by just a fifth since 2011, consistent investment of free cash flow into buybacks, further augmented by debt supported repurchases, has led to a total investment in buybacks of over \$150bn. This has halved share count along the way, and has seen Larry Ellison's personal ownership stake in the business more than double over a decade, from around 20% to 43% today, with the value of Ellison's stake rising more than threefold over the period. Finally, buybacks also remain an object of regulatory scrutiny. The US already imposed a 1% tax on buybacks as part of the Inflation Reduction Act, but President Biden has recently proposed to quadruple this. And in May the SEC issued a new rule that will require companies to provide quarterly disclosure on their daily repurchases of stock, the reason for the purchases, and whether the corporate repurchases were accompanied by insider buying. From an analytical perspective, this new information will be helpful as we seek to establish our own view of buybacks by current and potential portfolio companies as accretive and value creating, or otherwise.

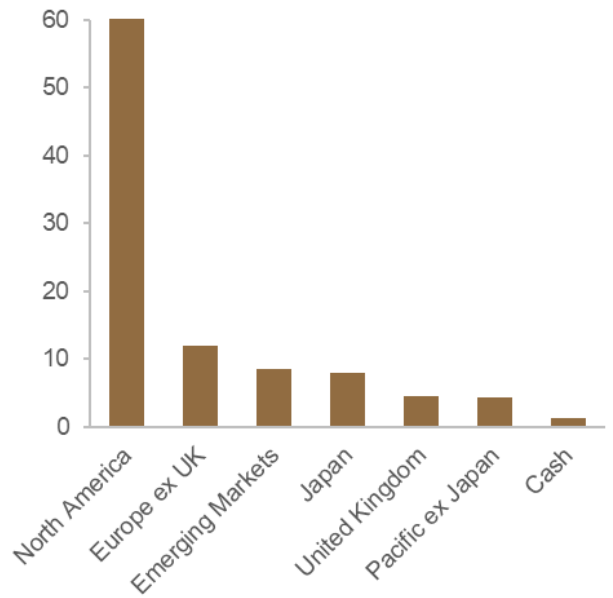
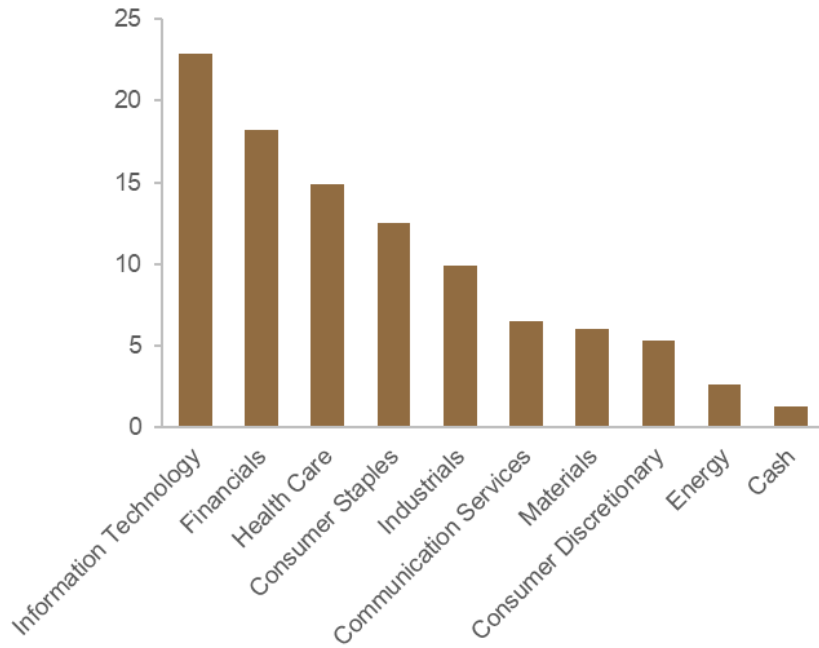
With respect to our own portfolio, our primary mission remains to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations. We believe this remains the most prudent path to capital appreciation in the long term.

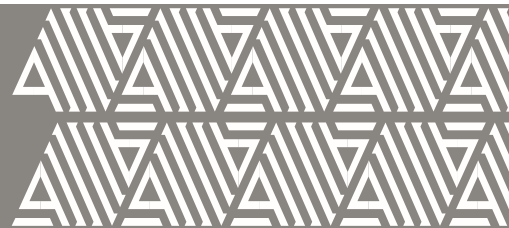


Top 10 Holdings

Company	Country of Domicile	Sector
Alphabet Inc.	United States	Communication Services
Microsoft Corporation	United States	Information Technology
Linde Plc	United Kingdom	Materials
Adobe Incorporated	United States	Information Technology
Taiwan Semiconductor Manufacturing Company Limited	Taiwan	Information Technology
Tokyo Electron Ltd.	Japan	Information Technology
Amazon.com, Inc.	United States	Consumer Discretionary
Housing Development Finance Corporation Limited	India	Financials
CME Group Inc.	United States	Financials
Haleon plc.	United Kingdom	Consumer Staples

Sector and Regional Weights %





Sector Positioning

Most active overweight owned sectors for May 2023

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.
Consumer Staples	Our consumer staples holdings are concentrated in companies with the pricing power 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 Heineken, Nestle, Kerry, Dollar Tree 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. Dollar Tree has a relatively fixed price model but can adjust the assortment to offset inflation and increasingly also adjusts prices. Shiseido is the number 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 lifted in China the medium-term outlook for the company is much improved.

Most active underweight owned sectors for May 2023

Energy	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.
Consumer Discretionary	We continue to be highly selective within the consumer discretionary space and remain underweight the sector. Our two holdings are Amazon and LVMH. 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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