

## Performance

Period ending 30 June 2023	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	7 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	2.68	6.37	15.98	17.89	9.63	11.64	12.89	11.16
MSCI All Country World Index (Net Dividends Reinvested) (\$A)	2.87	6.83	16.07	20.38	12.24	10.38	11.72	9.75
Out/(under) performance	-0.19	-0.46	-0.09	-2.49	-2.61	1.26	1.17	1.41

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 a new position in Universal in June and fully closed our position in Dollar Tree.

We opened a new position in Universal Music Group, UMG, in June. UMG is the largest music entertainment company in the world with more than 30% market share. While the history of the music industry has seen volatility, the current secular shift toward streaming and digital technologies is reinvigorating growth, which creates new opportunities for artists and music companies to monetise on increasing consumption. In an increasingly competitive entertainment environment, we believe music's uniquely enduring and long-lasting popularity will drive compounding value over the long-term, and UMG is the best positioned company to capitalise on those trends.

We closed the position in Dollar Tree late in the quarter after holding the name since early 2021. The initial benefits of the move away from the single price of \$1 at the Dollar Tree banner have been realised. We increasingly believe that management's attention is too focussed on Family Dollar, the chain acquired in 2013, which has been a major drag on the business for most of the time since. While a turnaround would certainly be accretive to earnings, if this comes at the expense of performance at the much higher margin Dollar Tree banner, the overall result would not be positive. After attending the company's investor day we see an increased risk that the Dollar Tree banner may not be getting the attention it needs.

## Market Outlook

While we focus on companies rather than macroeconomics, in the current era, a resurgence of the significance of industrial and trade policy for the fate of individual businesses means that from time to time it is important to take stock of these increasingly important forces.

June saw the first use in a speech by President Biden of the phrase 'Bidenomics', increasingly used as a coverall term to describe a group of initiatives, including the CHIPS Act (providing ~\$280bn to boost semiconductor manufacturing and research in the US), the Inflation Reduction Act (~\$400bn on clean energy, ~\$250bn to improve existing energy infrastructure), and the bipartisan infrastructure law (\$550bn for upgrading US infrastructure). These huge programs are directly relevant to corporate fortunes, as the subsidies being provided are materially lowering the cost of capital for many projects, and the resulting boost to animal spirits in the US is already clear in the numbers, where manufacturing spending has almost doubled in the past two years. While Europe prepares its own response to these US initiatives, the substantial subsidies now available for business investment across multiple sectors must inform the capital allocation decisions of businesses and investors globally.

Another Biden administration initiative directly relevant to global markets is the program of controls on exports to China, imposed on the semiconductor industry last autumn. Rumours of further tightening circled in late June, with additional restrictions on the export of GPU chips used for AI research and with potential military applications. This extended ban would affect less advanced GPUs (the A800 and H800 chips) created by NVIDIA specifically in response to the export controls of last October (the intentionally reduced specification had previously allowed the chips to still be exported to China). And at the end of June it was also announced that Dutch firm ASML would no longer export its lithography machines for leading edge chips to China, adding to similar controls already imposed by Japan (both Japan and the Netherlands had consulted closely with the US before putting these new restrictions in place).

While the resolve of the US to constrain China's ability to manufacture leading edge chips at scale clearly remains undimmed, certain ways in which the export restrictions, with respect to GPUs at least, are being skirted have also becoming clear. This is being achieved firstly, by remotely renting

## 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.



'cloud' style access to GPUs sitting outside China, secondly by aggressive stockpiling that took place in recent years, and which is continuing with the still legal A800 and H800 chips, and thirdly, by the rapid growth in an underground market for GPUs, with Reuters reporting during June that in Shenzhen NVIDIA A100 GPUs are selling for more than double their ~\$10,000 regular price. Meanwhile, earlier in the quarter in May, China banned its own infrastructure operators from buying chips from the Idaho-based chipmaker Micron, reinforcing the extent to which corporate fortunes in the space have the potential to be caught in geopolitical crossfire.

June also saw Intermede's annual offsite, which provides a valuable opportunity for reflection on lessons learned from our recent investing experience, and to be joined by thoughtful external speakers. On this occasion, one of our speakers was Chris Miller, author of the excellent book on the history of the global semiconductor industry, *Chip War*. Chris' book, which identified several strategic choke points in the chip industry, was released with remarkable timing, just days before the imposition of US-China export controls last October. With the speed of developments since, we took the opportunity to ask him what he would choose to cover in an additional chapter of the book. He noted the extraordinary growth in Chinese electric car exports in the last year (evidencing China's still phenomenal strength in manufacturing), and the growing significance in chip packaging as a potential future strategic choke point. We would be glad to share more details on his comments with interested investors, and would also highly recommend his book to anyone yet to read it as a means of understanding much of the current geopolitical landscape.

The quarterly earnings season has provided an interesting opportunity to assess the still-soaring level of interest in AI within many businesses (while also making clear that the excitement is not universal). It is too soon to say whether there is a correlation between the frequency of mentions of the technology by management and the potential for AI to drive profitability in a sector, but there is a stark division across sectors, with Communication Services and Information Technology companies mentioning AI on around 70% of earnings calls, the Industrials, Consumer Discretionary, Financials, and Healthcare sectors on around 20% of calls, and Consumer Staples, Energy, and Utilities sectors hardly at all.

Meanwhile, the extraordinary level of capital spending by the cloud giants Alphabet, Amazon, and Microsoft (all currently held in the global portfolio) will continue to drive growth in the sector, rising to around \$120bn this year from around \$78bn last year. One industry research house estimates that the world's data centres will see the share of servers dedicated to AI double to 20% over the next five years, with the more expensive nature of this equipment meaning that the percentage of overall data centre capex dedicated to AI could rise to 45% (from around 20% currently). And whether or not AI does eventually deliver the breakthroughs that are anticipated by many businesses, the pace of dealmaking in the sector currently reflects a high level of optimism, with (to take just a sample), recent deals including: Databricks, a private company that stores and manages data for its customers, paying \$1.3bn to acquire AI start-up Mosaic ML; Thompson Reuters paying \$650m for Casetext, a ten year old AI company that specialises in legal services, having exploited an early relationship with Open AI to benefit from access to the GPT-4 model; a \$1.3bn raise, including capital from NVIDIA and Microsoft, by Inflection AI, a one-year old start-up founded by one of DeepMind's cofounders; Toronto-based AI start-up Cohere raising \$270m from NVIDIA (among others) in May; and in France, a four-week old AI start-up, Mistral, raising €105m, the largest ever seed round in Europe.

Elsewhere in the world, June saw extraordinary scenes in Russia as Yevgeny Prigozhin, the leader of the Kremlin-funded Wagner paramilitary group, led his force on a march from Ukraine in the direction of Moscow, which included lethal clashes with conventional Russian forces, all while issuing videos on social media harshly criticising conventional Russian military leadership for having instigated the Ukraine invasion on false pretences. The ostensible coup attempt quickly fizzled out, with Prigozhin reportedly taking refuge in Belarus, but the Russian authorities' stated decision not to treat his acts as criminal raised widespread questions about the strength and stability of the Putin-led state. At the time of writing attempts have been made to reassert authority, with the arrests of senior military figures, including General Sergei Surovikin. At the very least, Russian forces in Ukraine appear likely to have become incrementally less certain of their motivations and in their morale.

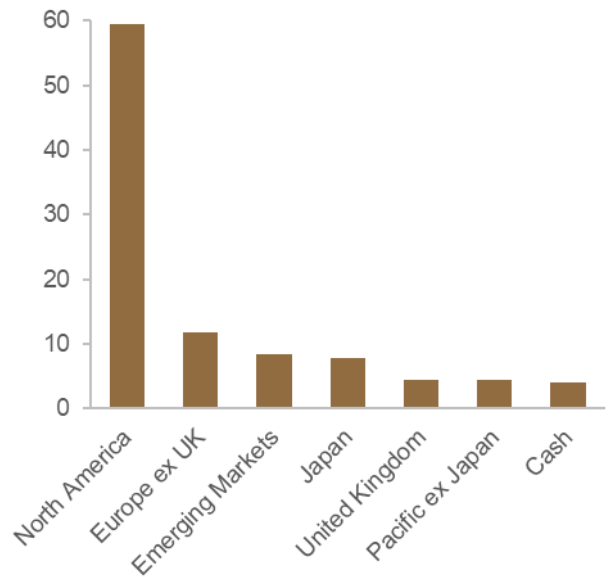
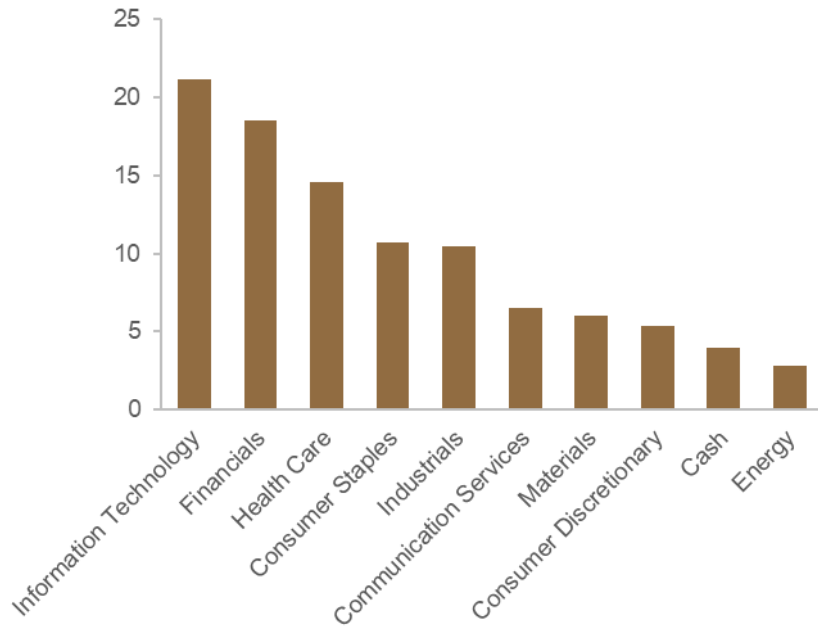
With respect to our own portfolio, our primary mission remains to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations. We believe this remains the most prudent path to capital appreciation in the long term.

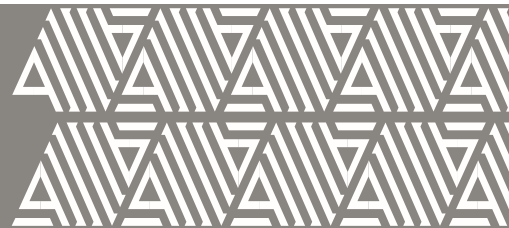


**Top 10 Holdings**

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

**Sector and Regional Weights %**





## Sector Positioning

### Most active overweight owned sectors for June 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, and 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 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 June 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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