

## Performance

Period ending 31 August 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	2.56	6.96	15.65	20.30	8.56	11.15	12.84	11.46
MSCI All Country World Index (Net Dividends Reinvested) (\$A)	1.14	6.53	14.83	20.62	12.08	9.85	11.70	10.00
Out/(under) performance	1.42	0.43	0.82	-0.32	-3.52	1.30	1.14	1.46

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 the period.

## Market Outlook

After a strong month for equity markets in July, August saw the return of volatility, with the primary driver of sentiment being a string of negative news from China including renewed stress in the property market, alongside weak macroeconomic data. This worry was reflected in the sharp underperformance of emerging markets relative to their developed peers, with the former down 6.1% in USD terms during the month, whilst developed markets declined by just 2.3%.

To add more detail on China, August saw the country's economy fall into deflation, with a 0.3% drop in consumer prices year on year announced for July, and consumer confidence reaching all-time lows. The property sector, which has typically driven around a fifth of China's GDP, is currently seeing apartment sales volumes at around half that of 2019 levels, and property prices in China's largest 100 cities are down 14% from their 2021 peaks, with developers including Country Garden and Sino-Ocean recently missing bond payments. Additionally, problems with debt in the shadow banking system are emerging, particularly with respect to Local Government Financing Vehicles, on which local governments are struggling to make interest payments, given the decline in a previously reliable source of revenue in the form of land sales for property development. While precise figures are not clear, total official and 'hidden' local government debt is estimated by Goldman Sachs to total over US\$20 trillion (RMB equivalent), slightly in excess of annual GDP.

Further, foreign direct investment was down 90% year on year in the second quarter as foreign companies repatriated earnings rather than reinvesting, and the renminbi has fallen to its lowest level against the dollar since 2007. At an even more foundational level, the difficult demographic picture is increasingly apparent in the fact that in 2022 China's population began to decline, with the challenges of an unbalanced population pyramid already visible in a youth unemployment rate of over 20%. The difficulty in managing these structural issues against a political background in which Xi Jinping is prioritising his 'comprehensive national security' doctrine (which for example saw the overnight defenestration of the private tuition industry, a once reliable source of youth employment) saw Chinese authorities respond to this troublingly high data point during August by discontinuing its publication.

Conversely, in the rest of the world, the economic landscape for now appears brighter, with the IMF revising its forecast for global growth in 2023 upwards during August from its earlier projection in April, noting particular strength in the US, where current data from the Atlanta Fed's forecasting model suggests that third quarter growth could reach an extraordinary 6%, driven by buoyant consumer spending (the US consumer accounts for ~70% of GDP), itself fuelled by robust growth for jobs and wages.

And elsewhere in the US, and certainly worthy of attention in the context of this vigorous economic activity, Federal Reserve Chairman Powell gave a speech at Jackson Hole during August in which he noted that US rents, which (including 'Owner Equivalent Rents', measured by a backward looking survey of homeowners) contribute almost a fifth of the price information used to construct the Fed's favoured measure of inflation (Personal Consumption Expenditure), are falling at a slower than hoped for rate. This matters because, following a sharp easing in goods prices and a healthy moderating of inflation in the 'non-housing services' component, housing is therefore now the only of the three inputs to the closely watched PCE measure in which significant inflationary pressure remains.

## 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

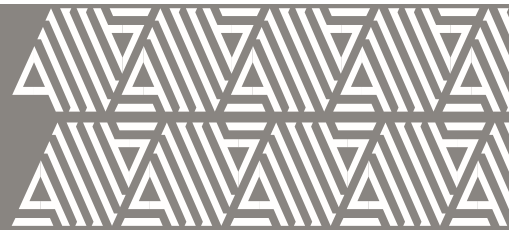
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### mFund

INT01

### Management costs (including GST)

0.99% p.a.



However, current data on US rents suggests they are continuing to rise. While as always we believe there is limited benefit to our stock specific work to be derived from macroeconomic prognostication, it is intriguing that some analysts are beginning to note a counterintuitive effect of higher rates on inflation. Specifically, higher rates have caused both homeowners and renters to be less likely to move. The former because US homeowners that secured 30-year mortgages at rock bottom rates prior to 2022 are now unwilling to refinance at far higher rates to facilitate a move to a new property (30-year mortgage rates reached 7.31% during August, the highest level seen since December 2000, and at the same time mortgage applications for new home purchases have fallen to a level not seen since April 1995). The latter because with existing renters facing significant affordability issues for a housing purchase due to higher rates, they are also likelier to stay in place than prior to recent rate hikes.

This dual reduction in the supply of available properties has increased competition among renters for what remains available, thereby creating upward pressure for rents, and by extension, perhaps for inflation going forwards. While we certainly do not profess any ability to forecast the direction of any inflation measure over time, this may make it likelier that the Fed will need to take a 'higher for longer' approach, while also facing diminished certainty that higher rates have a clear transmission mechanism to drive lower inflation.

Elsewhere in markets, we would note that the US earnings season continued with a positive tone during August, with Europe however seeing some relative weakness, with Morgan Stanley noting that approximately 30% of reporting companies in Europe missed their estimates, a higher than usual figure. And finally, August saw Denmark's Novo Nordisk (held in Intermede portfolios) pass LVMH (also owned) to become the largest company in Europe by market capitalisation, as a study was announced that showed a material reduction in cardiovascular risk for users of the company's GLP1 weight loss drugs. And relatedly, particularly interesting to see during the reporting season was the extent to which Novo's ongoing success is also buoying the performance of companies that supply Novo, for example, West Pharmaceutical, one of Novo's key suppliers of packaging and injection solutions, owned in the global portfolio, and which was also among the strongest performance contributors during the month.

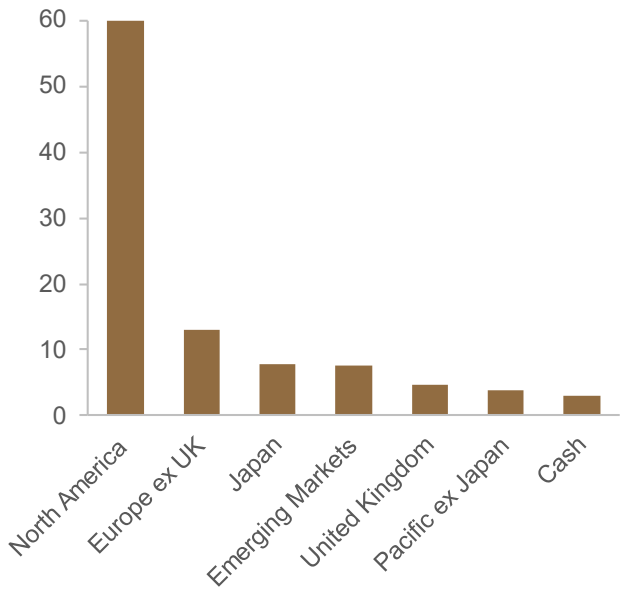
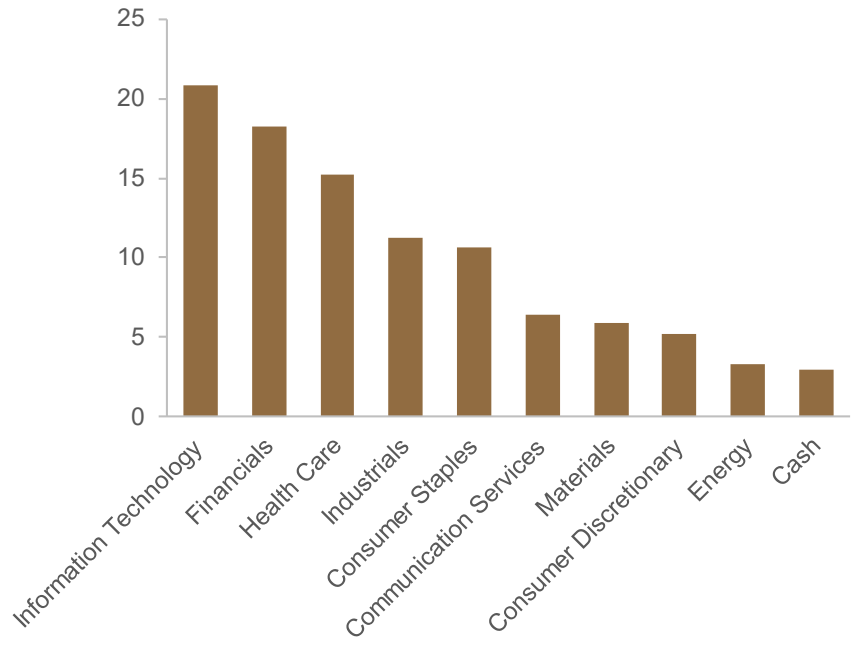
And as always, our primary mission remains to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations. We believe this remains the most prudent path to capital appreciation in the long term.



**Top 10 Holdings**

Company	Country of Domicile	Sector
Alphabet Inc.	United States	Communication Services
Microsoft Corporation	United States	Information Technology
Linde Plc	United Kingdom	Materials
Amazon.com, Inc.	United States	Consumer Discretionary
Schlumberger N.V.	United States	Energy
Adobe Incorporated	United States	Information Technology
CME Group Inc.	United States	Financials
Danaher Corporation	United States	Health Care
Mastercard Incorporated	United States	Financials
Haleon plc.	United Kingdom	Consumer Staples

**Sector and Regional Weights %**





**Sector Positioning**

**Most active overweight owned sectors for August 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 HDFC Bank in India and Asian life insurer AIA, and in less capital intensive areas such as global derivatives exchange CME, US investment services firm Charles Schwab, financial information provider S&P Global, payments processor Mastercard 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 Nestle, Heineken, 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-19 restrictions lifted in China the medium-term outlook for the company is much improved.

**Most active underweight owned sectors for August 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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