

**Performance**

Period ending 30 September 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	-5.01	-1.04	5.26	19.33	6.38	10.27	12.23	10.68
MSCI All Country World Index (Net Dividends Reinvested) (\$A)	-3.80	-0.37	6.43	20.34	10.70	8.92	11.27	9.41
Out/(under) performance	-1.21	-0.67	-1.17	-1.01	-4.32	1.35	0.96	1.27

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 initiated a position in Inditex late in September. Inditex is the leading global apparel firm outside of the sporting goods space. The company has 5,700 stores across 93 countries with 73% of sales from the Zara brand. The company has long been widely appreciated for its unique business model which is based on a rapidly refreshed product assortment supported by a highly responsive and proximate supply chain. Inditex was initially slow to embrace ecommerce but shifted strategy around 2016, and in 2022 ecommerce accounted for 24% of sales with profitability commensurate with physical stores. After a long period of heavy investment in its ecommerce capabilities and a rationalisation of the store base, we view the company as well positioned to grow at a sustained pace with room for expansion in Northern Europe, the Middle East and the US.

There were no fully closed position during the period.

**Market Outlook**

Perhaps the single most notable fact across global markets during September was the speed and extent of the rise in real bond yields in the United States. Measured by the yield of the Treasury Inflation Protected Security (TIPS), the real yield, which sat at zero as recently as mid-August, is now approaching 1%, meaning that it has gained almost as much as it had by the same point in 2013, the year of the 'Taper Tantrum', which saw markets respond violently to the announcement by the Fed that asset purchases would be gradually decreased.

Looking back to 2013, September was also the point at which the bond market became calmer, likely due to the Fed's decision to delay the tapering of its asset purchases. Whether or not today's Fed will become similarly more dovish is a question we cannot answer, but it is still worth noting one key difference, and one similarity, between then and now. First, back in 2013 the spectre of inflation was not a factor to anything like the same extent that it is today, which leaves the Fed meaningfully more constrained in its options. But secondly, as was the case in 2013, equity prices have so far largely defied the gravitational pull of higher rates, which requires at least an attempt at explanation.

One clear reason for this is the rosy picture for corporate earnings, which in the US are now expected (according to a Bloomberg survey of analyst expectations) to reach \$235 per share for the S&P 500 in 2023, a level of optimism last seen in June 2022. However, a more telling picture is found beneath the surface, with a clear divergence occurring in expectations for the largest companies (which are strong), and for their small cap peers, with third-quarter earnings forecasts for the Russell 2000 now down almost a quarter from the level seen at the start of the year.

The gulf between US large caps and small caps is an interesting case study in the impact of balance sheet management. A first disadvantage for smaller companies is their more prevalent use of floating rate debt, which has rapidly become a more expensive way of borrowing since the Fed started hiking rates in earnest in January. Thirty per cent of Russell 2000 companies' debt stock is floating rate, against just 6% for the S&P 500. Further, rising interest costs for large cap companies have in many cases been offset by higher interest income on balance sheet cash. For example, the research service S&P Capital IQ notes that in the 12 months to June 30th, the 'magnificent seven' tech companies (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, Tesla) earned \$13.3bn in interest income, while paying just \$9.6bn in interest expenses. Add in the higher cost of capital, lower pricing power, and arguably higher intensity of competition faced by small companies, it is perhaps unsurprising that small caps are down almost 30% from their 2021 highs against an approximately 10% decline for the S&P.

**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**

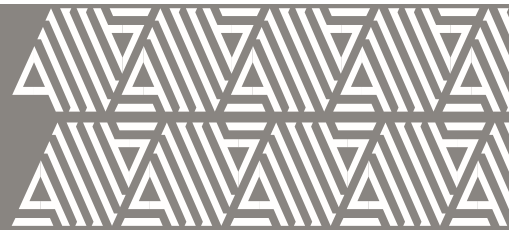
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**mFund**

INT01

**Management costs (including GST)**

0.99% p.a.



Elsewhere, there was notable action in the Japanese currency market, where (despite no official confirmation having been released), it appears that the Japanese authorities have deemed  $\text{¥}150/\text{\$}$  as a barrier to be defended, as aggressive buying triggered the moment that level was breached sent the currency back below  $\text{¥}149/\text{\$}$ . Given that there now appears to be a de facto floor under the yen, it will be interesting to see how this is tested in coming weeks by speculators, who, as shown famously by George Soros' successful trade against the sterling's position in the European Exchange Rate Mechanism in 1992, are attracted to the opportunity to bet against a fixed and potentially unsustainable target. To recap one key source of pressure on the yen, the spread between the yield on the US 10-year treasury and the equivalent Japanese government bond has just breached 4%, for the first time in 22 years. It will be intriguing to see if the Bank of Japan is able to continue to adhere to its policy of yield curve control in the face of such pressure. Briefly, the strength in US yields was also reflected in a landmark bottom for the renminbi, which fell during September to a 16-year low against the dollar, falling even below the level it reached during the peak intensity of zero-Covid lockdowns in 2022. It will be interesting to see if this combination of a declining currency and soaring electric vehicle exports, which have in aggregate just touched an annualised run rate equivalent to  $\text{\$}80\text{bn}$  (with the  $\text{\$}20\text{bn}$  level for EV exports only breached for the first time in 2022) will lead to a response from China's trading partners.

Having spent some time on macro topics, we'd also note an event during September within the usually uneventful arena of UK economic statistics that served as a valuable reminder of the dangers of grafting strong narratives onto data that is perhaps flimsier than commonly understood. Specifically, while the accepted narrative following the pandemic had been that the UK was severely underperforming its peers in the pace of its recovery, an extraordinary upward revision of the UK's data during September by the Office of National Statistics, equating to a full 2% of GDP, now places the UK firmly in the middle of the pack. A welcome reminder of the value of a bottom-up, company by company approach to research, rather than a top-down approach that is inevitably reliant on fallible data.

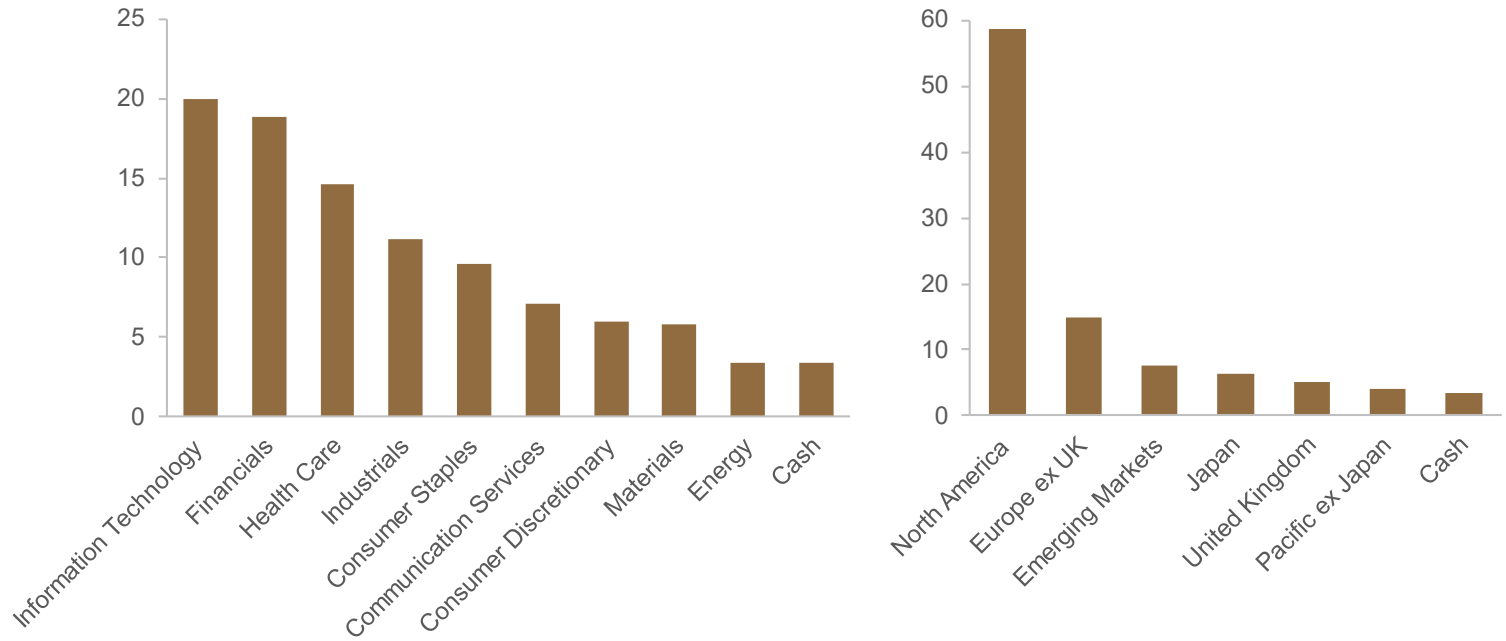
As always, our primary mission remains to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations. We believe this remains the most prudent path to capital appreciation in the long term.



**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
Schlumberger N.V.	United States	Energy
CME Group Inc.	United States	Financials
Amazon.com, Inc.	United States	Consumer Discretionary
Danaher Corporation	United States	Health Care
Haleon plc.	United Kingdom	Consumer Staples
Mastercard Incorporated	United States	Financials
HDFC Bank Ltd.	India	Financials

**Sector and Regional Weights %**





**Sector Positioning**

**Most active overweight owned sectors for September 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.
Healthcare	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 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 optometry and animal health, given the global proliferation of conditions like myopia and the growth in spending on pets. 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.

**Most active underweight owned sectors for September 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. We have had positions in Amazon and LVMH for several years and initiated a position in Inditex late in September. 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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**Contacts**

**Email**

[client.services@mlcam.com.au](mailto:client.services@mlcam.com.au)

**Phone**

1300 738 355

**Website**

[www.mlc.com.au/intermede](http://www.mlc.com.au/intermede)