INTERMEDE
INVESTMENT PARTNERS

Intermede Global Equities Fund

Monthly Report 31 December 2021

Performance

Period ending 31 December 2021	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	1.49	5.74	8.91	23.70	25.61	19.02	14.96
MSCI All Country World Index (Net Dividends Reinvested) ($A)	1.43	5.99	8.99	25.81	19.10	14.30	11.75
Out/(under) performance	0.06	-0.25	-0.08	-2.11	6.51	4.72	3.21

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 December there were no newly opened or closed positions.

Market Outlook

December saw the Federal Reserve respond to the highest US CPI increase since the Volcker era in 1982 (6.8% year on year for November) by accelerating the end of asset purchase tapering to March (from the previous target of June). The decline in the pace of monthly purchases of treasuries and mortgage backed securities will double to US$30bn from January, leaving the Fed scheduled to purchase US$60bn in the monthly period commencing in January (purchasing periods are measured from mid-month), US$30bn in the period commencing in February, and nothing thereafter.

Another concrete outcome of the Fed's December meeting is that a majority of governors now anticipate three rate hikes during 2022, while as recently as September around half of the governors anticipated no hikes until 2023. The understandable inability of even the world's best-informed central bankers (many of whom are also trained economists) to predict key macroeconomic variables even in the near term is a valuable reminder of the difficulty inherent in such activity. Relatedly, US inflation (if it remains persistent into 2022) appears likely to remain a prominent political issue, with an Ipsos poll conducted in mid-December showing a 69% disapproval rate of Joe Biden's handling of inflation so far.

Elsewhere, the UK became the first G7 economy to raise rates since the start of the pandemic, after UK CPI rose to a 10 year high of 5.1% in November, while in continental Europe the ECB, wary (according to insiders quoted in the financial press) of repeating the perceived policy error of a premature rate rise at the start of the 2011 Eurozone crisis, is maintaining a relatively dovish outlook on the withdrawal of pandemic-era stimulus. However, year-on-year inflation in November of 4.9% (a Eurozone record) intensifies the challenges they are navigating, even as the rapid spread of the Omicron variant during December, with twenty countries on four continents reporting record numbers of Covid-19 cases during the month, led to the widespread reimposition of travel constraints and lockdowns. And intriguingly, the non-aligned nature of global economic performance in the late pandemic-era was underlined by the fact that China's central bank cut a major interest rate for the first time since the emergence of Covid-19.

Perhaps reflecting the current uncertainty relating to factors including inflation, the interest rate outlook, and the spread of the Omicron variant, while equity indices have continued to touch all-time highs, there has been extensive underlying dispersion in performance by individual stocks. For example, while December saw the S&P 500 hit further record highs and extend its year-to-date gain (in USD terms) to 26.9%, almost half of the stocks in the index were at least 10% below their 2021 highs. And to note a more extreme example, on the NASDAQ (which also tested all-time highs during December) around 1300 of the approximately 3000 stocks on the index have fallen by more than half from their peak over the last year, with the biggest losers focused among the cohorts of non-profitable technology companies, and biotech.

Conversely, just five stocks (Apple, Microsoft, NVIDIA, Tesla and Google) drove approximately half of the S&P's gains since April to year end. An aggregate level statistical effect of these changes has been a collapse in the correlation of asset prices. A study by JP Morgan has shown that the realised correlation of the 50 largest US stocks, which rose above 0.7 (with a correlation of 1 implying perfectly aligned price movement) during the early months of the pandemic fell below 0.2 in recent weeks. Such increasing divergence in the performance of individual stocks should provide opportunities for investors focussed on analysis of individual businesses.

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.

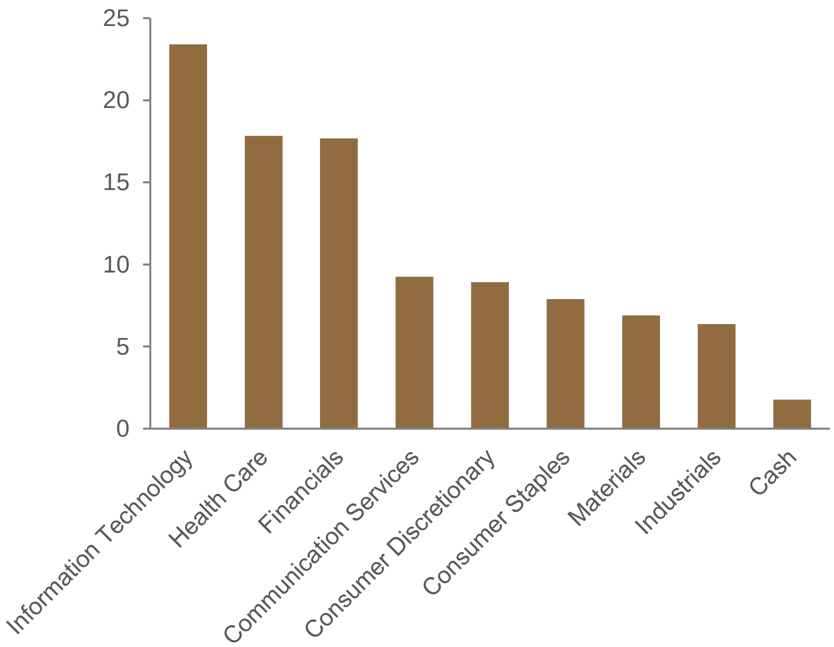
Overall, an environment in which rates may rise, and in which the market appears increasingly sceptical of the untethered valuations awarded to many businesses during a period of zero rates, encourages us that Intermede's investment approach, focussing on durable growth in earnings and cash flows, avoiding imprudently leveraged situations, and being disciplined about valuation, appears well attuned to the current balance of risks and opportunities in the market.

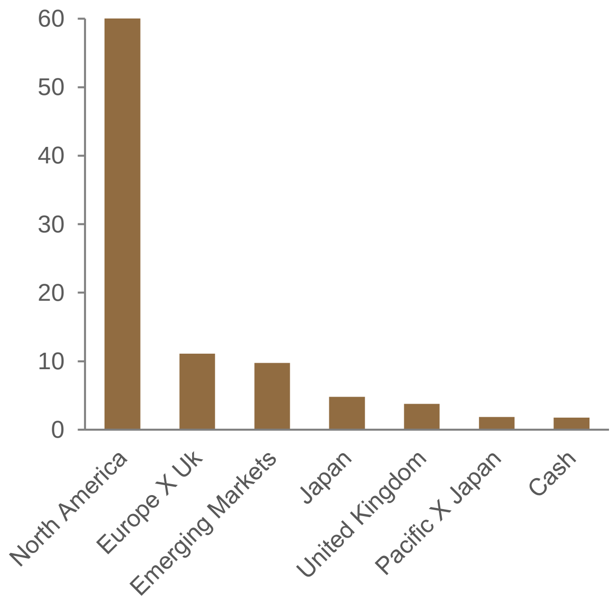
Therefore, and as always, our primary mission remains to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations. We believe this remains the most prudent path to capital appreciation in the long term.

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
Linde Plc	United Kingdom	Materials
Zoetis Inc.	United States	Health Care
S&P Global, Inc.	United States	Financials
CME Group Inc.	United States	Financials
Apple Inc.	United States	Information Technology
Taiwan Semiconductor Manufacturing Co., Ltd.	Taiwan	Information Technology

Sector and Regional Weights %





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Sector Positioning

Most active overweight owned sectors for December 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 will 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 December 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, 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. Our two top holdings are the leading ecommerce firms in the two largest ecommerce markets – Amazon and Alibaba in the US and China. Our third largest holding is Dollar Tree a leading discount retailer in the US currently undergoing a major change in pricing architecture.

Contacts

Email

client.services@mlcam.com.au

Phone

1300 738 355

Website

www.mlcam.com.au/intermede