INTERMEDE
INVESTMENT PARTNERS

Intermede Global Equities Fund

Monthly Report 31 January 2022

Performance

Period ending 31 January 2022	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	-3.45%	0.95%	0.73%	21.39%	22.35%	18.20%	14.17%
MSCI All Country World Index (Net Dividends Reinvested) ($A)	-1.87%	2.89%	4.00%	23.31%	16.75%	14.34%	11.29%
Out/(under) performance	-1.58%	-1.94%	-3.27%	-1.92%	5.60%	3.86%	2.88%

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 January, we closed one position and opened one position. The position we closed was Bio-Rad Laboratories and the newly opened position was Techtronic Industries Co Ltd.

We closed out the position in Bio-Rad during January as our Bio-Rad thesis was based on margin expansion and the growth of the digital PCR business. Over the period of ownership, margins have gone from HSD to low twenties, and we feel that the vast majority of this margin opportunity has already been captured. Additionally, whilst Bio-Rad has a leading position in digital PCR, emerging competition from ThermoFisher and Qiagen could slow growth rates going forward. On this basis, we decided to sell our position in Bio-Rad to fund the purchase of Techtronic, where we have more conviction in future outperformance.

We opened a new position in Techtronic Industries during January. Techtronic Industries (“TTI”) is a leading global manufacturer of cordless power tools (e.g. hand held drills, cutting tools, sanders etc). Brands include Milwaukee and Ryobi. The market is dominated by seven major players (TTI is #2 after Stanley Black & Decker) and TTI is leading the pack in terms of innovation and product development. TTI is growing by gaining share and expanding total addressable market. TTI’s Power Tools market share is currently ~10% but this is increasing (by ~0.5 ppts p.a.) and half of the market is very fragmented. Furthermore, TTI is now introducing higher horsepower battery-powered equipment that can replace tools in the Construction Equipment market, which is worth US$146bn p.a. (vs $62bn Power Tools market, growing at 4-5% p.a.). President Biden’s recently signed US$1.2tn infrastructure package should act as a multi-year demand catalyst for construction tools, which is beneficial for TTI’s Milwaukee brand (~60% of overall sales). Combined with further scope to expand operating margins, this is driving strong growth in earnings. We are forecasting Revenue and EBITDA CAGR of 14% and 17%, respectively, over the next three years, which brings EV/EBITDA down to 12x in FY24E. At the time of purchase in January, we had +49% upside to our price target of HKD205.

Market Outlook

Following the January meeting of the US Federal Reserve board, the President of the Atlanta Fed subsequently noted that he would be supportive of outsized rate rises (the Fed has moved in 25 basis point increments since March 2000, when rates were last raised by 50bps) if the inflation data merited such a move. Chairman Powell’s own comments were light on specifics, although did note that any balance sheet reduction was likelier to occur by natural expiry of the Fed’s debt holdings, rather than outright asset sales.

In Europe, a gap is emerging between investor perception and ECB rhetoric, with the market now betting that persistent high inflation will force the central bank to raise rates for the first time since 2011 during 2022, while the ECB's message remains that rates will be frozen at historic lows until at least 2023. Here it is also worth noting however that even with the rate rises currently anticipated by the market (an increase of approximately 0.25% by December 2022), the European benchmark rate would still be negative, at -0.25%.

Corporate earnings season ran through January, with the majority of Intermede portfolio companies performing quite strongly. However, a trend that was certainly visible for the market overall was an intensified negative reaction to top line or earnings misses by companies, which is perhaps a sign of investor nerves after a long period of share price appreciation, and with inflation, tightening, a still ongoing covid pandemic, and supply chain issues providing a somewhat gloomy background.

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

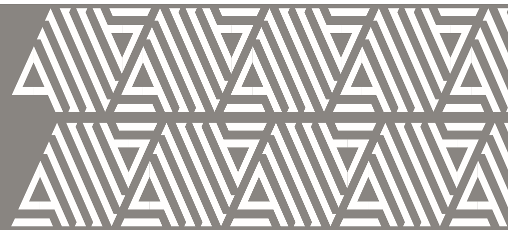
PPL0036AU

mFund

INT01

Management costs (including GST)

0.99% p.a.



A Deutsche Bank strategist ran the numbers, noting that share price falls for companies missing earnings estimates were ~2.5x as severe as the long term historic average, with top line misses punished ~3x as severely as has been typical.

The earnings season did also feature a quote from the CEO of the coatings and paints company PPG (not held by Intermede), which is worth including as a highly succinct summary of challenges faced in the real economy: "The toughest job in PPG right now is a plant manager. They wake up in the morning, check their phone to see how many people call off sick, then they get to work. They go through the dock area to see how many trucks didn't get picked up, and then they go to the receiving area and then find out what didn't come in that was supposed to. And then they move it into the plant and the supply chain people are telling me that they're going to have to make smaller batches, because of lack of raw materials."

It would also be remiss not to comment on the Russian military build-up on the Ukrainian border, where 100,000 troops have now amassed. With no insight into the strategic goals of Vladimir Putin, or the likely response of the Ukraine, US, Europe and NATO, we can limit our comments to certain aspects of the situation. First, significant splits in the unity of 'the West' have been revealed, with the EU largely sidelined by the US in talks with Russia, and with Germany in particular (heavily reliant on Russian gas imports, and with residual sympathies for Russia among leading politicians, given the events of 20th Century history) proving a source of division in the response to Russian aggression (itself framed in the Russian media as necessary retaliation for western threats and encroachment).

The non-military options available for retaliation we have seen discussed include exclusion of Russian banks from the global SWIFT payments system, cancellation of the Nordstream 2 gas pipeline, asset freezing directed against oligarchs, and restrictions of technology transfer (of the kind that impacted China's Huawei). But the actual future path of events in Ukraine remains unclear at present, with our own speculations about possible future scenarios adding little incremental value to our clients.

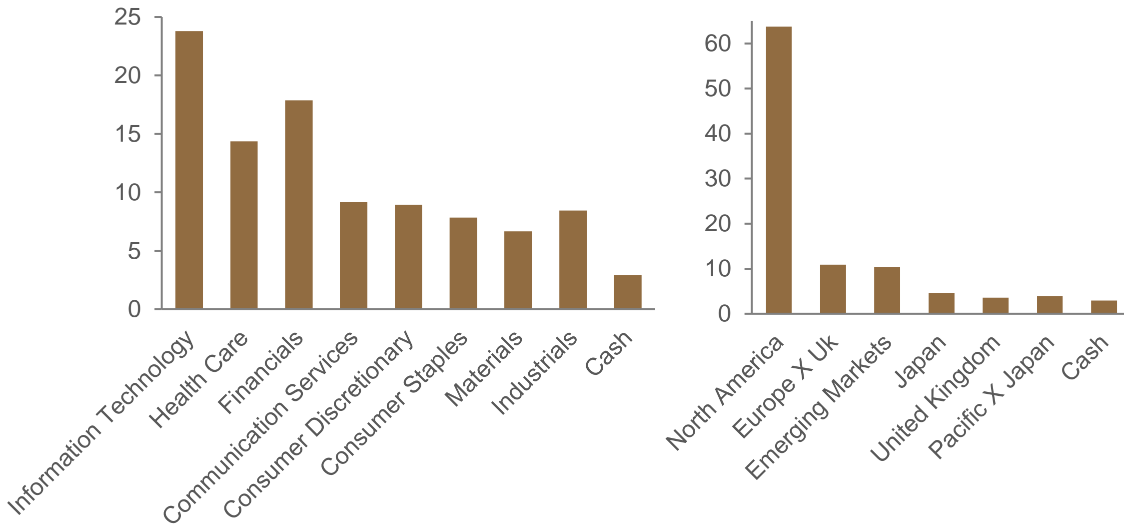
However, the effects of the crisis (and associated potential disruption of energy supply) have been apparent in energy markets, with both our own team's domestic fuel bills (like those of our neighbours), and the performance of energy stocks (which are not represented in the portfolio) moving in an upwards direction, with the oil price approaching US$90/barrel at time of writing, having famously dropped below zero as recently as April 2020. With the potential for further energy price gains apparent, and the portfolio underexposed in this area, the team are actively considering the possible impact of this underexposure on future portfolio performance.

Nevertheless our primary focus will remain, as always, 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
CME Group Inc.	United States	Financials
Apple Inc.	United States	Information Technology
Zoetis Inc.	United States	Health Care
Taiwan Semiconductor Manufacturing Co., Ltd.	Taiwan	Information Technology
Fidelity National Information Services, Inc.	United States	Information Technology

Sector and Regional Weights %



Sector Positioning

Most active overweight owned sectors for January 2022	
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 January 2022	
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.

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