Intermede Global Equities Fund

Monthly Report 31 March 2022

Performance

Period ending 31 March 2022	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	-3.02	-13.18	-8.20	4.00	14.60	14.78	12.13
MSCI All Country World Index (Net Dividends Reinvested) ($A)	-1.28	-8.37	-2.89	8.81	11.66	11.99	9.95
Out/(under) performance	-1.74	-4.81	-5.31	-4.81	2.94	2.79	2.18

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 March we closed three positions and opened three positions. The positions we closed were Meta Platforms, Alibaba and Diversey Holding, and the positions we opened were Weir Group PLC, Tencent and Autodesk Inc.

We closed our position in Meta (Facebook) during the quarter. While we continue to believe that Facebook will remain the global leader in social media, we have grown increasingly concerned that fundamental changes in the business landscape leave the company in a much more challenged position, and as such we do not believe growth will continue at similar rates as in the past. First, recent changes to Apple's iOS platform that have increased privacy protections for users have made it more difficult for Facebook to deliver its targeted advertising on behalf of its clients. While management is confident that it can execute strategies to circumvent Apple's changes this time around, we are concerned that the desire from users, society, and governments for more privacy and in turn less tracking and advertising will remain headwinds going forward. Second, the growth of TikTok as a competitive social media experience is beginning to show tangible impact, and challenges Facebook's position of dominance across its portfolio of apps. Third, CEO Mark Zuckerberg's full commitment to his vision of the metaverse brings new risks to the company. While he may ultimately be proven correct in the long-term, from today he is asking investors to stomach significant investment losses in the new venture with no sense of a business model or financial return in the long-term. Simultaneously, the strategic shift takes management attention away from the current core business that must navigate the digital advertising landscape coming out of the pandemic. In light of these challenges, it is clear that the underlying fundamental elements of our investment thesis on Meta have changed, and as such we have decided to re-allocate capital elsewhere.

We decided to close the position in Alibaba after first buying the stock in July 2015. Over the past 18 months we continually reassessed our thesis on the stock and along the way decided to add to the position. Alibaba remains the dominant leader in ecommerce in China, the world's largest ecommerce market. In addition, Alibaba is the leader in cloud in China and the company has a variety of other valuable businesses and investments including ownership of Lazada and a stake in Ant Financial. We have always applied a corporate governance discount to our DCF-based price target given the company's structure and we use a higher discount rate for China than for developed markets, which provided us some additional downside protection. But since the failed attempt to list Ant Financial the company has faced increased regulation and souring US/China relations has raised the risk of investing in a Chinese company with its primary listing in the US. Combined with an alarming erosion of the company's ecommerce market share and profitability, we no longer had conviction in the name and rather than adding on the weakness as we had done in the past, we have decided to exit.

We sold shares in Diversey because the company is facing a challenging year in 2022 in terms of price/cost. As a supplier of chemical products, Diversey is seeing strong inflationary pressures in relation to oil-linked material costs, fuel, and labour. While further price increases are planned, we think Diversey will struggle to maintain margins this year. Additionally, Diversey has one more tough comp quarter to lap in its infection prevention business, which will dampen volume growth. Finally, we were concerned that during the current macro and geopolitical uncertainty, Diversey has Net Debt to Adjusted EBITDA of 4.4x and FCF is being impacted by large investments into manufacturing capacity, restructuring and other costs. Consequently, we decided to sell the stock to fund our purchase of Weir, which was a higher conviction idea.

Weir is a leading provider of pumps, ground engagement tools and other specialist equipment to the global mining industry. The current strong commodity price environment provides a favourable backdrop for mining company capex. Furthermore, for metals like copper (Weir's biggest exposure at ~35% of sales), structural growth of ore volumes is being driven by strong demand from electricals/electronics combined with declining ore grades. This is positive for consumables and >90% of Weir's EBIT comes from the aftermarket. We purchased shares in Weir shortly after the

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.

2H21 results when Weir reported +24% order input growth, beating consensus expectations by 5%. At this time, we had +36% upside to our price target of 2,230p, which implies an NTM EV/EBITDA of 13.1x.

Tencent (700 HK) is the leading internet company in China engaged in multiple business lines including online games, social networking services, online advertising and fintech and business services. It is the No.1 player in the China gaming industry and its social networking services (WeChat ecosystem) is the infrastructure of the digital economy in China. Its fintech business is the second player (after Ant) in China and cloud business is one of the top three players in the China market after Ali Cloud and Huawei Cloud. Tencent's investment portfolio covers the digital economy in China such as Pinduoduo, Meituan, Kuaishou and overseas such as Epic, Sea, Snapchat, Spotify etc. Though impacted by regulations, Tencent is expected to fully digest the negative impact from minor protection measures in domestic games in 2H22 and to show resumed online advertising growth in late 2022. Additionally, Tencent is HK listed and thus not directly impacted by the potential ADR delisting risk.

Autodesk is a pioneer in the global design software market with more than six million subscribers, making it the market leader in architectural design products. The ubiquitous nature of its design products has led to a strong and growing market position for its newer software solutions related to construction and manufacturing, of which we believe new subscribers and continued product enhancements will drive double-digit revenue growth over the long-term. We believe shares of Autodesk represent an attractive opportunity to take advantage of the increased digitization of global manufacturing and construction through the US$75bn total addressable market for the company's software solutions. We were able to take advantage of temporary weakness in the broader software space and short-term idiosyncratic factors to purchase shares at what we view is a substantial discount to intrinsic value.

Market Outlook

It has now been more than a month since Russia's invasion of the Ukraine on 24th February. Russian forces were unable to make much progress in March and the Russian Defence Ministry has recast its aim as securing the Donbas region.

While Russia's military saw limited gains in March, several Russian economic indicators rebounded more than might have been expected. The currency for example plunged by nearly half against the US Dollar by early March only to then nearly fully recover to the pre-invasion level. Much higher interest rates and other efforts by the government to compel the use of roubles have played a part.

Russia's ability to continue to sell much of its oil and natural gas is another reason for its economic resiliency. Oil prices have fallen in tandem with the rebound in the rouble with the price at the end of March over 20% below the peak earlier in the month.

Inflationary pressures continued to build in the US, Europe, and many other countries. In the US, core personal consumption expenditure inflation was up by over 6% in the most recent survey, the fastest rate of increase since 1982. Core inflation in the Eurozone is now over 3% and at the highest level since the creation of the block. If the impact of higher food and energy costs is added in, inflation approaching or even exceeding 10% is being seen more and more.

The US Federal Reserve raised rates for the first time since 2018, lifting the target range to 0.25%-0.50%, and also provided guidance to the effect that it also expects to raise rates at each of the six remaining meetings in 2022. Further hikes in 2023 are currently predicted by Fed officials to push rates close to 3%.

The yield curve (2 year vs. 10 year) in the US inverted late in March for the first time since 2019 and only the second time since 2007. This is often seen as an indicator that a recession is on the way and illustrates the very difficult job the Fed has in raising rates by enough to see off inflation, while not pushing the economy into recession.

The difficulty of this balancing act is heightened by the rapid softening of US consumer sentiment, with the widely watched University of Michigan Sentiment Index reaching its lowest level since 2011 during March, and surveys of small business sentiment also weakening sharply.

In China, following a precipitous fall in share prices during March, with sentiment impacted on multiple fronts by a resurgence of COVID, the potential for renewed US sanctions due to the Chinese response to the Ukraine invasion, an uncertain regulatory environment and continued distress in the highly indebted property sector, the government announced that it would bring in "policies that are favourable to the market".

Following this volte face by China, equities rebounded sharply, and the conciliatory tone was maintained by the authorities during late March, with the China Securities Regulatory Commission announcing its intention to remove a key hurdle for U.S. regulators to gain full access to auditing reports of the majority of the Chinese companies listed in New York.

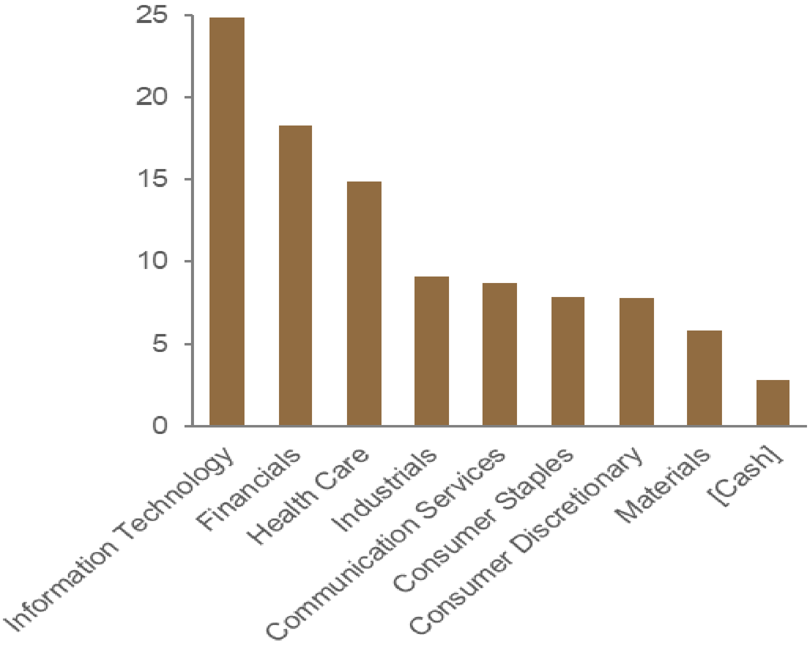
This softening of the Chinese authorities' position was one factor giving the team confidence to add a holding in Tencent, which we have liked for some time, but where we had been concerned by regulatory pressures which now appear to being ameliorated.

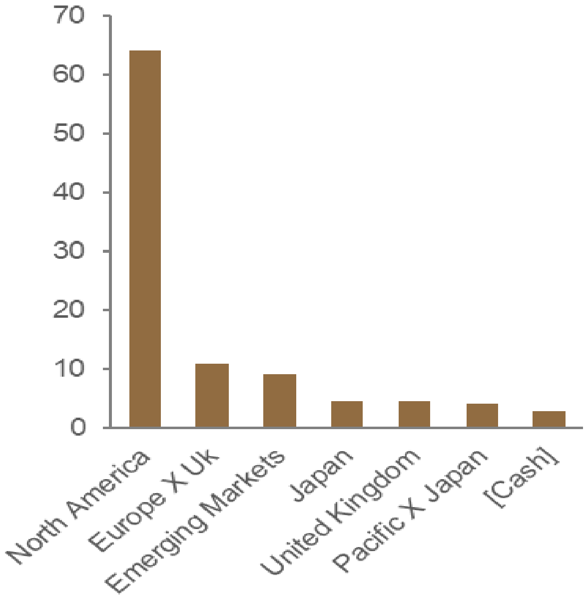
As always, our primary mission remains to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations. We believe this remains the most prudent path to capital appreciation in the long term.

Top 10 Holdings

Company	Country of Domicile	Sector
Alphabet Inc.	United States	Communication Services
Charles Schwab Corporation	United States	Financials
Danaher Corporation	United States	Health Care
Nestle S.A.	Switzerland	Consumer Staples
CME Group Inc.	United States	Financials
Linde Plc	United Kingdom	Materials
Amazon.com, Inc.	United States	Consumer Discretionary
Zoetis Inc.	United States	Health Care
S&P Global, Inc.	United States	Financials
Adobe Incorporated	United States	Information Technology

Sector and Regional Weights %





Sector Positioning

Most active overweight owned sectors for March 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 in 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 March 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 Techtronic Industries (the leading manufacturer of cordless power tools). In terms of near-term outlook, the global economy continues to lift COVID restrictions, which is positive for end markets such as travel and hospitality. However, the pandemic has resulted in prolonged supply chain challenges that are likely to last into the second half of 2022 or 2023. This has slowed production and resulted in rising input costs and commodity inflation, further exacerbated by the Russian invasion of Ukraine. Longer-term, we see a strong opportunity set in terms of i) fundamentally good companies that should see growth accelerate once constraints ease, 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 are now more underweight the sector after closing our position in Alibaba. Our top holding is Amazon and our next largest holding is Dollar Tree a leading discount retailer in the US currently undergoing a major change in pricing architecture. We are currently considering a variety of potential opportunities in the sector but are mindful of increasing pressures on consumers globally from elevated inflation and economic uncertainty.

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