

Performance

Period ending 31 December 2020	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	0.48	5.72	14.51	15.92	17.63	14.51	13.53
MSCI All Country World Index (Net Dividends Reinvested) (\$A)	-0.08	6.52	10.65	5.90	10.56	10.95	9.51
Out/(under) performance	0.56	-0.80	3.86	10.02	7.07	3.56	4.02

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 we did not open any new positions or close any existing positions within the portfolio.

Market Outlook

While Intermede's investment approach is firmly grounded in detailed fundamental analysis of individual businesses, it is important that we remain aware of the large-scale macroeconomic forces that, to some extent, define the nature of the environment in which our portfolio businesses operate. The closing months of 2020, a year in which the COVID-19 pandemic has demanded an unprecedented level of fiscal and monetary policy response from nations globally, seem a particularly opportune time to take stock of these.

A useful first step is to quantify the sheer scale of government financial responses to the pandemic. The greatest increase in sovereign debt (in both absolute and per capita terms) was seen in the United States, where the government debt burden rose by US\$4.2tn in 2020, an increase amounting to approximately US\$12,500 per capita, according to the IMF. The remaining G7 nations (Canada, France, Germany, Italy, Japan and the UK) collectively added an additional US\$3.9tn, or approximately US\$8,060 per capita. As a result of this unprecedented level of borrowing, net government debt as a percentage of GDP has now risen to 177%, 107%, 98% and 85% respectively in Japan, the United States, the UK and the Eurozone, a peacetime high in each case.

A second area of focus, given the substantial role that central banks have played in monetising government debt during 2020, is the rapidly converging relationship between fiscal and monetary policy. Taking the United States as a case study, the US fiscal deficit expressed as a percentage of total government expenditure (which stood at around 10% as recently as 2016) exploded to approximately 50% in 2020. The depth of the Federal Reserve's role as an enabler of this debt-driven spending is demonstrated by the scale of the central bank's purchasing of US treasuries during 2020, which peaked at a level equivalent to almost 40% of government expenditure.

From a portfolio perspective, the clear risk during such a period of extreme monetary and fiscal looseness to a portfolio of longer-duration assets such as growth equities is that a V-shaped recovery (perhaps driven by pent up demand following a successful roll out of COVID-19 vaccination programs) forces monetary authorities to pivot unexpectedly to tighten policy, with the knock-on effect that long-dated cash flows are discounted more aggressively with potentially severe impacts on share prices. The most salient recent example of the effects of such a policy pivot is perhaps the 'taper tantrum' of 2013, which saw equities impacted in a sharply negative fashion as bond yields rose.

However, while we are not in the business of making macroeconomic forecasts at Intermede, certain features of the current landscape suggest that the risks of such a sharp reversal are modest at present.

Firstly, the current priorities of the Fed relating to inflation targeting would not be supported by a move to tighten. Following a strategic review conducted between February 2019 and August 2020, the Fed has indicated that it will target an average inflation rate of 2%, with rates in excess of that level to be tolerated to compensate for periods of lower inflation. With the Fed's preferred measure PCE Index (Personal Consumption Expenditures inflation) running at around just 1.4% in November 2020, tightening measures would run contrary to these stated strategic goals.

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.



Secondly, the sheer level of debt suggests that rapid increases in rates may be politically untenable. One signal that the Fed may actively move to cap bond yields via the sort of yield curve control measures that are already employed in Japan and, more recently, Australia, has been detailed discussion of such measures in written work by regional Federal Reserve Banks, including the St Louis Fed, which published a primer on yield curve control in August 2020. Any measures put in place to set a limit to US bond yields via financial repression would on balance likely to be supportive of growth equities.

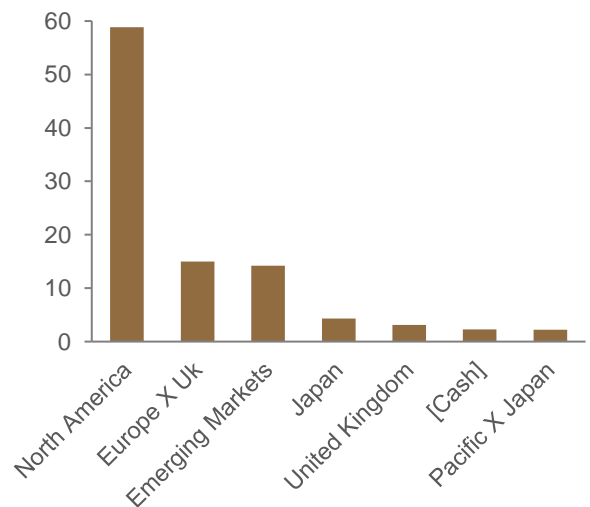
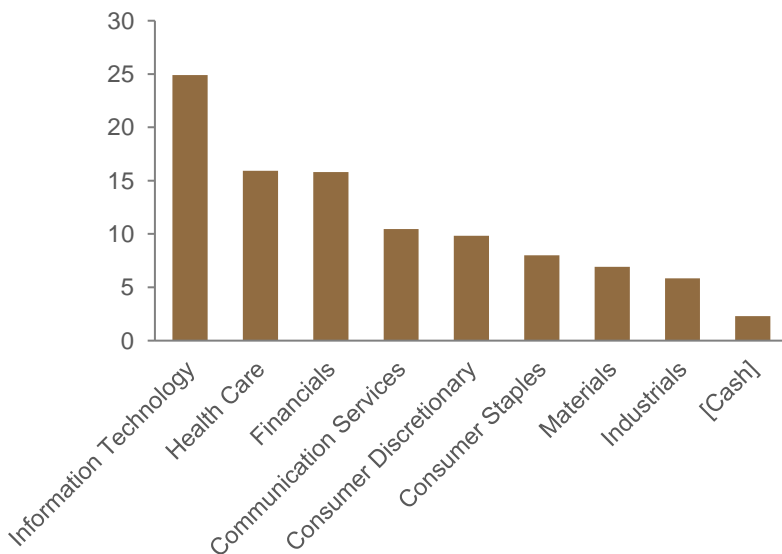
Thirdly, even if either the bond market, or decisions taken by central bank authorities, were to lead to a tightening of conditions, the valuation discipline that is central to Intermede’s investment approach (one effect of which is that the portfolio will typically have limited exposure to the most aggressively-valued segments of the growth equity opportunity set) should provide a level of downside protection, particularly relative to more aggressively oriented, price-agnostic growth strategies.

In short, 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
Samsung Electronics Co., Ltd.	South Korea	Information Technology
Taiwan Semiconductor Manufacturing Co., Ltd.	Taiwan	Information Technology
Zoetis Inc.	United States	Health Care
Housing Development Finance Corporation Limited	India	Financials
Alphabet Inc.	United States	Communication Services
Linde Plc	United Kingdom	Materials
Charles Schwab Corporation	United States	Financials
Heineken NV	Netherlands	Consumer Staples
Nestle S.A.	Switzerland	Consumer Staples
Walt Disney Company	United States	Communication Services

Sector and Regional Weights %





Sector Positioning

Most active overweight owned sectors for December 2020

Information Technology	We are overweight in the information technology space as we see attractive opportunities for long-term value creation for those companies that can drive growth in digital businesses, including cloud software and services, electronic payments, and mobile applications. That said, our approach to investing in IT remains disciplined, focusing on companies with sustainable market leadership, proven and profitable business models, and attractive valuation. In December, our best performing stock in the sector versus benchmark was Samsung, the global leader in semiconductor memory (NAND and DRAM), a critical resource in the current, digital-first environment.
Healthcare	We are overweight the healthcare sector in companies where we see attractive and potentially accelerating growth trajectories for our portfolio companies. The focus of our portfolio holdings 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. We have relatively limited exposure to sectors where we see a risk of longer-term regulatory disruption, such as pharmaceuticals, where our only investment is Novo Nordisk, partly as we see insulin is somewhat distinct from traditional drugs but also as we feel optimistic about near term product launches. Finally, we do have exposure to the attractive animal pharmaceutical market with Zoetis. We believe participants in this market will benefit from a new wave of innovations much like human health has over the last 20 years.

Most active underweight owned sectors for December 2020

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 the sector very much depends on the impact of COVID-19. A recession in most countries is inevitable however some end-markets (e.g. airlines, energy, restaurants) will be more impacted than others (e.g. healthcare, food retail).
Consumer Discretionary	We continue to be highly selective within the consumer discretionary space and the emergence of COVID-19 has not changed this stance with consumers shifting pressured budgets to buy essentials whether household cleaning products or broadband service. We have favoured areas with strong secular tailwinds such as sporting goods and internet retailing with Adidas, Alibaba and Amazon our top holdings in the sector.

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