INTERMEDE
INVESTMENT PARTNERS

Intermede Global Equities Fund

Monthly Report 29 February 2020

Performance

Period ending 29/02/2020	1m %	3m %	6m %	1yr %	3yr % p.a.	5yr % p.a.	Since inception % p.a.
Intermede Global Equities Fund	-3.51	1.77	8.34	27.11	18.83	13.07	13.07
MSCI All Country World Index (Net Dividends Reinvested) ($A)	-4.56	-1.27	5.68	14.63	13.43	9.72	9.72
Out/(under) performance	1.05	3.04	2.66	12.48	5.40	3.35	3.35

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 February, we did not open any new positions however we did close two positions, namely Welbilt Inc. and Weir Group.

We decided to sell out of our Weir position in February due to concerns about the oil & gas business. Weir is a leading provider of high pressure ‘frac’ pumps to the North American shale market. Spending on equipment by exploration & production companies has been under pressure due to the weak oil price and greater focus on shareholder returns. Excess pumping capacity in the market has impacted volumes and pricing, both in terms of original equipment and aftermarket components. An added concern regarding the long-term thesis was the emergence of more intense competition in this end-market than we like to see in companies we own. By contrast, we view Weir’s core mining business as very high quality, however in our opinion this was reflected in valuation and we also saw downside risk from reduced ore volumes. So, despite expectations coming down significantly over the course of 2H19, we revised forecasts to materially below consensus in February and cut our price target. With no further upside we therefore took the decision to sell.

Welbilt is a leading provider of commercial food service equipment, primarily serving the North American and European markets. Our sale was based on two main factors. Firstly, organic growth slowed over the course of 2019, from 3.5% in Q1 to 2.2% in Q2 to 0.6% in Q3. Although this was explained by management as mainly due to lumpiness, our concern was that customers, including Quick Service Restaurants (QSRs), were cutting back on spending in a weaker macro environment, despite the efficiency benefits from upgrading equipment. Secondly, Welbilt is highly levered (our FY19 forecast was 4.5x Trailing Net Debt/EBITDA) and banking covenants tightened at the beginning of 2020 (to 5.00x from 5.75x), leaving little headroom. Consequently, we were concerned about a breach and credit rating downgrades. After reducing our medium-term revenue growth forecasts and taking into account the balance sheet challenges, we decided to sell and invest the proceeds in higher conviction names.

Market Outlook

Global markets had a turbulent month amid rising concerns about the economic impact of the coronavirus outbreak. In the closing week of the month, the S&P500 index fell by 3.4% in a single day, marking the worst daily performance in over two years. The total decline from the recently-reached all-time high during February was approximately 8%.

Equity markets in Europe and Japan also tumbled, as investors took refuge in assets perceived as safe, driving the yield on the ten-year US treasury to its lowest recorded level. Conversely, the VIX , a widely-recognised measure of market volatility, spiked to its highest level in two years. As always in times of market distress, Intermede’s clearly defined and consistently applied investment discipline was helpful as we sought to navigate choppy waters.

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.

As often discussed in these commentaries, we are long-term investors and typically look through short-term issues. And something like a virus is by its nature a short-term issue. That said, we recognise that a global pandemic of as yet unquantified intensity and reach has the potential to cause major economic dislocation in the short term.

Fortunately, the portfolio does not hold any airlines, cruise lines, restaurants or hotel businesses, as we see them as being vulnerable to economic cyclicality and largely unattractive businesses. However, in a period of heightened risk, we did look through the portfolio for any vulnerabilities quite early on, and took action.

As reflected in our stock specific commentaries, we took the view that two names were vulnerable. The first was Welbilt, the food service equipment maker, which sells capital goods to restaurants. In addition to being a cyclical business, it also has significant debt and was effectively undergoing a turnaround under new management. While we believed this might turn out fine, given the uncertainty and high debt level we felt it best to exit the position.

The second position exited was Weir Group, the global leader in slurry pumps for mining extraction and oil and gas fracking. Here we had been concerned for some time about weakness in the oil & gas side of the business, and felt that this was likely to get worse under the sort of low demand situation that could be caused by the virus.

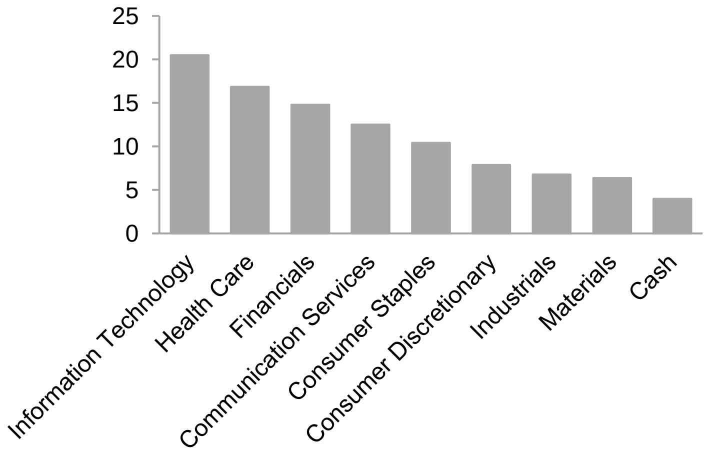
Essentially, we exited two names on which we were losing conviction, and for which the virus problem meant that we could not be sure of the normal demand situation playing out, meaning that a safety first approach made sense. We also saw merit in having more cash to deploy if bargains are thrown up. At the start of March, the portfolio now has higher cash levels than usual (by a modest amount of 3% or so) and we will look to deploy this if and when we find undervalued situations on our watch list.

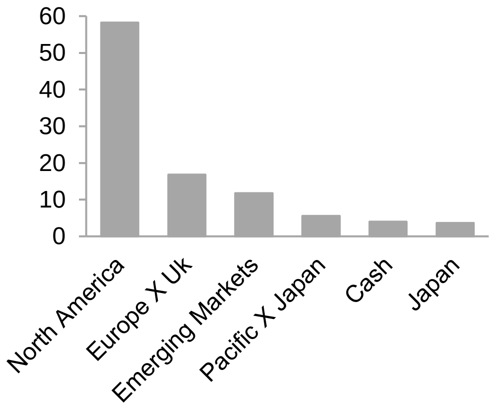
In short, at present it is business as usual at Intermede, albeit with a sharpened eye on potential risks from the knock-on effects of the coronavirus. As ever, our primary mission remains to identify and understand high quality growth businesses in possession of defensible competitive moats, and to 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
Nestle S.A.	Switzerland	Consumer Staples
Housing Development Finance Corporation Limited	India	Financials
Facebook, Inc.	United States	Communication Services
Alphabet Inc.	United States	Communication Services
Zoetis Inc.	United States	Health Care
CME Group Inc.	United States	Financials
Heineken NV	Netherlands	Consumer Staples
Apple Inc.	United States	Information Technology
Alibaba Group Holding Ltd.	Hong Kong	Consumer Discretionary
Mastercard Incorporated	United States	Information Technology

Sector and Regional Weights %





Sector Positioning

Most active overweight owned sectors for February 2020	
Communication Services	We are overweight the communication services sector as we see attractive opportunities for value creation for companies in the interactive media ecosystem that can drive growth via platform-based business models. Market leaders in this space benefit from network effects which create winner-take-all style dynamics that can generate increasing returns on capital. Our largest top positions in the sector are Alphabet and Facebook, the two dominant leaders in the online advertising market.
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 February 2020	
Industrials	We are underweight in industrials with a focus on leading companies that can benefit from structural growth trends, increase market shares and improve margins. Within the sector, holdings include Allegion (a leader in electro and mechanical locks) and CAE (the global market leader in flight simulators for the civil and defence markets). In the short-term, coronavirus, Brexit, trade tariff discussions and cyclical headwinds in certain end markets (e.g. automotive, energy) have impacted the purchasing of capital goods. Regionally, the US Purchasing Managers Index (PMI), one of the most important leading indicators, has deteriorated sharply year-to-date and now sits just below 51 (above 50 implies expansion, below 50 contraction). Since the outbreak of the virus, China's PMI has sunk to 40, which suggests manufacturing output may well shrink in Q1/Q2 2020. Elsewhere, the Eurozone Aggregate index has rebounded off its lows at the end of last year and now sits just below 50, although March is likely to be sequentially worse due to virus impacts. Consequently, the first half of the year looks challenged in terms of macro and we think our ownership of higher quality, relatively less cyclical names in the sector positions us well.
Consumer Discretionary	We remain highly selective within the discretionary space as consumers, particularly in developed markets, remain reluctant to spend following the economic downturn of ten years ago. We have favoured areas with strong secular tailwinds such as sporting goods and internet retailing with Adidas and Alibaba our top two positions in the sector.

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