INTERMEDE
INVESTMENT PARTNERS

Intermede Global Equities Fund

Monthly Report 31 August 2024

Performance

Period ending 31 August 2024	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	7 years (% pa)	Since inception (% pa)
Intermede Global Equities Fund	-0.88	3.91	2.24	11.22	3.22	10.38	12.79	11.43
MSCI All Country World Index (Net Dividends Reinvested) (A$)	-1.31	4.40	6.09	17.83	8.42	11.98	12.66	10.80
Out/(under) performance	0.43	-0.49	-3.85	-6.61	-5.20	-1.60	0.13	0.63

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

We opened two new positions, MSCI and TransDigm, and closed one, Charles Schwab, during the month of August.

MSCI is the leading global provider of equity indices (73% of EBITDA), with a monopoly type competitive position in key benchmark global and regional indices (e.g. ACWI, EAFE, EM). MSCI also benefits from leading positions in portfolio analytics (Barra and RiskMetrics) and ESG & Climate research and data/analytics. Nearly all of MSCI's revenues are recurring in nature (74% recurring subscriptions, 24% index asset based) with very high retentions rates (95%) and exposure to key growth areas (e.g. passive, factor based, ESG, data driven investing). This has resulted in consistent low double digit revenue growth, at very high margins and low capital intensity. Management has also demonstrated strong capital allocation skills through opportunistic share buybacks and bolt on acquisitions. MSCI shares have derated as investors have switched into more macro sensitive investments in recent years and following a concentration of client events in Q1 which led to slightly lower growth (e.g. the UBS/Credit Suisse merger leading to a rationalisation in subscriptions). This provided the opportunity for us to initiate an investment with significant upside to our assessment of intrinsic value.

TransDigm (TDG) is a leading global producer, designer, and supplier of highly engineered aerospace components, systems, and subsystems for use on commercial and military aircraft. We view TDG as a high quality consistent compounder and we initiated a position during the early August market sell-off. Overall, 90% of products are proprietary and 80% of sales are sole-source. Products are often 'mission critical' in nature but small in size and small as a percentage of total airline costs (maintenance is ~14% overall). Once a supplier like TDG is qualified with an original equipment manufacturer and specified into the platform with a proprietary product, it's very difficult to substitute that product. Aftermarket business has a very long life with aircraft platforms typically lasting 30-35 years and aircraft remaining in service for 30-35 years. In commercial aerospace, record load factors are currently driving strong maintenance, repair, and overhaul activity. The market grew approximately 13% in Q2. 56% of total sales come from the aftermarket (35% Commercial + 21% Defence). The 44% of the business that comes from OE (21% commercial + 23% Defence) will benefit from accelerating build rates of new platform aircraft, on which TDG has considerably higher shipset content per aircraft. TDG also has a very successful track record of M&A, acquiring an average of c.3% of EBITDA per year and targeting 20+% IRR over 5 years from deals.

We decided to exit our Schwab investment on August 1st following the disclosure from several large US banks that they would be increasing the interest rates paid on excess client cash in advisory accounts. Schwab's business model is one of "scale economies shared," where Schwab has shared the benefits of scale with clients through cutting fees and commissions, leading to further market share gains. This model has proved highly successful over time, with Schwab consistently gaining share since launch in the 1970s, and Schwab is now the #1 US wealth management firm with $9trn

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.

in client assets. However, this model has resulted in Schwab's earnings becoming dependent on the spread earned on excess cash in client advisory and brokerage accounts. Following a regulatory review of Wells Fargo's practices here, several large US banks (Wells Fargo, Bank of America, JP Morgan, and Morgan Stanley) have increased the rates paid on excess client cash in advisory accounts. Schwab has a different business model to these competitors and it is not clear that Schwab will have to follow suit (and if they did, to what degree they could offset this with additional fees charged elsewhere), but this does put c.1/3rd of Schwab's earnings at risk. Given this uncertainty, we decided to reallocate the capital to alternative investment opportunities.

Market Outlook

Anticipated Rate Cuts

A key point of focus for the market remains the timing and extent of now soon-anticipated rate cuts in the US. During August these seemed to loom closer, given the month's release of headline CPI data came in at +0.2% for the month and +2.9% year-on-year for July, which was marginally below market expectations, and the seemingly dovish content of Fed Chairman Jerome Powell's speech at the annual Jackson Hole conference.

At the time of writing markets are discounting a first rate cut of 25 basis points in September, and close to a full percentage point by the end of the year. We would be remiss however not to point out that markets are often wrong, and also that underlying the headline data, core services inflation remains relatively sticky at 4.9%.

Volatility Eruption

The big event in markets during August was the brief eruption of market volatility at the start of the month. Attributed variously to the unwind of the yen carry trade, Bank of Japan policy direction, and soft US economic data, this wobble in markets sent the VIX, a measure of volatility, to levels last seen at the time of major market events such as the start of Covid-19 and the Lehman bankruptcy. However, as quickly as the VIX spiked up to a high reading of above 60, it almost immediately dropped right back to a level in line with where it has traded for the last few years.

Monetary Policy in Japan

Further, there appears to have been a reversal of the direction of political pressure on monetary policy in Japan. While until recently, rising domestic inflation caused by a falling yen had been the focus, the violence of the market reaction to a tiny move in the direction of normalisation appears to have changed the political wind.

This is further suggested by the decision taken during the month by Prime Minister Kishida not to run in the LDP leadership election due to take place in late September. If the BoJ does indeed return to a holding pattern, this may also give momentum back to the (empirically hard-to-pin-down, but widely believed to have a profound impact on markets) yen carry trade.

Revealing Quarterly Results

Perhaps the second most significant market event during the month was NVIDIA's quarterly results, given the extraordinary level of focus on this AI bellwether each time it reports. Making clear the extent to which the company is priced for perfection, results exceeded market expectations, with quarterly revenues hitting $30bn and net profit of $16.6bn (almost threefold quarterly revenue for Q1 2023) up 168% year-on-year, the shares fell just short of a double-digit percentage.

Elsewhere another seemingly revealing set of quarterly results for a company not held in Intermede's portfolios came from Chinese internet retailer PDD (behind the Pinduoduo and Temu e-commerce sites). Noting that slower economic growth in China would 'inevitably' lead to falling sales and profits, its share price immediately tumbled by almost a third.

Chinese Domestic Demand

Turning to China more broadly, a record trade surplus year-to-date was announced during August, again highlighting the ongoing collision between President Xi's supply-driven policy with the reshoring priorities of much of the western world. But while overseas demand is strong, the domestic growth picture in China remains muted, with the PBoC intervening in the Chinese bond market during August to prop up sagging bond yields which had been impacted by five quarters of ongoing disinflation, with real GDP having grown faster than nominal GDP for several quarters now (which increases real yields, drawing in investors), and the dimming attractions of alternative options such a real estate and equities. Chinese authorities appear increasingly concerned about the domestic demand picture and the potential for deflationary dynamics to emerge, with Beijing announcing a 20-step program to support consumer sectors during August.

Fast-Moving AI World

In the fast-moving AI world, AMD's $4.9bn move to acquire ZT Systems, a leading data centre infrastructure company, shows the increasing importance of connectivity and networking within the data centre space given that while the speed of GPUs has increased by 50x in a few years, the efficiency of the data centre (central to actually realising the efficiency of the powerful new chips for training and inference) has trailed far behind. And elsewhere, OpenAI saw another round of funding value the company at over $100bn, even as another senior employee, John Schulman, a key architect of ChatGPT, leave to join rival Anthropic. Just two of OpenAI's eleven founders now remain at the organisation after several departures following November's attempted boardroom coup against CEO Sam Altman.

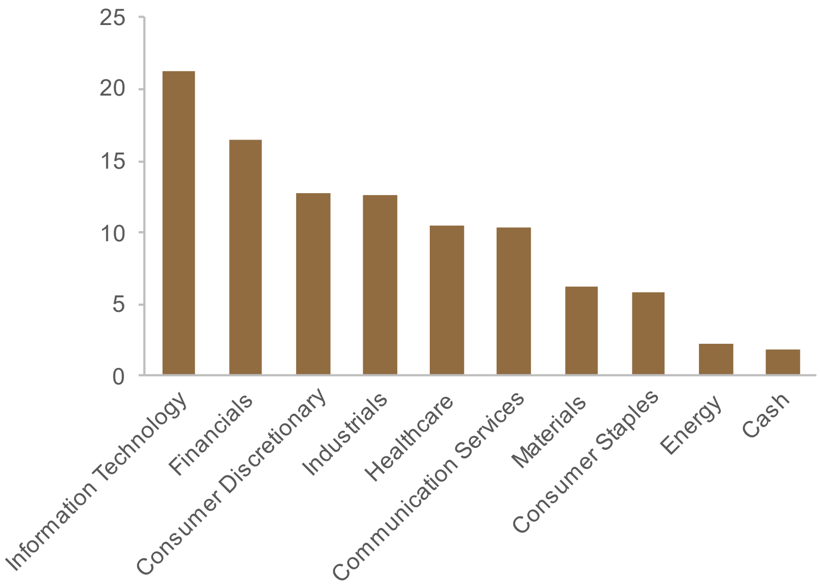
And there was no cooling in the ongoing tensions between regulators globally and the megacap technology companies. In addition to Google being declared a 'monopolist' in the search category by a US judge in a major win for the Department of Justice (the actual impact of this verdict may not be known for years), and Apple and Microsoft walking away from OpenAI board seats rather than attract antitrust attention, Meta and Google were found to have used a data tracking loophole to bypass protections intended to prohibit ad targeting for under 18s, whilst the US senate overwhelmingly passed a bipartisan bill to protect children from harmful online content, Meta paid $1.4bn to settle claims it illegally harvested users' biometric data, and in the EU, Apple made yet more changes to its App Store policies in an effort to comply with the EU's digital markets act (breaches of which can attract fines of up to 10% of global turnover).

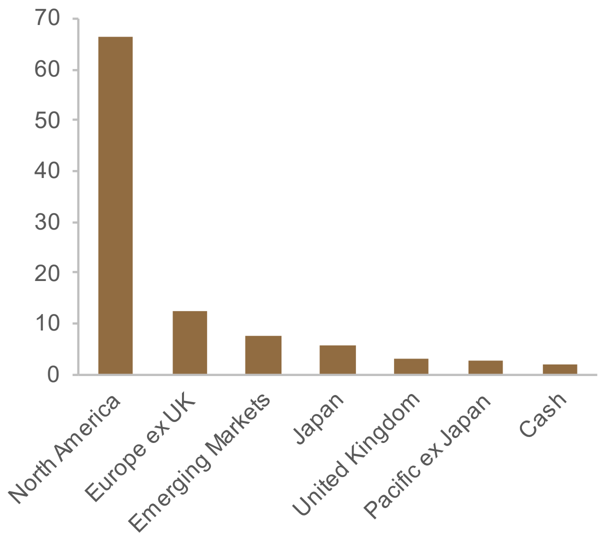
As always, our primary mission remains to identify and understand high quality growth businesses in possession of defensible competitive moats, and to purchase them at attractive valuations. We believe this remains the most prudent path to capital appreciation in the long-term.

Top 10 Holdings

Company	Country of Domicile	Sector
Microsoft	United States	Information Technology
Amazon.com	United States	Consumer Discretionary
Linde	United Kingdom	Materials
Alphabet	United States	Communication Services
Taiwan Semiconductor Manufacturing Company	Taiwan	Information Technology
Equifax	United States	Industrials
S&P Global	United States	Financials
Mastercard	United States	Financials
Haleon	United Kingdom	Consumer Staples
Nestle	Switzerland	Consumer Staples

Sector and Regional Weights %





Sector Positioning

Most active overweight owned sectors for August 2024	
Consumer Discretionary	We are overweight the Consumer Discretionary sector. Amazon has the highest weighting, though relative to the benchmark it is the smallest active position. We have four other holdings in the sector all with weightings a bit over 2%. These are McDonalds, Airbnb, LVMH, and Inditex. During August we added to both Amazon and Airbnb which sold off following 2Q24 earnings releases and guidance updates. There are increasing signs that some consumers are pulling back on spending for both lower income and higher income cohorts in the US and many other markets. We believe the softening was more than fully priced into the share prices of Amazon and Airbnb, so we added. For McDonalds the company had seen softer sales since late last year and now has some initiatives underway to drive better growth and easier comparisons coming. LVMH is also seeing softer growth but again the comparisons ease later this year. Inditex continues to have the most consistent performance.
Communication Services	We are currently overweight in the Communication Services sector. Overall, we continue to find value in businesses within the sector that combine long-term secular growth drivers with defensible competitive positioning, enabling the long-term compounding of value. Examples of this include our investments in music and video streaming, social media, and digital advertising; all benefitting from unique data sets and network effects which drive additional value for customers. In August, our best performing stock in the sector versus the benchmark was UMG, market leader in music publishing and recorded music.

Most active underweight owned sectors for August 2024	
Energy	We are underweight the Energy sector because the companies that account for the majority of the index are large integrated or national oil companies that do not meet our growth criteria. This is because their revenues are directly tied to oil and gas prices, which the market expects to fall in coming years due to supply and demand factors (i.e. the forward curve is in backwardation). However, we do see opportunities in the Oilfield Services and Equipment sector, where we own Baker Hughes, which is seeing strong demand growth for its LNG, Hydrogen, and Carbon Capture offerings.
Information Technology	We are currently underweight in the Information Technology sector. Overall, 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 advanced semiconductors. That said, our approach to investing in IT remains disciplined, deploying capital in only those companies where we see attractive valuation upside potential. In August, our best performing stock in the sector versus the benchmark was TSMC, the global leader in semiconductor manufacturing.

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