INTERMEDE
INVESTMENT PARTNERS

Intermede Global Equities Fund

Monthly Report October 2018

Performance

Period ending 31 October 2018	1m %	3m %	6m %	1yr % p.a.	3yr % p.a.	Since inception % p.a.
Intermede Global Equities Fund	-4.86	-1.47	3.83	8.38	8.42	9.45
MSCI All Country World Index (Net Diviends Reinvested) ($A)	-5.56	-1.78	2.31	7.62	7.98	8.15
Out/(under) performance	0.70	0.31	1.52	0.76	0.44	1.30

Performance returns are calculated net of management fees and are pre-tax in A$. Past performance is not a reliable indicator of future performance.

Portfolio review

During October, we re-opened a position in Worldpay, as we saw an attractive price in the market relative to the strong financial performance of the company post the acquisition of Worldpay by Vantiv. We continue to believe that the new combined company (renamed Worldpay) is well positioned as a leader in the global merchant acquiring industry, and should be able to leverage its customer relationships, scale and technology to drive success in the growing e-Commerce arena. The immediate expense and revenue synergy opportunities arising from the acquisition will be also be an incremental source of value creation for investors.

We started a new position in Bio-Rad, a San-Francisco based Life Science and Diagnostics company. Our investment thesis is based on the potential for rapid growth in its Life Science business driven by a new technology called digital droplet PCR (ddPCR) which allows for the detection and quantification of very low levels of DNA in a sample. This technology has a range of uses ranging from liquid biopsies (for low level cancer detection/monitoring), where we see a large commercial potential, through to environmental monitoring, with the most interesting example we found in our due diligence being the detection of Burmese Python DNA in Florida Everglades water samples. We believe the growth of ddPCR, currently in its infancy, can drive growth towards the high end of its peers. This growth is on top of solid and sustainable revenue base selling tools for Life Science research and human diagnostic testing where Bio-Rad have leadership positions. Despite this, the company has the lowest margins in its peer group – we expect these to expand significantly driven by the growth of digital PCR, but also due to the potential for cost savings related to the recent implementation of enterprise resource planning (ERP) software allowing them to better control costs and utilise production facilities. This should leverage strong revenue growth into 20%+ earnings and FCF growth for the next few years. The company also own a c33% stake in Sartorius, a European biologic tools company, also in itself very well positioned for growth. When adjusting for the value of the Sartorius position as well as Bio-Rads net cash, the shares are trading at multiples well below peers, something we find attractive.

We did not close any positions.

Outlook and strategy

Volatility returned to equity markets in October, with the S&P500 recording ten daily moves greater than 1% (two more than occurred during the whole of 2017), and the MSCI World index declining by 7.3% in US dollar terms.

Contributing factors to the turbulence included: i) an early October spike in the US 10-year treasury yield to an eight-year high of 3.26% following a positive assessment of the US economy by Federal Reserve Chair Jay Powell; ii) concerns about faltering Eurozone growth and the financial health of the Italian banking sector; iii) continued trade tensions between the US and China; and iv) growing evidence that corporate earnings growth may have peaked.

About Intermede

Intermede is a London-based, specialist global equities manager. They aim to outperform global equity markets by investing in companies with good management and strong market positions in attractive industries. 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.

Related to the final factor is the unhelpful impact on corporate profitability from rising input costs. US wages are rising at over 3% for the first time in a decade, according to the Department of Labor, and in our own portfolio we saw Colgate announce during October that profits had been eroded by mid-to-high single digit percentage annual increases in commodity and logistics costs. Elsewhere, rising transport expenses were identified by Coca-Cola, Mondelez and Whirlpool as a drag on Q3 earnings. In such an environment, the ability to pass costs on to consumers will be a source of advantage, so we will monitor our portfolio companies carefully in this respect.

One interesting symptom of the heightened equity market volatility during October was a marked shift in the way that share prices have reacted to positive earnings news. Specifically, while earnings 'beats' for US corporations had typically been greeted with an upwards share price move of around 1% during the summer earnings season, the average positive earnings surprise during this quarter has met with a decline in share price of 1.5%, according to FactSet.

It is also interesting that the current quarter's US earnings season again fails to provide support for the view that tax cuts will boost corporate capex. While a few businesses have announced spending increases, in particular the tech giants who are competing aggressively in data centres and artificial intelligence (current portfolio holding Alphabet announced a 49% spending increase to $5.28bn, for example), industrial giants including GE and Boeing have materially reduced spending guidance for the year. Instead, it appears that the tax break has primarily resulted in a sharp increase in the pace of share buybacks, which are currently running at their highest level since the financial crisis.

In terms of central bank activity, a slump in Eurozone growth to just 0.2% for the third quarter has called into question the timing of the ECB's planned exit from its crisis-era stimulus measures. Additional near-term uncertainty for the ECB may result from Angela Merkel's decision, announced in late October, to step down as leader of Germany's CDU party after 18 years. In the UK, the Bank of England voted to keep rates unchanged at 0.75%, with greater interest being provided by Governor Mark Carney's subsequent statement that rates would need to rise more rapidly over the next three years if Prime Minister Theresa May is able to secure a deal with the EU enabling an orderly Brexit, which drove a sharp rise in sterling.

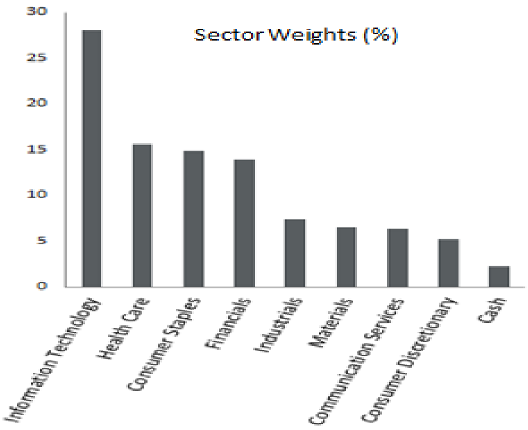
In India, an intriguing battle between the Reserve Bank of India (RBI) and the Modi government is playing out, with New Delhi threatening to invoke legislative powers to force the RBI to ease lending restrictions on fragile state banks, and to hand over billions of dollars of reserves as a means to shore up government finances and to boost politically-expedient public spending ahead of 2019's general elections. Senior RBI officials are vigorously resisting the demands, with reports circulating in the Indian media that Governor Urjit Patel will resign if the Modi government encroaches on the central bank's autonomy.

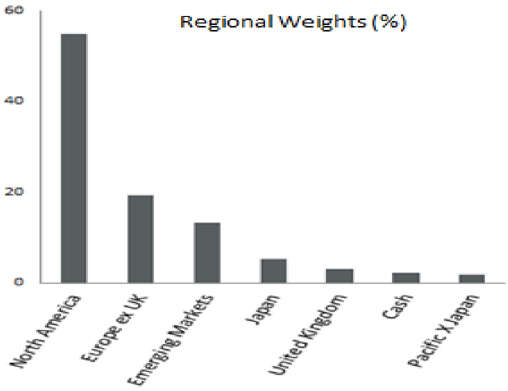
With respect to our own portfolio, as always, we continue to adhere to the belief that the most prudent path to long term capital appreciation resides in owning a portfolio of attractively priced fractional ownership stakes in high quality businesses, each held long enough for their power of compounding earnings and cash flows to be rewarded by the market. Our days are therefore spent performing detailed fundamental research, with the aim of identifying such businesses, and further deepening our understanding of those we already own.

Top 10 holdings

Company	Country of Domicile	Sector
Apple Inc.	United States	Information Technology
Charles Schwab Corporation	United States	Financials
CME Group Inc. Class A	United States	Financials
Comcast Corporation Class A	United States	Communication Services
Heineken NV	Netherlands	Consumer Staples
Housing Development Finance Corporation	India	Financials
Linde plc	Germany	Materials
Mastercard Incorporated Class A	United States	Information Technology
Nestle S.A.	Switzerland	Consumer Staples
Zoetis, Inc. Class A	United States	Health Care

Sector and Regional Weights %





Sector Positioning

	Most active overweight owned sectors for October 2018
Information Technology	We remain overweight in the information technology space as we see attractive opportunities for long-term value creation for those companies that can drive growth in mobile applications, electronic payments, and cloud software and services. 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 October, our best performing stock in the sector versus benchmark was Apple, the global leader in mobile electronics.
Consumer Staples	We are overweight in the consumer staples sector given resilient demand, strong brand protection and long-term growth from mix improvement and emerging consumer growth. We are, however, less overweight than usual at this time as investors in their search for yield have pushed valuations above our comfort level in many cases and as consumer spending patterns are shifting with rising ecommerce sales. Our core holdings in the space tend to share several characteristics: collections of strong brands, products are necessities or are addictive (coffee) and are sold to consumers around the world including in emerging markets. Holdings include Nestle and Heineken.
	Most active underweight owned sectors for October 2018
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.
Financials	We are under-weight financials as we find few large cap banks meet our investment criteria. That said, we have an investment in the leading US retail and commercial focused bank, Wells Fargo, which has significant competitive advantages through scale, low funding costs and a focused business model which has allowed the bank to deliver strong growth and returns. We also like Indian financial services provider HDFC, Asian life insurer AIA, global derivatives exchange CME, US investment services firm Charles Schwab and financial information provider S&P Global for their strong competitive positions in industries with high structural growth prospects. In October, our financials portfolio outperformed the broader financials index by 3% with performance led by CME as a beneficiary of rising market volatility with trading volumes in October rising 38% yoy. CME is the leading global derivatives exchange with near monopoly positions in many diverse, globally relevant products as a result of its integrated trading and clearing platform. This results in strong pricing power which, together with secular volume drivers such as trading electronification and futurization of derivatives, supports high revenue growth prospects. Cyclically, CME trading volumes would also benefit from any sustained increase in volatility from current levels which are low relative to history. The group further benefits from strong operating leverage and cash conversion which is fully distributed to shareholders through quarterly fixed and annual variable dividends.

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