

# With the highest conviction

INTERMEDE INVESTMENT PARTNERS SHARES ITS PHILOSOPHY BEHIND LONG-TERM OUTPERFORMANCE WITH A PORTFOLIO OF JUST 40 GROWTH COMPANIES. IT'S STRATEGY ACCORDING TO GARP.

WORDS MEREDITH BOOTH

**L**ondon-based investment veteran Barry Dargan says a disciplined share investor never listens or reacts to sharemarket "noise" and broker gossip, because quality stocks will outperform in challenging environments.

The chief executive of \$US2.3 billion (\$3.0 billion) Intermede Investment Partners, and his team of five analysts across London, has about 40 companies of high quality, high returns, good management and strong market positions in attractive industries, bought at the right price for its institutional and retail investors.

"I think we're very disciplined in what we do, we define our universe and we know exactly what we're looking for, we're a small team that are all philosophically aligned using the same process to define those companies," Dargan says.

Dargan and his team are part owners in 60 per cent of the business, with 40 per cent owned by NAB Asset Management, giving them skin in the game since launching their global equity fund in February 2015.

"We are owners of the business and want to deliver a good return to our clients," he says. "That's of vital importance to us and we just run the one strategy, which is the best way to do this because if you do one thing, you tend to do it well. We have strong focus on what we do so we try to offer a best-in-class experience."

Dargan began his career with London's Phillips





& Drew in 1985. He has experienced the 1987 crash, Asian and global financial crises, including a “very long horrible bear market” in Japan. The downturn lasted for 23 years and wiped out 78 per cent of the value of the Nikkei 225 but Dragan says an investment in quality stocks in that market still produced positive returns over the long haul.

He converts his philosophy into results, with funds returns averaging 400 basis points above the MSCI All Countries World Index (ACWI) for the last 15 years.

“There’s nothing unique in the investment world, because you can’t patent anything; ideas get discussed so everyone knows what you’re doing,” he says. “I suppose where we’re different is we define an eligible investment for us as one that has 5 per cent revenue growth yearly, on average, 10 per cent earnings per share growth and 15 per cent minimum return on equity (ROE). These are minimum growth and return hurdles, with growing ROE.

“We define that group which are essentially in the top decile of companies and then we have a valuation overlay...our valuation floor is we want a prospective, unlevered 4 per cent pre-cash flow yield in companies we want to invest in.”

The result is a natural bias towards sectors growing faster than GDP and the high-quality companies that drive that growth. This means known names such as Google parent Alphabet in the US and Alibaba in China. It also includes lesser knowns, like Japanese sensor maker Keyence and US software design firm Ansys.

Many of Intermede’s preferred companies are in the technology, consumer, healthcare and innovative financials space, although the fund owns a materials stock, in industrial gas production, and an eco-cleaning products business.

Intermede does not invest in companies with capital intensity that have a lack of differentiation or are highly regulated and, through a responsible investment lens, no stocks in tobacco or armaments, or with sanctions placed on them.

The result is a 1-5 per cent stake for each company in its portfolio, in what the investment house considers to be the world’s best 40 companies.

There are also a number of companies on its watchlist.

“We’re very patient as well,” Dragan says. “We will do a lot of work on a company and it could be months or years until we own it (at the right price). We’re very different to the benchmark. You buy an ETF [exchange-traded fund] and it’s a value way to invest, I won’t argue about that, but it’s essentially following a dumb index and the index designers are coming up with companies onto their radar screens that are large.

“If you can deliver excess market returns in most years over the long haul, you’re going to get a better

outcome, if you know what you’re looking for and you don’t get distracted by the noise.

“There’s a huge amount of gossip and brokers trying to get you to look at things and you can easily get very distracted and lose sight of what you’re trying to do. I’ve seen that happen. You just have to have strong focus on what you do and an empirically based belief that it works.”

While the average holding period for a stock in Intermede’s portfolio is expected to be three years, Dargan says an ideal holding is forever, with the fund investing and staying along for the ride. But if analysts believe there is no upside to intrinsic value, they will sell.

“If we are no longer 100 per cent convinced of a thesis, then we’re going to sell the stock,” he explains. “We only need to own a small number of high-conviction ideas, so if it changes and we don’t really believe in it [we sell].”

A small portfolio allows the firm to have a personal and ongoing relationship with management and to voice concerns if Intermede believes the business is making poor decisions.

The firm’s London-based analysts meet in person with the management executives of their companies, who come to the financial-centre office regularly, Dargan says.

“We’re active proxy voters and realise we have a voice we use, and when they turn up, we sometimes will be asking them difficult questions,” Dargan says.

Independent researcher Zenith Investment Partners head of research, Bronwen Moncrieff, recommends Intermede’s global equity fund to investors and financial advisers.

Moncrieff says the strong rating is based on Intermede’s growth at a reasonable price (GARP) investment approach with unhedged currency, backed by the deep sector experience of the firm’s five analysts and Dargan’s track record of 15 years’ experience managing this portfolio style.

“They’re relatively unusual in that they’re quite concentrated,” she says. “I can’t say off the top of my head how many fall into that category but the more typical conviction fund has 80 to 100 (stocks).

“(Dargan) runs a very small strategy, he’s got very good experience and has worked with reputable firms such as MFS Investment Management.”

Zenith examines the firm, its team, the investment process and portfolio management and construction, along with risk management and structure, for its ratings, and will meet with Dargan in August to continue the monitoring process.

“The thing that we’re trying to do with our research process, and the thing I always have in mind, is if it hits the fan we have to understand why a fund has performed the way it has,” Moncrieff says. “Things will hit the fan, but you have to be able to say we are comfortable with the way it is performing in light of this.” ■

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