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Barry Dargan
chief executive
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Focus, discipline, structure

Making a mark through high-quality investments.

Barry Dargan⁰¹ is chief executive, portfolio manager and founder of Intermede Investment Partners.

He set Intermede up with a group of colleagues about five years ago. From the start Intermede had a clear purpose that separated it from other global equities funds management businesses.

“The difference between Intermede and other investment managers I think can be put into three categories: focus, discipline and structure,” Dargan says.

Intermede currently manages and has under advice around \$6 billion in assets. The firm is majority owned by the partners with MLC Asset Management a minority investor – allowing Australian investors access to the Intermede strategy.

Intermede is a fundamental bottom-up fund manager that researches each company the Intermede Global Equities Fund invests in one stock at a time.

“We manage about 40 names in our portfolio and we just manage one portfolio. We look for high quality growth and return names with great long term prospects and good management,” Dargan explains.

Of course, quality is not the only concern. The price has to be right.

“We try to buy these companies at a price that we think really undervalues the long term earning potential of the company,” Dargan says.

Having just one strategy means the investment professionals at Intermede are only concerned with how one specific portfolio performs, which could have something to do with its strong performance. Since 1 March 2015, the Intermede Global Equities Fund (the Fund) has outperformed the MSCI World Ex Australia (AUD) by 2.90% per annum, net of fees. This places the fund in the top quartile of International Shares – Global (Unhedged) funds, covered by Zenith Investment Partners.

“Analysts are not under pressure to have action on the stocks they recommend or that they cover. They can spend a lot of time working on something that might only be actioned at a later date,” Dargan says.

“We have a long term focus to everything we do. So we can spend a lot of time looking at a company and not take action on it until we’re absolutely ready because we think the price is right at that point.”

How the team functions on a day-to-day basis is integral to ensuring it is focussed on the right things – that being, finding the highest quality companies and establishing the right price to buy them.

Thanks to a very experienced chief operating officer, Dargan himself is able to focus on portfolio management despite being chief executive.

“I do rely heavily on the chief operating officer. I might have one meeting a week to make sure everything is running smoothly, but he really operates the business side,” Dargan says.

“Myself and the rest of the team are focussed on the investing side.”

This is important to Intermede because the size of the investment universe it deals with is so enormous.

“It is a huge universe we’re looking at. There are over 8000 companies listed in the world with a market cap of over \$1 billion,” Dargan says.

“There’s a very formidable opportunity set there, but we’re only looking to invest in a particular type of company.”

The companies Intermede is looking for are able to deliver higher rates of growth and return.

Intermede defines that, Dargan explains, as being those that deliver 10% EPS growth, 15% ROE and 5% revenue growth consistently on average.

“When you run a screen and see how many companies consistently deliver on those metrics it’s only around 5% or 6%,” Dargan says.

“We’re cutting the universe down to a very elite group of companies that we want to find and then we overlay our valuation technique on top as well. So we have a big universe but it’s really quite a limited number of companies that we are looking for.”

Dargan says he’s proud of the team he’s built at Intermede.

“Each of the investment analysts are specialists in their own sectors and they are specialists of long standing, so they really understand the areas they are looking at in some depth. I work with them as a generalist,” he says.

Intermede’s strategy has seen the manager develop particular team dynamics when it comes to choosing a stock for its highly concentrated, very selective portfolio.

When a suitable stock is identified, it is pitched to the team and reviewed by someone who believes they can formulate an anti-thesis “to see where the cracks are”.

“Then, ultimately, it’s my decision as to whether the stock goes into the portfolio or not. I work very closely with my colleagues and we all know what we’re looking for,” Dargan explains.

“These are high quality businesses, there’s usually no disagreement on the type of businesses. Any disagreements would usually be on where the valuation is and things like that, and then I’ll ultimately make a decision on that factor.”

So what kind of company actually lives up to the scrutiny the Intermede team applies?

Dargan points to one stock pick in particular, an Indian firm called HDFC.



The quote

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“It’s the leading mortgage bank in India and was listed back in the early 90s. The stock is up almost 1200 fold since it initially listed,” Dargan explains.

“It still has an enormous runway of growth ahead of it.”

In India, he says, there are around 775 million people under the age of 35 – making it a market with demographics indicate many people will be looking to form households and take up mortgages.

At the same time, Prime Minister Modi has a program aiming to build 50 million homes over five years and these will all have to be financed somehow.

“The company has a great history of delivering value; it also has stakes in one of the leading banks in India, a life insurer and an asset manager – these are all businesses that have been spun out of the company over time,” Dargan says.

“So it’s a company we’ve done great with and we still have a big position in.”

It’s that kind of long term outlook and thorough research that separates Intermede from the rest. And all it takes is focus, discipline and structure. **FS**

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