CI AUSTRALIAN EQUITIES FUND
QUARTERLY COMMENTARY REPORT

Cooper Investors Pty Limited AFS Licence Number 221794 ABN 26 100 409 890

For current performance information please refer to the Monthly Performance Report.

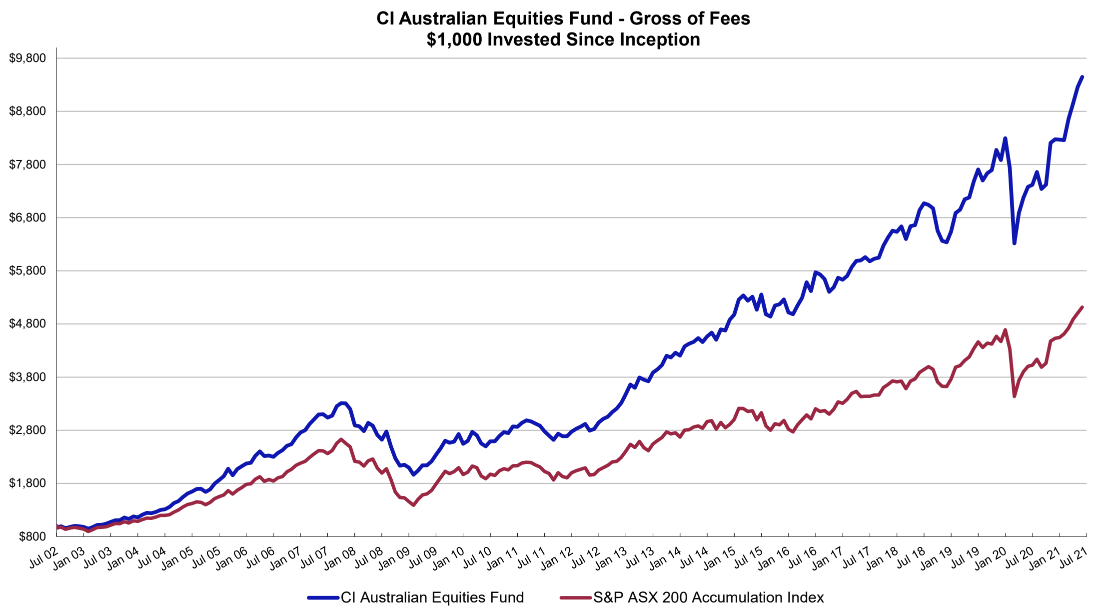
JUNE 2021

***"Wise men speak because they have something to say: fools because they have to say something."* Plato**

***"Faced with the choice between changing one's mind and proving that there is no need to do so, almost everyone gets busy on the proof."* John Kenneth Galbraith**

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	9.13%	8.29%	0.84%
ROLLING 1 YEAR	28.02%	27.80%	0.22%
ROLLING 3 YEAR	10.82%	9.58%	1.24%
ROLLING 5 YEAR	11.76%	11.16%	0.60%
ROLLING 7 YEAR	11.32%	8.79%	2.53%
ROLLING 10 YEAR	12.59%	9.26%	3.33%
SINCE INCEPTION*	12.55%	8.98%	3.57%
SINCE INCEPTION^	844.84%	411.66%	433.18%

*Annualised
^Cumulative (4 July 2002)
**Before fees and expenses
#S&P ASX 200 Accumulation Index
Past performance is not necessarily a reliable indicator of future performance



Source: NAB Asset Servicing

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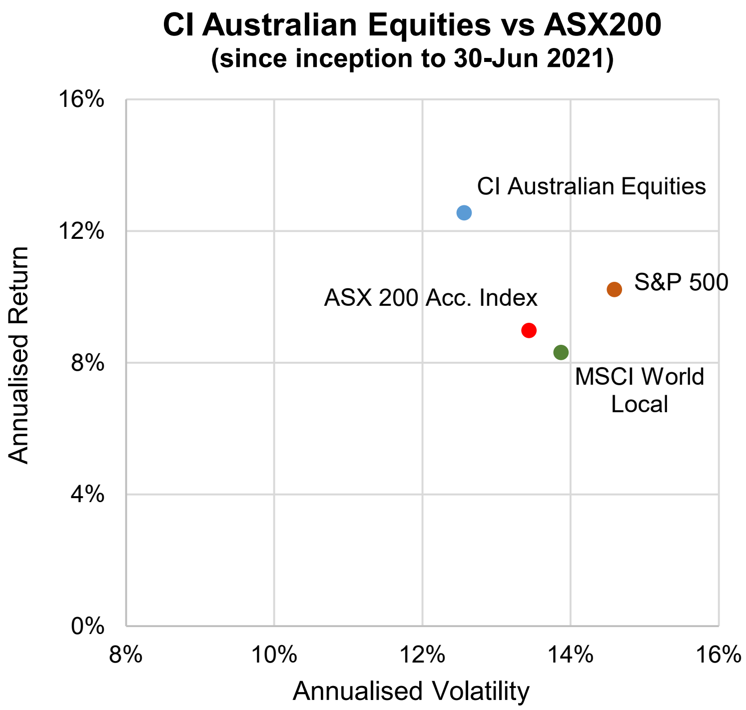


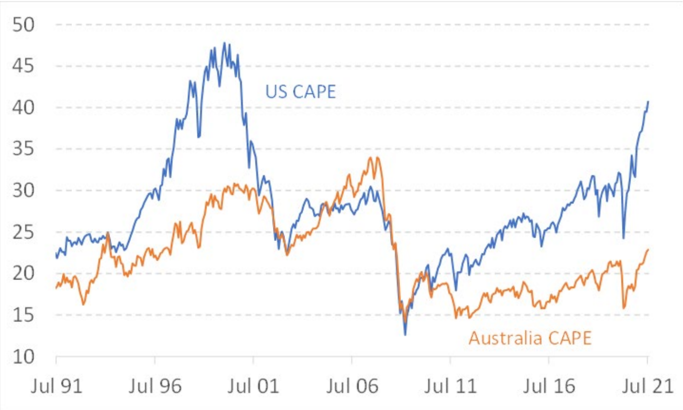
Market and Portfolio Performance

The ASX200 Accumulation Index rose 8.29% over the quarter, and 27.80% for the fiscal year. This was the ninth consecutive month (making fourteen out of the last fifteen months) in which the market rose, finishing on a record high. This despite the impacts of covid still raging in parts of the world, and huge disparity in earnings which are down for many companies/sectors but at record highs for others. We are seeing unprecedented or highly unusual events:

- Covid and economic shut downs
- Equities markets at record highs
- Interest rates at record lows
- Record government and central bank intervention
- Record high commodity prices for copper and iron ore
- Record high house prices in Australia and very strong housing markets in the USA

Overall markets do not look cheap by historical standards, albeit earnings recovery is expected to be ongoing and interest rates are expected to remain low for some time yet.

US & Australia CAPE

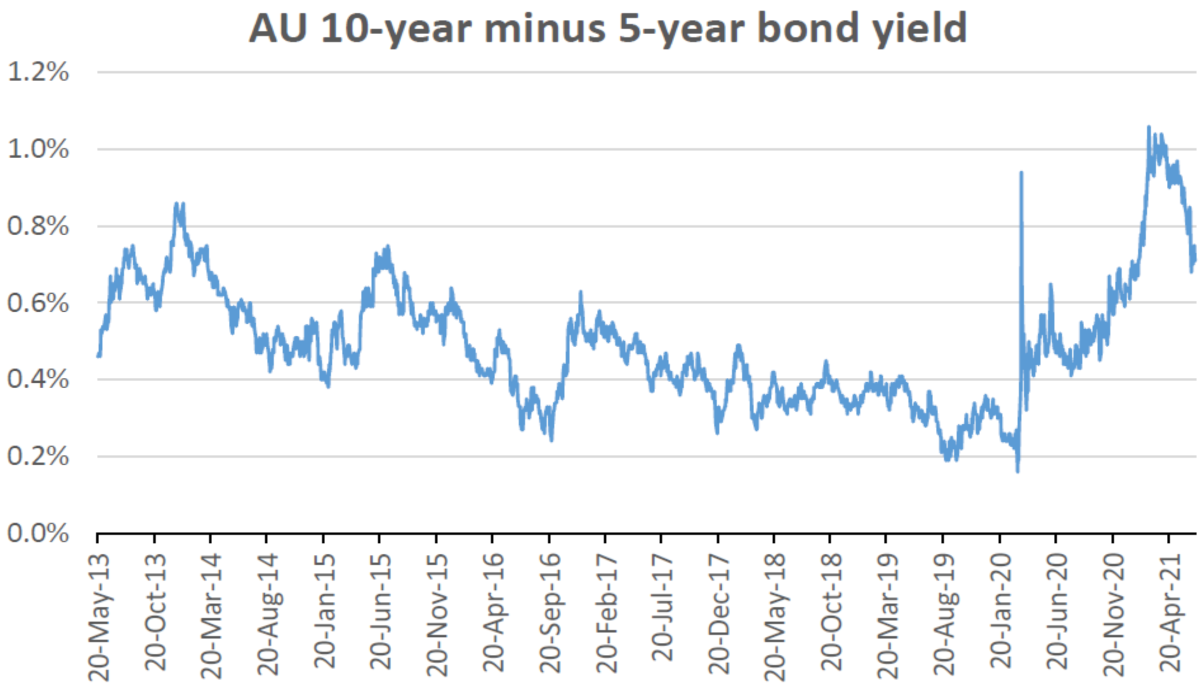


Source: MST Marquee

US & Australia 12m Fwd PE

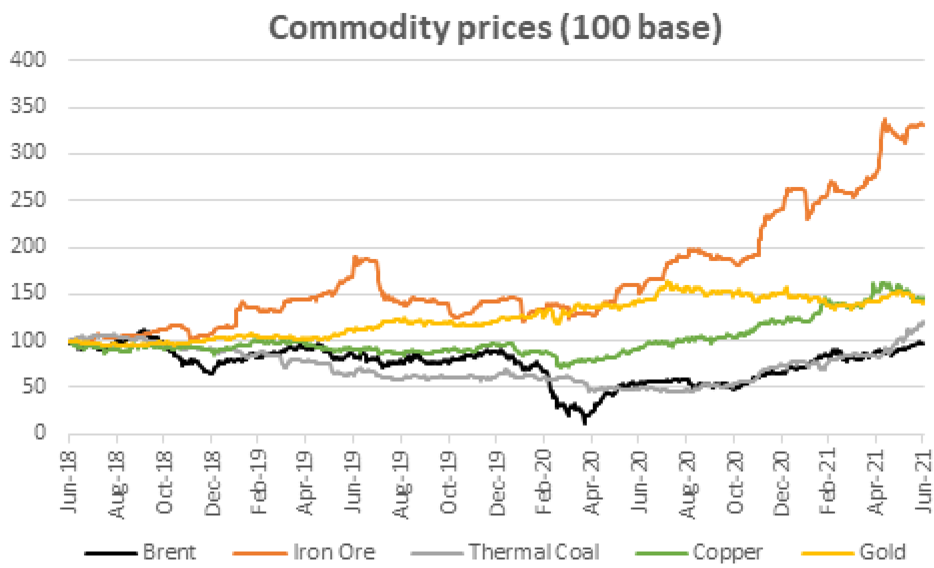
Source: MST Marque

Bond yields fell over the quarter and the yield curve flattened both in Australia and the USA. The jury is out as far as inflation is concerned – the US Federal Reserve believes the current uptick will be temporary and for the time being the bond market is playing along. The recent dip in yields may also be an indication that the economic recovery in the USA may be stalling – if this is indeed the case then we could yet see a period of lower growth but rising cost pressures. Ongoing draw downs in oil stocks would indicate we are not yet at that stage.



Source: RBA

For this to occur the rise in commodity prices (those shown below as well as others eg. lumber, resin) as well as freight rates will either need to be curtailed or absorbed along the value chain. And the anecdotal shortage in labour that we are hearing about increasingly widely will need to be resolved.



Source: FactSet

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Key contributors to portfolio performance during the three month period included Reece (improved outlook for housing), Aristocrat (strong first half result) and Cleanaway (rebound from being sold off post the departure of CEO Vik Bansal, and announcement of the acquisition of the Sydney assets of Suez).

Portfolio stocks that performed relatively poorly include Lendlease (no news to speak of but impacted by nervousness around its short term outlook), Orica (first half result which reset full year earnings expectations) and Santos (underperformed despite a rising oil price over the quarter and several pieces of positive company news).

The Portfolio

Our investment proposition in **Telstra (TLS)** is beginning to play out. We have been patient investors and have been engaged with the board and management team with respect to the realisation of value from the company's infrastructure assets. It was therefore pleasing to hear TLS announce that it sold a 49% interest in its mobile towers for $2.8 billion to a consortium comprising the Future Fund, Commonwealth Superannuation Corporation and Sunsuper. The earnings multiple of 28x was well above expectations, which shows the current strong appetite for high quality infrastructure assets despite some concerns about rising interest rates. Importantly, TLS retains a majority interest in the towers and have been able to agree terms that protects the business' mobile network leadership. There remains further value latency from the fixed component of the Telstra InfraCo assets – the mobile tower transaction gives us more confidence the value will be realised in time. We are watching the mobile market (a key piece of the jigsaw puzzle for TLS) carefully for ongoing signs of rationality in the face of industry wide expenditure on 5G infrastructure.

TPG Group (TPG) recently announced that founder David Teoh would resign from its Board. Since the merger with Vodafone Australia, David had moved from an executive to a non-executive role, while Vodafone Australia CEO Inaki Berroeta became CEO of the combined group.

Given David's history and track record with TPG, this was disappointing. However, Inaki Berroeta is a mobile industry veteran and the Board retains a strong skew to shareholder Directors, namely Chairman Canning Fok, who is Chairman of Huchison International (25% shareholder in TPG), Pierre Klotz and Diego Massida who are senior executives of Vodafone PLC (25% shareholder), and Robert Milner, Antony Moffatt and Jack Teoh who represent the interests of Washington Soul Pattinson (12.5%) and the Teoh family (17%) respectively.

We still believe that TPG's low cost focus, underpinned by its culture, should continue to support the earnings profile of the combined group going forward. In particular, TPG is well placed to consolidate its position as the attacker brand in the Australian market. Within its fixed line business, TPG has done well to manage the impact of the NBN which has had a large negative impact on the industry, sucking profit from the operators as return for the billions of capital invested by the NBN. The good news is this has now largely played out, while the merger provides ongoing opportunity to accelerate further cost out and refocus some of the combined group product offering.

Evidence from offshore is interesting here. In the US, T-mobile undertook a dramatic refocusing from 2014, simplifying its products, systems and cost structure to deliver a 5-year EPS CAGR of over 60% p.a., after which it merged with Sprint. The merger then provided the next stage of opportunity with free cash flow once again expected to accelerate from current levels.

The relatively stable 3-player market in the US also points to the potential for a similarly rational mobile market in Australia. Over the medium term this should support improving margins and returns on capital and provide the backdrop to further grow earnings through fixed wireless (via bypassing the NBN costs) and ultimately through new opportunities presented by 5G spectrum.

It's been a busy quarter for **Lendlease (LLC)**, which caps off an eventful 12 months. During this time, LLC has (1) announced a strategy reset, successful execution of which will see them unlock the significant untapped potential the business has had for the last decade plus and (2) implemented a number of changes to position the business to execute on this strategy / business model transition as operating trends continue to improve. These include a change in both CEO and CFO, divestment of non-core activities (incl. engineering), re-structure of the Australian business, establishment of 4 new global product head roles and bringing capital partners into the 4 urbanisation projects commenced in FY21.

Post quarter end, LLC provided a market update. Unfortunately this included provisions for two build to rent buildings in London (reversal of profit aggressively accounted for in FY18 but for which market risk remained) and claims made on Engineering projects completed prior to the sale in Dec-20. Whilst these specific provisions are relatively small in the scheme of the investment proposition and relate to decisions made under the prior management team, it highlights the need for substantially better decision making by the new management team and current Board which we have discussed in prior quarterlies.

After a long period in gestation **Endeavour Group (EDV)** was demerged from Woolworths just prior to the end of the financial year. Endeavour's operations encompass what were previously WOW's retail liquor franchises (Dan Murphy's and BWS), hotel operations (ALH), as well as a number of support or related businesses (Pinnacle Drinks, Langton's, Cellarmasters, etc.). The business sits in our Stalwart Subset of Value Latency with sustainable competitive advantages due to the strong retail franchise in Dan Murphy's and the scale of their operations relative to competitors. With the demerger from WOW we see significant benefits from the increase in organisational focus this enables, which is typical in demergers. Additionally, the business has the opportunity for value creation over the medium term in both hotels and retail. These opportunities include online retail, retail footprint expansion, hotel refurbishment, and development and expansion of the hotel network. With Endeavour well positioned to take advantage of these opportunities, it comes down to the intentionality and capability of management to execute. Ultimately time and results will be the judge of this. However history would suggest that organisational capability is high and MD Steve Donohue has deep experience in retailing, including liquor retailing, while Bruce Mathieson Jr., MD Hotels, has similar experience within the hotel industry.

Towards the end of the quarter, **Altium (ALU)** received a formal, unsolicited proposal from Autodesk (NASDAQ:ADSK) for the acquisition of 100% of the company for A$38.50 per share. ADSK is an American multinational specialising in drafting and design software, including their popular AutoCAD product which has become an industry leading computer aided design (CAD) program. The acquisition of ALU makes strategic sense for ADSK as they advance their long term strategy of converging design, engineering and manufacturing. Ownership of ALU would move ADSK towards combining the physical (mechanical design) and electronic design (specifically printed circuit board (PCB)) of smart electrical products.

The ALU Board has rejected the bid on the basis it "significantly undervalues ALU's prospects." The bid follows a period of weak operating and share price performance for ALU. The offer highlights the strategic importance of ALU and PCB design more broadly within the electronics and design ecosystem. ALU's flagship product Altium Designer is an industry leading PCB software that allows users to design the board on which semiconductors sit and connect. The PCB platform is critical to the advancement of hardware that powers all smart electronic products globally. Like ADSK, there are other examples of design companies globally who are making acquisitions or forming strategic partnerships that converge design tools from across the value chain. As ALU continues to build out its network of PCB designers, it only strengthens its strategic value as an acquisition target, or as a standalone entity capable of negotiating value adding partnerships.

CSL has had a bumpy ride over the last twelve months – falling by 20% from its share price highs and then partially recovering the drop. The main issue the company has been facing is collections of plasma, the raw material input into making its core product IVIG which is used to both improve and save lives. The onset of Covid has both restricted movement generally and made plasma donees nervous about attending plasma centres to donate. Collections dropped somewhat precipitously last year and although collections are now recovering in the USA (CSL's main market for collections), the nine month lag between plasma collection and final product sale means the impact will only be seen in the upcoming financial year profits. In addition to weakness in the volume of collections, CSL has had to pay more for its collections, as well as incur extra cost to equip its collection centres, to encourage donees into the centres. The one offsetting factor has been that prices for IVIG have risen in both the USA and Europe. We expect FY22 to produce a weak result but for growth to pick up again beyond the current financial year.

Currently, the portfolio holds around 2.8% cash. The portfolio has a diversified set of holdings which are exposed to both the domestic economy, as well as to the main economies overseas.

Portfolio attributes as at June 2021 are summarised below:

Statistic	Portfolio	Benchmark
Number of Stocks	30	198
Beta	1.01	1.00
Tracking error (%)	4.1	1.0
P/E (x)	19.1	17.3
Yield (%)	3.2	4.0
P/B (x)	2.7	2.4
Forecast EPS growth (%)	16.2	12.7
ROE (%)	14.1	14.1
EV / EBIT (x)	10.8	7.8
Net Debt / equity (%)	43	45

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