Cooper Investors Endowment Fund

COOPER INVESTORS

QUARTERLY COMMENTARY | JUNE 2024

AFS LICENCE NUMBER 221794 ABN 26 100 409 890

FUND STRATEGY

The objective of the Cooper Investors Endowment Fund (Fund) is to generate long term returns by investing in a range of listed securities. The Fund is an equities portfolio designed for investors in the pension phase. The Fund will invest in companies who provide sustainable and growing income and through portfolio construction will have the primary objectives of having lower portfolio volatility than the Australian stock market and out-performing the market during periods of market weakness. It is a diversified, long only portfolio of 30-50 stocks. The Fund will be managed on the basis that all unit holders have a zero tax rate and will report and be measured on an after tax basis (allowing for franking credits). The Fund invests in listed Australian and New Zealand securities together with a maximum exposure of 20% to listed securities in other international markets. The Fund can hold up to 20% of the portfolio in cash.

FUND FACTS

Portfolio Manager	Kent Mackieson
Inception Date	3 March 2014
Benchmark	S&P/ASX 200 Accumulation Index, adjusted for franking credits
Management Fee	0.75% per annum of the Net Asset Value (before fees and expenses) plus GST calculated and paid monthly in arrears directly from the Fund
Performance Fee	10% of the Fund out-performance of the S&P/ASX 200 Accumulation Index after adjusting for franking credits plus GST. A high water mark applies
Unit Pricing	Every Thursday and the last day of the month.
Minimum Investment	$500,000
Maximum Cash	20%

FUND PERFORMANCE#

	Portfolio	Benchmark	Relative
3 months	-1.51%	-0.89%	-0.62%
1 Year	5.52%	13.56%	-8.04%
3 Year*	5.95%	7.92%	-1.97%
5 Year*	7.66%	8.68%	-1.02%
7 Year*	9.60%	10.18%	-0.58%
Since Inception*	9.66%	9.45%	0.21%
Since Inception^	159.29%	154.25%	5.04%

* Annualised
^ Cumulative (inception date was 3 March 2014).
# Returns are gross of fees and expenses, and adjusted for franking credits.
Past performance is not a reliable indicator of future performance.
Data Source: Internal CI data reports, 30 June 2024

HOLDINGS BY SUBSET OF VALUE*

- Stalwarts 40.6%
- Cyclicals 21.6%
- Growth 12.1%
- Bond Like Equities 10.8%
- Asset Plays 7.4%
- Turnarounds 2.5%
- Cash & equivalents 5.0%

Data Source: Internal CI data reports, 30 June 2024

PORTFOLIO SNAPSHOT

Stock	Investment category
AGL Energy	Stalwarts
CSL Limited	Growth
Wesfarmers Limited	Cyclicals
Transurban	Bond Like Equities
Brickworks	Asset Plays

Data Source: Internal CI data reports, 30 June 2024

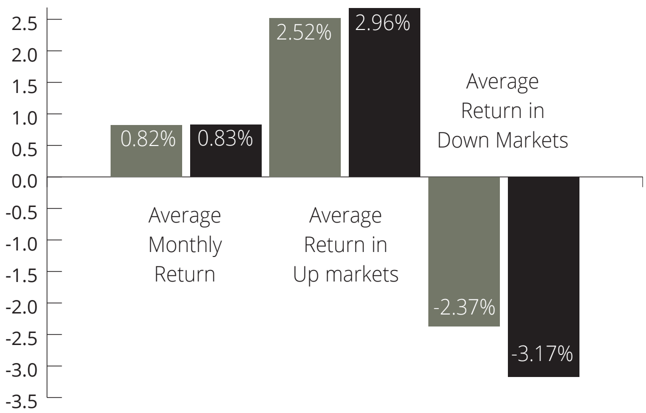
CURRENT HOLDINGS BY SECTOR*

- Financials 21.1%
- Materials 19.9%
- Health Care 15.1%
- Communication Services 11.6%
- Industrials 7.4%
- Energy 6.9%
- Consumer Staples 5.0%
- Real Estate 3.8%
- Utilities 2.4%
- Consumer Discretionary 1.8%
- Information Technology 0.0%
- Cash & equivalents 5.0%

* numbers are approximate / may be rounded, CI internal sector definitions.

Data Source: Internal CI data reports, 30 June 2024

GROSS PERFORMANCE IN UP & DOWN MARKETS



- Cooper Investors Endowment Fund (gross of fees and expenses, and adjusted for franking credits.)
- S&P 200 Accumulation Index (adj. FC)

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The Cooper Investors Endowment Fund (the "Fund") is a conservative portfolio that aims to steadily compound wealth over time.

Our key objectives are to perform relatively well in down markets, participate in rising markets, be less volatile than the market, and provide a growing distribution over time. We are focused on the enduring nature of the capital in the portfolio and on long-term outcomes.

We aim to achieve these objectives by constructing a highly diversified portfolio with stocks that are (as far as possible), uncorrelated to each other.

The strategy of the Fund is unchanged since it commenced in March 2014.

MARKET AND PORTFOLIO PERFORMANCE

The Fund returned -1.51% over the quarter. Since inception the Fund has returned 9.66% p.a. versus the benchmark which returned 9.45% p.a..[1]

We apply a 'Protect & Grow' risk framework over the Fund portfolio construction. Stocks in the 'Protect' category are intended to assist in reducing downside capture and dampening volatility. Meantime, stocks in the 'Grow' category will drive most of the absolute returns.

Risk metrics since inception:

	Fund	Index*
Volatility	11.4%	13.9%
Downside Capture	75%	100%
Upside Capture	86%	100%
Beta	0.78	1.00
Correlation	0.95	1.00

Source: CI internal data
* S&P/ASX 200 Accumulation Index, adjusted for franking credits

The S&P/ASX200 was down 0.89% over the quarter, and up 13.56% for the year ending 30 June 2024.

Utilities, Technology and Financials were the best performing sectors during the quarter, up 12.08%, 2.83% and 2.66% respectively. Energy, REITS and Materials were all laggards, dragging the index down by 6.89%, 6.84% and 5.93% respectively.

The interest rate outlook in Australia and globally remained a key factor for markets during the June quarter, as stickier than forecast inflation resulted in rate cut expectations being pushed further out in 2024/25. At a company level, the restrictive impact of 13 consecutive rate rises was evident during the quarter with company updates, particularly consumer-orientated (e.g. housing and discretionary retail) pointing to a softening demand outlook. Against this backdrop, the Fund is positioned towards Stalwarts and Asset Plays which have a demonstrated track record of operating performance through the business cycle.

The stocks within the portfolio that performed well over the quarter included **AGL Ltd** (AGL), **EQT Holdings** (EQT), and **Regis Healthcare** (REG). Laggards included **Mineral Resources** (MIN), **Ramsay Healthcare** (RHC) and **Seek Ltd** (SEK).

THE PORTFOLIO

The Fund portfolio is diversified, owning 31 securities with key active Subsets of Value overweight positions in Asset Plays and Bond-Like Equities.

During the quarter we added to our position in **Telstra** (TLS) as the market took a negative view to TLS' FY25 guidance, mobile pricing and cost-cut update. Of most interest was the TLS announcement that it would remove its annual CPI linked mobile price review. The market saw this as a negative signal for TLS' ability to raise pricing in the current environment, however we believe this reaction was overdone. Post this May update, Optus has announced price rises across its postpaid front and back-book, as has TLS across its Belong brand. As a provider of a core consumer service, we retain a positive view on TLS' ability to raise pricing across mobile plans over 1H25 to offset ongoing cost pressures.

We added to our **Woolworths** (WOW) position during the quarter as the supermarket operators and the federal government accepted the 11 recommendations put forward in the Food and Grocery Code of Conduct post the conclusion of the Supermarket Senate Inquiry. Whilst we acknowledge a regulatory risk overhang (ACCC review) is likely to remain for WOW over the near-term, their positioning as a consumer staple against the ongoing cost of living pressures, and trading on a multi-year valuation low on a risk adjusted basis, is favourable in our view.

During the period we initiated a position in **Deterra Royalties** (DRR) following the proposed acquisition of UK listed **Trident Royalties** (TRR) for ~A$276m. Deterra (excluding Trident) is cornerstoned by BHP-operated Mining Area C (North and South Flanks) ('MAC'). DRR's royalty agreement with BHP and its partners Itochu and Mitsui provides a low-risk recurring revenue stream with ongoing quarterly royalty payments of 1.232% of AUD revenue from MAC. Current production is expected to continue until at least ~2050. We view the negative market reaction to DRR's first acquisition since listing in 2020 as overdone, and the concerns about a cut to DRR's dividend yield and portfolio exposure counter-cyclical shift into Lithium as exaggerated. Trident Royalties is a diversified mining royalty company, holding a portfolio of 21 royalties with commodity exposure across lithium, gold, silver, copper, zinc, mineral sands and iron ore. Post the negative share price reaction, we believe DRR provides significant value latency, which could be realised via an FY25 dividend yield ahead of consensus expectations, sale of non-core assets, and reduction in debt from free cash flow provided by MAC.

We exited our position in **RELX Plc** (RELX) and **PrairieSky Royalty** (PSK), as we continue to reduce our direct global exposure in CY24. Both companies remain on our watchlist, however as value latency and the risk/reward profile have reduced, we have taken to opportunity to exit our active position and wait for a more attractive risk/reward profile.

1 Past performance is not a reliable indicator of future performance.

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Consistent with our key objectives for downside protection, we added to our positions in Regis Healthcare (REG), National Australia Bank (NAB), CSL Ltd (CSL), and HomeCo (HMC) which display VoF attributes (Stalwarts, Asset Plays, and improving Operating Trends) in the current economic cycle.

COMPANY IN FOCUS

Regis Healthcare was a key addition to the Fund during the period. Regis displays multiple characteristics that are strongly aligned to our VoF philosophy that underpins our decision-making process.

Regis is one of Australia's largest and most respected operators in the aged care industry. The company operates c.7,600 operational places across its 68 aged care homes (100% freehold). Regis remains majority owned by Founder's Brian Dorman and Ian Roberts and we view the management team and remuneration structure, which is focused on care and operational objectives, as exceptionally well aligned to shareholders. Regis is led by Managing Director, Dr Linda Mellors (joined Regis in 2019), who has a 20 year career in the broader health and aged care sector.

We have followed the aged care industry over a number of years, and recently, observed significant evolution across the Operating and Industry Trends in the aged care sector. Our positive investment thesis is underpinned by:

1) the essential societal service of aged care facilities supporting the multi-decade aging demographic profile expected in Australia;

2) industry funding clarity following a royal commission in 2018 and a final report in 2023;

3) supportive industry dynamics as the number of people over 80 years of age is expected to triple to more than 3.5 million over the next 40 years; and

4) Regis' leading market position (~3.5% market share) and balance sheet capacity to capitalise on this favourable backdrop.

We believe the current aged care backdrop in ANZ has created significant value latency as the supply/demand imbalance results in a multi-decade positive operating trend following regulatory overhaul. Successive governments have, until recently, failed to maintain funding levels in line with the cost of the provision of those services, so much so that the industry was in crisis. In fact, 69% of the industry was loss-making in FY22, up from 54% in FY21.

The resultant effect of underfunding has been significant underinvestment, bed capacity and service provision issues. A Royal Commission was established in 2018, and a final report in 2023, that highlighted both service quality and workforce related issues. This has been supported by follow on work from the Aged Care Taskforce that looked at sustainable funding solutions for the sector being released in 2024. The current government has made significant changes to care requirements in the sector but importantly enacted a road towards sustainable funding structures.

The reduced supply of bed capacity has coincided with an ageing population base as the Baby Boomer generation begins to enter the aged care sector in a meaningful way over the medium term. Per ABS statistics, the 85 and over aged cohort in Australia is expected to grow at 4.3% annually over the next decade vs the total population and 1.4%. This growth is significant over the next 5-years+ as the Baby Boomer generation reaches the age of 80-years+.

Source: ABS, OrdMinnett

The essential nature of a healthy and well-functioning aged care sector is clear. For service providers such as Regis, the operating environment has become much clearer post the Taskforce recommendations with acknowledgment from governments that to achieve a functional aged care sector the government needs to, amongst other things, delicately balance care standards, funds mix between public/private sources and returns that will attract sufficient capital to the sector to meet the significant looming demand.

We view current values as underpinned existing business conditions and clear near-term demand drivers, but further value latency exists due to;

- Aged Care Taskforce Recommendations
  - Bond Retention
  - Increase in "Everyday Living Fees"
  - Increase in accommodation supplement
- Brownfield and Greenfield expansions
- M&A

As such, we believe the value accretion from the value latencies cumulatively could add $3 or more to the current price.[2]

2 Please note that this is a forecast only, based upon Cooper Investors' current views and assumptions, and is not guaranteed to occur. Any price forecast may differ materially from the results ultimately achieved.