

# ENDOWMENT FUND

**QUARTERLY REPORT | MARCH 2022**

## 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

<b>Portfolio Manager</b>	Stephen Thompson and Ryan Riedler
<b>Inception Date</b>	3 March 2014
<b>Benchmark MSCI</b>	S&P/ASX 200 Accumulation Index, adjusted for franking credits
<b>Management Fee</b>	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
<b>Performance Fee</b>	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
<b>Unit Pricing</b>	Every Thursday and the last business day of the month.
<b>Minimum Investment</b>	\$500,000
<b>Maximum Cash</b>	20%

## FUND PERFORMANCE#

	Portfolio	Benchmark	Value Added
Since Inception*	11.39%	10.09%	1.30%
Since Inception^	139.21%	117.49%	21.72%
Rolling 3 months	-1.92%	2.78%	-4.70%
Rolling 1 Year*	20.83%	16.60%	4.23%
Rolling 3 Year*	11.70%	11.97%	-0.27%
Rolling 5 Year*	12.07%	10.72%	1.35%
Rolling 7 Year*	10.09%	9.33%	0.76%

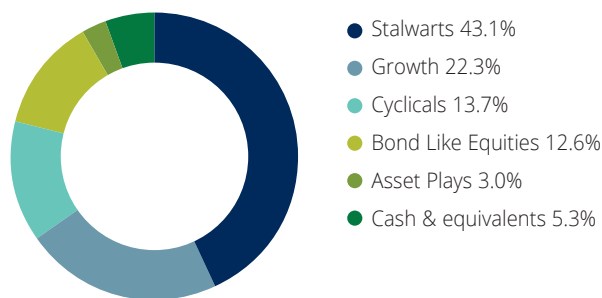
\* Annualised

^ Cumulative (inception date was 3 March 2014).

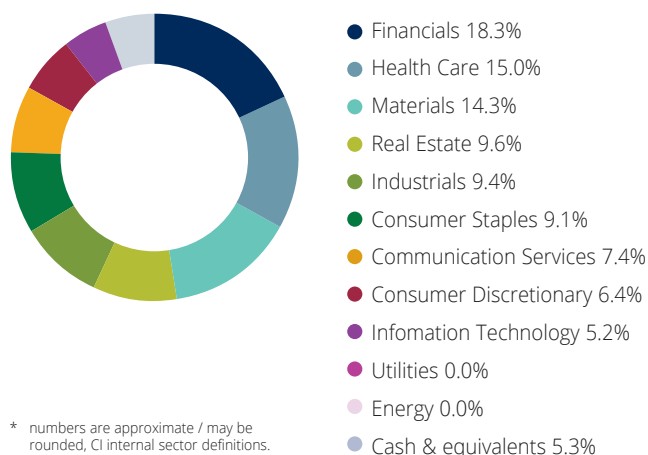
† Past performance is not a reliable indicator of future performance.

# Returns are gross of fees and expenses, and adjusted for franking credits.

## HOLDINGS BY SUBSET OF VALUE\*



## CURRENT HOLDINGS BY SECTOR\*



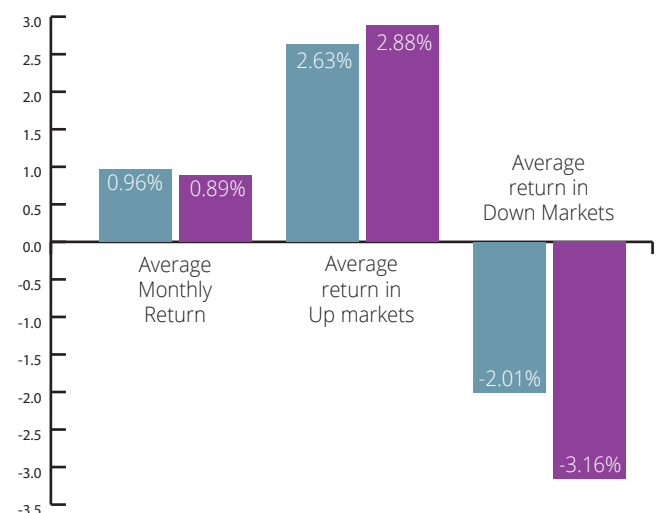
\* numbers are approximate / may be rounded, CI internal sector definitions.

## PORTFOLIO SNAPSHOT

Stock	Investment category
ASX Ltd	Stalwarts
CSL Limited	Growth
Wesfarmers Limited	Cyclicals
Transurban	Bond Like Equities
Franco-Nevada Corp	Asset Plays

## PERFORMANCE IN UP & DOWN MARKETS

- Cooper Investors Endowment Fund
- S&P/ASX 200 Accumulation Index



# ENDOWMENT FUND

QUARTERLY REPORT | MARCH 2022

## MARKET AND PORTFOLIO PERFORMANCE

The ASX 200 Accumulation Index (adjusted for franking credits) delivered an impressive total return of 7.0% in March and closed the quarter at 2.8%. Local share market performance was very credible in light of the turbulence seen on a number of offshore bourses, many down 5-10% or more over the quarter. Australian equities benefitted from the rotation to markets with commodity / energy exposure and robust governance frameworks.

Markets have remained highly volatile with investors having to contend with a raft of issues including the Fed's hawkish commentary (interest rates are going up), rising inflation concerns, Russia's invasion of the Ukraine in February, and renewed lockdowns in China (the world's factory). The yield curve also inverted for the first time since 2019 which some consider a portend of slowing economic growth or even recession.

The sharp increase in interest rate and inflation expectations during the quarter saw a violent rotation from long duration assets and unprofitable growth into short cycle equities and inflation beneficiaries such as commodities, energy, and banks. Technology, healthcare and discretionary retail sectors performed poorly as investors factored in both the impact of cost inflation pressure and a higher cost of capital going forward.

The market rotation was a key contributor to Fund underperformance over the quarter. 'Quality' compounding stocks (Growth and Stalwarts) suffered a derating, which the portfolio is overweight. Compounders are important to our strategy as they allow portfolio returns to keep up in steadily rising markets, as well as protecting the long-term purchasing power of the portfolio and the ability to maintain a growing distribution profile.

The portfolio is underweight the resource/commodity, banks and energy sectors; which was another key driver of underperformance. Although the Fund has positions in BHP, Franco Nevada and Mineral Resources, the portfolio is underweight resource companies relative to the index. The large domestic banks performed relatively well over the quarter and the Fund, owning only CBA and NAB, is underweight the sector where we struggle to see value latency.

The resource/commodity and bank sectors together represent significant a proportion of the benchmark, and stocks within these sectors tend to be highly correlated.

Given our objectives of downside protection and lower volatility, portfolio construction focuses on being highly diversified with stocks that are, as far as possible, uncorrelated to each other. As such the Fund seeks to avoid being concentrated in stocks / sectors like resources and banks that, in simple terms, are likely to move in the same direction at the same time particularly during market drawdowns.

Portfolio holdings that performed well over the quarter included BHP, Computershare, Franco Nevada and NAB – reflecting exposure to strong commodity prices and rising interest rates. Poor performers included Lifestyle Communities, Ryman Healthcare, ARB, and Mainfreight – all classified in the Growth and Stalwarts subsets of value.

We remain confident in the medium-term outlook for the group of compounders that have recently underperformed. They have strong organic growth runways underpinned by the ability to reinvest significant amounts of capital at attractive rates of return, thereby supporting future growth in earnings and dividends.

## THE PORTFOLIO

During the quarter the portfolio increased its positions in BHP, CSL, Baby Bunting, and Ryman Healthcare. We sold our holding in Yum China given the increasingly difficult operating trends observed in China following the most recent lockdowns.

Since inception the portfolio has outperformed on 25 of the 32 months (78%) that the benchmark has had a negative return. The portfolio has outperformed on 94% of 'meaningful' down days where the market has fallen more than 50bps or more.

The Fund's key objectives are performing relatively well in down market, keeping up in steadily rising markets, exhibiting lower volatility than the market, and providing a growing distribution profile. These objectives have been achieved since inception (Mar-14) with 11.4% annualised returns (gross of franking credits) compared to the Benchmark 10.1%, downside capture of 70%, upside capture of 86%, and relative volatility of 81%.

The portfolio is highly diversified owning 34 securities including seven global stocks (~15%) and four New Zealand stocks (~10%). The cash weighting is around 5%.

### Terms and Conditions

Information contained in this publication – Cooper Investors Pty Limited (ABN 26 100 409 890, AFSL 221794) is the trustee and investment manager of the Fund. The opinions, advice, recommendations and other information contained in this publication, whether express or implied, are published or made by Cooper Investors Pty Limited, and by its officers and employees (collectively "Cooper Investors") in good faith in relation to the facts known to it at the time of preparation. Cooper Investors has prepared this publication without consideration of the investment objectives, financial situation or particular needs of any individual investor, and you should not rely on the opinions, advice, recommendations and other information contained in this publication alone. This publication contains general financial product advice only. To whom this information is provided – This publication is only made available to persons who are wholesale clients within the meaning of section 761G of the Corporations Act 2001. This publication is supplied on the condition that it is not passed on to any person who is a retail client within the meaning of section 761G of the Corporations Act 2001. Disclaimer and limitation of liability – To the maximum extent permitted by law, Cooper Investors will not be liable in any way for any loss or damage suffered by you through use or reliance on this information. Cooper Investors' liability for negligence, breach of contract or contravention of any law, which cannot be lawfully excluded, is limited, at Cooper Investors' option and to the maximum extent permitted by law, to resupplying this information or any part of it to you, or to paying for the resupply of this information or any part of it to you. Copyright – Copyright in this publication is owned by Cooper Investors. You may use the information in this publication for your own personal use, but you must not (without Cooper Investors' consent) alter, reproduce or distribute any part of this publication, transmit it to any other person or incorporate the information into any other document.