COOPER INVESTORS
GLOBAL ENDOWMENT 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.

SEPTEMBER 2021

	****STRATEGY**	**#REFERENCE INDEX**	**VALUE ADDED**
ROLLING 3 MONTHS	4.21%	-0.42%	4.64%
ROLLING 1 YEAR	24.64%	26.57%	-1.92%
ROLLING 2 YEAR	15.77%	16.00%	-0.23%
ROLLING 3 YEAR	14.63%	11.03%	3.60%
SINCE INCEPTION*	15.69%	12.97%	2.71%
SINCE INCEPTION^	101.88%	80.05%	21.83%

*Annualised
^Cumulative (Inception Date of Strategy 05 December 2016).
MSCI ACWI 100% Hedged to AUD Net Dividends
**Before fees and expenses
Past performance is not necessarily a reliable indicator of future performance

Portfolio Performance

For the 3 months to September the portfolio returned +4.21%. Since inception the strategy has compounded at 15.69% per annum. This compares to the reference index which has compounded at 12.97%.

For most of the quarter stocks were able to trade freely without any overarching macro narrative or correlation and as a result were rewarded for strong earnings and operating momentum. Growth rates in revenue and profits during reporting season were abnormally high given the accounting period was lapping a very difficult COVID-impact period of H1 2020. Even accounting for that, stocks owned by the Fund saw pleasing results for the 1st half, with management teams by and large positive on their expectations for the coming year.

Among the largest contributors to return for the quarter were:

- Aon +20% (Cancellation of Willis Towers Watson acquisition – see Stock News)
- Warner Music Group +19% (Ongoing growth in music streaming and listing of key peer Universal Music Group aided investor appreciation of value of music content)
- Rentokil Initial +18% (Strong results and increased growth guidance for Hygiene business)

Among the largest detractors to return were:

- YUM China -12% (Reduced short term guidance, COVID restrictions still impact some provinces)
- Crown Castle -11% (Shares consolidated after a strong run, no news of note)
- Franco-Nevada -8% (Canadian-listed gold royalty business, gold price fell in the quarter)

The mood changed late in September when renewed concerns on inflation, tapering and rising interest rates knocked indices in Europe and the US back to more or less flat for the quarter. Concerns around government interference and a debt crisis in the property market continue to impact Chinese-linked markets, which fell further in the quarter.

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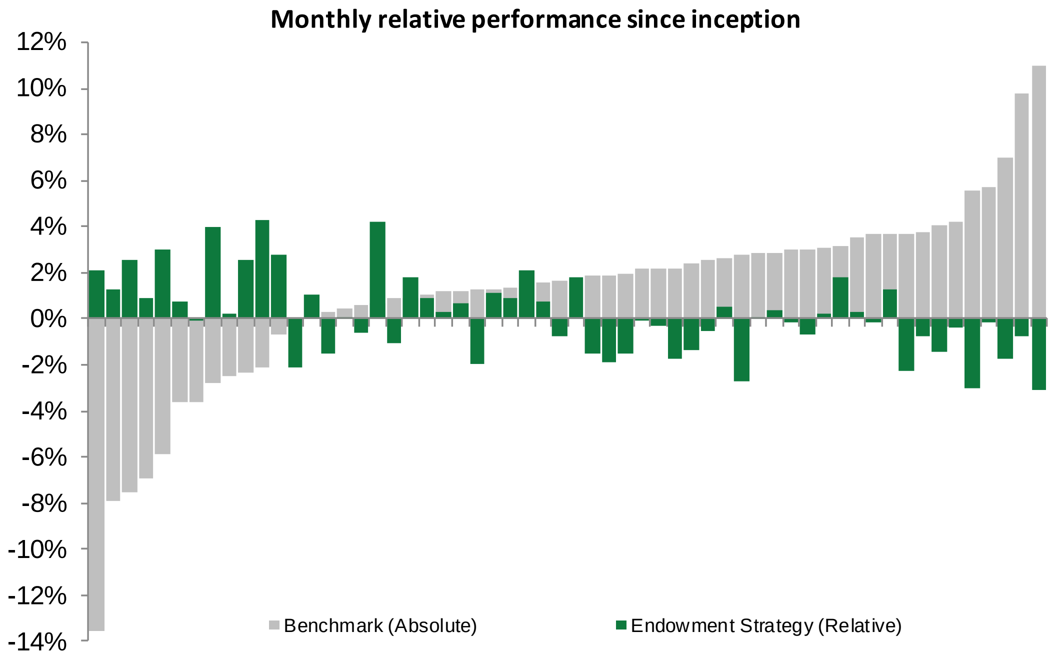
The Fund used periods of stock specific weakness to add to several positions including YUM China and Franco-Nevada.

Since inception the Strategy has delivered cumulative downside capture[1] of **65%** and upside capture of 90**%**, implying a 'capture spread' of **25%**. It has also outperformed all but two of 13 market down months, and on 'meaningful' down days (where market drops more than 0.5%) has outperformed 80% of the time.

The strategy has also exhibited lower relative volatility to Reference Index of about 85%.

The table below sorts *absolute* monthly market returns since inception from worst to best (grey bars) and shows *relative* return between the portfolio and the market (the green bars).



Stock News

In mid-July **Aon** announced the cancellation of its $30bn acquisition of Willis Towers Watson. The deal to create the world's largest insurance broking group had been slowly working its way through the various global antitrust authorities since the March 2020 announcement, with several remedies in the shape of asset sales already agreed.

However, the timing of the deal through the US antitrust process this year coincided with a newly Biden-appointed Attorney General and a reenergised and more stringent US Department of Justice. In June the DoJ filed a lawsuit arguing that the merger would lead to a monopoly scenario.

While the rational for the deal was attractive – namely significant synergies from plugging Willis Towers Watson into Aon's industry leading 'Aon United' client service model and highly efficient back-end, our

[1] "Upside and downside capture ratios are computed as the ratio of compounded and annualised portfolio returns in the up or down months (of the Reference Index) over the compounded and annualised returns of the Reference Index in the same months."

understanding is that the remedies requested by the DoJ required splitting up internal teams and were untenable with the way Aon is set up to operate today.

Although paying a large break fee is a bitter pill to swallow, after discussing the situation with management we are in agreement that terminating the deal was the best course of action for shareholders given the evolved antitrust environment. There has been a sense of relief around the business and share price since the announced cancellation, with no more merger delays and execution risk off the table the shares have recovered 20% in 3 months.

The failed merger is a misstep in an otherwise unblemished operational track record for CEO Greg Case and CFO Christa Davies, who have streamlined Aon's operating model and successfully pivoted towards higher growth, higher margin and higher return on capital areas over our ~5 years of ownership. Both have recommitted for a further 5 years and we continue to see Aon as an innovative operator with opportunities to keep running the playbook on top of a business model that is highly resilient with ~90% recurring revenues. On around 20 times next year's Free Cash Flow there remains attractive Value Latency for this management team to aim at.

At their July results, Cosmos Pharmaceutical, a chain of over 1,000 drugstores in Japan, announced that they would accelerate their expansion into pharmaceutical dispensing in coming years.

While management previously believed dispensing was an unattractive category they have now identified an opportunity to enter as 'mom and pop' pharmacies become uneconomical and the ability to hire pharmacists improves. We spoke to a range of dispensing competitors over the quarter who supported this view on a consolidating industry and attractive economics.

We also spoke with Cosmos management who were able to clearly articulate the industry trends that make entry into dispensing attractive and the unit economics to grow their dispensing footprint. We believe that dispensaries will be able to leverage the store traffic generated by Cosmos' competitively priced food offering (60% of Cosmos' sales derive from food), particularly as Cosmos has retained some of its share gains from 2020 into 2021. Assuming gross profit margin of 30%, dispensary sales will be incremental to margin (FY21 group gross profit margin ~18%). Capital investment for dispensaries is low, limited to two parking spaces where there is no space built for a dispensary currently.

Alongside Cosmos' store roll out opportunity in the Kanto and Kansai regions, we are excited by this strategic move and see this as an example of a first-class management team taking advantage of opportunities at the right time.

Portfolio Changes

The intention is for the Fund to be relatively low turnover as we do a significant amount of work but are patient and aim to make a small number of good decisions. We would expect over time turnover broadly in the range of 15-30%. Turnover for the year to September 2021 of 15% was at the lower end of that range, representing a relatively quiet period after a busy 2020.

That said, the Fund did make a number of changes this quarter, largely as a result of valuation. We have seen an incredible period of strong returns and the reality is that, no matter how good some of the businesses we own are, valuations can get pushed up to the point where the proposition in terms of risk vs reward no longer makes sense. While we are prepared to continue holding what some would consider fully valued or even expensive stocks where the premium is commensurate with management quality, industry positioning, track record and long term return profile, we always make relative comparisons to other businesses on our Watchlist that are competing for a position in the Fund.

We sold the position in **Latour AB** which has been an exceptional investment for the Fund. Latour is the investment vehicle for the Swedish Douglass family and owns large stakes in a number of listed (Assa Abloy, Securitas, Tomra) and unlisted industrial businesses. While the operating performance of the underlying businesses has been sound, the stock price has far outstripped those. Having purchased at a small discount to NAV (around SEK120 per share) the shares accelerated to the upside in 2021 to over SEK350 a share, representing a premium to NAV of ~90%. It is unclear what has driven this remarkable move, it could be partly related to what is a relatively illiquid stock entering some regional indices. As a broad observation we also note valuation of high quality Nordic businesses today trade at record highs, influenced by domestic interest rates that are still negative. Even so, while we greatly admire the group and the collection of assets, an investment company valued at almost double it's NAV is hard to fathom even with the rosiest set of future assumptions. We took the opportunity to exit the stock, having more than doubled our money in two years.

We also sold **LVMH** in the quarter. We have been happy owners of LVMH, in our view the best run luxury conglomerate in the world, for coming up to 3 years. The business navigated COVID well and saw relatively resilient sales and margins during the tough times through smart cost control, timely collection releases and upping its game in e-commerce and personalised service. However the risks to LVMH continuing to perform so well have materially increased with China indicating it will increase scrutiny on the mega-wealthy, at the same time as the stock is trading at record all-time highs of share price and multiple. Equally there remains some execution risk around last year's acquisition of Tiffany. Having invested in LVMH in the low EUR300's in 2019, we are happy to reallocate the capital again, having almost doubled our money to sell in the mid EUR600's.

The final sale was **Baxter**, a stock that has been owned since 2017. In early September the company announced the acquisition of Hil-Rom Holdings, a medical device company with leading positions in bed systems and patient monitoring. The deal is significant at US$12.5bn in size and exhausts all of Baxter's balance sheet latency in one fell swoop.

Whilst it is "EPS accretive" we believe that the high single digit ROIC management are targeting over five years is most reflective of the financial merits of the deal. Put another way, despite visions of providing digital and connected healthcare (think a Baxter IV pump combined with a Hil-Rom smart bed), ultimately the combined entity will likely remain a low-to-mid-single digit grower. Baxter look like they are getting bigger but not necessarily better. A combination of uncertainty around the merits of the Hil-Rom acquisition and recent underwhelming performance on the product development side of the business led us to conclude that the investment proposition today has deteriorated relative to other opportunities.

With the three sales we have been able to deploy capital into three new investments, all of which we are excited about.

Firstly the Fund initiated a position in **Milbon Co.**, a Japanese professional hair care brand.

Milbon was founded in 1960 by Ichiro Konoike as a professional-only hair product manufacturer. Uniquely Milbon sell exclusively through hair salons and provide best-in-class education and feedback to grow each salon including both hard skills (techniques, products, trends) and soft skills (customer service, business acumen). Milbon's philosophy is to grow the professional haircare industry (salons and distributors) alongside them, under their motto "Don't sell products, sell concepts". This level of focus on service exceeds even global peers and through regular visits Milbon develop one-on-one relationships with loyal salons; ultimately their frontline salespeople.

Milbon exhibits Stalwart characteristics driven by what might be thought of as an ‘installed base’ of salons, particularly in Japan where they are the leader with 16% market share. Sales are highly resilient as customers visit salons regularly and rely on stylists for product recommendations. Milbon have delivered consistent 6-8% annual sales growth, which we believe could gradually accelerate as overseas becomes a larger share of the group. With less than 20% of sales outside of Japan there is a long runway for Milbon to penetrate global markets.

Whilst Milbon have a presence in Asia, the US and Europe, we believe the main driver is likely to be China where they’ve been growing over 20% annually over the last 5 years. Industry experts we spoke to stated that Milbon’s focus on supporting and improving salons, as opposed to selling products, truly differentiates them from local and global competitors. As a result, Milbon has an excellent reputation with salon owners and stylists.

The founding family retain a 15% ownership of Milbon and management are highly focused on long-term strategic decisions to become a leading global brand. The business has been modernised through digitisation, including an e-commerce platform and online stylist education. We sense a strong proprietorial feel from the management team, furthered by an embedded culture where all new employees undergo internal training in “The Milbon Way” for 6-9 months before beginning their role. We are excited by Milbon’s growth opportunities, their unique salon-centric business model and their highly experienced, family-linked management team.

Secondly we invested in **Admiral Group**, the UK’s largest and most profitable motor insurer – achieving an average ROE over the last decade of ~53%. This is exceptionally impressive given the business is not yet 30 years old and has relied on organic growth to achieve its leading position in the UK market.

Admiral is a business with an archetypal Owner Operator culture. Until recently it was run by its founders and has a high level of employee share ownership across the business. The company tag line “People who like what they do, do it better” might sound like a throwaway line but in Admiral’s case it really is a key principle for how the business is run.

Admiral has been included in the ‘*Sunday Times Best Companies to Work for’* list for 20 years in a row. Happy and engaged staff drive better outcomes for customers, including faster claims settlement times and lower cost of claims while maintaining lower complaints rates vs industry averages. Engaged staff also drive better outcomes for shareholders, as clearly demonstrated by Admiral’s long term financial performance.

We think this focus on employees and culture provides Admiral with a source of enduring competitive advantage which is difficult to replicate. It is also, in our experience, relatively rare in the insurance industry and has clearly resulted in superior outcomes for all stakeholders.

The outlook for Admiral is bright. The UK motor insurance sector is gradually maturing and remains the bulk of Group earnings today but beyond that Admiral has methodically built small but fast growing businesses in three large European markets. It has also expanded into the adjacent home insurance category with limited investment required. These moves should ensure Admiral can continue its growth journey for some time to come.

Both Milbon (Japanese premium hair care) and Admiral (UK car insurance) operate in vastly different markets and demonstrate sources of return that are both attractive and uncorrelated to other stocks in the portfolio.

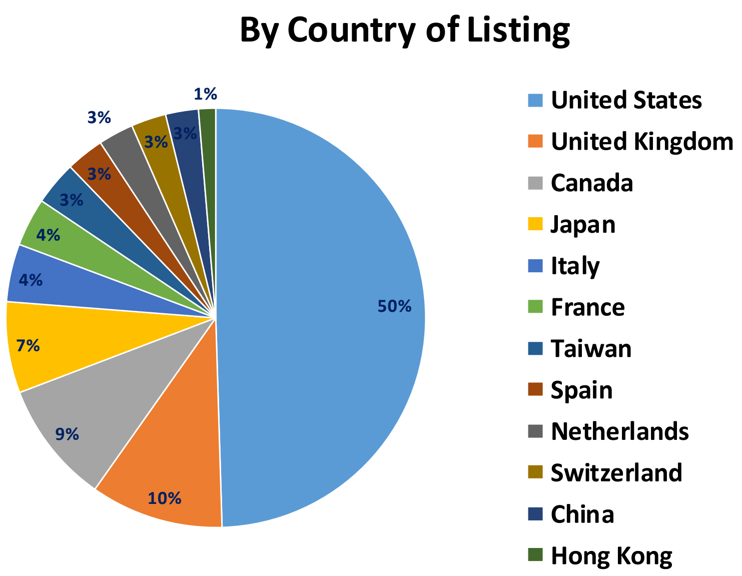
Finally, the Fund invested in another business that plays a similar role in the portfolio as Latour, being a European investment company with privileged network access into high quality SME investment opportunities led by a family or founder with an exemplary track record and identifiable proprietorial behaviour. This stock still trades at a discount to NAV, versus the significant premium we see today for many other family-linked investment companies. Given small position size and continued investment we prefer not to disclose the name at this time.

Portfolio Structure

The current portfolio structure is as follows:

- 35 securities invested across 12 countries and 16 industry groups
- >75% in compounding-type Subsets of Value, zero turnarounds
- The US represents the largest single country weight
- Cash of 8% (7% net of hedges)
- >90% currency hedged
- Largest and smallest position weights of 4% and 1% respectively

Country weightings as at 30 September 2021 were:



Sector weightings as at 30 September 2021 were:

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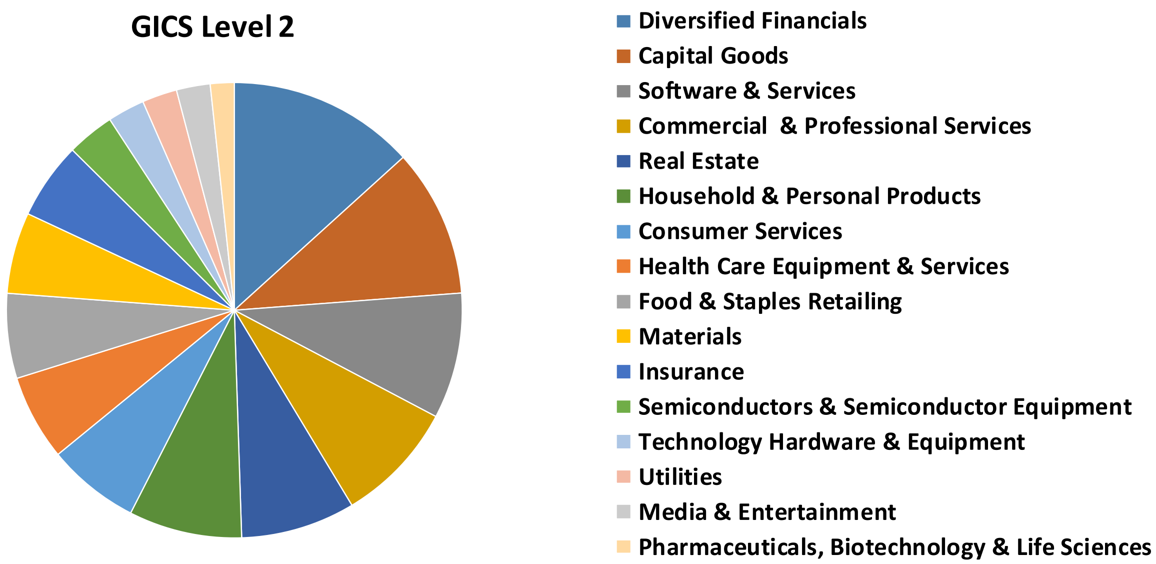

It is expected the Fund will operate within the following guidelines:

- generally hold between 35 and 40 stocks
- be well diversified by country and industry
- have a bias towards compounding-type businesses per the CI Subset of Value methodology (Stalwarts, Growth, Bond-Like Equities)
- generally not invest in Turnarounds
- generally hold less than 10% cash
- generally hedge at least 70% of foreign currency
- generally not hold individual stock positions at greater than 6% of the portfolio

Portfolio Strategy

The entire Cooper Investors investment team undertakes stock analysis and the portfolio managers use this information to create a portfolio designed to meet the investment risk and return objectives of relative outperformance in down markets and lower volatility than the market.

The main way we hope to achieve these objectives is by constructing a portfolio that is well diversified by a number of measures and should have less downside in market drawdowns, although it cannot avoid losses altogether in down markets.

We can achieve diversification through a number of means, for example:

- Uncorrelated stocks
  - We want stocks that are as far as possible uncorrelated to each other, for example **Crown Castle** (a US-listed communications infrastructure provider) and **Franco-Nevada** (a Candian-listed gold royalty company) which have a pair correlation of 0.0 (since inception)
- Industry spread
  - Investing in industries with cycles that move with a different cadence to or are highly resilient to the global economy such **Givaudan** (Swiss-listed manufacturer of flavours) and **American Water Works** (US-listed municipal water utility)

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- International spread
  - Investing in domestic exposure of different regions, for example **Fiserv** (US-listed banking software) and **Unicharm** (Japanese-listed diaper company selling into Asia)
- Subsets of Value
  - Investing in Cyclicals like **Ferguson** (Value-added distributor of plumbing supplies) and Growth like **DiaSorin** (Italian-listed founder-led diagnostic reagents business)

The main way to achieve the objective of protecting the portfolio downside is to avoid stocks that are:

- Over-valued;
- Over-geared;
- Facing industry head winds;
- Poorly managed;
- Too keen on acquisitions;
- Have poor track records; or
- Paying unsustainable dividends

Stocks that exhibit some of the above features may look cheap and stocks that do not may appear expensive, so we are aiming to balance this trade-off between quality and price.

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