COOPER INVESTORS
GLOBAL EQUITIES FUND (HEDGED)
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.

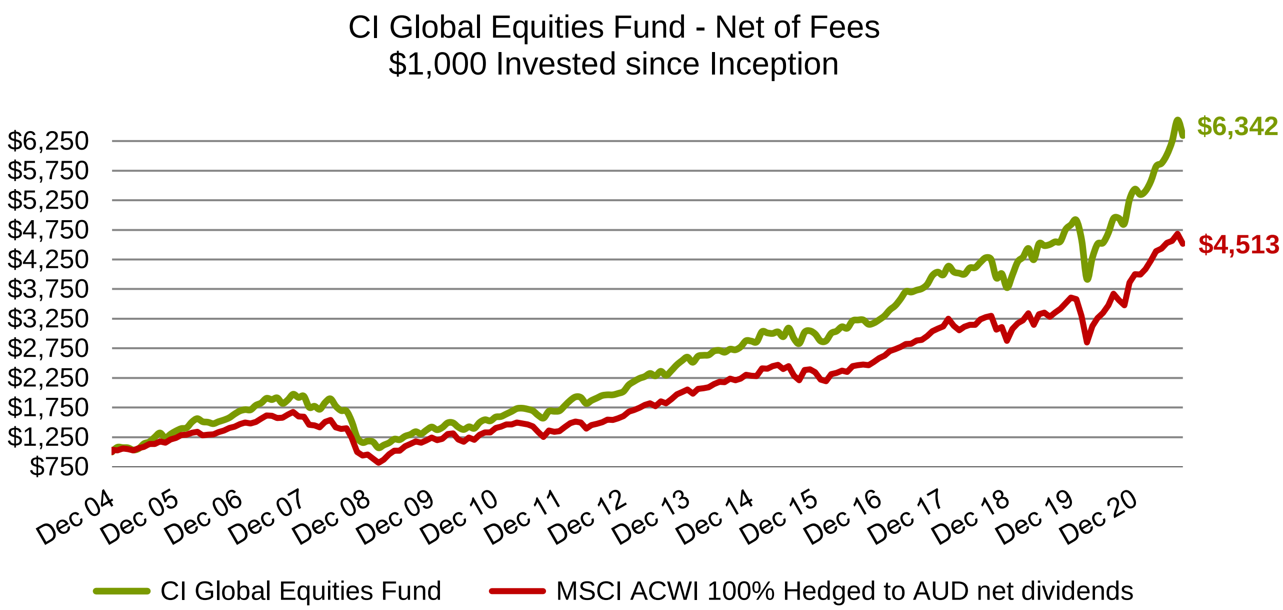
SEPTEMBER 2021

"Success isn't about greatness, it's about consistency – greatness will come." **Dwayne Johnson, The Rock**

"Owner operators simply work harder and better than rank and file employees." **David Swensen**

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTHS	5.37%	-0.42%	5.80%
ROLLING 1 YEAR	28.24%	26.57%	1.68%
ROLLING 3 YEAR	14.25%	11.03%	3.22%
ROLLING 5 YEAR	14.45%	12.77%	1.68%
ROLLING 7 YEAR	12.82%	10.74%	2.08%
ROLLING 10 YEAR	14.96%	13.67%	1.29%
SINCE INCEPTION*	11.60%	9.37%	2.23%
SINCE INCEPTION^	534.21%	351.32%	182.88%

*Annualised
^Cumulative (1 December 2004). Initially, the Fund invested predominately in Australian equities. However since May 2006, the Fund has been invested in a broad range of global equities.
**Net of fees and expenses
MSCI ACWI 100% Hedged to AUD Net Dividends
Past performance is not necessarily a reliable indicator of future performance



Source: NAB Asset Servicing

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Market and Portfolio Commentary

Like a runner stumbling just before the finish line, this quarter saw most equity markets cruising up through July and August only to face-plant in the final two weeks of September. The volatility was brought about by renewed talk of Fed tapering, rising evidence of inflation in the real economy, and supply crunches across the globe in energy and logistics. Bond yields spiked late in September and the S&P500 shed its gains to finish flat for the quarter.

China has been the worst performer in 2021, dominating the headlines for several months. Government regulation driving tighter controls across a range of industries (education, gaming, technology) and a push to reduce wealth inequality ('common prosperity') triggered a sharp sell-off in those sectors, with contagion into Western-listed consumer and luxury goods stocks with exposure to Chinese consumption. Towards the end of the quarter debt defaults in the domestic property market (led by Evergrande) accelerated outflows from Chinese and Hong Kong-listed equities – the Hang Seng and FTSE China 50 have fallen more than 20% and 30% respectively from their February highs.

For the 3 months and 12 months to September 30th the Portfolio returned +5.37% and +28.24% respectively. This compares to the benchmark which returned -0.42% and +26.57%.

Significant contributors to return for the quarter were **Topicus.com** (ongoing execution of strategy), **Aon** (termination of Willis Towers Watson deal - see Stock News) and **Danaher** (strong results).

The largest detractors to return for the quarter were **PTC** (consolidating after a strong run), **Activision Blizzard** (lawsuit around treatment of employees – see Responsible Investing section) and **Adidas** (sold off after key peer Nike cited short term supply issues).

A frequent topic of discussion of late with both clients and management teams has been around inflation. Companies across the world have been reporting rising input costs and tightness in the skilled manual labour market for several months, however it appears to have gotten more acute in recent weeks.

Businesses are reporting difficulty transporting goods with the costs of shipping containers doubling. Several regions face power outages and there appears to be a shortage of truck drivers - in the UK the Army is delivering fuel to petrol stations after panic buying. The cost of oil and natural gas has doubled year on year, while the price of coal has almost quadrupled. The question du jour is, are these transitory forces caused by COVID-impacted supply chain bottlenecks or is this the long-feared permanent manifestation of higher inflation sewn from the seeds of a decade of money-printing?

To be clear, the Portfolio's positioning is not determined by inflation (or any other macroeconomic indicator for that matter). At the coal-face of business, we view control of the cost structure as one of many crucial responsibilities of the CEO and how they choose to run their businesses. The best management teams have track records of adapting to periods of rising (and falling) prices and are able to leverage them to drive additional long term value for stakeholders.

Costco for example has the scale to charter its own container ships in times of supply dislocation, and since its business model is focussed on membership fees not trading margins it can maintain very low prices for its members that become relatively more attractive when competitors have to raise their prices.

Some companies have natural advantages or privileged positions that gives relative immunity to inflationary pressures due to the nature of their industry and competitive positioning. These advantages could include:

- Pricing power derived from market-leading brand, quality and innovation (e.g. **Techtronic** releases new Milwaukee brand products which are accretive to Gross Margins, offsetting input costs)
- Pricing power from price inelasticity, i.e. must-have products with business critical natures (e.g. SaaS and data businesses like **Synopsys** & **S&P Global** which customers cannot turn off)
- Value-added distributors who pass through rising costs to customers (e.g. **Diploma**, **Ferguson**).
- Inflation escalators written into tariff contracts (e.g. **Vantage Towers** with CPI+ clauses in rental agreements on their cell towers)
- Revenues linked to rising asset values (e.g. insurance brokers like **Arthur J. Gallagher** whose commission income is linked to underwritten asset values)

We cannot predict the future, but given our preference for companies with strong industry positioning and positive industry trends, we believe the Portfolio is relatively well positioned in the event the current bout of inflation turns out to be more permanent than transitory in nature.

While there are several metrics to assess how a company manages rising costs (price vs volume mix, personnel expenses) it can be challenging to compare stocks across industries given differing disclosure levels. A reasonable rule of thumb that summarises pricing power and cost structure at the portfolio level is Gross Margin. Currently the average Gross Margin of the portfolio is around ~45%, significantly higher than that of the benchmark which we estimate at ~35%.

We have also been encouraged by the pragmatic approach of management teams with whom we have addressed this issue. **Ferguson** (large US plumbing and HVAC distribution business) for example is increasing investment in automated solutions in its distribution facilities. Its new automated facility in Denver features a state-of-the-art robotic 'hive' which is more efficient with less human interaction, and will further extend the group's inventory availability advantage over peers.

The Portfolio

The portfolio is positioned around Subsets of Value:

- **Stalwarts** (32% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (Aon).
- **Growth companies** (33%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Costco).
- **Bond like equities** (4%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Ferrovial).
- **Low risk turnarounds** (7%) – sound businesses with good management and balance sheets. (Vontier).
- **Asset plays** (3%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (Sony Corp).
- **Cyclicals** (15%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who allocate capital prudently (Ferguson).

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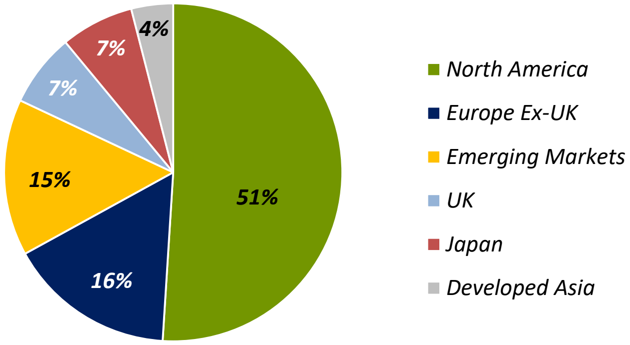
The portfolio is diversified by country and sector:

No. of Stocks	*42*
Region Weights *(by listing)*	*North America 57%* *Europe 24%* *Asia 16%*
Most OW Sectors	*Industrials, Health Care*
Most UW Sectors	*Com. Services, Materials*
Cash	*3%*

Geographical Exposure by Source of Revenues#



#Derived on a look-through basis using underlying revenue exposure of individual Portfolio stocks

Portfolio Changes

In early August the Portfolio participated in the float of **Ryan Specialty Group**, a US-listed wholesale insurance broker.

A core tenet of our investment philosophy is the idea of Pattern Recognition. When we see the setup for an idea that has worked well previously it can often form the bedrock of an investment proposition – this may pertain to certain industries, business models, management behaviours or group maturity.

Ryan Specialty was founded a decade ago by current CEO Pat Ryan. What is remarkable about Pat is that in the early 1980s he also founded Aon, the world's largest retail insurance broker and a long term Portfolio holding. He led Aon until 2008 as CEO and then Chairman. Pat was so confident in the opportunities in wholesale insurance broking that in 2010 two years after "retiring" he founded Ryan Specialty. He displays deep industry knowledge and remains an engaged leader despite his status as an octogenarian. He has also developed a deep management bench with most of the senior executive team being long term Ryan Specialty employees. He owns a little less than half the company today.

Insurance broking is an area we know well through long term investments in Aon and Arthur J Gallagher, retail brokers who use wholesale brokers like Ryan Specialty to place risk which cannot be underwritten by standard insurance contracts. This is known as the Excess & Surplus portion of the market. Ryan Specialty's highly specialised wholesale brokers work with insurers to place risks that are often highly complex or unique and retail and wholesale share the commission paid by the insurer (though neither take on underwriting risk). E&S accounts for ~17% of the insurance market today and continues to grow in prominence as economies and businesses become more complex. Much like the aforementioned retail broking industry, the wholesale space is also consolidating and as an industry leader, Ryan Specialty have been able to supplement their organic growth via an attractive acquisition program.

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During the quarter we also established a position in **CoStar Group**, a unique portfolio of proprietary data and marketplace businesses in the large, growing and underpenetrated US commercial real estate market.

Founded in 1987, CoStar operates the leading US commercial real estate information solutions business, as well as the leading commercial real estate listing platforms to transact commercial real estate, apartments, businesses and land. The group is led by long term founder and CEO Andy Florance who brings a palpable passion and focus to running the company even after 35yrs.

CoStar has an exceptional financial profile with consistent mid-teens growth and sits on its own with a portfolio of unique assets analogous to being the Bloomberg and REA of commercial property. We see a long growth runway with the shift to online, international expansion and development of marketplace networks for commercial real estate. CoStar has attractive 30% EBITDA margins with significant upside given the scalability which data and network businesses provide. We have long admired the success of CoStar having first interacted with the company over 4 years ago, and after a period of share price underperformance now have the opportunity to buy this great company with identifiable value latency.

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During the quarter we exited our position in **Baxter**, having originally bought in 2017 as a Low Risk Turnaround with clear Stalwart attributes. In essence, the core businesses were highly durable, providing life sustaining or saving medical products such as IV medication or pumps and dialysis machines.

They had been mismanaged prior to the company spinning off its biopharmaceutical business in 2015 which had generated most of the Baxter's operating profit. With a new CEO in Joe Almeida, who came with a successful track record leading another medical device company (Covidien) we identified three sources of value latency for the new standalone Baxter.

Firstly, optimising the cost structure. Baxter were successful here – they were able to effectively double operating margins from low single digits to mid-to-high teens over a relatively short four-year period. Secondly, accelerating sales growth through a more focused R&D effort. This is inherently more difficult than cost optimisation and on this front success has been muted with only moderate impact to revenues from new product introductions. Finally, capital deployment through Baxter's significantly under-levered balance sheet. Several smaller bolt-on acquisitions were nicely complementary to the existing portfolio, but 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 balance sheet latency in one fell swoop.

Whilst it is "EPS accretive" we believe 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.

This combination of uncertainty around the merits of the Hil-Rom acquisition and the underwhelming performance on the product development side of the business led us to conclude that the investment proposition today is less attractive relative to other opportunities.

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The other meaningful deal during the quarter was **Intuit's** acquisition of Mailchimp for $12bn.

Intuit has reinvented itself over the last decade and thrived with a leadership position in QuickBooks Online, the financial accounting software for small businesses (effectively the 'Xero of the US'). We originally invested in Intuit in February 2020, excited by the QuickBooks prospects.

Management have executed exceptionally well on the opportunity set which has seen the shares double since our initial purchase. However, the company has now conducted two meaningful deals in Mailchimp and Credit Karma worth a combined US$20bn over the last 12 months. The investment proposition has shifted from a focus on QuickBooks to now being a financial and small business software conglomerate. We continue to very much admire the company, but with Intuit now trading on 50x forward earnings we no longer see such attractive latency on offer, nor the rewards for the level of execution risk and thus we have exited the position.

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Finally, the Portfolio exited its long time holding in **Roper Technologies.** Roper was bought in 2015 with the company still viewed at the time as an industrial business despite being in the middle stages of pivoting toward a portfolio of vertical software companies. Roper was one of the original 'Capital Allocator Champions', those rare companies excelling at using free cash flow for M&A. Roper spotted the value in software early and benefitted from the improving business fundamentals with increasing software exposure.

Today Roper owns software for law firms, construction and insurance businesses. Despite this significant shift Roper still has a third of its business in attractive albeit industrial businesses. Roper no longer exhibits clear value latency with multiples trading in line with more pure-play vertical SaaS peers, while value creation from M&A is looking increasingly difficult given higher acquisition multiples for quality vertical software businesses.

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 understanding is that the remedies requested by the DoJ required splitting up internal teams and was 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 businesses over our 8 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.

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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.

Responsible Investing

In late July the California Department of Fair Employment and Housing filed a complaint against **Activision Blizzard**. Based on a two-year investigation, it accused the company of failing to comply with the state’s workplace protection laws. Specifically: the unfair treatment of women including the lack of women in leadership positions, the difficulties they have faced in gaining promotions and discrepancy in pay. The suit also described Activision Blizzard’s culture as a “breeding ground” for harassment against women. The US Equal Employment Opportunity Commission also launched a lawsuit against the company along similar grounds.

Our investment in Activision Blizzard is predicated on an attractive industry backdrop for video game publishers, with positive trends for the owners of the best intellectual property as they monetise their content across multiple vectors (console/PC, mobile, Free to Play, Live Services etc.). It is our belief that they are the owners of the best portfolio of IP in gaming, and their strategy to focus resource here would lead to a significant increase in free cash flow generation over the coming years.

However, this is a moot point if the company is culturally unsound. Attractive financial outcomes cannot persist without the company culture necessary to support them. Further, Cooper Investors’ Responsible Investing framework codifies our belief that financial or shareholder outcomes, whilst important, are not the solitary performance indicator of a company.

Following news of the aforementioned investigation we engaged in a detailed process in order to improve our understanding of the issues. This involved discussions with several former employees and executives from both Activision Blizzard and the broader video game industry (including Sony, another Portfolio holding), as well as engaging with the company directly. We have documented in detail the actions taken by the company to address these issues.

Whilst the accusations are in no way excusable, what is important is the actions of management going forward. The company has been instituting change for several years and remains on a journey, with actions such as changing management reporting lines and including culture and employee feedback into executive remuneration policies. Over the last few months this has accelerated and the company has enacted several leadership changes across both the Blizzard division (from whence the issues originated) and at the senior executive level including new a HR Chief Julie Hodges who joins after 17 years at Disney in similar roles. The company is assessing workplace satisfaction more holistically, implementing best practice in areas such as hiring diversity (both interview panel and candidates).

At the end of the quarter Activision Blizzard announced they will settle the lawsuit from the US Equal Opportunity Commission for $18mn. As investors we see our role as holding the company to account with these endeavours. We will remain engaged in dialogue and dedicate a meaningful portion of our discussions with them to issues of employee satisfaction and culture. We will reassess our views if we do not observe continued progress on the path to improvement.