Cooper Investors Global Equities Fund (Unhedged)

COOPER INVESTORS

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

QUARTERLY COMMENTARY | MARCH 2023

"You want to be in the stock in the second innings of the ballgame, and out in the seventh. But that could take 30 years." **Peter Lynch**

"Success consists of going from failure to failure with no loss of enthusiasm." **Winston Churchill**

COMMENTARY

"Only know you've been high when you're feeling low
Only miss the sun when it starts to snow
Only know you love her when you let her go"
Let Her Go, Passenger, 2012

In August 2021 a clip-art JPEG of a rock sold for 400 'ether' (at the time worth ~A$1.7million). While there were many excesses in the final trippy days of the free-money era this episode was one of our favourite examples of the abandonment of sound investment principles.

Less than two years later the market has gone cold turkey, undergoing a purgative reappraisal of the importance of these principles. The immutable truths of business fundamentals - returns on capital, profit margins, free cash flow and leverage are once again coming to the fore.

Leading indicators suggest developed economics are heading for a sharp economic slowdown in the coming year. Though this is not yet a certainty given low levels of unemployment, resilience in parts of the US economy and the reopening in China, there is enough evidence to suggest trends may get worse before they get better. Ongoing input cost inflation and higher costs of capital are stifling the return profiles of all but the best operating models. As demand decelerates from both consumers (belt-tightening) and industry (destocking and back-log rundowns) we expect the resilience of top-line growth and margins to be severely stress tested. In this context we see Stalwarts are relatively more attractive than they have been for a while

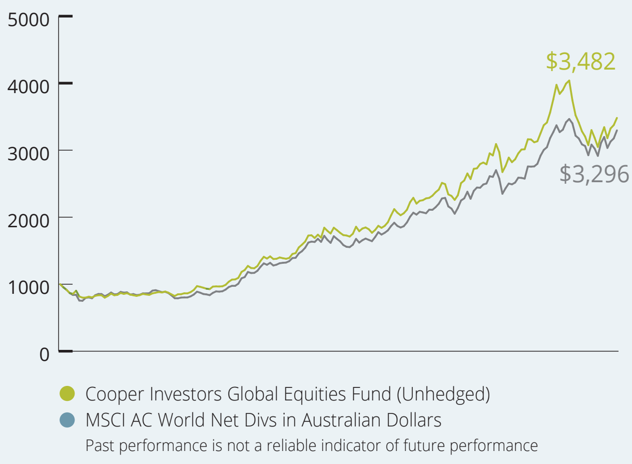
As we observed in our prior newsletter, the volatility and pricing inefficiency brought about by a market adjusting to the new reality of higher rates has created numerous Value Latency-rich opportunities. This is a unique window where some very good businesses were sold down over the last 18 months to quite reasonable valuations, yet their attractive fundamentals may only start to be appreciated as the combined efforts of central banks to slam the brakes on the economy start to flow through.

We have been taking advantage of volatility in recent months to invest in new Stalwarts or add to existing positions at attractive levels relative to our assessment of Risk Adjusted Value Latency.

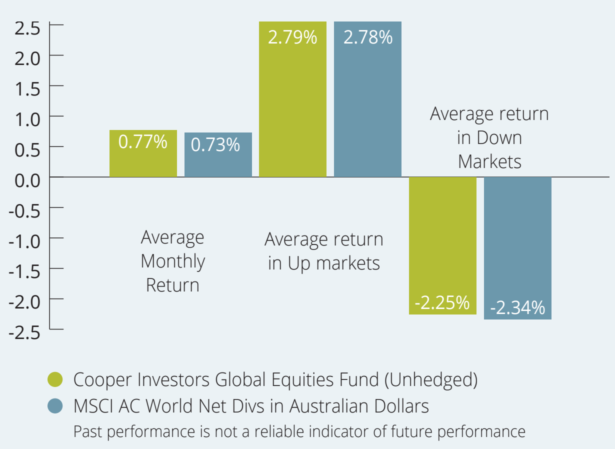
	**Portfolio	#Benchmark	Relative
3 months	9.51%	8.65%	0.86%
1 year	2.05%	3.78%	-1.73%
3 year*	9.21%	11.96%	-2.75%
5 year*	8.83%	9.87%	-1.04%
7 year*	10.68%	11.34%	-0.66%
10 year*	12.51%	12.95%	-0.44%
Since inception*	8.93%	8.52%	0.41%
Since inception^	248.17%	229.58%	18.59%

* Annualised
^ Cumulative (since inception on 1 September 2008).
# MSCI AC World Net Divs in Australian Dollars.
** Net of fees and expenses.
Past performance is not a reliable indicator of future performance.

Cooper Investors Global Equities Fund (Unhedged) – net of fees and expenses $1000 Invested Since Inception



Since Inception Net Returns In Up And Down Markets



Cooper Investors Global Equities Fund (Unhedged)

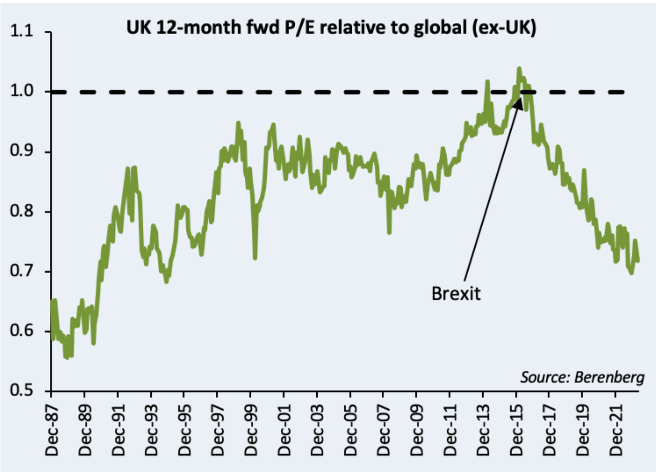
COOPER INVESTORS

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

QUARTERLY COMMENTARY | MARCH 2023

One area of Value Latency we have identified through Pattern Recognition is around regional valuation disparity. We have commented for some time on the miserly multiples (we refer to as 'The Atlantic Discount') that US businesses listed overseas trade at versus locally listed counterparts.

This is particularly acute in the UK, where the journey since Brexit has seen enormous relative underperformance. Partly UK economic malaise and the self-inflicted problems therein, but partly the result of an index heavily skewed towards 'old economy' businesses – banks, oil and gas and tobacco.



The companies we're interested in are not British but excellent US businesses that happen to be listed in London for legacy reasons and valued at reasonable levels versus both US-listed peers and their history.

The 'Atlantic Discount' has not gone unnoticed by corporate boards and management teams.

We are now seeing an increasing number of UK-listed US companies looked to either re-list or dual-list into New York. The reasons make sense. A New York listing opens the register to the sizable community of US domestic investors and wider analyst coverage, while inclusions in US indices typically boost trading liquidity. For a CFO there is a strong argument to report in the currency of your predominant cash flow, as well as having a US-traded share to use as acquisition currency. Meanwhile European pension funds have in recent years consistently reduced equity exposures and have become rather myopic around income versus growth.

Ferguson Plc has already completed this move after much cajoling from shareholders (to which we contributed), Irish building materials leader CRH Plc is well into the process, while March saw the news that Softbank have chosen New York over London to float chip designer ARM Holdings.

It's not just the UK either – Spanish-listed **Ferrovial** announced plans to redomicile into the Netherlands in advance of seeking a US listing. This is logical given the vast majority of cash flows are from North American toll road concessions. Management told us they see 'significant demand' for long duration domestic infrastructure assets among US endowments and pension funds currently starved of investable options. German industrials gas giant Linde delisted from the DAX altogether in March and is now listed only on the NYSE. The fund owns half a dozen stocks in the 'Atlantic Discount' and are actively researching more.

PORTFOLIO PERFORMANCE

The portfolio returned 9.51% in the quarter, versus the benchmark return of 8.65%.

The biggest contributors to portfolio return were **Salesforce** (profit margin expansion from cost efficiency efforts rapidly showing in numbers), **Booking Holdings** (strong Q4 results with gross bookings +58% year on year) and **Rentokil Initial** (uplift in organic growth guidance and Terminix synergies).

The biggest detractors to return were **Frontier Communications** (sold off on broker downgrade two days before month end), **Eurofins Scientific** (lag between higher costs and pricing to impact FY23 margins) and **Danaher** (market concern over a rumoured acquisition).

This quarter proved once again that equity markets can climb a 'wall of worry', rallying despite universally awful headlines. 2023 has so far seen the 2nd and 3rd biggest US bank failures in history, the hastily arranged rescue of Credit Suisse by UBS, ongoing interest rate hikes from central banks, nuclear rhetoric from Russia in Ukraine and the first indictment of a US President on criminal charges. Yet the overall index had a fine start to the year.

In truth market breadth was extremely narrow, reminiscent of 2020/21 where the market was propped up by NASDAQ. The outperformance of US tech in 2023 versus medium and smaller businesses is stark, March saw the second widest spread in the past 20 years with NASDAQ +7% versus Russell 2000 -5%.

Given the portfolio's underweight to mega-cap tech and overweight in medium and smaller-sized businesses, we would typically expect the portfolio to lag this type of market move. As an indication, the top 10 index weights accounted for 4.2% of the benchmark's 8.6% gain. In other words, the top 15% delivered almost 50% of the return.

Cooper Investors Global Equities Fund (Unhedged)

COOPER INVESTORS

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

That the portfolio still outperformed during the quarter was therefore an outcome of strong idiosyncratic stock returns. Many of the businesses in the portfolio are, in our view, either underearning or have material self-help opportunities that represent their sources of Value Latency. Overall, we saw portfolio companies executing well to deliver solid and encouraging Q4 updates, with most cautiously optimistic on the year ahead despite myriad challenges. This was reflected in the average holding gaining ~10% over the quarter amid a reporting season where downward earnings revisions were present but not as prevalent as feared.

THE PORTFOLIO

The portfolio owns 41 businesses today across 12 countries. Our aspiration is to be long term investors, partnering with those rare jewels – humble and intentional management teams that consistently create value - in our language, generate and crystallise Value Latency. More than half the portfolio (by both name and weight) has been owned for more than 3 years. We've owned 11 names for more than 5 years and 2 names have been in the portfolio for more than a decade.

Our focus is ***relative value***, seeking Risk Adjusted Value Latency wherever it may be found. The reality is things change over time – management teams come and go, industry structures evolve, operating trends get better or worse, regulators write new laws, and share price moves mean Value Latency can be realised much quicker than you anticipate (or not at all!).

Thus, the portfolio sold its position in **Synopsys, Inc**, a leader in vertical software for the semiconductor industry. This was a successful investment, more than doubling from the initial purchase at $142-a-share to deliver a 137% return over the 3-year holding period versus an index return of 35%. With the business trading at close to $400 or a Free Cash Flow multiple (adjusted for share-based comp) of around 40x, we do not see compelling Risk Adjusted Value Latency today.

We have re-established an investment in **Booking Holdings** (BKNG). Longer term investors in the fund may recall we owned this business pre-COVID, over a holding period with mixed success. One benefit of our process (following a focused watchlist of companies through their life cycle) means we sometimes get another bite of the cherry. While there are no guarantees in this business, the second period of ownership can be more rewarding – muscle memory and accumulated scar tissue around management behaviour, industry trends and Value Latency tend toward more discerning judgements of risk and opportunity.

As a reminder, BKNG is the world's largest online travel agent, known for its key brand Booking.com. It is an exceptional business. BKNG plays the valuable role of aggregator in a fragmented travel market, particularly in travel accommodation. Customers tend to travel infrequently and often to new places hence the importance of BKNG's wide selection and extensive consumer reviews. Accommodation providers on the other hand have high fixed costs but low variable ones, offering room nights that are perishable in nature. As a result they highly value BKNG's demand generation capabilities.

BKNG today is expanding its role in the travel ecosystem, moving from mainly accommodation bookings to all key components of a trip, including flights, car hire and entertainment. This 'Connected Trip' strategy should improve the consumer travel experience by linking up previously fragmented components. It should also create additional sources of revenue for BKNG and increase overall business quality as more consumers interact with the Booking.com app.

BKNG is run for the long term by CEO Glenn Fogel, a 20-year veteran of the group. We see Value Latency arising from the COVID impact on travel coupled with historic investor concern on competitive intensity, which has fallen. BKNG today trades on a Free Cash Flow multiple of ~15x for an industry leader with exceptional financial quality. It is well capitalised for growth and the bulk of cash generation comes back to owners via share buybacks – last year BKNG repurchased almost 8% of its share count. We expect this to continue, with an ongoing recovery in travel delivering double digit earnings per share growth.

The portfolio is positioned around Subsets of Value.

- **Stalwarts** (41% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (AON).
- **Growth companies** (20%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Eurofins).
- **Bond like equities** (4%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Ferrovial).
- **Low risk turnarounds** (10%) – sound businesses with good management and balance sheets. (APi Group).
- **Asset plays** (5%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (Sony Corp).
- **Cyclicals** (14%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who allocate capital prudently (Ferguson).

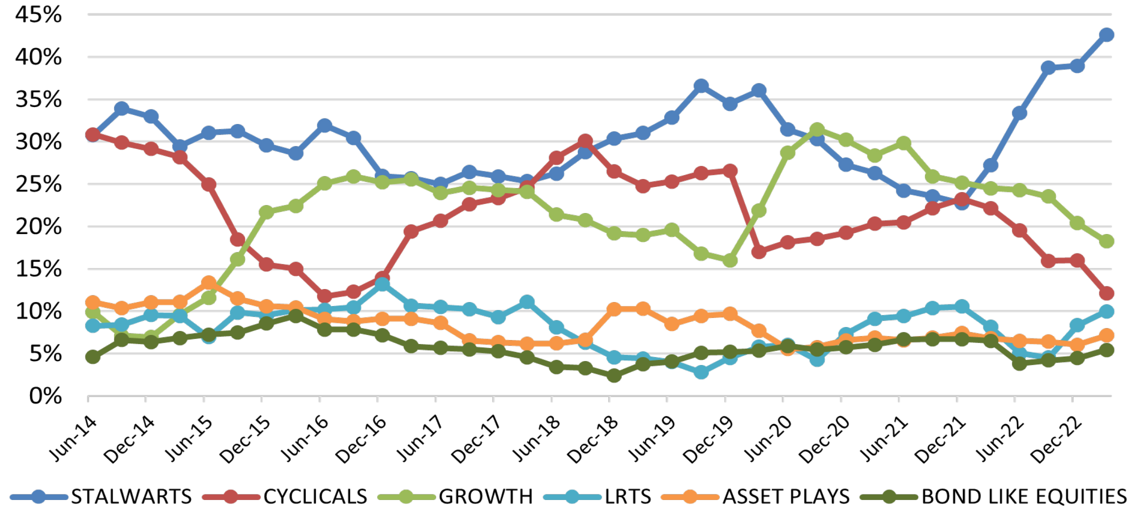
Cooper Investors Global Equities Fund (Unhedged)

COOPER INVESTORS

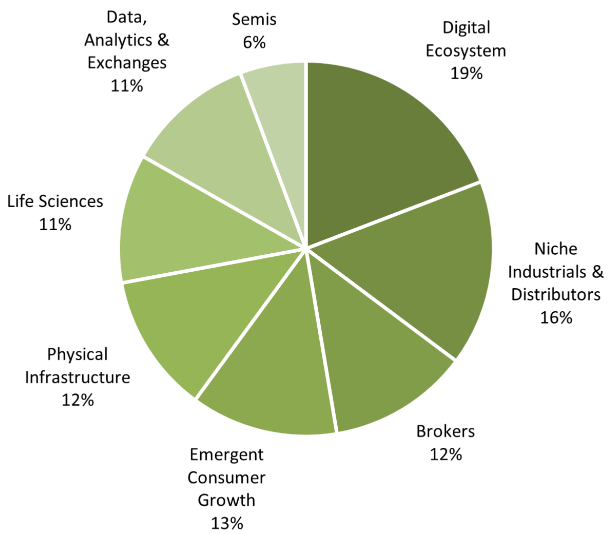
AFS LICENCE NUMBER 221794
ABN 26 100 409 890

QUARTERLY COMMENTARY | MARCH 2023

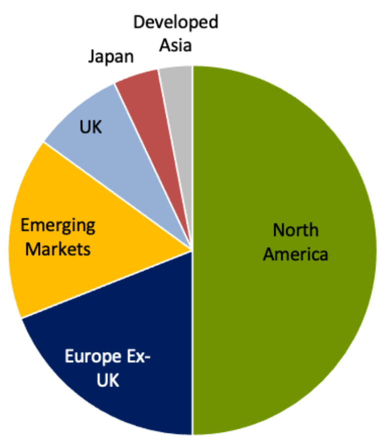
Portfolio Composition by SoV



Portfolio by Business



Geographical Exposure by Source of Revenues#



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

No. of Stocks	*41*
Region Weights	*North America 51%*
(by listing)	*Europe 29%*
	Asia 16%
Most OW Sectors	*Financials, Industrials*
Most UW Sectors	*IT, Energy*
Cash	*5%*

Portfolio Metrics	
Price to Earnings [1]	19.3x
Price to Free Cash Flow [1]	18.1x
Net Debt to EBITDA	1.0x
Return on Equity	27.8%
Revenue Growth [2]	6.9%
Earnings Growth [2]	8.0%
Total Cash Yield [3]	2.5%

[1] *Next twelve months forward*
[2] *Estimated, portfolio weighted average FY1 to FY2*
[3] *Estimated, average dividends plus buybacks*

Cooper Investors Global Equities Fund (Unhedged)

COOPER INVESTORS

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

QUARTERLY COMMENTARY | MARCH 2023

STOCK NEWS

Fund holding **Rentokil Initial** announced an excellent set of full year numbers during the quarter. The economic resilience of Pest Control businesses is well known; 'Cockroaches don't read the Wall Street Journal'. That was reaffirmed with the group delivering mid-single digit organic revenue growth in Pest, with management raising medium-term organic growth guidance to 'above 5%' (previously 4-5%).

The highlight of the result was the increased synergy targets from Terminix. As a reminder this deal, announced back in December '21, represents the combination of the #2 and #3 US Pest Control players, into what will now be the market leader. Terminix was a poorly managed business with too much executive turnover, ownership change and strategy flip-flopping, yet with a great brand, and loyal network of branches and front-line staff. In other words, ripe for Rentokil's management to plug-in to their operating philosophy and raise standards. Annualised net cost synergies lifted to 'at least $200mn' represent an increase of 33% on the initial $150mn, and we suspect even this may turn out to be conservative.

The benefits of combining adjacent route density businesses are beautiful in their simplicity, something we have observed over the years during our historic investments in cash-in-transit businesses like Brinks. The opportunity is to rationalise the US branch footprint from ~600 down to ~400 while increasing revenue per branch at higher drop-through margins. Other attractions are the removal of overlapping brands and the scale benefits of combining technology platforms. In a recent meeting with senior management in London our sense was deep excitement about value creation potential as the integration progresses. While plenty of hard work remains to be done, there are no structural reasons why Rentokil's new enlarged US business cannot keep expanding its current ~17% operating margins up towards the 20%+ they make in densified geographies. Given over 75% of the revenue book is non-discretionary annually renewing contracts, we expect stable revenue growth and accelerating profit and cash flow growth over the next 18 months predominantly from these self-help efforts, irrespective of what happens to the global economy.

TRIP NEWS

In 1973 in the town of Nagasaka, Yamanashi Prefecture, Japan, a new manufacturing plant owned by optical glass specialist **Hoya** opened its doors for the first time. Nestled beneath the foothills of Mount Fuji and around 2 hours by train from Tokyo, Yamanashi is an area rich in high tech research and development, hosting the global HQ of domestic robotics champion FANUC. The location made sense - Hoya had until that point made its name selling eyeglasses and contact lenses, but this new facility would not be manufacturing glass for spectacles, rather a new high-tech product called 'mask blanks'.

These plates of highly polished optical glass would be used in lithography, the art of using light to print patterns onto wafers of silicon in the manufacture of microchips for the burgeoning semiconductor industry. In the formative years patterns had been literally hand-drawn on graph paper and cut with a knife before being shrunk down using projectors and replicated. The next step saw contact printing where patterned 'photomasks' were pressed against coated wafers in a vacuum, much like screen printing, yet these degraded quickly. As automation technology improved a giant leap took place when Perkin Elmer introduced the Microline scanner in 1973 (no coincidence). This used a series of light and mirrors, so mask and wafer did not touch, increasing manufacturing yields sevenfold.

Over the following decades Hoya has become a world leader in photomask blanks – the Nagasaka plant celebrates 50 years in operation this year. We heard about Nagasaka and learned more about the manufacturing process during our recent trip to Singapore where we were fortunate to visit and tour Hoya's latest cutting-edge mask blank facility.

The Singapore site, opened in 2011, manufactures around 8-12 blanks per day for 'EUV' lithography (Extreme Ultraviolet), currently the most advanced technology in this space. To our eyes the process was akin to modern day alchemy. Pieces of glass around 14cm square (pre-polished at a Malaysian site to be mathematically flatter than the Earth's surface) move slowly through a series of deposition layering and defect detection tools. In the highly sterile environment, a unique roof-mounted robotic hoist system carefully moves the blanks from machine to machine, ensuring no possible chance of human defilement.

What emerges are coaster-sized squares of the most reflective mirror it is scientifically possible to make (lest the essential EUV light gets absorbed) which customers buy for up to US$100,000 per piece. While the manufacturing verges on science fiction, the profitability is equally wondrous – Hoya estimate operating margins on EUV mask blank production at 70%.

Cooper Investors Global Equities Fund (Unhedged)

COOPER INVESTORS

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

QUARTERLY COMMENTARY | MARCH 2023

Today Hoya has 80% global share in EUV mask blanks with a significant technical advantage over competitors built from decades of know-how. Their edge is error detection and minimisation, a key selling point to customers where fabrication defects hidden deep within the blanks' many layers are a fact of life ('a zero-defect blank is the holy grail', one engineer told us).

Physicists, chemists, and engineers at Hoya are already working with lithography leader ASML on the materials and science challenges posed by 'High NA EUV', the industry's next step to printing ever smaller logic chips. We expect Hoya to have a dominant share of the market and industry profit pool when this technology is commercialised.

One highlight of our recent trip to London was meeting management at holding **London Stock Exchange Group** (LSEG). In the near term the business is benefitting from market volatility and delivering strong growth across several key franchises in FX, Fixed Income, Derivatives and Post-Trade.

More broadly the proposition is delivering on the promised growth, scale, and profitability improvements from the Refinitiv deal. Growth in the annual subscription value of the Data & Analytics book of business accelerated throughout 2022 with a Q4 exit rate of +6%. Cost synergies as guided of £400mn by 2025 look likely to be realised a year early with EBITDA margins approaching 50%+.

A topic discussed extensively during our meeting was the strategic partnership with Microsoft, announced in December. As part of this deal Microsoft will become both LSEG's cloud services provider (migrating LSEG's data platform to Azure) and primary data and analytics partner. A key element will be the integration of Microsoft Teams into LSEG's new Workspace system, combining communication and interoperability with Microsoft 365.

In practice for professionals this should allow seamless integration of a raft of functionalities: video calls, chat features, spreadsheet and database tools, cross-asset class trading and analytics. If it works out as promised this represents a far more compelling proposition to users than the old Eikon platform which has been losing share for years. At worst these improvements should help LSEG defend their current subscriber base and at best equip them to close the price gap to Bloomberg (currently ~25% premium).

A noteworthy feature of the partnership is Microsoft taking a 4% stake in LSEG, acquiring a block of the outstanding stake held by the Blackstone/Thomson Reuters consortium. Part of the bear case has revolved around the >30% overhang held by this group. The first placement of three equal tranches has now been absorbed into the market and with the Microsoft deal the overhang is less than 25%. With further stake sales and LSEG's own directed £750mn buyback, the consortium's stake will likely be below 18% within a year, at which point we expect the concern around this issue will fade.