Cooper Investors Pty Limited AFS Licence Number 221794 ABN 26 100 409 890

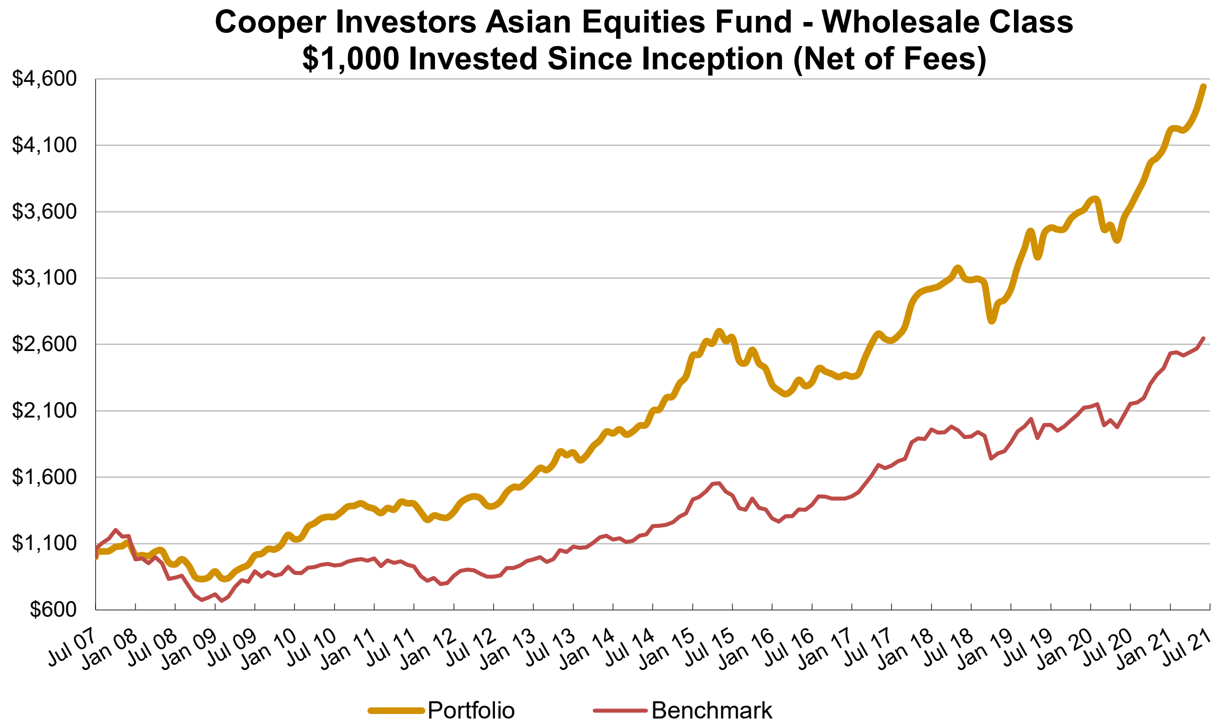
For current performance information please refer to the Monthly Performance Report.

JUNE 2021

"The secret of change is to focus all of your energy, not on fighting the old, but on building the new." — Socrates

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	7.78%	5.11%	2.67%
ROLLING 1 YEAR	27.97%	28.07%	-0.10%
ROLLING 2 YEAR	14.95%	15.20%	-0.25%
ROLLING 3 YEAR	13.59%	11.62%	1.97%
ROLLING 5 YEAR	14.71%	14.32%	0.39%
ROLLING 7 YEAR	12.46%	12.36%	0.10%
ROLLING 10 YEAR	12.47%	10.90%	1.57%
SINCE INCEPTION*	11.42%	7.20%	4.22%
SINCE INCEPTION^	354.19%	164.62%	189.57%

*Annualised
^Cumulative (2 July 2007)
**Before fees and expenses
MSCI AC Asia ex Japan Net Divs in AUD
Past performance is not necessarily a reliable indicator of future performance



Source: NAB Asset Servicing

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Market and Portfolio Performance

The Portfolio gained 7.8% over the June quarter, compared to 5.1% of our Benchmark. For fiscal year 2021, our Portfolio returned 28.0% against the Benchmark of 28.1%.

For the 3 months and financial year ended on June 30th 2021, our China and Hong Kong Portfolio holdings contributed 132bps and 94bps to outperformance, respectively. Our consumer holdings in the region such as **Li Ning** are the biggest contributors to outperformance. We wrote in our letter one year ago that these companies, often the leaders in their respective industries, emerged from the pandemic with solid balance sheets, more efficient operations and ready to grow again. They delivered just that in FY21 – as we publish this letter, our Portfolio of 40 stocks are on track to growing earnings per share over 10% in Calendar Year 2021 over the pre-pandemic 2019 levels.

Looking ahead, inflation has become topic de jour for global investors. Prices for commodities such as copper and aluminium, as well as agricultural products such as raw milk and soybean, soared higher and faster in 2021 than the peaks of previous cycles. Most businesses cannot pass through the cost increase quickly to consumers, as they worry about consumers pulling back purchases, and their competitors undercutting on prices.

Whilst this creates short term margin pressure for most of the consumer goods companies, we view this challenge the same way as all other challenges that these businesses faced in the past. Just as the best-in-class Chinese exporters emerged unscathed and even stronger from a ‘trade war’, the most capable consumer company management teams will manage inflation better than their peers as well.

Below are some of the examples that we have already observed:

- **China Mengniu** launched a number of premium products through innovative R&D and branding. Its investment in cold chain logistics over the past few years is also paying off, as its high end branded fresh milk product is growing nearly triple digits year over year. As a result, blended average selling prices are steadily rising despite not raising prices on its existing products. The Company is also more efficient operationally, especially around sales and marketing spent. This combined with the better pricing structure effectively provides protection from rapidly rising raw milk prices.

- **Techtronic** does not miss a beat on launching products that have better functionality and features than competitor offerings. New products tend to be priced with a premium and account for 30% of annual sales consistently. Their success and contribution alleviate cost pressure.

- **Yum China** leverages digital to drive significant operating efficiency. Impressively, its total number of employees stayed flat whilst the Company expanded the number of self-operated stores from 7,000 to over 10,000. It is taking a step further to deploy an artificial-intelligence-enabled inventory system to accurately forecast raw materials needed for its fast evolving menus, reducing inventory levels and ensuring better planning vis-à-vis rising costs.

- **Shenzhou** continues to outperform its peers on scale and speed of delivery. Its relationships with top customers such as Nike and Adidas are strengthening and their contracted prices with Shenzhou incorporate rising costs.

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Past readers of our letters have seen these companies appearing often. The circumstances or external factors facing these companies often change – evolving consumer tastes, channels moving on line, industry regulation changes, or external pressure such as a trade war.

Yet time and again, their management teams' thoughtful preparation, well-reserved balance sheets, adaptable thinking, and quick action, and most importantly, the intrepid culture, prevail. That is precisely the point.

We are long term investors of the best companies we can find. Some of these companies we have held in the Portfolio for over a decade. We have had the pleasure of observing these highly effective management teams navigate through one crisis after another. Different crisis come and go, yet the winners remain standing and strong.

Our Indian Portfolio holdings also had a productive year, contributing 26bps and 54bps of performance for the 3 months and financial year ended on June 30th 2021, respectively. Private healthcare service providers such as **Dr. Lal** and **Apollo Hospital Enterprises** contributed the bulk of the outperformance.

The second wave of Covid-19 hit India hard, and the country is still reeling from its impact. This crisis also painfully exposed the weakness of its public health infrastructure. In times of crisis, patients flock to institutions with long standing reputations that they can trust. Now more than ever, people understand and value the efficient and reliable services from **Dr. Lal's** pathology labs, and appreciate the 'tender, loving care' that is the axiom of the **Apollo Hospitals**.

Both businesses also continue to invest proactively for the future**.** **Dr. Lal** is rolling out their stores in a more systemic and efficient hub-and-spoke model. **Apollo Hospitals** created an all-encompassing digital health product, ***Apollo 24***, which combines online medical consultation with pharmacy delivery. We believe these initiatives will propel healthy growth of these businesses long after the pandemic passes.

Our Korea and Taiwan Portfolio contributed 40bps to outperformance for the June quarter, but detracted 28bps of performance for the financial year. In a year where the Korean and Taiwanese markets rose by over 50%, we are pleased to see our Portfolio held up despite having less than half of the Benchmark weighting. Our holding in **Momo.com**, a Taiwanese online retailer, stood out as a significant contributor.

Our Southeast Asia holdings also performed well, contributing 63bps and 79bps of performance for the 3 months and financial year ended on June 30th 2021, respectively. Our decision to avoid industries and countries with deteriorating operating trends is the primary driver for the relative performance.

Largest Contributors

- **Li Ning** - strong operating trends and positive profit alert
- **Momo.com** - strong business results from March and June quarter
- **Shenzhou** - confident guidance on capacity expansion
- **Apollo Hospital Enterprises** - positive performance from existing hospitals; significant growth with its digital initiatives
- **LVMH** - strong consumer demand across its luxury brands
- **Dr. Lal** - positive operating trends and outlook

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Largest Detractors

- **New Oriental** - significant regulatory headwinds; please refer to Stock News for details
- **China Feihe** - concerns around low birth rates in China but continues to execute well and gain market share
- **Poya** - concerns around covid related lockdowns in Taiwan, however we believe company fundamentals remain very solid

Portfolio Review

Portfolio by Industry Sectors	
Consumer	40.6%
Information Technology	22.0%
Financials	11.4%
Telecommunication Services	9.9%
Health Care	6.1%
Industrials	3.3%
Real Estate	0.0%
Utilities	0.0%
CASH	6.7%

Portfolio by Country	
China and Hong Kong	49.4%
Korea & Taiwan	19.4%
India	12.4%
Japan & Other	7.6%
ASEAN	4.5%
CASH	6.7%

Portfolio Attributes[1]	
Number of stocks	41
Number of stocks outside of benchmark	11
Beta	0.86
P/E (x)	26.4
Dividend Yields	1.4
Historical EPS Growth %	16.0
ROE %	16.4
Tracking Error vs Benchmark	4.9

Recent Portfolio Changes

In our previous letter we discussed our observations on regulatory tightening in China's after school tutoring sector and our related holding in **New Oriental Education**. We have observed increasing evidence that points to a more severe regulatory scenario than we had previously anticipated. Restrictions on holiday or weekend academic tutoring are likely to be imposed. As these services account for the majority of revenue, this outcome would have significant negative impact, at least in the short-term. We decided to exit our holding for now and continue to monitor the sector closely. Over the longer run, we believe the highly capable management are likely to develop a more practical framework to work with the regulators, and expand into new services.

[1] Source: UBS PAS

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There were no notable portfolio additions for the June quarter.

Stock News

Li Ning announced an impressive profit update for the January to June 2021 period. The company expects revenue and profit to grow over 60% and 160%, respectively. It continues to benefit from the brand elevation in the minds of local consumers, and is gaining market share in the premium segment where its products are often priced around or sometimes above its international peers. In the near term, the company also benefited from the rise of patriotic sentiment, as consumers flocked to homegrown brands over international brands such as Nike and Adidas.

Jubilant Foodworks (JUBI) announced an excellent March quarter result. Store expansion is accelerating - the company added 30% more stores than their initial expectations over the past 12 months. We believe the room to grow remains large in both urban and rural areas, and **JUBI** could potentially more than double the number of stores under its core ***Domino's*** brand in the medium term. It's younger brands of ***Hong's Kitchen*** & ***Dum Biryani*** are also trending well. Previous investment in in-house delivery capabilities paid off, enabling uninterrupted service during the lockdowns. Delivery and takeaway already accounted for more than half of total sales. We believe **JUBI** is the undisputed digital leader amongst quick service restaurants in India.

Trip and Meeting Notes

Overall we conducted over 580 research meetings in financial year 2021, 15% higher than FY2020. For all the new stocks that the Portfolio initiated, we have had the pleasure of meeting the senior management over video calls. We still dearly miss walking the factories and eating at the employee dining halls, but for now we soldier on.

We had an insightful first meeting with Mr Matthew Li, the CFO of our new Level 1 Watchlist stock **Jiumaojiu ("JMJ")**, an innovative and fast-growing Chinese restaurant chain. **JMJ** operates multiple restaurant brands, and its claim to fame is a delicious Sichuan-style spicy fish cuisine under the brand of ***'Tai Er'*** (this is where we really wish we could conduct our usual, very tasty due diligence work).

Since its establishment in 2016, ***Tai Er*** quickly grew to over 230 stores. It focuses on serving the younger, Generation Z (between the age of 25 and 35) consumers with its light-hearted, irreverent branding. On the operations side, however, it is a very serious organization led by its product-obsessed founder and a number of high-level executives with rich experience from western brands such as ***McDonald's***. The unit economics is also highly attractive, with stores reaching breakeven within a month, and paying back the initial setup costs within 8 months. We also found management to be candid and humble, openly discussing past mistakes and current shortcomings, and committed to investing for the long term.

We enjoyed meeting with **Kakao Corp (035720KS)**, the operator of a wildly popular mobile messenger app called ***KakaoTalk*** in Korea. We believe ***KakaoTalk*** has just started the journey to monetise this omnipresent communication app. The revenue potential could be very large in multiple areas that include display advertising, business customer management, and eCommerce. We are also impressed with ***Kakao's*** ability to continuously innovate and create new businesses such as its FinTech initiatives: ***Kakao Pay*** and ***Kakao Bank***, and its mobility platform ***Kakao T***. Capital allocation and investments are also trending positive, with multiple subsidiaries filing for IPOs and hence requiring less funding from the parent company going forward.

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We hosted a few meetings with management teams from various divisions in **JS Global Lifestyle Group**. It was formed after a Chinese home appliance company, ***Joyoung***, acquired a US-based appliance called ***SharkNinja***. Today, the majority earnings come from ***SharkNinja*** which operates two main brands - "Shark", in cleaning devices such as vacuums and mops, and "Ninja", in food preparation devices such as blenders and pressure cookers.

Impressively, ***SharkNinja*** has compounded sales growth at 20% for over a decade, achieving strong market share in both the US and the UK and is laser focused on the needs of its customers. Its top management teams collect consumer feedback personally, and ensure they are incorporated in future product development. The company has recently expanded into France and Germany, with plans to launch in other Western European and APAC countries soon.

We are also impressed with ***Joyoung***, and see a lot of value add that it could bring to ***SharkNinja***, including research and development capabilities, procurement and supply chain capabilities, and the understanding of the Chinese markets. ***SharkNinja*** is also enjoying some initial success in China under its Shark brand, and we expect more to come in the next few years.

We had a productive meeting with the CFO of **Yum China (YUMC)**, Mr Andy Yeung. We came away increasingly excited about the value latency from their store network expansion. We believe the pace of this expansion will accelerate in the coming years. Additionally, the digitisation of supply chain and store operations will enable future store openings to be more cost effective and efficient. Increased penetration of its own delivery network is also allowing **YUMC** to be more flexible in choosing new store locations.

New stores can now be located in smaller sites and less central areas where rental costs are significantly lower. Digital not only drives efficiencies, but will also be value generative in its own right. **YUMC's** loyalty membership program, with over 300mn members is one of the largest in China and a huge source of customer insights/data, and at present we believe that the company is just touching the surface on their ability to monetise this customer base.

We had an engaging first meeting with the new CEO of **a2 Milk ("A2M")**, Mr David Bortolussi. We were impressed by his humility and openness in discussing the current challenges the business is facing. He also possesses a deep level of understanding of the business and the infant formula industry.

We are encouraged by his greater focus on building a bigger presence on the ground in China, from investing in the local sales team to increasing support for distributors and stores. The Company is also actively upgrading its IT and system, implementing a new ERP system to better manage inventory. Whilst the financial impact of these investments will take time to see, we believe these are the right steps and are encouraged by the early progress.

We had a meeting with the new CEO of **Dr Lal**, Bharath Uppiliappan. Mr. Uppiliappan comes from a retail background, with rich experience in highly reputable institutions such as ***Bhaiti Airtel, Walmart India***, and ***Hindustan Unilever India*** before joining **Dr. Lal** five years ago.

We found his perspective of applying the operating principles from the retail industry to the pathology lab operations refreshing. He understands the needs of **Dr. Lal's** consumers deeply, and to actively evolve its services as these needs change. For example, as consumers now prefer locations closer to their homes, with short waiting times, they have opened up small, neighbourhood collection centres with digital friendly services. Mr. Uppiliappan is also very methodical at growing **Dr. Lal's** network, using a cluster approach to expand its footprint into new cities and states.

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We had an update meeting with the CEO of **Dabur**, Mohit Malhotra. Things are progressing well at **Dabur**, with product innovation, cost efficiency, and category expansion all trending the right way. **Dabur** continues to demonstrate its leadership in the Ayurveda space. Additionally, it is leveraging its brand in natural and herbal products to other conventional product categories such as oral care. Its ***Dabur Red*** toothpaste is developed with ayurvedic formulations and is now growing at 20% year-or-year, far exceeding the industry.