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.

DECEMBER 2019

"Human capital will go where it's welcome and stay where it's well treated." ***Walter Wriston***

"You cannot describe passion, you can only live it." ***Enzo Ferrari***

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTHS	5.37%	7.73%	-2.36%
ROLLING 1 YEAR	29.52%	26.24%	3.28%
ROLLING 2 YEAR	13.38%	7.96%	5.42%
ROLLING 3 YEAR	15.40%	11.76%	3.63%
SINCE INCEPTION*	16.22%	12.54%	3.68%
SINCE INCEPTION^	58.68%	43.75%	14.94%

*Annualised
^Cumulative (Inception Date of Strategy 05 December 2016).
MSCI AC World Net Divs in Local Currency
**Before fees and expenses

This is the third quarterly report for the Cooper Investors Global Endowment Fund [the "Fund"]. The Fund was launched on 1 July 2019 and has been running as an internal strategy [the "Strategy"] since 05 December 2016. Thus the Strategy has just ticked over 3 years in operation.

The Fund is an equities portfolio and we expect it to normally form part of an overall portfolio for people / entities that are in the pensions / decumulation phase. The portfolio may also be appropriate for charities and endowments. The purpose of the Fund is to provide an equities portfolio suitable for those seeking a more conservative approach than a typical equities portfolio which is usually designed for those in the accumulation stage of their investment life.

The returns of the portfolio are reported against the MSCI All Countries World Net Divs Index in Local Currency and will also be measured against two other explicit objectives; that the portfolio will perform relatively well in down markets and will exhibit lower volatility that the market.

The Manager hedges the majority of foreign currency exposure. For a full background of why we launched the Fund, its objectives and the strategy of the Fund, please see the inaugural June 2019 report available on our website.

Portfolio Performance

Over the quarter the portfolio returned 5.37% and on a 1 year basis has returned 29.52%. For comparison purposes the *MSCI AC World Net Divs in Local currency* returned 7.73% over the quarter and 26.24% over 1 year respectively.

2019 was a strong bull market with only 2 negative months (May -5.8% and August -2.0%) and indeed has been the strongest full year return for the index in a decade. In a year where the market has been so strong we would describe performance of this nature (ahead by ~3%) as better than expected for this portfolio. In a typical +20-25% year we would expect this portfolio to probably lag.

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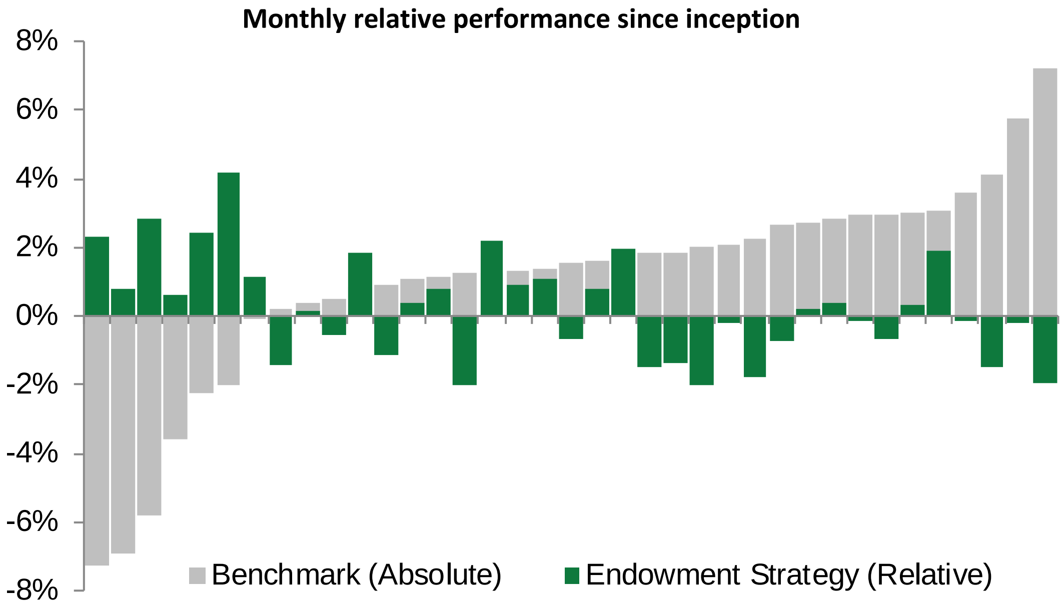
It therefore bears mentioning that there has been no change in philosophy and that the objectives of downside protection and sub-market volatility remain top-of-mind for this portfolio when it comes to both portfolio construction and stock selection. Metrics on both have continued to be consistent and met our objectives during the year.

With regard to performance in down markets we think it is instructive to consider relative performance on both a daily and a monthly basis since inception. Regarding the daily observations there have been **335** down days since inception and the portfolio outperformed in **220** of these (**66%**). On meaningful down days (where the market drops more than 0.5%) the portfolio outperformed on **80%** of instances.

Regarding monthly observations, the cumulative downside capture[1] of the portfolio is running at around **50%** while upside capture is running at **93%**. The 'capture spread' is therefore **43%**. While there have only been 7 down months since inception it is encouraging that the portfolio has outperformed in all of them.

The table below sorts the monthly market returns from worst to best (the grey bars) and for each month shows the relative difference between the portfolio return and the market return (the green bars).



When analysing volatility we look at monthly data since inception. So far the Fund has been less volatile than the market: portfolio standard deviation of **8.7%** versus the market of **10.3%** means that the portfolio has participated in **85%** of the market's volatility since inception.

More meaningful is to consider volatility in down months – the desire is that the portfolio should be relatively more stable than the market in those whereas higher volatility in up markets can be a good thing. Taking only down months since inception the portfolio exhibits volatility at **77%** of the market.

[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."

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Portfolio Structure

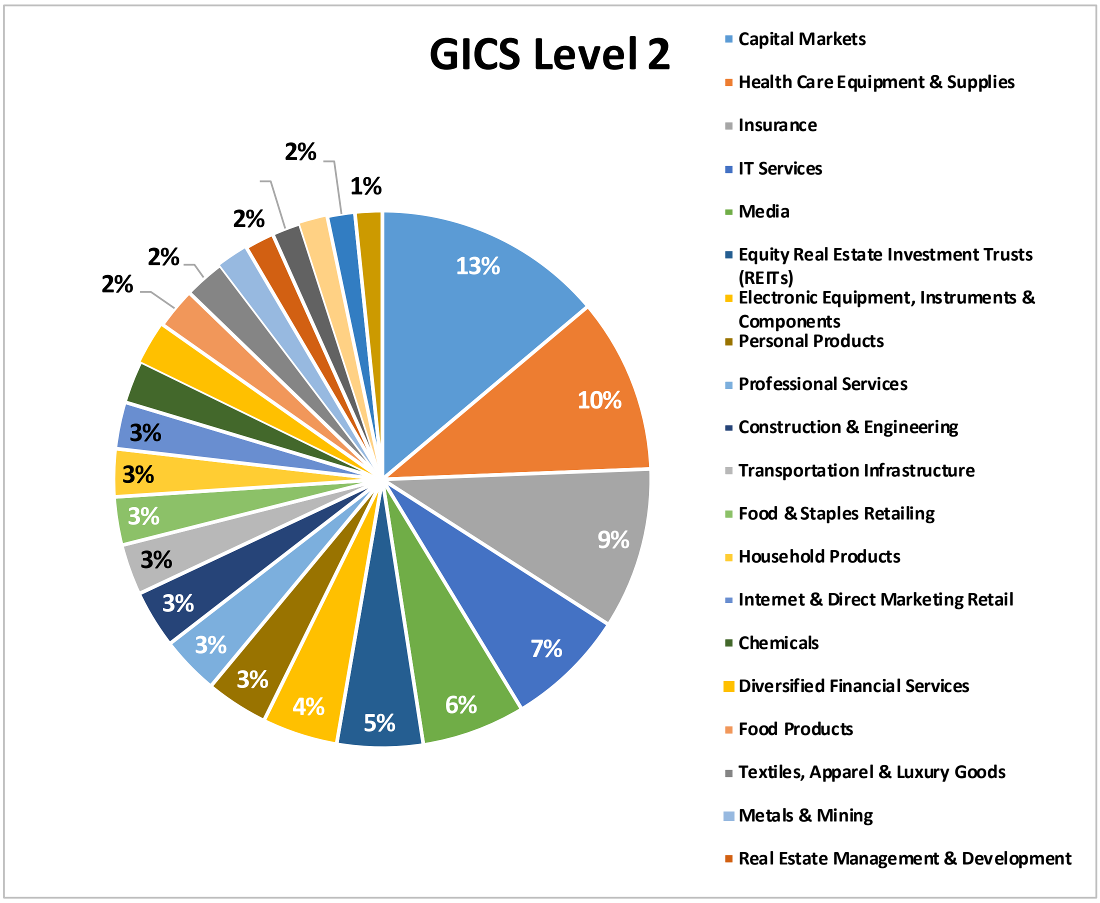
It is expected the Fund will operate within the following guidelines:

- 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

The current portfolio structure is as follows:

- 35 securities
- Stocks invested across 12 countries and 18 industry groups
- >80% in compounding-type Subsets of Value, zero turnarounds
- The US represents the largest single country weight
- Cash of 9% (7% net of hedges)
- >90% currency hedged
- Largest and smallest position weights of 4.1% and 1.4% respectively

Sector weightings (GICS Level 2) as at 31 December 2019 were:



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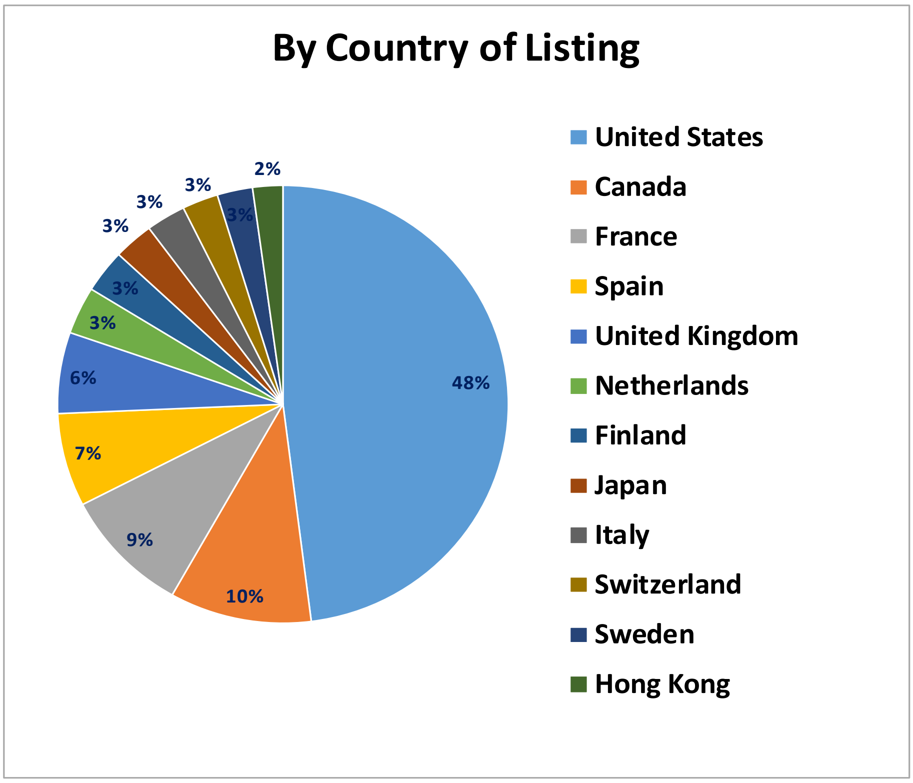
Country weightings as at 31 December 2019 were:



Portfolio Strategy

The 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 **Ventas** (a US-listed REIT owning healthcare assets such as hospitals) and **LVMH** (a French-listed luxury brands 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)
- International spread
  - Investing in domestic exposure of different regions, for example **Saputo** (Canadian-listed Dairy manufacturer) and **Unicharm** (Japanese-listed diaper company selling into Asia)

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- Subsets of Value
    - Investing in Cyclicals like **Rockwell** (Manufacturer of factory automation equipment) and Asset Plays like **Sampo** (Finnish-listed Nordic leader in P&C insurance)

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 will look cheap and stocks that do not will appear expensive, so we are aiming to balance this trade-off between quality and price.

The following portfolio characteristics are for noting (as at 31 December 2019).

	Global Endowment Strategy	MSCI AC World net divs in local ccy
Beta	0.86	1
Tracking Error	4.1%	
Sharpe Ratio	1.6	1.0
Sortino Ratio	1.9	1.2
Information Ratio	0.8	
Active Share	93%	
ROE	19%	15%

Portfolio Changes

The Fund made one new investment in the quarter: YUM China **[“YUMC”]** and there were no exits.

Yum China [“YUMC”] is the largest restaurant group in China operating almost 9,000 restaurants (of which only 9% are franchised) including over 6,000 KFC’s and over 2,000 Pizza Huts. YUMC was fully spun off from YUM! Brands in November 2016 and pays a 3% royalty fee on system revenues to its former US parent, in return enjoying exclusive rights to use those brand names in China.

Whilst on the surface YUMC appears to be “just another Master Franchise” our research process highlighted that over YUMC’s 32-year history they developed an owner-operator culture distinct from YUM! Brands and distinctly Chinese. This has allowed YUMC to create a highly localised customer proposition benefitting from a strong local appetite for chicken and become the clear market leader. Released from the shackles of a distant decision-maker we observe that YUMC have succeeded in developing an agile and entrepreneurial philosophy that has resulted in richer and deeper IP than YUM! Brands. This is particularly evident in areas like Menu Innovation and Digital (over 95% of KFC transactions are completed digitally) where they are arguably now the global leaders.

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KFC is the key value driver for YUMC, representing ~70% of units, ~90% of profits and given KFCs highly attractive new unit economics, 90% of new units. When most people in Australia think of KFC they typically picture a big bucket of fried chicken. Yet KFC in China has a far broader menu that caters to local tastes, such as serving Congee during the breakfast daypart and localising taste profiles to suit regional palates, such as spicier recipes for the Sichuan province. In addition, KFC regularly create new dishes to stoke consumer demand or adjust to price changes. A recent example of innovation and flexibility was switching to duck wraps and mushroom burgers to offset soaring chicken prices which were indirectly affected by African Swine Flu. YUMC have navigated this significant supply chain event with negligible margin erosion.

YUMC is an underappreciated Chinese Stalwart given a stable, simple and cash generative business model run by a highly driven owner-operator culture. Management have several exciting value latencies to execute including new KFC roll outs, improvement of Pizza Hut margins and development of new formats. In addition to growth opportunities a net cash balance sheet and strong cash flow profile means YUMC can provide attractive and growing distributions (currently ~3% combined dividend and buyback).