

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.

JUNE 2019

| | **STRATEGY | #REFERENCE INDEX | VALUE ADDED |
|------------------|------------|------------------|-------------|
| ROLLING 3 MONTHS | 6.03% | 3.23% | 2.80% |
| ROLLING 1 YEAR | 14.31% | 6.14% | 8.71% |
| ROLLING 2 YEAR | 13.06% | 8.46% | 4.60% |
| SINCE INCEPTION* | 16.18% | 11.41% | 4.78% |
| SINCE INCEPTION^ | 47.00% | 31.37% | 15.03% |

*Annualised

^Cumulative (Inception Date of Strategy 05 December 2016).

MSCI AC World Net Divs in Local Currency

**Before fees and expenses

Background to the Fund

The Cooper Investors Global Endowment Fund [the “Fund”] was opened to external investors on 1 July 2019. It is a wholesale unit trust governed by its Constitution and Information Memorandum. The Fund is managed by Cooper Investors Pty Limited. Information on Cooper Investors and the Fund are available on the Cooper Investors website (www.cooperinvestors.com).

The Fund has been running as an internal strategy [the “Strategy”] since 05 December 2016.

This is the first quarterly report and we would like to explain why we launched the Fund, its objectives and how we intend to manage the Fund.

First a little history. On 3 March 2014 we launched the CI Pensions Fund which was designed to be suitable for people in the pension phase. This came after increasing numbers of client queries borne of the rising portion of assets in the Australian superannuation market moving from the accumulation phase into the decumulation phase.

That portfolio was designed to have a more conservative approach than typical equities portfolios implicitly intended for people in the accumulation phase of their investment life. The CI Pensions Fund was launched as a predominantly domestic equities portfolio (though it can own some international stocks) and was designed to exhibit lower volatility and low downside capture relative to the broader Australian market (S&P ASX 200 Accumulation Index).

As an outworking of the research and thought that went into designing that portfolio, along with an appreciation for the benefits that it brought to clients we fairly quickly began to conceptualise an international version; a globalised Pensions Fund that could leverage our existing Global equities investment platform of a successful team, Watchlist and deep global networks.

It was therefore serendipitous that in mid-2016 an existing institutional client enquired on the prospect of a separate mandate with a more benchmark agnostic approach and an emphasis on lower downside capture through different portfolio construction – thus objectives which complemented nicely what we were building towards and what would ultimately become the new Global Endowment Fund. This began December 2016.

Fast forward to June 2019 and the Strategy has been running with internal money in parallel to the original client mandate for 2 and ½ years, amassing an attractive track record of performance and data metrics.

Today we see a compelling investment proposition and have thus decided to open the Strategy up to external investors. Thank you for your interest in the **Cooper Investors Global Endowment Fund**.

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Portfolio Structure

The Cooper Investors Global Endowment Fund is an equities portfolio and we expect that it would normally form part of an overall investment portfolio. While the portfolio aims to exhibit lower volatility and perform relatively better than the stock market in down markets, it cannot avoid losses in down markets.

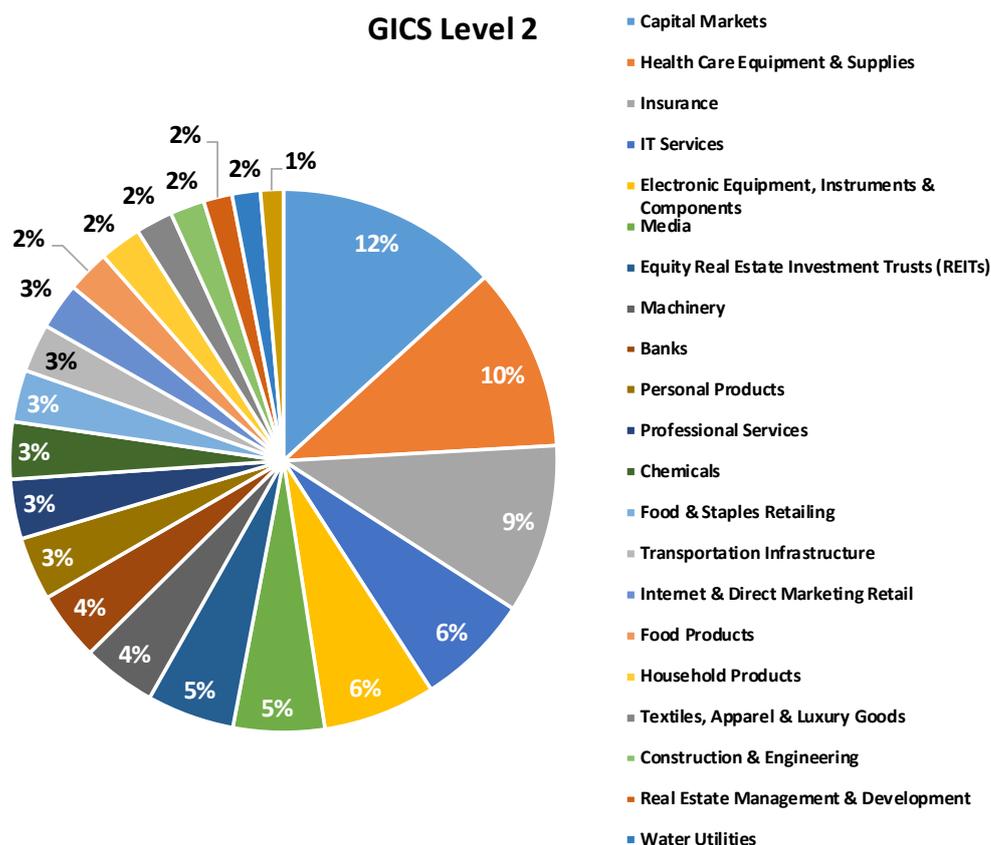
It is expected the Fund will operate within the following guidelines:

- 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 16 industry groups
- >85% in compounding-type Subsets of Value, zero turnarounds
- The US represents the largest single country weight
- Cash of 7%
- >90% currency hedged
- Largest and smallest position weights of 4.1% and 1.3% respectively

Sector weightings (GICS Level 2) as at 30 June 2019 were:



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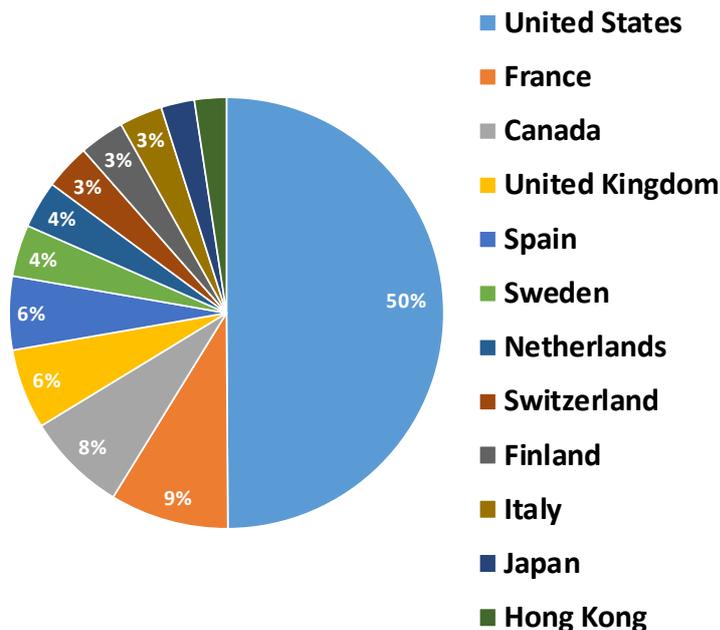
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Country weightings as at 30 June 2019 were:

By Country of Listing



Portfolio Objectives and Construction

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. These include:

- Investing in a concentrated portfolio of companies with an absolute return framework.
- Exhibit lower downside capture and lower volatility than MSCI AC World Net Divs in local currency

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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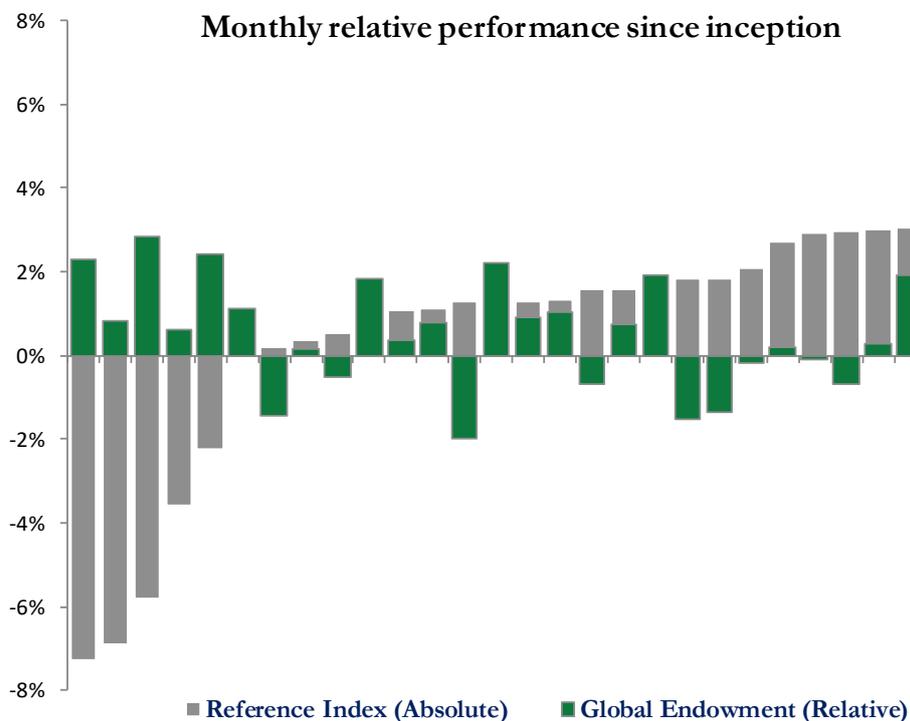
- Subsets of Value
 - Investing in Cyclical like **Sandvik** (Swedish manufacturer of mining equipment) and Asset Plays like **Sampo** (Finnish-listed Nordic leader in P&C insurance)

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

- Over-valued;
- Over-gearred;
- 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 downside capture¹ of the portfolio is running at around **62%** with upside capture of **101%**. While there have only been 6 down months since inception it is encouraging that the portfolio has outperformed in all of them.



Since inception the Strategy has also shown volatility below market, at around 88% of MSCI AC World.

Finally to the question of yield. Yield alone is not a primary aim as high dividends can sometimes be associated with an unsustainable capital structure or financially engineered yield. We prefer to own stocks where earnings and thus dividends are expected to rise over time. The portfolio's yield is currently 2.1%.

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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As at 30th June 2019 the expected earnings per share growth of the portfolio over the next 12 months is +8.2% while the expected dividend per share growth is +6.7%.

The following portfolio characteristics are for noting (as at 30 June 2019).

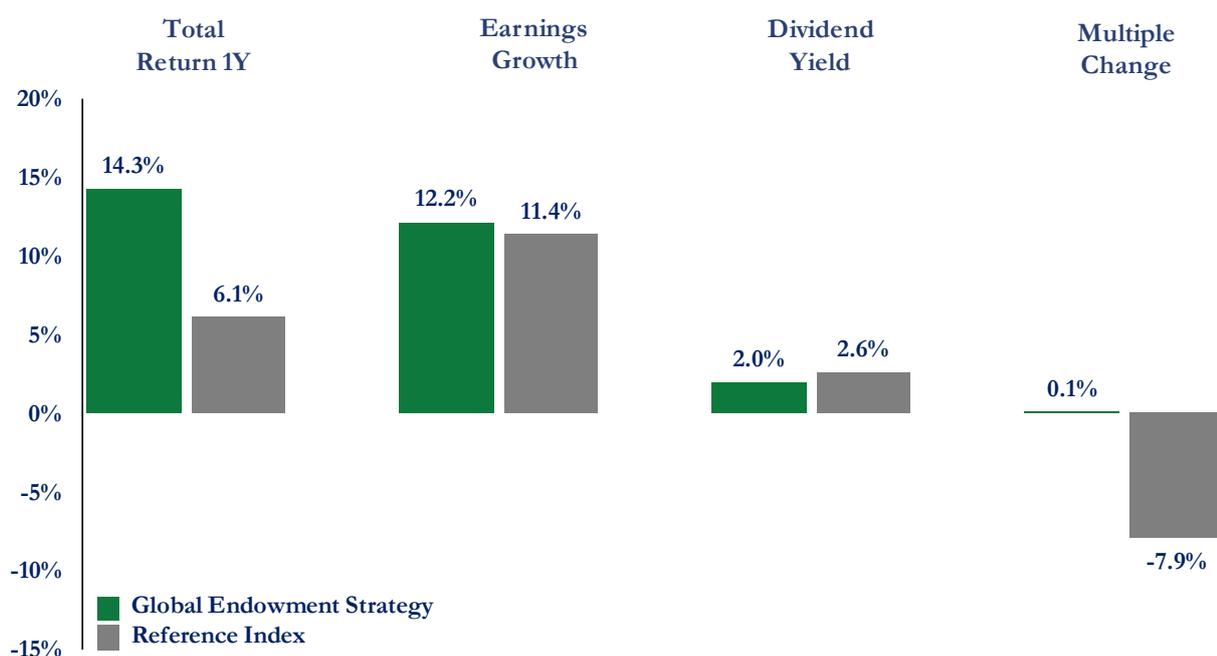
| | Global Endowment Strategy | MSCI AC World net divs in local ccy |
|-------------------|---------------------------|-------------------------------------|
| Beta | 0.90 | 1 |
| Tracking Error | 3.5% | |
| Sharpe Ratio | 1.49 | 0.88 |
| Sortino Ratio | 1.94 | 1.07 |
| Information Ratio | 1.07 | |
| Active Share | 92.7 | |
| ROE | 17.9 | 15.4 |

Portfolio Performance

Over the quarter the portfolio returned 6.03% and over financial year to 30 June the portfolio returned 14.31%. For comparison purposes the *MSCI AC World Net Divs in Local currency* returned 3.23% over the quarter and 6.14% over the year respectively.

This has therefore been a year in which the portfolio delivered a considerably superior return to the broader global equities market. We note that a significant proportion of this outperformance has come from the stocks held in the Fund being able to defend their multiple better than the broader market. This we believe is an outcome of the approach laid out above – not overpaying for great businesses and wise portfolio construction.

Composition of Return 12 months to 30/06/19



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