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.

MARCH 2020

"There are decades where nothing happens; and there are weeks where decades happen." ***Lenin***

"A ship in port is safe, but that is not what ships are for." ***USN Rear Admiral Grace Hopper***

	****PORTFOLIO**	**# BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTHS	-15.63%	-19.97%	4.34%
ROLLING 1 YEAR	-3.43%	-10.02%	6.58%
ROLLING 2 YEAR	4.23%	-2.51%	6.74%
ROLLING 3 YEAR	7.20%	1.87%	5.33%
SINCE INCEPTION*	9.18%	4.31%	4.87%
SINCE INCEPTION^	33.88%	15.04%	18.84%

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

This is the fourth 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 more than 3 years in operation.

The Fund is an equities portfolio and we would 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 equity 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 contact us for the inaugural launch report from 2019.

Portfolio Performance

Over the quarter the portfolio returned -15.63% and on a 1 year basis has returned -3.43%. For comparison purposes the *MSCI AC World Net Divs in Local currency* returned -19.97% over the quarter and -10.02% over 1 year respectively.

This quarter saw a violent bear market unfold suddenly in global equities markets as the COVID-19 virus spread quickly beyond China to become a global pandemic. With no vaccine and a high contagion rate, government responses have focused on shutting down economies to control the number of new cases, in addition to travel bans. It is now likely that global GDP will be sharply negative for the next few quarters, and for the year as a whole. Markets responded to this with rapid declines and spikes in volatility to levels not seen since the GFC.

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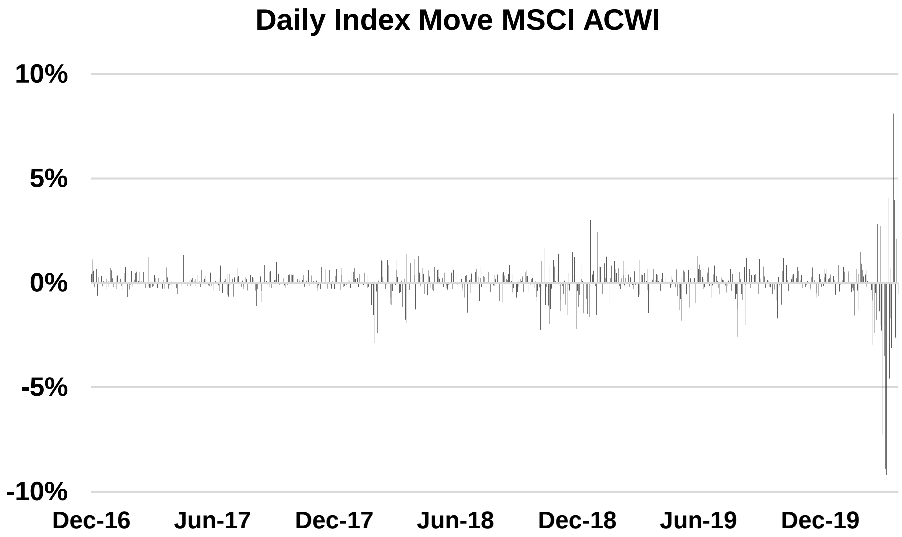
MARCH 2020

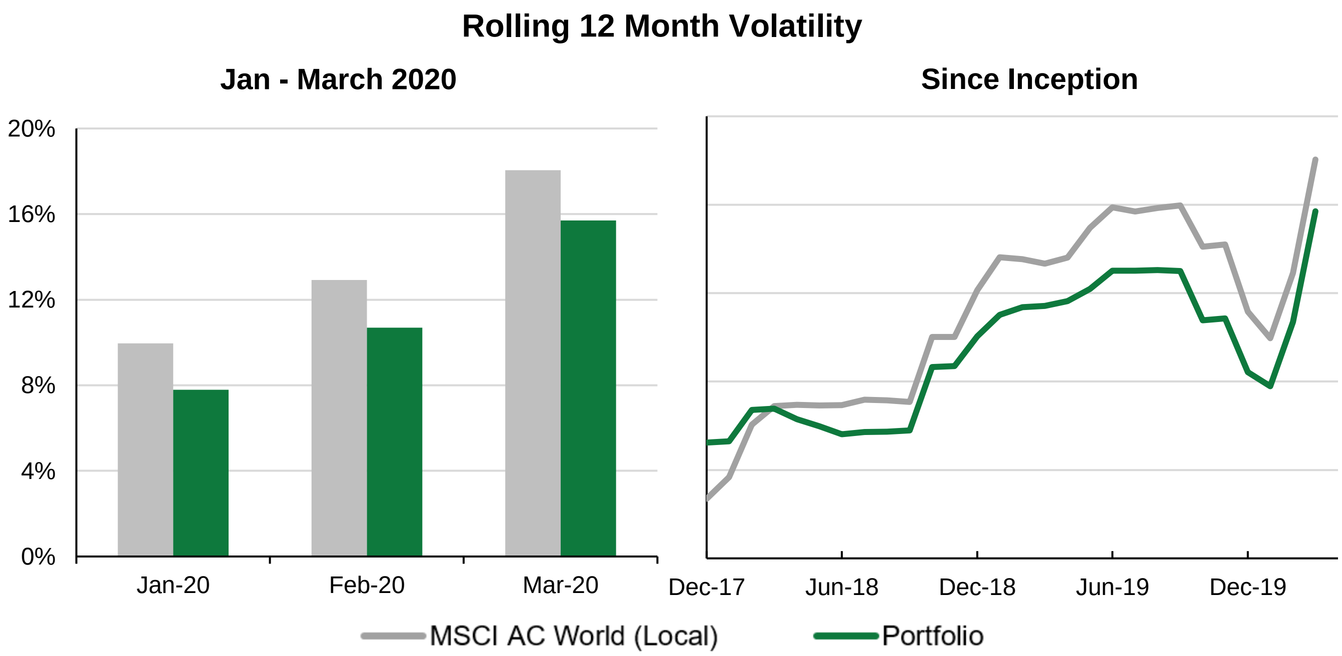
After a decade long bull market we expected that a bear market was due at some point, but we did not know when or how. Now we are here and this kind of environment is an 'acid test' for the portfolio given its objectives of capital preservation and reduced downside capture.

The first thing to say is that the Fund outperformed in both the month of March and the quarter as a whole, with outperformance of ~4% for the quarter and with downside capture across the three months of ~75%.

Secondly, the level of volatility seen this quarter is unprecedented since the inception of the Fund and is exceptional insofar as the extremely low level of volatility observed over recent years. This is perhaps best illustrated by the below chart showing daily moves of the MSCI ACWI since inception of the strategy.



So while volatility of the Fund also rose over the period it remained relatively below that of the market



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MARCH 2020

Thirdly and from an individual stock perspective there were no significant negative surprises, that is to say a stock dropping sixty, seventy or eighty percent, drawdowns that can take a very long time to recover from and permanent impairment of capital can take place.

One reason for this was active decision making around reducing tail-risk from the portfolio, for example selling more asset heavy companies with higher debt loads. Our decisions to exit Unibail-Rodamco in mid-2018 and subsequently Ventas early in 2020 paid off, with both stocks dropping ~70% over the quarter.

So while a handful of portfolio names with higher exposure to travel or financial markets did fall 30-40%, another handful of stocks were actually able to deliver a positive total return during the quarter, highlighting the importance of diversification and benefits of portfolio effect. Examples of these were:

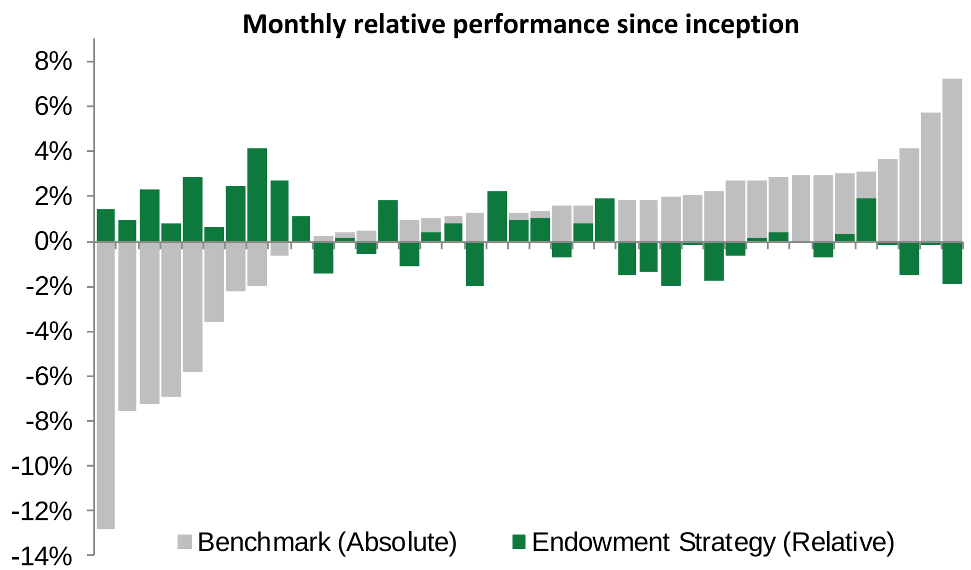
- Unicharm (which benefitted from a demand boost for hygiene products like face masks and wipes),
- Franco-Nevada (which did its job as a gold-price linked diversifier)
- DiaSorin (sells reagents for diagnostic testing, including for COVID-19)
- Crown Castle (owns critical telecommunications infrastructure, cell towers)
- Givaudan (sells fine chemicals of which 90% go into food or household and personal care)

Some comments on the longer term performance versus key objectives.

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 **366** down days since inception and the portfolio outperformed in **241** of these (**66%**). On meaningful down days (where the market drops more than 0.5%) the portfolio outperformed in **78%** of instances.

Regarding monthly observations, the cumulative downside capture[1] of the portfolio is running at around **62%** while upside capture is running at **93%**. The 'capture spread' is therefore **31%**. There have been 10 down months since inception and 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).



[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."

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

MARCH 2020

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 **11.5%** versus the market of **13.2%** means that the portfolio has participated in **87%** 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 **86%** of the market.

Portfolio Structure

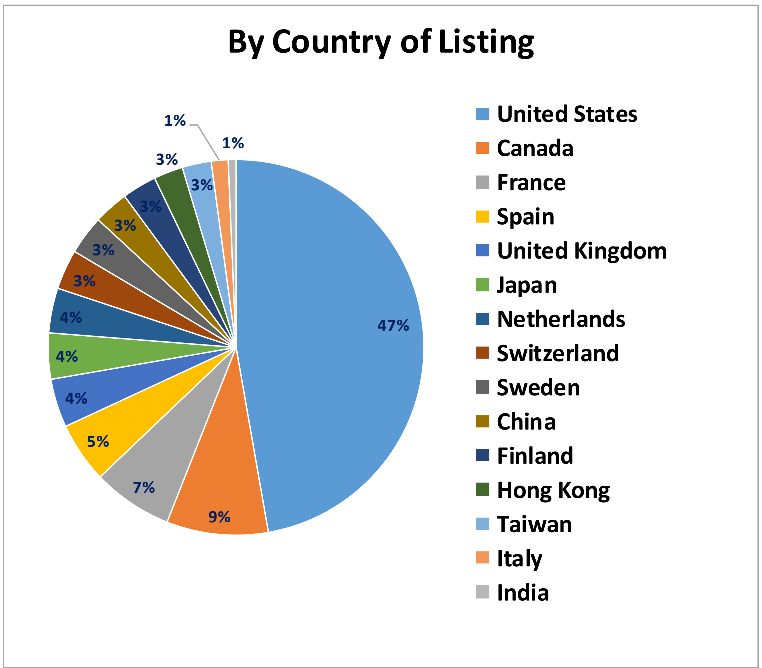
It is expected the Fund will operate within the following guidelines:

- 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:

- 36 securities
- Stocks invested across 15 countries and 18 industry groups
- >80% in compounding-type Subsets of Value, zero turnarounds
- The US represents the largest single country weight
- Cash of 13% (3% net of hedges)
- >90% currency hedged
- Largest and smallest position weights of 3.9% and 0.6% respectively

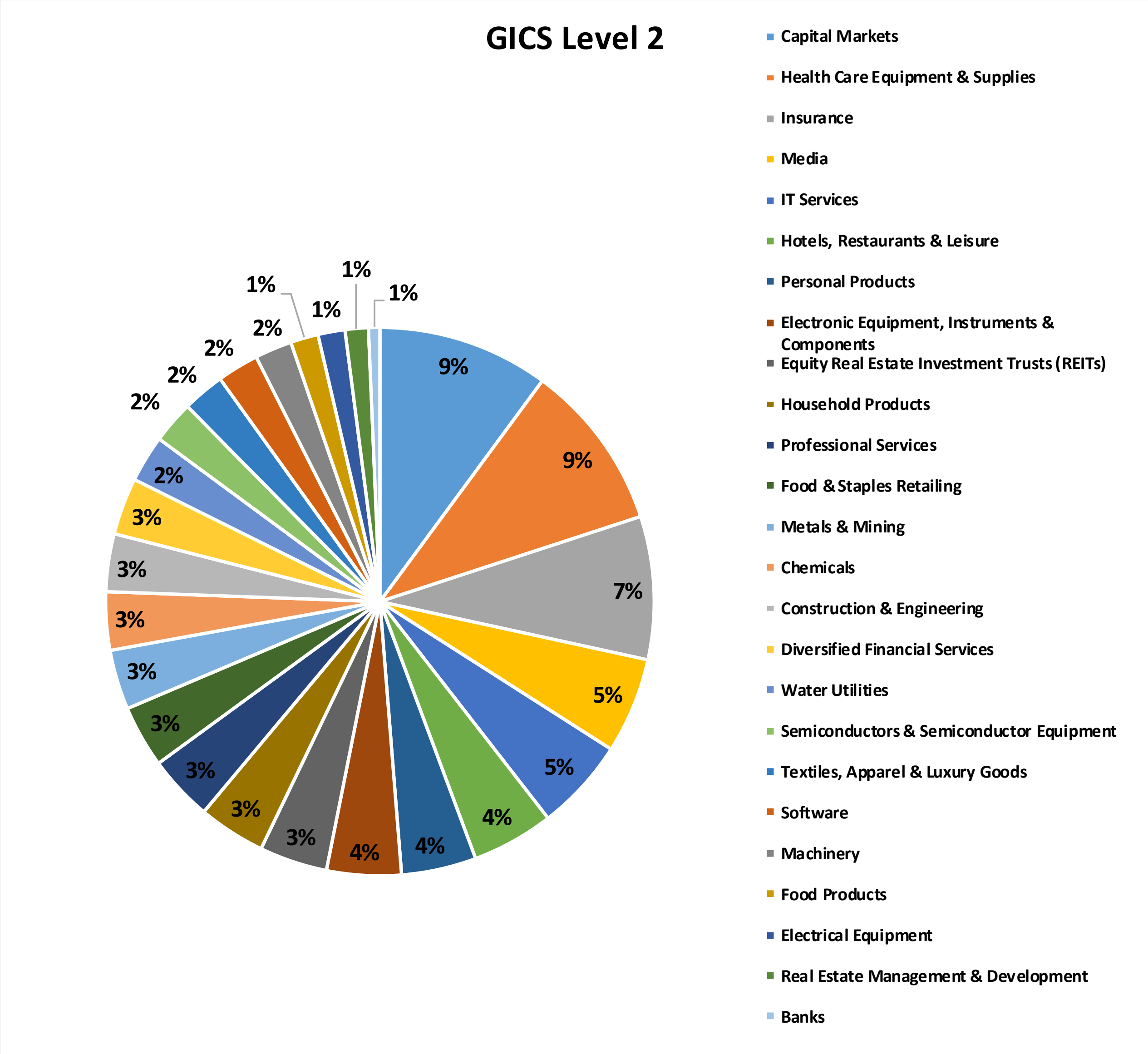
Country weightings as at 31 March 2020 were:



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

MARCH 2020

Sector weightings (GICS Level 2) as at 31 March 2020 were:



Portfolio Strategy

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 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 **Costco** (a US-listed membership warehouse retailer) and **AIA** (a Hong Kong-listed pan Asian insurance 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)
- Subsets of Value
  - Investing in Cyclicals like **Rockwell** (Manufacturer of factory automation equipment) and Asset Plays like **Latour AB** (Swedish-listed family-linked industrial investor)

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 March 2020).

	Global Endowment Strategy	MSCI AC World net divs in local ccy
Beta	0.91	1
Tracking Error	4.7%	
Sharpe Ratio	0.7	0.3
Sortino Ratio	0.7	0.3
Information Ratio	1.0	
Active Share	94%	
ROE	20%	15%

Portfolio Changes

Before delving into Buys and Sells it is worth a few comments to put overall portfolio changes into context.

Portfolio turnover in the quarter was 13%. So while for one quarter this is a little higher than should be expected, turnover on an annualised basis remains at just 30% since the three preceding quarters were in the low single digit range.

There has been a rapid change in the economic outlook for the world in a very short space of time. While we think prospects remain strong for the majority of our portfolio holdings the reality is that with the emergence of COVID-19 operating and strategic trends have altered for many companies while at the same time valuations have moved dramatically.

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

MARCH 2020

These are rare periods where active portfolio management can mitigate downside risk and add significant long term value and accordingly we have made a number of changes - the portfolio invested in four new stocks and sold out of three stocks during the quarter. A broad observation is that we have high-graded the portfolio toward higher quality businesses with stronger balance sheets and superior overall VoF propositions. We have also diversified the portfolio from a regional standpoint with new Asian investments into Taiwan and India. Asia is now >10% of the Fund.

Our ability to be decisive and move quickly is an outcome of the work done over many years maintaining a close focus on our Watchlist, as well as the deep networks and relationships with management that enabled us to speak directly with many CEOs and CFOs over the quarter.

Buys

Intuit is a long time Watchlist stock which was purchased after a 20% decline made it an underperformer since mid-2019. Founded by board member Scott Cook in 1983 Intuit is the leading player in accounting software for SMEs (Quickbooks) and tax filing software (TurboTax).

The business has a unique and rare mix of Growth and Stalwart characteristics with incumbent leadership positions in its key markets combined with growth opportunities. Intuit's QuickBooks Online product, which can be thought of as the Xero of the US is the leader with 3 million subscribers in a market of ~40 million SMEs that still mostly use Excel and paper receipts as accounting records. We see a recurring revenue business growing its top line double digits with 33% operating profit margins.

We also initiated a position in **Taiwan Semiconductor Manufacturing Company ["TSMC"]**, the world's leading semiconductor foundry.

TSMC's business model is to manufacture chips on behalf of their clients, the largest group of which is smartphone manufacturers. TSMC has emerged as the dominant player in the industry, facing fewer and fewer competitors across each technology stage due to the capital intensity of innovation.

The biggest driver of TSMC's medium term sales is the roll out of 5G and the related innovations this will spur in places like IoT and Automotive. Whilst the short term trends are likely to be weak along with the economy, longer term we remain confident in TSMC's ability to grow significantly faster than the economy. Finally, although TSMC is one of Asia's largest companies it is also one of its most focused, evidenced by its business model, shareholder communication, financial quality and shareholder returns.

The Fund also initiated a small position in **HDFC Bank ["HDFC"]**, the highest quality private bank in India.

HDFC was established in 1994 and has become one of the premier financial institutions in Asia due to its unique culture and approach to business that honours both risk and entrepreneurship. This has produced a long track record of success including during periods of significant system-wide credit losses. This success has resulted in the stock becoming well-known among EM investors, typically trading at high multiples of book value that capitalise high perpetual growth expectations with minimal risk. Neither are appropriate assumptions for emerging market banks and so we were waiting patiently while the stock traded at levels where the risk adjusted value latency was not compelling.

The recent market panic addressed this valuation issue with emerging markets investors heading for the door at historic rates. This caused a significant drop in both the Indian Rupee (INR) and HDFC Bank shares, with the INR/USD declining by 6% and HDFC shares declining by over 40% in 2 months. This allowed us to invest at valuation levels around 2x book value, near their GFC lows. Notwithstanding the challenging environment India and HDFC are facing we remain long term optimists on both and expect HDFC to come through the other side in a position of strength, able to capitalise when growth resumes.

Finally the Fund also invested in **Starbucks Corporation**, the US-listed global specialty coffee retailer.

Founded in Seattle in 1971 the company's corporate success and culture is closely intertwined with that of Howard Schultz. He stepped down from the company in mid-2018 handing over the reins to a refreshed management team led by CEO Kevin Johnson, COO Roz Brewer and CFO Patrick Grismer. This new team brought a rigor and discipline to decision making, refocusing the company into the most attractive growth areas – namely the US and China retail stores.

In the US the story is around optimising the performance of stores and serving existing demand more efficiently. Examples include enhancing the loyalty program, building out delivery and drive-through and better use of technology to improve marketing and resource management. Early progress on these initiatives has been positive with an acceleration in same stores sales. We expect this will continue in conjunction with eventual margin expansion.

China is the long term growth engine for Starbucks. Coffee consumption per capita in China is a fraction of the levels seen in western countries. The Starbucks brand is particularly strong there, representing a luxury consumption item. The company has taken care to gradually build its presence in China over the last 20 years. Today the platform is set for Starbucks to capitalise on the China opportunity via mid-teens unit expansion at attractive rates of return in the high 70% range, significantly higher than even their US store expansion strategy.

Combined with an accommodative capital return profile, Starbucks can continue to leverage its strong brand and culture to deliver double digit earnings growth for the foreseeable future.

It is worth noting the impact of COVID-19. Starbucks was one of the first companies in our portfolio to feel the brunt of the virus, having closed a significant portion of its stores in China as early as January. However, as at the end of March the company has re-opened ~95% of stores in the region. The China playbook is important in informing the company's strategy and protocols for the rest of the world. In the US, Starbucks has closed the internal service area of all of its stores, offering only drive-thru and delivery. Starbucks products for at home consumption will also provide a partial buffer during this period. Whilst some of the lost revenues can be offset, the disruption will be significant.

Most importantly, Starbucks is an incredibly resilient business with the management team and resources to prosper. We see this as a period where the company can create value and goodwill by staying in operation in a safe and practical manner, but also with industry leading support for employees. For example Starbucks have said that they will pay employees through to the end of April regardless of whether they work or not, and those who do choose to work will be paid a premium to their usual rate.

We do not believe that the coming months or quarters will in any way be terminal for the company and remain optimistic around Starbuck's competitive position improving over this period. Hence we remain shareholders and indeed added to the position on weakness.

Sells

The Fund sold its position in **Ventas**, a leading healthcare REIT owning medical office buildings, life science research facilities and aged care facilities. The majority of the business is collecting rental payments for the use of their quality healthcare related real estate. However, they also have a large business whereby they operate senior housing facilities. Industry trends for this business have been deteriorating with excess

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MARCH 2020

supply in the market and this has started to impact group earnings which are beginning to decline. The combination of a large balance sheet and declining operating trends saw us exit the position post its full year earnings results.

The shares subsequently collapsed with the emergence of the Coronavirus. Their operations of senior housing facilities are suffering with cases of COVID-19 and will see further pressure in demand and rents.

With the impacts of COVID-19 being felt most acutely in the global travel industry we took the decision to reduce our exposure to this sector and exit our investment in **Booking Holdings**. As the leading global Online Travel Agency, Bookings will be an increasingly important partner to the hotel industry as these markets recover. However the extremely high levels of uncertainty around the length of government imposed travel bans as well as the medium to long term damage to consumer and business sentiment around travel led us to believe that there were more attractive investment propositions on offer post the recent market correction.

Similarly the Fund sold **Getlink**, the concession operator of the fixed-link Channel Tunnel between France the United Kingdom. The stock was purchased during pre-Brexit weakness where our view was traffic would prove resilient to Brexit issues and there were underappreciated latencies such as an increasing dividend and improving balance sheet.

The thesis played out well with the stock rising from a purchase price of ~EUR9 to north of EUR15 in early 2020. However COVID-19 is a material challenge for the business to deal with. While trucks will continue to pass through the tunnel the other half of revenue is tourists in cars, coaches or travelling by Eurostar. With borders closed the latter has effectively gone to zero. At the same time Getlink has a material amount of debt, around 7x EBITDA – while this was manageable against a backdrop of steady cash flows, the reality of empty train carriages for an unknown period means at best a cancelled dividend and at worse a recapitalisation. We could see tail-risk in this position and decided to sell.