

COOPER INVESTORS GLOBAL ENDOWMENT STRATEGY 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.

SEPTEMBER 2019

Time is a created thing. To say 'I don't have time' is like saying 'I don't want to.' **Lao Tzu**

"Doveryai no proveryai." **Russian Proverb 'Trust but verify'**

| | **PORTFOLIO | #BENCHMARK | VALUE ADDED |
|------------------|-------------|------------|-------------|
| ROLLING 3 MONTHS | 2.45% | 1.11% | 1.34% |
| ROLLING 1 YEAR | 12.37% | 2.53% | 9.84% |
| ROLLING 2 YEAR | 12.87% | 6.76% | 6.11% |
| SINCE INCEPTION* | 15.63% | 10.77% | 4.86% |
| SINCE INCEPTION^ | 50.59% | 33.44% | 17.15% |

*Annualised

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

MSCI AC World Net Divs in Local Currency

**Before fees and expenses

This is the second 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.

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 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 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 than 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.

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

SEPTEMBER 2019

Portfolio Performance

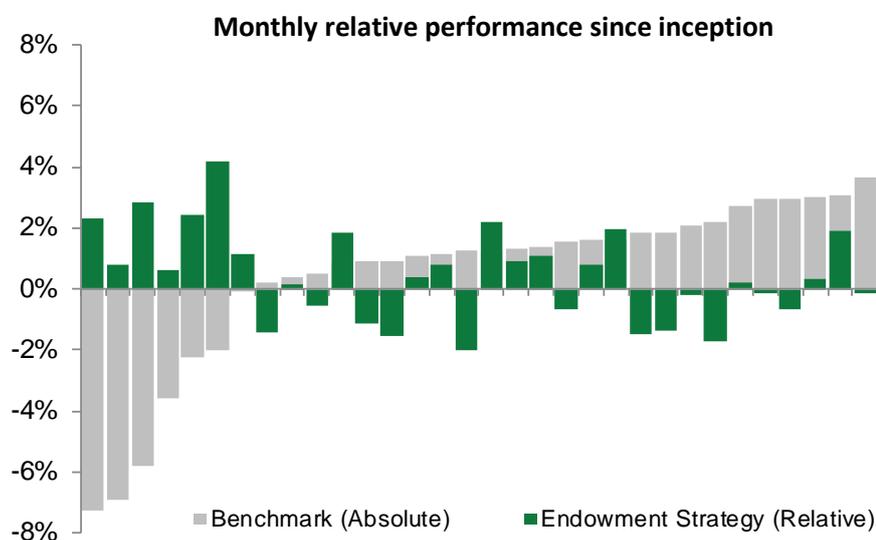
Over the quarter the portfolio returned 2.45% and on a 1 year basis has returned 12.37%. For comparison purposes the *MSCI AC World Net Divs in Local currency* returned 1.11% over the quarter and 2.53% over 1 year respectively.

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 we think it more meaningful to strip out the ‘noise’ by ignoring those days where the market moved less than 0.5% up or down. We are more concerned in how the portfolio performs in days of larger movements. Thus of the 723 days since inception of the Strategy there have been 215 days where the market moved *more than* $\pm 0.50\%$. Of those 215 there were 87 down days, and the portfolio performed better than the market on 71 of those 87 days (82%).

Regarding monthly observations, the cumulative downside capture¹ of the Strategy is running at around 50% with upside capture of 96%. 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 the volatility of the portfolio we look at the monthly data since inception. So far the portfolio has been less volatile than the market. The figures used are the standard deviation of the portfolio and market returns since inception. The portfolio standard deviation has been 0.54% compared to the market standard deviation of 0.60%.

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.”

COOPER INVESTORS GLOBAL ENDOWMENT STRATEGY 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.

SEPTEMBER 2019

Portfolio Structure

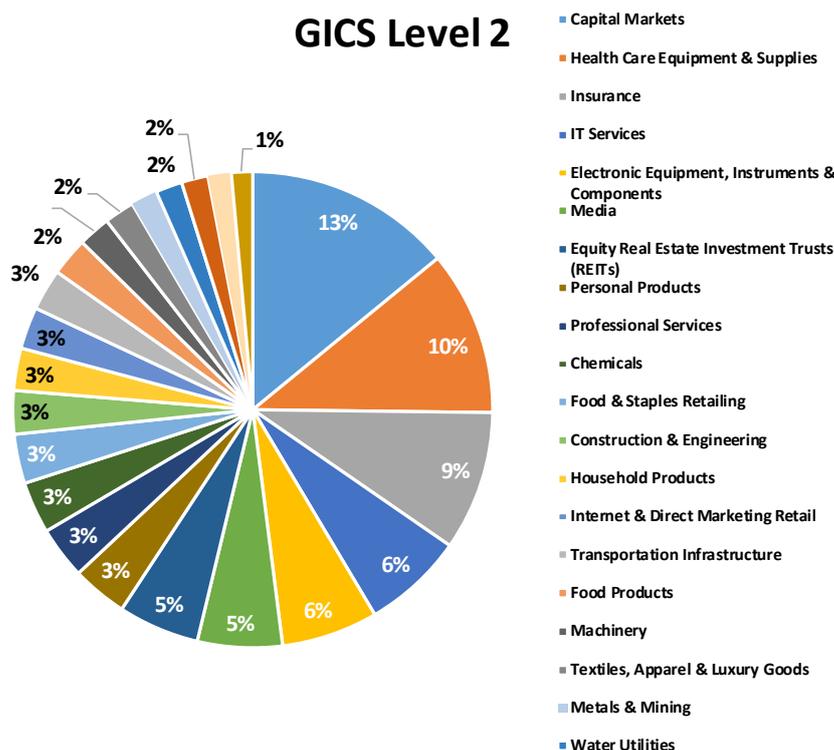
It is expected the Fund will operate within the following guidelines:

- 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:

- 34 securities
- Stocks invested across 12 countries and 17 industry groups
- >80% in compounding-type Subsets of Value, zero turnarounds
- The US represents the largest single country weight
- Cash of 8% (7% net of hedges)
- >90% currency hedged
- Largest and smallest position weights of 4.1% and 1.6% respectively

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

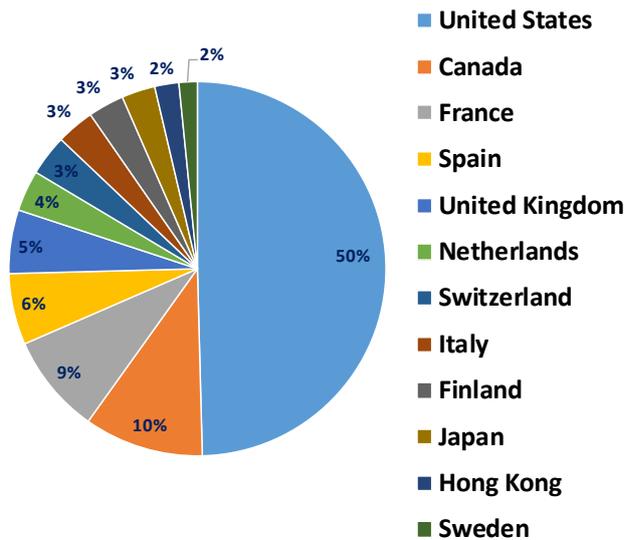


For current performance information please refer to the Monthly Performance Report.

SEPTEMBER 2019

Country weightings as at 30 September 2019 were:

By Country of Listing



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)

COOPER INVESTORS GLOBAL ENDOWMENT STRATEGY 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.

SEPTEMBER 2019

- Subsets of Value
 - Investing in Cyclical 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-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 following portfolio characteristics are for noting (as at 30 September 2019).

| | Global Endowment Strategy | MSCI AC World net divs in local ccy |
|--------------------------|---------------------------|-------------------------------------|
| Beta | 0.88 | 1 |
| Tracking Error | 4.0% | |
| Sharpe Ratio | 1.49 | 0.86 |
| Sortino Ratio | 1.83 | 1.03 |
| Information Ratio | 0.95 | |
| Active Share | 92.9 | |
| ROE | 18.5 | 15.6 |

Portfolio Changes

The Fund made two new investments in the quarter: Franco Nevada Corporation ("**Franco**") and Latour AB Investment ("**Latour**").

Listed in Canada, **Franco Nevada** (FNV) is a gold-focused royalty and streaming company. It does not operate mines or conduct exploration but owns a growing portfolio of royalties and streams. With royalties FNV receives a set percentage of the value of the production of the mine while with streams they receive a portion of the output from a mine at an agreed price.

Both royalties and streams are broadly economically equivalent in that they provide exposure to exploration upside with limited exposure to capital and operating costs. They represent an attractive form of financing for miners and exploration companies as payments are due only when the mine is actually producing. Further, our research indicates that there is currently limited attractive debt or equity funding available for precious metal miners. The financial quality of the business is excellent; FNV generates ~80% EBITDA margins and carries a neutral balance sheet and with limited capital calls this is a free cash flow machine that has supported a reliable and growing dividend.

COOPER INVESTORS GLOBAL ENDOWMENT STRATEGY 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.

SEPTEMBER 2019

It is also highly scalable – with a market capitalisation of ~US\$17bn FNV is run by a team of just 34 people.

The management team is long tenured having been custodians of the assets since the 1980s. Founder Pierre Lassonde remains on the board having only just stepped down from the role. New Chairman and former CEO David Harquill joined the company in the 1980s before the business was acquired by Newmont in 2002. Pierre and David stayed on to manage the assets and were joined by current CEO Paul Brink before taking the company public via an IPO 2007. Pierre, Paul, David and the team have created significant value for FNV shareholders as they focus on smartly allocating capital into attractive royalty and steaming opportunities with asymmetric outcomes.

Franco's portfolio today consists of 290 precious metal assets and 80 energy assets. Of these less than a third are currently producing, providing significant upside to investors via exploration upside at the remaining assets. The producing assets are diversified by region and duration of mine life. There is line of sight to high single digit earnings growth over the 2018-2023 period as various new projects ramp up production. In the short term, results tend to reflect commodity prices and production levels from the portfolio of producing assets. However over the long term, results are determined by Franco's ability to deploy capital as well as the aforementioned exploration upside across the 370 assets in the portfolio.

The stock tends to hold up well in volatile markets which supports the portfolio objectives of limiting downside capture.

~

Latour is a Swedish, family-linked investment company, with wholly owned industrial businesses that operate in a number of different markets (including HVAC (heating, ventilation and air conditioning), specialty fasteners & workwear). In addition, Latour has a number of substantial stakes in high quality listed Nordic companies (including Assa Abloy, Securitas & Tomra) many of which have been holdings for over a decade. Latour is an active owner in these businesses through Board representation and has a highly impressive track record of generating long term shareholder returns.

Latour is 80% owned by the Douglas family and was founded by Gustaf Douglas in the mid-1980s. His two sons Carl Fredrik and Erik have been on the Board for over a decade and Latour is run with an eye firmly set on the long term given this family ownership. The business operates in a decentralised way and places high priority on running in a cost efficient manner. We appreciate this focus on frugality - over the years we have met and studied a large number of family-linked listed investment and holding companies and Latour's HQ expenses of 0.1% of Gross Asset Value are the lowest we have seen. A trip to their modest office on the outskirts of an industrial park in Gothenburg drive this point home and provide a contrast to the oil painting and designer-furniture environs of many others visited over the years.

As a diversified Asset Play, Latour exhibits very low correlation to other stocks in the portfolio. The investment proposition is all about continued execution of the current strategy. For the wholly owned operations this involves continued organic growth, including through geographic expansion. Supplementing this is potential for further accretive bolt-on M&A which Latour has done successfully for a number of years. In addition there is scope for value creation through portfolio investment over time. The most recent example of this is Latour's 2011 investment in Tomra. Tomra is a global leader in sorting technology for recycling, food and resources end markets. It is also the world's leading provider of reverse vending machines, used in bottle deposit markets.

COOPER INVESTORS GLOBAL ENDOWMENT STRATEGY 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.

SEPTEMBER 2019

In summary Latour has a number of attractive attributes that make it a good fit for this portfolio – a strong management and board with an excellent track record, the ability to reinvest at a good rate of return, a sensible balance sheet and a sustainable and growing dividend.

The Fund fully exited three positions; **First Republic**, **Sandvik** and **Svenska Handelsbanken**.

First Republic was sold due to weakening industry trends. We highly admire CEO/Founder Jim Herbert and the management team but with interest rates so low and getting lower the returns are under pressure. We think First Republic will continue to do great things and take huge amounts of share but with the lower returns it is becoming more capital intensive to fund growth. The portfolio currently owns no individual bank positions post the sale of First Republic.

At **Sandvik** the decision to sell was triggered by the departure of the CEO Bjorn Rosengren who will be leaving to take on the turnaround at Swiss-Swedish industrial conglomerate ABB. While we can understand the appeal of this challenge (ABB is more than double the size of Sandvik) it is still disappointing from a Sandvik point of view as there remains latency and work to be done to get the business firing to its full potential. Not only does it feel like a premature exit, we would not be surprised to see further senior Sandvik personnel follow Bjorn given the scale of the opportunity at ABB – after all there is a strong incentive and rationale to ‘keep the band together for a second album’. The combination of deteriorating operating trends (O) and impending management exodus (F) is thus behind our decision to redeploy our Sandvik profits into new ideas

Finally the Fund exited its position in **Svenska Handlesbanken** during the quarter. Whilst we admire the model at the bank, it is battling through a period significant headwinds at both the revenue line (due to negative rates in its Swedish home market) and the cost line (elevated digitisation costs combined with Brexit-related costs in the UK). This means earnings have more or less flat-lined for six years. We are also a little concerned at the high level of management turnover with incoming CEO Carina Akerstrom representing the 4th CEO in as many years. The portfolio retains exposure to Nordic financials through the recent investment in Sampo and thus the sale is also motivated by our desire to maintain the highest possible levels of diversification.

Terms and Conditions

Information contained in this publication

The opinions, advice, recommendations and other information contained in this publication, whether express or implied, are published or made by Cooper Investors Pty Limited (ABN 26 100 409 890), Australian Financial Services Licence (221794), and by its officers and employees (collectively "Cooper Investors") in good faith in relation to the facts known to it at the time of preparation. Cooper Investors has prepared this publication without consideration of the investment objectives, financial situation or particular needs of any individual investor, and you should not rely on the opinions, advice, recommendations and other information contained in this publication alone. This publication contains general financial product advice only.

To whom this information is provided

This publication is only made available to persons who are wholesale clients within the meaning of section 761G of the Corporations Act 2001. This publication is supplied on the condition that it is not passed on to any person who is a retail client within the meaning of section 761G of the Corporations Act 2001.

Disclaimer and limitation of liability

To the maximum extent permitted by law, Cooper Investors will not be liable in any way for any loss or damage suffered by you through use or reliance on this information. Cooper Investors' liability for negligence, breach of contract or contravention of any law, which cannot be lawfully excluded, is limited, at Cooper Investors' option and to the maximum extent permitted by law, to resupplying this information or any part of it to you, or to paying for the resupply of this information or any part of it to you.

Copyright

Copyright in this publication is owned by Cooper Investors Pty Ltd. You may use the information in this publication for your own personal use, but you must not (without Cooper Investors Pty Ltd's consent) alter, reproduce or distribute any part of this publication, transmit it to any other person or incorporate the information into any other document.