COOPER INVESTORS
GLOBAL EQUITIES FUND (HEDGED)
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.

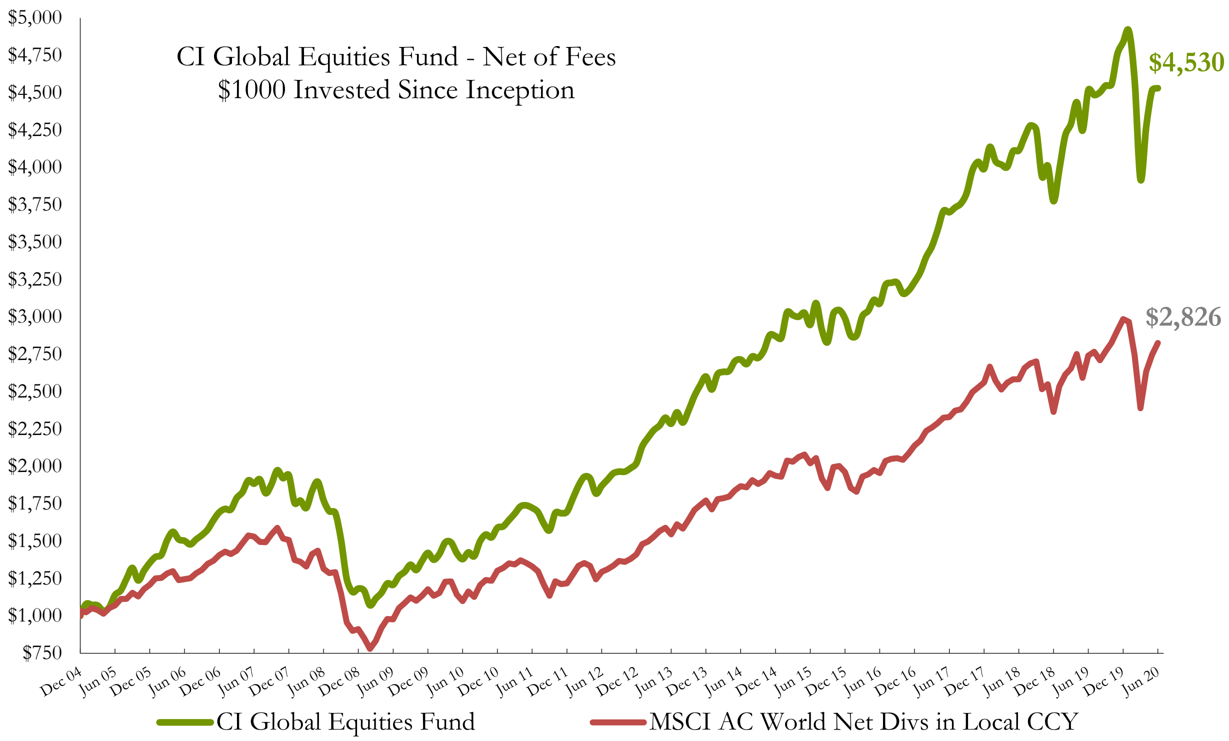
JUNE 2020

"The urgency of doing. Knowing is not enough; we must apply. Being willing is not enough; we must do." **Leonardo Da Vinci**

"The investor's goal should be to make a large number of good buys, not just a few perfect ones." **Howard Marks**

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	15.59%	18.27%	-2.68%
ROLLING 1 YEAR	0.26%	3.10%	-2.84%
ROLLING 3 YEAR	6.98%	6.64%	0.34%
ROLLING 5 YEAR	8.98%	6.94%	2.04%
ROLLING 7 YEAR	10.27%	9.00%	1.27%
ROLLING 10 YEAR	12.62%	9.90%	2.72%
SINCE INCEPTION*	10.18%	6.89%	3.29%
SINCE INCEPTION^	352.97%	182.59%	170.38%

*Annualised
^Cumulative (1 December 2004). Initially, the Fund invested predominately in Australian equities. However since May 2006, the Fund has been invested in a broad range of global equities.
**Net of fees and expenses
MSCI AC World Net Divs in Local Currency



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Market and Portfolio Performance

The end of June 2020 came after a memorable 12 months for financial markets. Late 2019 saw equities rising steadily on the back of subdued but steady economic growth in most regions. Tensions between the US and China were present but stable while Europe appeared to be slowly emerging from the twin headaches of Brexit and a German recession.

That all changed in early 2020 as the COVID-19 pandemic swept across the world and brought with it volatility unseen since the 2008-09 global financial crisis. For investors it has been a challenging period with wild stock price swings, rapidly changing economic and industry outlooks and companies moving to almost a wartime footing. Topics of conversation with management have changed from acquisition opportunities to balance sheet strength and surviving government shutdowns.

The team has sought to exploit the volatility this year by making several new investments across a number of sectors which represent superior VoF propositions than those sold to fund them. This continued in the June quarter with investments in six new positions, discussed in more detail herein.

Below is presented annual performance to June year ends for the last decade, net of fees, including 2020.

	Fund	**Benchmark**
2011	24.88%	21.12%
2012	8.52%	-2.78%
2013	22.24%	19.42%
2014	18.78%	20.81%
2015	8.55%	8.18%
2016	4.85%	-3.19%
2017	19.75%	19.15%
2018	11.17%	10.81%
2019	9.84%	6.14%
2020	0.26%	3.10%
10 YR CAGR	**10.62%**	**9.90%**

In light of volatility the 2020 point to point numbers appear somewhat mundane with the annual return of the portfolio closing flat versus the benchmark return of +3%. It is worth noting the impact that currency hedging has had over 12 months after a period of very large currency movements. The benchmark for the Fund is MSCI AC World in Local Currency, a theoretical benchmark that does not take into account hedging costs which are a real cost and requirement for the Fund. It was a unique year where the cost of hedging was material versus the local index. This can be seen by the 1 year return of MSCI AC World Hedged to AUD Index (a newer and more realistic index constructed by MSCI which does include costs of hedging and rebalancing) of 0.79% over the year, thus lagging the Local Currency index by more than 2%.

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We would add that the Fund today contains significantly better businesses than a year ago thanks to opportunities afforded during the COVID-19 crisis and we have high conviction in the portfolio's ability to keep growing earnings, cash flows and compounding returns at a higher rate than the benchmark as well as retaining the essential attribute of protecting capital on the downside.

Onto the recent quarter specifically where stock markets staged a remarkable and sustained recovery after the Q1 crash, albeit with some dispersion across regions and sectors. The US had its best quarter in more than 20 years with the S&P500 gaining 20% in local currency and wiping out its entire loss for the year by early June. Asian markets saw a 15% rise in the MSCI Asia ex Japan with European and Japanese markets also up strongly, the EURO STOXX and Topix gaining 10% and 11% respectively.

US outperformance versus the rest of the world continues to be driven by its relatively large weight in Technology stocks versus Europe and Asia. Tech is leading the market again in 2020 with the ongoing COVID-19 pandemic accelerating many global digitisation trends. The NASDAQ gained 30% in just 3 months and at the time of writing has not only recovered all losses but is +16% for the year.

There was also a strong recovery in the Australian Dollar which rallied +12% against the USD, dampening returns for unhedged investors in foreign currency assets.

The portfolio had what we would ordinarily consider to be a very strong quarter with 20 stocks rising 20%+ in local currency and a handful of stocks rising 40-50%. Only one stock held for the whole quarter had a negative absolute return for the quarter – CME, which typically acts as volatility hedge and we would expect to lag sharp rallies.

Despite the strong performance of individual stocks the portfolio was unable to quite keep up with the benchmark over the period, returning +15.6% versus the benchmark return of +18.3%. We note that the underperformance all occurred in the month of June which caused the Fund to slightly lag the benchmark for the full year – for April and May cumulatively the Fund was ahead.

The largest drags in a relative return sense for the quarter were actually stocks the fund does not own, highlighting the increasing dominance of the trillion dollar tech giants which are growing to ever larger weights in the benchmark (5 tech stocks now make up 12% of MSCI AC World). Not owning Apple, Amazon and Microsoft caused a -1.3% drag in the quarter and a -3.3% drag to relative returns over the year.

It is worth reiterating that the Fund has delivered 12%+ annual returns for 10 years whilst owning few index heavyweights. This has been achieved by applying the CI Way philosophy and VoF investment process in creating portfolios of focused businesses with proprietorial management teams. Businesses that do one or two things very well, where management can have real impact, create value, are transparent and can be held accountable on their decisions with measurable KPIs tend to be smaller in our experience.

Today the portfolio owns 4 of the top 50 benchmark stocks, accounting for only 7% of the portfolio by weight versus 1/3rd of the benchmark. While rising concentration is a fact of life for Market Capitalisation-weighted indices there is an inherent risk in that the stocks going up the most and becoming more expensive grow to bigger and bigger weights.

The biggest contributors to performance in terms of total shareholder return included:

1. **Synopsys** – No specific news but shares rallied with secular technology trends intact
2. **Techtronic –** Rebounded post Q1 sell off driven by DIY sales and rising expectations for professional sales as economies reopen
3. **S&P Global –** Stable rate environment likely to drive issuance and revenue in Ratings business

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The biggest detractors to performance in terms of total shareholder return included:

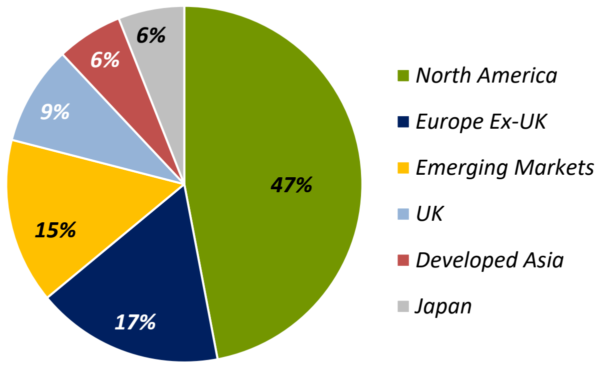
1. **CME Group** – Concerns around trading volumes in interest rate franchise from renewed QE
2. **Fiserv** – Highly regarded CEO Jeff Yabuki announced retirement
3. **Baxter** – Provider of essential healthcare products did well in Q1 but lagged the Q2 rally

The Portfolio

The portfolio is diversified by country and sector:

No. of Stocks	*41*
Region Weights *(by listing)*	*North America 56%* *Europe 25%* *Asia 15%*
Most OW Sectors	*Industrials, Health Care*
Most UW Sectors	*Com. Services, Materials*
Cash	*4%*

Geographical Exposure by Source of Revenues#



#Derived on a look-through basis using underlying revenue exposure of individual Fund stocks

The portfolio is also positioned around Subsets of Value:

- **Stalwarts** (42% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (AON).
- **Growth companies** (34%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Costco).
- **Bond like equities** (3%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Ferrovial).
- **Low risk turnarounds** (3%) – sound businesses with good management and balance sheets. (Cerner).
- **Asset plays** (3%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (Sony Corp).
- **Cyclicals** (10%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who allocate capital prudently. (Ferguson)

Buys

During the quarter the Fund initiated new positions in three consumer brand companies - **Adidas**, **Estee Lauder** & **Fast Retailing**. We have followed and admired each business for a number of years and took advantage of recent COVID-19 induced volatility to add them to the portfolio. All three companies have a long track record of growing and nurturing their brands while consistently generating attractive financial returns. Both Estee & Fast's founding families own a significant portion of their respective company's shares, providing a platform for long term investment and decision making. In Fast's case, the founder Tadashi Yanai still runs the business and has proven to be one of apparel retailing's visionary CEOs. While Adidas is no longer owned by the Dassler family the brand's history dates back over 70 years with rich heritage in sport and pop culture. This provides a fantastic foundation on which the current management team, led by Kasper Rorsted, are writing the next chapter. So far we are impressed by their operational execution and focussed approached to capital allocation, something that let Adidas down in the past.

Whilst all three companies sell repeat purchase items, they are not pure recurring revenues. The revenue profile is normally very resilient during economic cycles however lockdown impacts were a barrier to customers buying products in store. All stocks were heavily sold off as the short term operating momentum will be severely impacted by COVID-19, however each company has the financial strength to withstand a prolonged downturn. The longer term history has shown all three have resilient revenue bases reflecting the type of products they sell – essential apparel for Fast Retailing, regularly consumed cosmetics for Estee Lauder and athletic footwear and apparel for Adidas that tend to get replaced at regular intervals. We saw a unique short term shock to the business and were able to buy all three companies meaningfully off their pre-COVID prices i.e. 20-35% down. At these levels compelling value latencies emerged – for example in the case of Fast Retailing we were able to build a position at a valuation that we think was underwritten by the existing store base and the cash on their balance sheet.

Each business is a top tier player in their categories and are competitively advantaged, benefitting from scale economies in a number of ways. For example Adidas and Estee each spent more than US$3bn on marketing and product development last year, a level of brand investment that is extremely difficult for smaller competitors to replicate. Fast Retailing's key brand is UNIQLO, one of the world's largest apparel retailers. It has carved out a successful fashion neutral offering that is high quality and reasonably priced. Scale benefits advantage UNIQLO over competitors due to lower unit costs of production and a store format that achieves high sales density, lowering unit level fixed overhead absorption.

The rise of e-commerce and its step change in adoption due to COVID-19 is clear and we think this trend should disproportionately benefit larger brands over the medium term, as they have the ability to invest in their own e-commerce offerings and have the brand profile and loyalty to attract online search traffic at a reasonable cost. We think this benefit should be particularly pronounced for Adidas and Estee, given it involves a channel shift from wholesale accounts to the brands' direct-to-consumer websites.

Longer term all three businesses have the opportunity to continue growing at rates well above GDP, with a differing mix of secular tailwinds and market share opportunities for each. Historically Adidas brand sales have grown at close to ~10% per annum, a level of growth comparable to market leader Nike. In the case of UNIQLO the growth opportunity involves continued international expansion, building on its incredibly successful business in Japan. For Estee there is both a sales growth and margin leverage opportunity, with organic growth converting at high gross margins of close to 80%. We are very excited about the opportunity set for all three companies today and see these brands and businesses getting stronger over time.

The Fund also invested in **Rentokil Initial Plc** ["RTO"], the world's largest provider of Pest Control and Hygiene services. The key Pest Control asset represents a highly attractive Stalwart as in most markets Pest Control is a mandatory requirement for both private (Offices, Restaurants, Retail) and public sector clients (Schools, Hospitals, Airports, Rail). So 70% of customers are on auto-renewing service contracts, the balance being ad hoc services ('Come quick, there's a mouse in our server room'). Several secular trends including urbanisation and climate change are fostering more interactions between human and pest populations, driving a market that grows faster than GDP.

RTO has several attractive value latencies. Firstly it can drive operating leverage by improving the route density model through acquiring smaller independents and plugging them into RTO best practice. Secondly there is a technological revolution happening in the industry with bait stations (formerly requiring manual checking and resetting, large sites may have hundreds) now being fitted with sensors and connected online to remote monitoring systems. This saves RTO time and money and is a superior proposition to clients who enjoy less down time. Thirdly RTOs growing US business remains below best-in-class operator Rollins in terms of operating margins – this is partly due to a highly fragmented technology platform as a legacy of strategic M&A and so ongoing integration efforts should close the gap over time.

We've been following RTO and building conviction after several interactions with senior management over the years. However the timing is now particularly interesting with the COVID-19 outbreak giving a significant boost to RTO's Hygiene business, 'Initial'. Long considered the poor cousin to Pest Control, Initial suddenly has a unique opportunity to expand its addressable market from washroom services (servicing soap dispensers and sanitary bins) to a broader offering including disinfection, deep clean and hand sanitising stations which are now in huge demand. With both legs driving the business there is the opportunity for consistent organic growth rates of +4-5%, and continued application of a well-disciplined acquisition model led by an authentic and focused CEO in Andy Ransom, who is heavily involved in each and every deal.

Finally the Fund deployed further capital into the technology space with positions initiated in **Taiwan Semiconductor Manufacturing Company** ["TSMC"] the world's leading semiconductor foundry, and **Salesforce.com**, a leading provider of Cloud-based enterprise software.

TSMC's business model is to manufacture chips on behalf of device makers, 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 medium term sales is the roll out of 5G and the related innovations this will spur in areas like Internet of Things and Automotive. Whilst short term trends may be weak, longer term we remain confident in TSMC's ability to grow significantly faster than the economy. While 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.

We added Salesforce to the Watchlist last year and have followed it closely with growing admiration for an entrepreneurial and values-based culture led by founder and CEO Marc Benioff. We see the business as well placed as the leader in its field with more companies moving to the Cloud and prioritising digital transformation. Whilst Salesforce trades on a headline PE multiple above 50 times this does not give a full picture of value latency. Earnings multiples are elevated as Salesforce are investing in growth as seen by +29% in revenue for 2019. Consequently EBIT margins of 16% are low for a large software business due to heavy growth investment, with 40% of sales being spent on marketing and selling costs, a high number for an established software company. Further the nature of the SaaS business model is recurring revenues that last for decades while costs to win and on-board customers occur in year one. Overall this is an extremely profitable business aligned to our way of thinking and investing to drive above market growth.

Sells

The Fund sold its position in **Sampo Oyj**. While conviction on the quality of the Nordic insurance assets remains high Sampo has become increasingly correlated with the fortunes of Nordea Bank of which it owns a 20% stake. Operating and industry trends for Nordic banks continue to decline – zero interest rates are a significant headwind, credit growth is anaemic and loan losses will likely get worse this year. As an investment company Sampo pays out up-streamed cash as dividends – these were cut earlier this year after Nordea rebased its dividend post a management transition. Since the ECB is unlikely to approve dividends from European banks any time soon more dividend cuts may be coming.

We also sold **SiriusXM**, the US-based subscription satellite radio and streaming service which provides premium content to subscribers, most commonly in their vehicles. We took the view that the business is likely to face significant growth headwinds in a weakened or locked down economy including less miles driven and a collapse in new vehicle sales.

Japanese analytical and measurement company **Shimadzu** was sold in May. Whilst our investment thesis of an improving aftermarket business had been occurring and the stock had outperformed since inception in January 2019, we believe the changing economic backdrop will result in increasing competitive intensity, slowing the next phase of improvement.

We also exited from life insurer **AIA** in early May, owned since January 2017. We retain a favourable view of AIA's management and the long term opportunity across their markets. After a period of strong outperformance capital was redeployed to other opportunities with attractive Chinese consumer exposure, in light of factors outside management control including broad issues in Hong Kong and the regulatory backdrop in China.

Finally we also sold small positions in two cyclical industrial businesses, **TE Connectivity** and **Interpump**. TE is a good company that had an injection of high calibre executives, in particular Heath Mitts as CFO from IDEX Corp. The business was on a pathway to improving cash generation and returns however operating and industry headwinds have grown in the exposure to aerospace and automotive end markets.

Although none of the key elements of Interpump's investment proposition have changed the nature of the business is a niche industrial facing an uncertain demand outlook. After big price moves other Watchlist stocks presented with relatively more attractive VoF attributes. In summary both TE and Interpump performed strongly in the quarter after dramatic falls in Q1 and we have allocated the capital elsewhere.

To conclude on portfolio changes, it is worth reiterating that we intend portfolio turnover over the long term to be relatively low which we define as 25-40%. Turnover typically occurs in waves, so while lower in recent years 2020 has seen once-in-a-decade levels of volatility and thus a unique window to opportunistically buy businesses and high grade portfolio exposure. We would expect turnover to fade lower moving forward as the investment propositions of new holdings play out. Turnover over the last 3 years has averaged 33%.

Stock News

During the quarter the Fund's largest holding Danaher Corp announced a CEO transition alongside its quarterly results.

By way of background Danaher is a stock we have owned for the last 10 years and is one of the leading global players in diagnostics and life sciences with $20bn of revenues, 60,000 employees and more than 20 operating businesses. Examples include Pall Corporation that sells products used in the manufacturing process of biotech drugs, and Cepheid that tests for infectious diseases.

Danaher today looks very different to 20 years ago, or even 10 years ago when we first became shareholders. Started in 1984 by two brothers Mitch and Steve Rales it was an industrial-based business and one of the first companies in the US to adopt Kaizen, the Japanese business philosophy of continuous improvement. The evolution of continuous improvement moved from lean manufacturing into growth and leadership. Initial positions were established via acquisitions in diagnostics in 2006 and life sciences in 2009, and they have continued buying businesses in these areas ever since. The company has built up a largely recurring revenue base that consistently grows mid-to-high single digits with ~25% EBITDA margins that are expanding.

The company announced that Executive Vice President Rainer Blair will be taking over as CEO in September from current CEO Tom Joyce. Tom has been with Danaher since 1989 and in the CEO role for nearly six years since he took over as CEO from Larry Culp in 2014. Rainer joined Danaher in 2010 and has been running the life sciences platform (Danaher's largest business) as well as playing an instrumental role in key acquisitions this decade. While the announcement of a CEO change in the middle of a pandemic was surprising, the succession had been well planned out. Several senior leadership changes have taken place in recent years and talent management is a significant focus in the business – you cannot be promoted until a successor is identified. The constant is Mitch and Steve Rales on the board and their 12% ownership stake. We are familiar with the next generation of leaders and believe Danaher is as strong as ever qualitatively – financial results confirm this belief.