

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.

MARCH 2021

“Remember that there is nothing stable in human affairs; therefore, avoid undue elation in prosperity or undue depression in adversity.” Socrates

“From fitness to dating to news to travel to investing to cooking, every slice of our day is a battleground among tech players for our monetisable attention.” Prof. Scott Galloway

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	2.51%	5.79%	-3.28%
ROLLING 1 YEAR	42.25%	48.55%	-6.30%
ROLLING 3 YEAR	11.52%	11.45%	0.07%
ROLLING 5 YEAR	13.16%	12.86%	0.30%
ROLLING 7 YEAR	11.31%	10.70%	0.61%
ROLLING 10 YEAR	12.71%	11.21%	1.50%
SINCE INCEPTION*	11.09%	9.24%	1.85%
SINCE INCEPTION^	457.44%	323.40%	134.04%

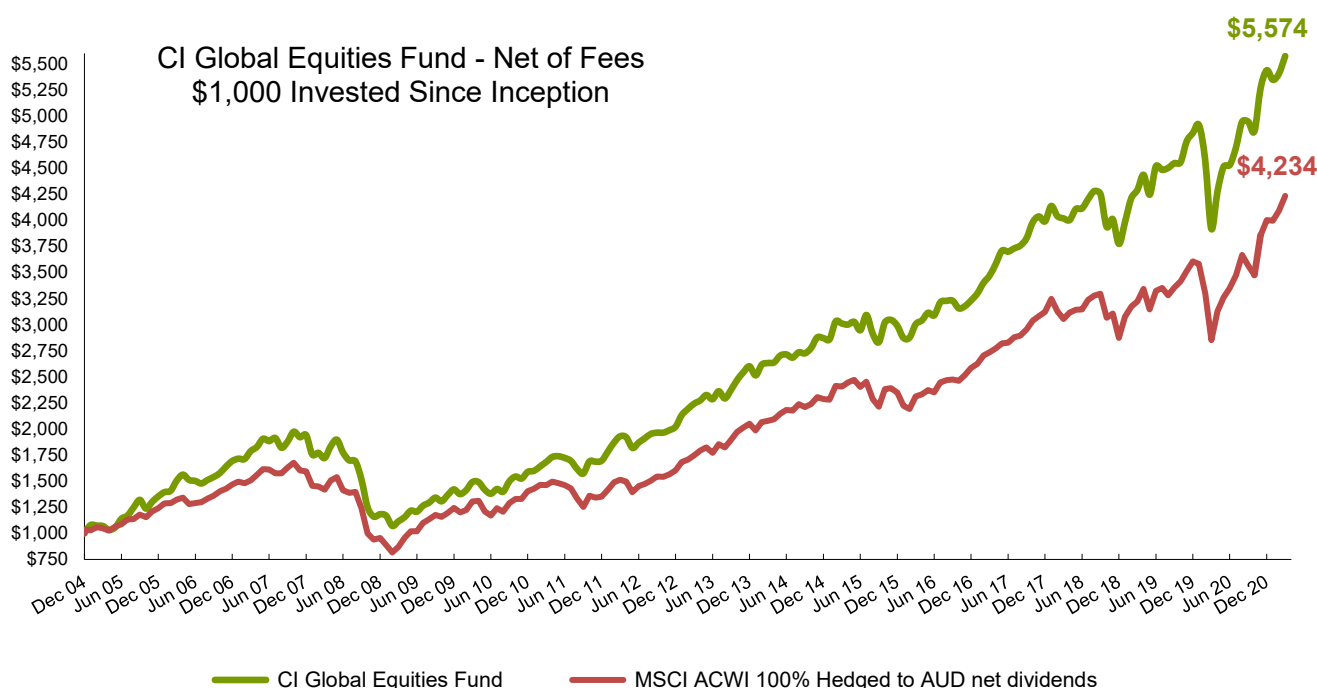
*Annualised

^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 ACWI 100% Hedged to AUD Net Dividends

Past performance is not necessarily a reliable indicator of future performance



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Market and Portfolio Performance

A year has passed since the onset of COVID-19 when markets dropped 30% in a fortnight and the VIX index hit levels unseen since the GFC.

Driven by its forward looking nature, the recovery in equities markets has been remarkable in the context of economic shutdowns and what for many countries was the sharpest drop in GDP on record. The US continues to lead with the S&P500 hitting new all-time highs regularly in 2021, as have most markets across Asia with Europe a notable laggard. Risk-taking behaviour (and the consequences of derivatives and leverage) has returned to the fore – a mere 3 months into the year we already have enough stories to script several Hollywood movies; the GameStop saga, the ongoing rise of ‘crypto’ and the blow-up of a large hedge-fund.

Stocks have responded with the action in recent months characterised by an internal rotation away from hyper-growth technology names and COVID-winners into ‘reopening beneficiaries’. In short – last year’s losers have been this year’s winners so far, with year-to-date performance leaders including:

- S&P 500 Energy Index +29%
- KBW Bank Index +23%
- Dow Jones 20 Transportation Index +18%

The portfolio has continued to generate solid absolute returns. The portfolio is up +3% for the quarter, +42% over 12 months and +39% over 3 years cumulatively. Whilst on a 3 year and greater timeframe, the portfolio is ahead of the benchmark, on a 1 year and less timeframe it is behind. While we always prefer to outperform, these deep cyclical rallies may be a period where the portfolio lags a little.

With that backdrop performance has been led by some of our more cyclical-exposed businesses, thus highlighting the importance of a broadly diversified portfolio with investments across different Subsets of Value. Cyclical, Turnarounds and Asset Plays represent approximately 25% of the portfolio and it is these ‘Reversionary’ assets that can drive returns in periods like this. Some of the more cyclically exposed Growth stocks also performed well.

Investments like **Techtronic** (power tools), **Diploma** (seals and controls) and **Colliers** (real estate brokerage) are all driven by the property and construction cycle to varying degrees, and have risen nicely in 2021 with results, ongoing operating trends and management behaviour progressing nicely.

We’ve also seen strong performance from some of our healthcare businesses, with **Envista** and **Eurofins Scientific** both up >20% year-to-date. Envista is benefitting from operational self-help as well as a sharp recovery in elective dental procedures, while Eurofins is going from strength to strength with its leading position in food and drug testing now proving out in tangible improvements in earnings quality, cash generation and leverage.

Finally, not all technology businesses lagged this quarter. Some of the investments where we saw the largest latencies last year – **Sony** and **PTC** - are both up double digits and continue to report better than expected growth and profits from energised management teams executing focused strategies.

This said, the portfolio remains around 1/3rd invested in Stalwarts, which as a group did lag somewhat over the period. Stocks that provided strong returns and good resilience in 2020 like **Costco**, **Rentokil**, and **Danaher** have tended to trade sideways in recent months despite encouraging underlying trends in their respective businesses.

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At CI, we like our Stalwarts to be strong and sturdy businesses with best in class privileged market and competitive positions. Value latency continues to be an important discipline. With these types of companies targeted capital allocation is an often underappreciated driver of shareholder value upside, which can come from organic investments like store rollouts, acquisitions or asset spin offs and sales. We remain excited about the Stalwarts component of the portfolio and expect that these steady compounders will continue to drive a meaningful component of portfolio return over the long term, as they have done since inception.

The Portfolio

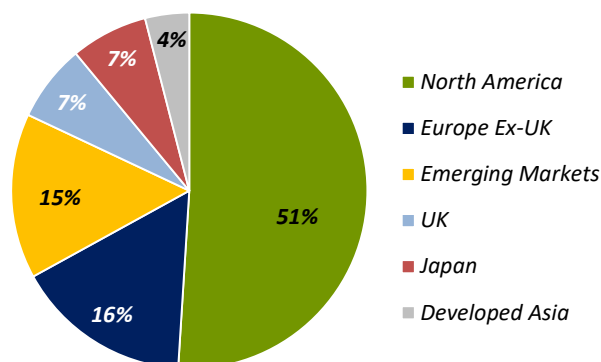
The portfolio is positioned around Subsets of Value:

- **Stalwarts** (34% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (AON).
- **Growth companies** (36%) – 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 (Ferrovia).
- **Low risk turnarounds** (5%) – sound businesses with good management and balance sheets. (Vontier).
- **Asset plays** (4%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (Sony Corp).
- **Cyclicals** (14%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who allocate capital prudently (Ferguson).

The portfolio is diversified by country and sector:

No. of Stocks	45
Region Weights	North America 58%
<i>(by listing)</i>	Europe 23%
	Asia 16%
Most OW Sectors	Industrials, Health Care
Most UW Sectors	Com. Services, Materials
Cash	3%

Geographical Exposure by Source of Revenues#



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

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Portfolio Changes

The number of stocks in the portfolio at the end of the quarter was 45. This is at the higher end of typical levels which is normally around ~40 companies. Over the last 6 months there have been a number of spins-offs, IPO's as well as a placement that occurred during the quarter that the portfolio participated in. This increased the number of holdings in the short term and we expect this to trend back to more typical levels.

Within the Low-Risk Turnaround Subset of Value, Spin-Offs have been a key focus area. When describing Low-Risk Turnarounds we emphasise the low risk component by seeking sound underlying businesses with credible management in place who are able to execute against a clear and low risk pathway to create or restore value. We have invested in self-help companies such as Brink's but Spin-Offs are where we have had much greater success. We are attracted to the focus dividend that often comes when these businesses are allowed to operate as their own standalone companies. Spin-Off opportunities come and go but as a group have been a strong performer and a material value-add for the portfolio over many years.

In some cases, we make our investment in the company post the spin announcement such as with Agilent, at other times we wait for the spin to occur like Envista, and sometimes we wait to observe management focus and traction as we did with Colliers and Time Warner Cable. Spins were a key driver of a number of new investments made during the quarter.

In the quarter **Constellation Software** spun out one of its operating divisions, TSS, into a new standalone listed company called **Topicus.com**. Constellation Software is a Canadian-listed US\$30bn market cap software company. It is a unique software company in that the business is a portfolio of hundreds of niche vertical software businesses. This has been an attractive strategy as vertical market software (software for specific industries such as the marine industry or public transportation) is a highly sticky business with enduring revenues and attractive margins. CEO & Founder Mark Leonard has built the company up from scratch over the last 25 years by acquiring small vertical market businesses for typically ~1x sales. With 25% EBIT margins, Constellation is able to generate ~25%+ returns on these acquisitions. Constellation has been a successful investment for the portfolio since we bought in 2015.

Netherlands-based TSS was acquired by Constellation in 2014, with TSS founder Robin Van Poelje still running the business and maintaining a minority share in TSS under the Constellation Software umbrella. In 2020 TSS announced the acquisition of a fellow Dutch company Topicus and the merged entity spun out into its own listed company this quarter, adopting the Topicus.com name. Robin is Chairman of the new company Topicus.com where he and other insiders will own ~40% of the equity, while Constellation will retain a ~30% stake leaving only 30% free float. With a US\$7bn market cap Topicus.com has zero broker coverage.

As shareholders in Constellation Software we received a small amount of shares in the newly listed Topicus.com. Following the distribution of shares to investors, the portfolio increased its position in Topicus.com. TSS had been one of the star performers inside Constellation with faster growth than the corporate average as well as better operating margins. We see an attractive opportunity for Robin and the team to replicate the Constellation playbook in Europe via Topicus.com.

At the same time Constellation has now grown into a US\$4bn revenue and US\$1bn free cash flow generating business. Given the size and breadth of revenues Constellation is now a mature low organic growth business. At this size, Constellation can no longer deploy all their free cash flow into acquiring niche vertical software businesses. It is still growing revenues double digits but largely driven by acquisitions which are becoming more difficult to find. In a letter to shareholders this year Mark Leonard outlined his intentions to lower return hurdle rates on larger acquisitions or potentially move outside vertical market

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software as a way to continue investing all their free cash flow. This combination means a lower growth outlook and additional risk as they attempt to do things they haven't done before, whilst shares trade on an all-time high of 30x earnings.

The portfolio sold its Constellation position to fund the purchase of additional Topicus shares, which trades on a similar earnings multiple to Constellation. Topicus today is the same size as Constellation was back around 2013. We see Topicus as a 'back to the future' opportunity on Constellation Software - a clear growth opportunity with an ability to deploy free cash flow into acquiring small businesses with returns that are highly accretive. We admire Mark Leonard and Constellation Software and will be following their moves closely. In the meantime, we are excited by the opportunity at Topicus.com - a company that can grow organically mid-single digits, expand margins and deploy all its free cash flow at 20%+ returns.

The portfolio made two other smaller investments in the spin-off realm – firstly, the float of **Vantage Towers**, the carve-out of Vodafone's European Towers business. Secondly the placement in **Colfax** which occurred soon after the announcement that they will be splitting into two companies.

In a similar vein we initiated a position in **APi Group**, a recent new listing that is the largest fire protection services company in the US. APi was a successful family business but the switch to a listed entity will bring a number of benefits around focus regarding the top line, costs and acquisitions. We bought this great business that is well run and improving on 15x earnings.

Finally, the portfolio established a position in video game publisher **Activision Blizzard**. As a watchlist company we have followed Activision for several years. As a reminder the role of the watchlist is to allow us to focus on a select group of companies where we seek to observe important signals around either value latency, industry trends or management behaviour that portend attractive investment propositions.

Throughout the portfolio's history, we have made several investments across the content space including Time Warner Inc, SiriusXM, Sony and Warner Music Group. As humans we have a visceral relationship with content – our time spent consuming and interacting with it is high and demand is inelastic. Technology can often play a disruptive role in content, however video games are a clear beneficiary of technology, both in terms of more immersive and realistic gaming experiences as well as the monetisation opportunities this creates.

In order to benefit from these trends, video game publishers must be owners of unique IP. Activision Blizzard fits this bill perfectly boasting a portfolio which includes franchises such as Call of Duty, World of Warcraft and Diablo just to name a few.

The business is run by CEO Bobby Kotick, who together with Chairman Brian Kelly purchased the foundation assets for the company for US\$400k in the early 1990s. Today Activision has a market capitalisation of over US\$70bn. Over the last few years Bobby and his management team have refocused resources onto their best IP, with the goal of capitalising on the aforementioned industry tailwinds.

We saw the benefits of this in 2020 with the release of Call of Duty Mobile and Free-to-Play versions (with in game micro transactions) complimenting the traditional core console game. Engagement increased materially and due to the very favourable economics of content publishing, Operating Income more than doubled for the Call of Duty Franchise. Even adjusting for the impact of lockdowns, this is a phenomenal outcome.

Activision has 3-4 key pieces of IP with which they plan to repeat this playbook over the next couple of years. If they can replicate the success of Call of Duty, even in part, we see material upside to the free cash flow power of the business. Further, revenue sources are broadening which will move the profile away from

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a traditional lumpy annual release cycle of the old video game model towards one of a more recurring nature. This will transition Activision from a publishing to a services business, likely attracting a higher multiple than the current mid-low 20x FCF which is broadly in line with the market. To summarise, we see significant value latency and a pathway to double digit returns over the medium term.

These purchases were funded through the sales of **CME Group** and **Cerner**.

CME has been owned by the portfolio for five years. CME's strategic positioning as a monopolistic global financial exchange operator will continue to afford the business a highly attractive margin profile. CME is well managed however we can no longer identify clear value latency opportunities for the management team to execute against and so decided to exit our position.

The investment in Cerner, made just over a year ago, was based on what we perceived to be a Low-Risk Turnaround opportunity as a refreshed management team sought to increase margins, reduce capex and utilise balance sheet latency with buybacks and acquisitions. Taking account of the tough 2020 for Cerner's hospital client base the company did a reasonable job executing on these initiatives. However, moving into 2021 more recent observations around intentionality and focus led to a reassessment of the investment proposition, particularly relative to the portfolio's other technology and software investments.

Stock News

Late in the quarter German real estate classifieds business **Scout24** announced a buyback of around €1bn, corresponding to around 14% of outstanding shares which we expect to be cancelled after the repurchase. This forms an important part of management's capital return roadmap after carrying a large cash balance since the sale of the auto classifieds business last year. It also represents a timely and attractive use of capital after weak share price performance in recent months left the stock trading at an undeserved double digit discount to global peers on key multiples. The event finally closes the chapter on Scout's history as a mix of vertical classified portals and allows management to fully focus on German residential property where the opportunity is compelling.

Scout has a dominant share of traffic (3x minutes-on-site of their closest competitor) in what is a 'winner takes most' industry. Germany remains behind the digitisation curve and is under-monetised relative to other developed online property markets. The business can potentially grow revenues at high single digits for many years to come, with upside to already attractive EBITDA margins of >50%. This should drive an attractive free cash flow profile of >€150mn p.a. to be deployed in strengthening their competitive position, with the excess returned as further buybacks or growing dividends.

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