

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.

SEPTEMBER 2018

“Travel is fatal to prejudice, bigotry, and narrow-mindedness, and many of our people need it sorely on these accounts.” **Mark Twain**

“It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming.”
Theodore Roosevelt

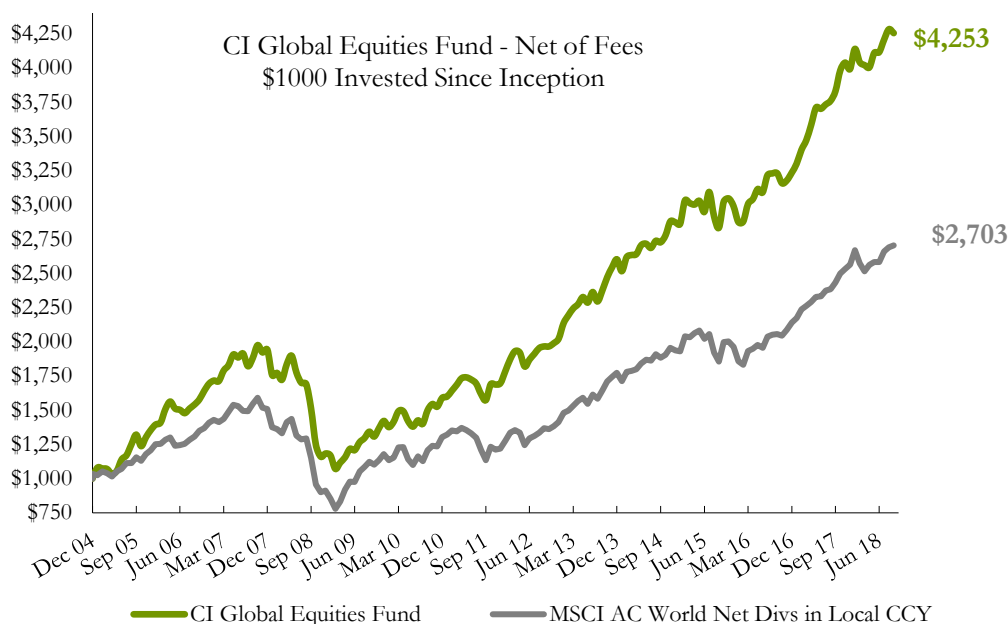
	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	3.39%	4.67%	-1.28%
ROLLING 1 YEAR	11.07%	11.15%	-0.08%
ROLLING 3 YEAR	14.51%	13.37%	1.14%
ROLLING 5 YEAR	12.36%	10.46%	1.90%
ROLLING 7 YEAR	15.27%	13.21%	2.06%
ROLLING 10 YEAR	10.89%	8.91%	1.98%
SINCE INCEPTION*	11.03%	7.45%	3.58%
SINCE INCEPTION^	325.26%	170.29%	154.97%

*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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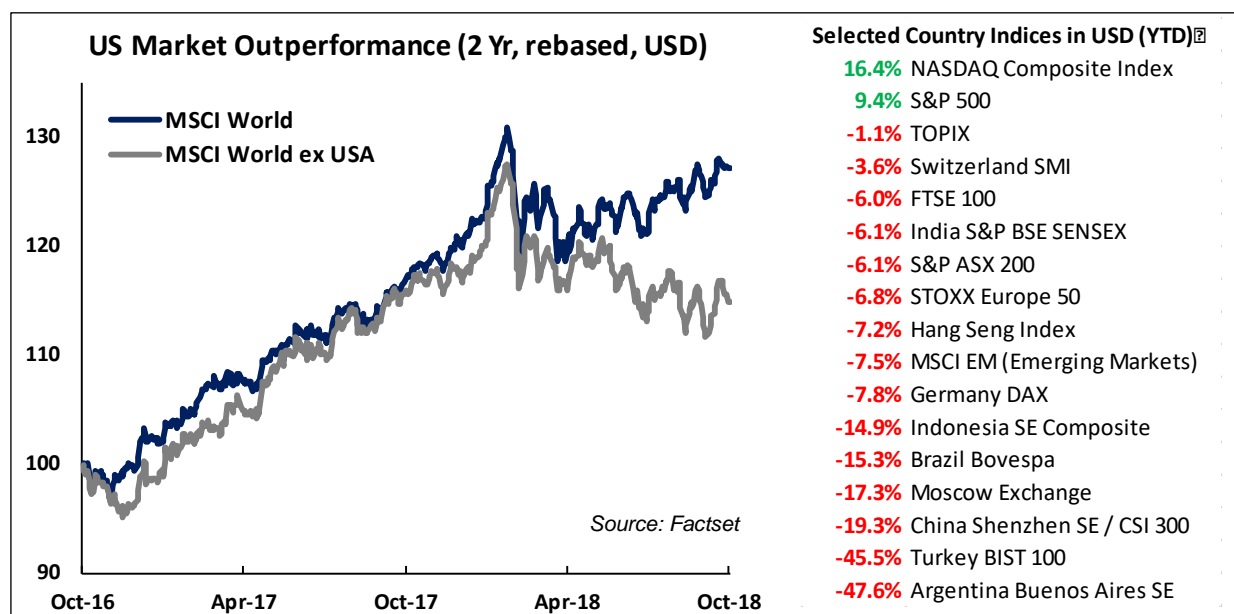
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Market and Portfolio Performance

If one word could describe the development of markets in recent months it would be ‘divergence’. Simply put since late May the US has opened up a significant gap of outperformance versus the rest of the world.

The S&P500 continues to make new all-time highs and year to date is up ~10% having just posted its best quarter since 2013. Despite wobbles in ‘front-page headline’ stocks like Facebook and Tesla, investor exuberance is increasingly concentrating in US tech with the market cap of both Apple and Amazon breaching one trillion dollars and the NASDAQ +16% year to date. This is in stark contrast elsewhere – major European indices have fallen low single digits so far in 2018 while Emerging Markets have been hit with a double whammy of capital flight and its usual partner in crime, currency devaluation.

Thus in dollar terms investors have lost money this year in practically every global market except the US.



Regarding the portfolio performance, our preference for niche focused winners and hidden champions saw the portfolio continue to grind higher, albeit a little behind a strong quarter for the benchmark.

The proposition of the Global Equities strategy is centred on owning a portfolio of world leading proprietorial cultures with whom Cooper Investors have long standing relationships. We categorise this in three ways:

- Founder & Family Linked Companies – Constellation, Danaher, Techtronic
- Owner Operator Cultures – Costco, Halma, CME
- Focused & Experienced Management Teams – AON, TE Connectivity, Baxter

Over more than a decade of investing globally CI have refined our pattern recognition skills to identify focused management behaviour and back teams that exhibit the kind of behaviours we value.

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One such behavioural trait is the ability to understand the capital cycle, think counter-cyclically and execute quickly with conviction unobstructed by bureaucratic groupthink. During our regular catch-ups with management we take the temperature on how they see the world, where they're deploying capital and attempt to identify any early signs of hubristic behaviour. Where we see this emerging (a large M&A deal, a new shiny HQ, complacency towards customers or disparaging language towards competitors) it often leads to a sell decision. The kind of management teams we're attracted to are often eager for the next downturn as they know that will be their opportunity to shine and deploy capital into distress.

For the three months to 30th September 2018 the portfolio returned 3.39% versus the benchmark which returned 4.67%.

The AUD fell another 4% versus the USD this quarter and at 71c is now down close to 10% in 2018, while remaining relatively flat against the GBP, EUR and JPY.

The biggest contributors to performance in terms of total shareholder return in local currency (hedged) included:

1. **IQVIA** – Q2 results showed the first signs of the benefits from the merger with Quintiles
2. **Amadeus IT** – Purchase of Travelclick grew visibility of the hospitality business. See Stock News.
3. **AON** – Shares rose with improving organic growth in US insurance solutions

The biggest detractors to performance in terms of total shareholder return in local currency (hedged) included:

1. **Aalberts Industries** – Shares lagged with market concerns over European auto original equipment manufacturer trends
2. **Saputo** – a softer dairy market and sentiment on the North American Free Trade Agreement impacted the shares for the quarter.
3. **Constellation Software** – Quarterly results missed expectations as acquisitions completed came in with lower margins.

The Portfolio

The portfolio is positioned around Subsets of Value:

- **Growth companies** (46%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Costco).
- **Stalwarts** (32% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (AON).
- **Low risk turnarounds** (3%) – sound businesses with good management and balance sheets. (Pentair).
- **Asset plays** (5%) – stocks with strong or improving balance sheets trading at discounts to net sset value or replacement value (Liberty SiriusXM).
- **Cyclicals** (12%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who allocate capital prudently. (Ametek)
- **Bond like equities** (2%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Getlink SE).

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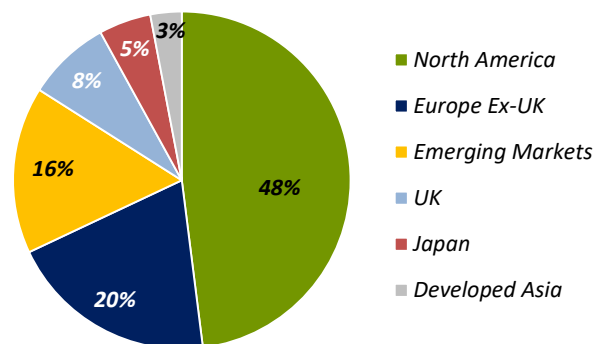
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The portfolio is diversified by country and sector:

No. of Stocks	43
Region Weights	US 50%
<i>(by listing)</i>	Europe 29%
	Asia inc. Japan 9%
Most OW Sectors	Industrials, Financials
Most UW Sectors	Energy, Materials
Cash	5%

Geographical Exposure by Source of Revenues[#]



[#]Derived on a look-through basis using underlying revenue exposure of individual portfolio stocks

Buys

At the beginning of the quarter we established a sizeable position in **Fortive Corp.** Fortive was spun out of Danaher (a long term portfolio holding) two years ago, representing the legacy industrial operations from Danaher after the majority of the portfolio had shifted towards healthcare and technology-based businesses. Despite our usual attraction to spin-offs we initially sold our shares post spin due to existing large industrial and manufacturing positions in the portfolio. Since the beginning of the year Fortive has made sizeable and attractive portfolio moves (buying \$5.5bn and selling \$3bn worth of businesses) and we have begun to see a pathway away from legacy manufacturing towards a more technology and recurring revenue-based profile with a successful and experienced management team.

Businesses acquired include the leading provider of construction cost estimation software, leading facilities and asset management software and the sterilisation products business from Johnson & Johnson. Over the years we have stayed close to the company. Like Danaher we hold the Fortive team in high regard for exhibiting top ranking focused management behaviour.

The portfolio also initiated a small position in **Ferguson Plc ("FERG")**, a leading specialised distributor of plumbing, heating and waterworks products across the US, Canada and Europe. Whilst listed in the UK (changing its name from 'Wolseley Plc' last year) Ferguson today generates 90% of profits from the US.

The dynamic duo of CEO John Martin and US head Kevin Murphy (10 years as COO) have overseen a successful period of turnaround with the company exiting around 60 businesses since the GFC to focus on areas where they have competitive advantages and scale. Today the group has built 17% market share in the US and provides an important service that makes professional plumbing contractors lives easier and reduces inefficiency in large construction projects.

Operating trends are compelling - revenues grow high single digits through a combination of a recovery in US housing starts and home remodelling spend as well as market share gains. FERG has typically grown like-for-like sales +2-4% above the market which today looks like organic growth in the US of +8-10%. In latency terms there are opportunities to grow Gross Margins through increasing use of private label (today <10% of sales) and EBIT margins through further scale and efficiency gains (margins are 4-500bps lower than peers like Reece and HD Supply). The balance sheet at ~0.8x ND/EBITDA has plenty of capacity for

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continued consolidation of the highly fragmented industry tail. Next year the company should generate over US\$1bn of Free Cash Flow and currently trades around 18x that number, an inexpensive multiple given several latencies on offer. On an earnings basis the company trades around 14x, a material 10 turns of multiple lower than similar businesses in the US like Watsco. We think a large part of this discount is 'coverage arbitrage' - Ferguson is covered by analysts based in London, Paris and Dublin who have bad memories of 'the old Wolseley' which almost went bankrupt in the GFC. A good example of this bias saw the recent FY18 results beat consensus on almost every metric yet analysts focussed on the weak UK outlook (5% of group trading profits and shrinking).

Finally we initiated a position in **Chase Corporation ("Chase")**, a niche specialty chemicals manufacturer of protective materials such as adhesives, sealants and coatings. Chase's products are often 'hidden' within their end applications – think of specialty coatings to protect electronics from dust and moisture - but critical to their overall performance and reliability. Chase is a 70 year old company based just outside Boston and is run by the great-grandson of the founder, Adam Chase. Under Adam's stewardship the company has created significant value by transitioning the product portfolio to higher margin niche applications. Today the business generates over 20% ROIC. Given the company's <1% market share, strong Free Cash Flow generation and net cash balance sheet we see a long runway for Chase to continue to allocate capital into attractive applications of protective materials, often underserved by larger competitors.

Sells

During the quarter we exited **The Brink's Company** after what has been a successful investment period. As a Low Risk Turnaround CEO Doug Pertz and the management team executed on their plan almost flawlessly - improving margins and growth in key regions as well as deploying capital smartly into a handful of attractive acquisitions. Brinks has a large Latin American exposure, the highest returning markets globally for cash handling businesses. However the risk profile of these markets from a macroeconomic perspective has deteriorated throughout 2018 ultimately changing the profile of the investment proposition.

Stock News

During the quarter **Roper** announced its CEO of 17 years Brian Jellison is stepping down due to health issues. Brian has done a marvellous job as CEO and the portfolio has benefited with the shares up >85% over the 3+ years of ownership. Neil Hunn who was promoted to COO back in February was appointed the new CEO immediately. Neil has been with Roper for 7 years. Roper has been a pioneer in shifting from old world manufacturing to technology-based businesses and done so via value-creating acquisitions. Today nearly three quarters of Roper's profits are generated by software or healthcare based businesses which have strong recurring revenues, growth options and high margin fall through rates. We believe Roper's compounding of Free Cash Flow is underappreciated and misunderstood. We will keep a keen eye on management's moves and execution to ensure the next three years are as good as the previous three.

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Fortive completed the sale of its automation and specialty business to Altra Industrial Motion for \$3bn, of which \$1.4bn was in cash and \$1.6bn in shares. The deal was structured in a tax-advantaged way via a Reverse Morris Trust and Fortive shareholders were able to exchange existing Fortive shares for Altra shares at a discount of 8% at announcement and ~5% by deal completion. The deal was a win-win for both companies. Fortive sold its legacy non-core businesses for approximately 12x this year's EBITDA with minimal tax leakage while Altra will get a best of breed manufacturing company with complementary products and the ability to reduce the price paid by 2x with targeted synergies. We met with Altra during

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the quarter to determine the potential for the combined entity. We tendered a portion of our Fortive shares in the exchange to benefit from the discount.

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First Republic, the only bank held in the portfolio today, completed a capital raising of ~\$200m in September, amounting to ~1.2% of shares outstanding. First Republic has typically raised capital twice a year to support a loan growth rate in the high teens. We are pleased that the amount of new capital required to fund growth continues to decrease with the September raising the only one so far for 2018. More so management are very shareholder friendly (no surprise given the CEO founded the bank 30 years ago and owns over \$500m of shares) and only raise capital when the price to book multiple goes sizeably above 2x (and never when below). In a world where many incumbent banks face pressures on customer service experience and organisational hierarchy First Republic continues to be perfectly placed to grow and take share with its unique offering. Our observation is the shares typically come under some near term pressure (happened at the end of the quarter) and then march on upwards again.

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In August **Amadeus IT** announced the acquisition of TravelClick, a NY-based provider of enterprise software into the hospitality industry. Growing the non-air IT offering has been a key latency for us and one that management had articulated as a priority, so this acquisition makes strategic sense.

Amadeus have been quietly building their hospitality solution for a number of years. In layman's terms, this is software for hotels that enables large chains (early adopters are InterContinental and Premier Inns) to run a centralised cloud-based Guest Reservation System and/or Property Management System. This acquisition immediately gives Amadeus scale in the independent and mid-chain channel where the IT department in many cases is still a couple of PCs sitting in the manager's office under a desk.

Management have a solid track record of targeted bolt-on acquisitions with Navitaire a recent example in the low-cost carrier space for airline IT. The transaction, done at a mid-teens multiple of EBITDA for a technology business with ~25% EBITDA margins and growing organically double digits has the effect of raising the profile on one of the next legs of growth for the business. It also means that, for the first time in terms of earnings mix IT Solutions is larger than Distribution. Amadeus is now officially more an enterprise software company than a GDS (Global Distribution Systems) company.

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Two further sizeable acquisitions occurred in the final week of the quarter. As we have been writing about for the last two quarters **Comcast's** pursuit of large high profile media assets looks to have finally concluded. Regarding the ~\$70bn battle for 21st Century Fox with Disney, Comcast showed the discipline we had expected and stepped away to let Disney take control of the Murdoch empire.

However the story was a little different in relation to European entertainment company Sky Plc. As a reminder Fox (and now Disney) owned 39% of the company and Fox had already tendered a takeover offer for the entire company before Comcast were involved. After a series of back and forth bids the UK Takeover Panel decided to institute a rarely used 'blind auction' process where Comcast were the resultant highest bidder. Whilst the strategic merit of the deal is sound – gain a foothold in Europe and create a 50m+ subscriber base over which to amortise NBCU/Sky content spend - the total enterprise value of the deal is \$47bn which is several billion dollars above the level where we can see Comcast creating value for shareholders over a reasonable time frame. However we do note Comcast's successful track record with regard to large acquisitions, notably AT&T Broadband and NBC Universal.

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Subscription satellite radio company **SiriusXM** (which the portfolio owns via tracking stock **Liberty SiriusXM**) acquired streaming radio company Pandora in an all-stock transaction valuing Pandora at ~\$3.5bn. We rate the SiriusXM management team very highly – they are probably the best executors of a focused business strategy we have come across. Further, coming under the Liberty sphere of ownership provides an additional layer of capital allocation prowess. SiriusXM took an equivalent 16% position in Pandora via convertible preference shares over twelve months ago, giving them three board seats and a big say in the new management team and strategy at Pandora. SiriusXM management obviously liked what they saw because the deal came sooner than we had expected. Pandora is currently loss making so the deal is immediately dilutive to SiriusXM, however we do see strategic merit to the combination of the businesses including cross promotion of products into each other's subscriber base as well as amortisation of content over the two platforms. This appears similar to Liberty's initial stake in a loss-making SiriusXM back in 2009.

Trip News

This quarter saw extensive travel by the team across the US, Europe and Asia.

A busy two weeks in Europe saw travel to several portfolio holdings and Watchlist stocks across the UK, Germany, Italy, Sweden and Norway. We often discuss how our most highly rated management teams consistently find new ways to create value. We saw two notable examples on this trip.

The world has changed and as an insurance broker **Aon PLC** has changed too. The group has evolved from a turnaround story (exiting underwriting), through an optimisation phase (exiting BPO, implementing globalised systems) and is now re-entering a growth phase. They're achieving this by expanding into new verticals where there exist major protection gaps. Two such verticals are cyber insurance and intellectual property. In 2017 the US alone suffered \$435bn of reported economic loss due to cyber incidents (data breaches, identity theft, fraud, viruses etc.) yet only \$3bn of cyber insurance premiums were written. To repeat, that \$435bn of loss is *just* the US. In Europe reporting of loss from cyber events will only start from 2019 post implementation of GDPR (data protection) laws. So on a global basis the protection gap is likely much higher while the insurance industry has barely started penetrating. As data becomes more valuable this unprotected exposure will quickly become intolerable (if it isn't already) to corporates, governments, and consumers, thus advising on innovative policies could be a major growth driver for insurance brokers.

For our second example we go underground into the mining world. Portfolio holding **Sandvik** is a leading producer of underground mining equipment (an effective duopoly with Swedish peer Epiroc) such as loaders, drill rigs and rock excavators. The market tends to think of these stocks as extremely cyclical, but we see the outlook as more nuanced. Just as environmental concerns around fossil fuels, safety legislation and advances in automation are affecting surface industries, mining is no exception. So while almost half of Sandvik's business is replacement parts and aftersales, they're now approaching a ramp up phase in two of the biggest global trends we see – electrification and automation.

Indeed these trends are potentially more game-changing for the mining industry than any other. Underground mines are dangerous places. A major issue is heat - the geothermal gradient means temperature rises the deeper you go (roughly 1 °C per 40 metres). In a South African gold mine at 2km depth (assuming a surface temperature of 25°C) the air temperature in the mine might approach 75°C. Turning on a bunch of diesel engines adds another 10°C, clearly way beyond levels of human tolerance. As such cooling fans and ventilation costs represent a significant burden to underground mine operators, up to third of a mine's entire electrical budget. Add on the cost of diesel for the machines and the breakeven point for a mine rises further.

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However the vision for a fossil free (and human free) mine is becoming a reality. Sandvik is already supplying a number of its products with batteries such as drilling rigs for Goldcorp's Borden Lake project in Canada, the world's first all-electric gold mine. By eliminating diesel underground Goldcorp anticipates a 70% reduction in greenhouse gases and annual savings of 2 million litres of diesel fuel, 1 million litres of propane and 35,000 MWh of electricity. Sandvik is also innovating with remote operation through its AutoMine system which means workers can use equipment reliably from a thousand kilometres away. Not only is this safer, it means more savings from less plane loads of fly-in, fly-out workers going to mine sites.

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In the US we spent time in the North East meeting with companies from Boston to Philadelphia and everywhere in between. For us time on the North East is not days spent walking up and down 6th Avenue in Manhattan. But rather meetings in Berwyn Pennsylvania, Parsippany New Jersey or Wallingford Connecticut, as only 2 of our 24 North American stocks have headquarters in New York City.

While the media is dominated by big macro calls, our portfolio of niche businesses that are often family or founder run continue to focus on growing in markets and into adjacencies. We prefer to spend our time at the coal face listening to and understanding what is the opportunity set to grow shareholder value. The types of businesses we own range from manufacturers of analytical instrumentation to pool equipment, R&D services for the pharmaceutical industry to software for legal firms or the marine industry. We are excited by the opportunities for these experienced management teams and businesses to continue compounding their Free Cash Flow.

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Finally we travelled to Asia twice during the quarter, in August to Japan and in September to Hong Kong and China. In a region where there is seemingly increasing macro and geopolitical headwinds we are attracted to a) the enormous domestic productivity drive underway in Japan and b) Family-Linked Companies with a 'no excuses' culture.

A recent Japan Productivity Centre study concluded that per hour labour productivity in Japan is around one third below that of the US which provides enormous latency to both the economy and companies. This is now being realised as Japan is forced to deal with the implications of an ageing society. Irrespective of broader economic conditions we expect this trend of companies adopting modern, more productive work practices to continue benefiting those businesses focused on the trend, several of which we are following closely.

The standout meetings of both trips were with two of our recent buys, Unicharm (Japan) and Techtronic (Hong Kong). These are both Family-Linked Companies with the founding family remaining the largest shareholder, the founder on the board and the second generation either running the business or being a senior executive. The attributes that differentiate this style of company means not only will they survive in volatile periods but thrive. Both articulate messages illustrating that they're not dwelling on external headwinds but laser focused on the factors in their control – developing great products and services for their customers and reducing the inefficiencies in their operations. In these cultures you can't report back to the CEO you have missed your targets due to "trade headwinds". In addition, they invest heavily and consistently in talent, meaning they have a leadership pipeline that allows them to take advantage of growth opportunities when they arrive. Finally, they both have net cash balance sheets which provides huge optionality to invest when others are withdrawing.

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