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.

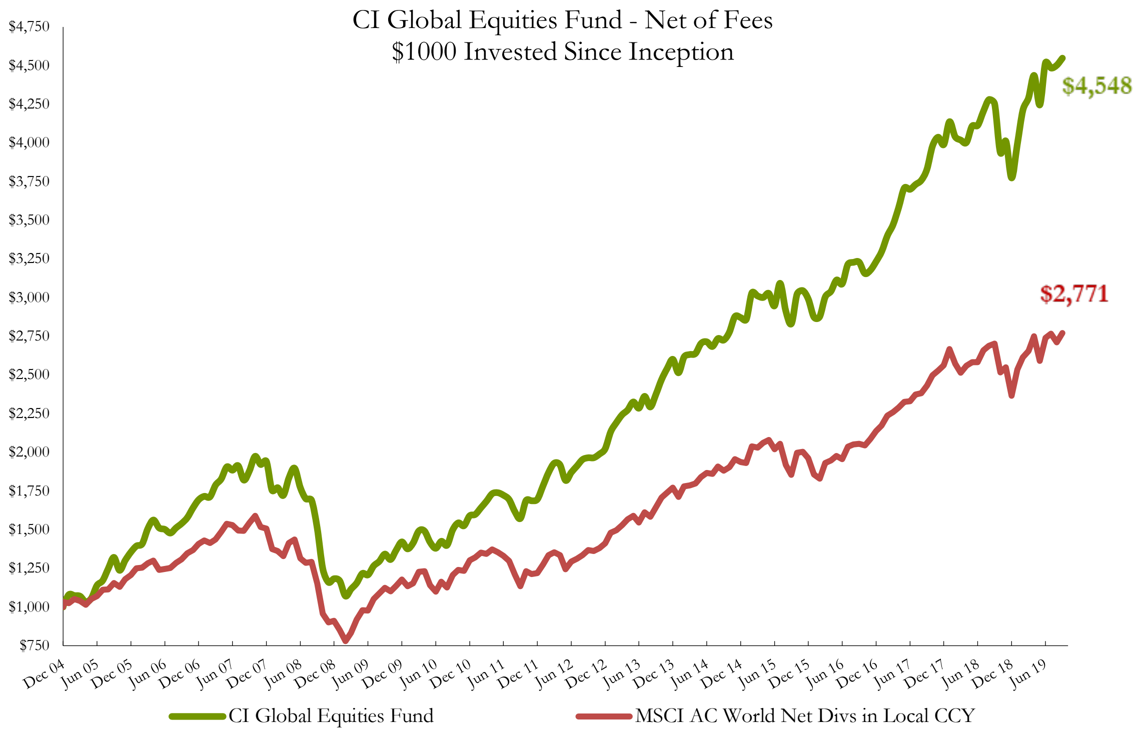
SEPTEMBER 2019

"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	0.67%	1.11%	-0.44%
ROLLING 1 YEAR	6.95%	2.53%	4.42%
ROLLING 3 YEAR	12.10%	10.49%	1.61%
ROLLING 5 YEAR	10.79%	8.04%	2.75%
ROLLING 7 YEAR	12.74%	10.62%	2.12%
ROLLING 10 YEAR	12.98%	9.45%	3.53%
SINCE INCEPTION*	10.75%	7.11%	3.64%
SINCE INCEPTION^	354.80%	177.12%	177.68%

*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

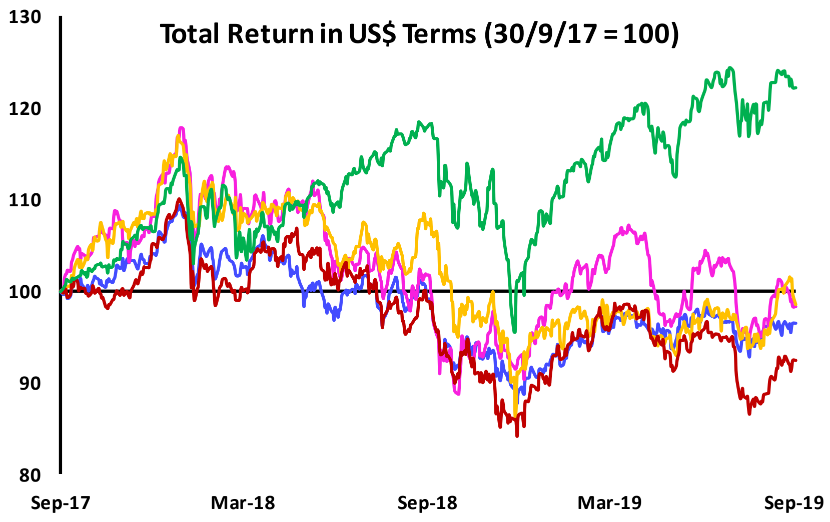
The third quarter saw a gyration of markets (up in July, down in August, up again in September) that settled with the MSCI AC World having inched up 1% by the end of the quarter in local currency (+4% in AUD).

The most noteworthy action occurred in bond markets where yields, drifting lower most of this year, fell quite sharply. In early August the US 10 Year yield dropped almost 60bps and by early September hit a post-Brexit low around 1.4%.

Per Bloomberg 30% of bonds now issued in the world today have negative yields. In Denmark local lender Jyske Bank became the first bank to introduce negative rates for retail depositors and launched the first negative interest rate mortgage (priced at -0.5% a year). This bank will charge you to hold your cash and pay you to take money off their hands. Make no mistake it's a challenging time to be a bank CEO - an indication of the myriad challenges they face evident perhaps in the fact that the portfolio now owns zero direct investments in bank shares.

Credit market jitters were mirrored in equities markets by a flight-to-safety in which Stalwarts and Bond-like Equities outperformed with other safe haven assets like Gold, now +17% for the year, its best run since 2010. While 2019 appears to be another strong year for equities returns in developed markets (S&P500 +19% and EuroSTOXX +20% in local currency) the picture is less rosy outside the US when allowing for the ongoing strength of the dollar. In USD terms the S&P500 is the only major market to have generated positive total returns in the last 2 years.

For some time it's been a case of 'anything as long as it's in the US' and a consequence of this is that the US has now grown to almost 57% of our global benchmark, versus 49% five years ago.



Source: Factset

Reflecting this and the challenge to find compelling Value Latency-rich opportunities the portfolio continues to be underweight the US relative to the benchmark by almost 5% with recent investment opportunities biased slightly towards Canada and Europe.

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The portfolio remains highly diversified by country and sector and with active share of 94% the monthly returns differed significantly to the benchmark, outperforming strongly in the adverse month of August and lagging somewhat in July and September. Increased volatility and market short termism continue to throw up interesting opportunities in our Watchlist and we initiated four new positions (see Portfolio section).

For the quarter overall the portfolio returned 0.67% versus the benchmark which returned 1.11%. The AUD continued to slide, falling another 4% versus the US Dollar to hit post-GFC lows near 0.67c. It was flat versus Euro and Sterling and fell 4% versus Yen.

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

1. **Brookfield** – No news other than a continuation of solid operating trends
2. **Ferrovial** – Falling bond yields boosted infrastructure stocks but Ferrovial outperformed with further execution of the refocus story; selling a non-core asset and announcing an extension to a US managed lane
3. **Fiserv** – Strong operating trends at the newly acquired First Data business

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

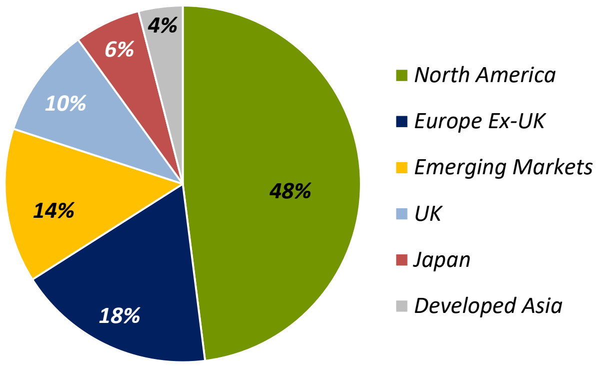
1. **PTC** – Pushed out medium financial targets by a year
2. **Fortive** – A 1 cent per share earnings miss as 2% sales growth was a tad below consensus 3-4% expectations
3. **Sampo** – Revenue headwinds and management transition at Nordea dragged. Sampo distributed a small part of its stake to shareholders (the portfolio sold on receipt) during the quarter.

The Portfolio

The portfolio is diversified by country and sector:

No. of Stocks	*42*
Region Weights	*US 53%*
(by listing)	*Europe 23%*
	Asia inc. Japan 10%
Most OW Sectors	*Industrials, Financials*
Most UW Sectors	*Energy, Consumer Disc.*
Cash	*4%*

Geographical Exposure by Source of Revenues#



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

The portfolio is also positioned around Subsets of Value:

- **Growth companies** (35%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Costco).
- **Stalwarts** (42% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (AON).
- **Low risk turnarounds** (1%) – sound businesses with good management and balance sheets. (Envista).

- **Asset plays** (5%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (Liberty SiriusXM).
- **Cyclicals** (8%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who allocate capital prudently. (Ametek)
- **Bond like equities** (5%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Getlink SE).

Buys

The portfolio initiated a position in **Interpump S.p.A**. during the quarter. This represents our second investment in a niche family-linked Italian business focused in a regional centre of excellence. Our first (DiaSorin) is situated in the biochemistry cluster of Turin whereas Interpump is based a little further south in the region of Emilia-Romagna, a province renowned for industry, food and culture. Network building through our visits to the area around Bologna have been ongoing for several years. Sectors such as the mechanical and automotive industry (the homes of Ferrari, Lamborghini, Maserati and Ducati are nearby) have seeded a cluster of global-leading machinery and innovative technology companies. We have found many interesting and attractive businesses and Interpump is a wonderful example.

It was founded by Chairman and major shareholder Fulvio Montipò in 1977 as an innovation project – he wanted to design industrial pumps that were more compact, efficient and quieter. Today the company has built leading positions in certain niches with close to 50% global market share in high pressure water pumps and power take-offs (key for energy transfer in machinery). These are complex and highly engineered components used in a variety of applications across general industry, agriculture, food and pharma. Typically organic sales growth has averaged mid-single digits through the cycle, with margins consistently close to 20% and returns on tangible capital north of 25%.

What really excites us about Interpump is the pattern recognition we observe in its decentralised operating structure, disciplined capital allocation and focused management behaviour. The business operates in fragmented markets and has consistently deployed free cash flow into M&A at highly attractive rates of return. Over time the group has been able to diversify its end market penetration to be less cyclically exposed whilst continuing to find good acquisition targets at reasonable multiples. The recent purchase of Reggiana Riduttori is a good example – a family run business that is a global leader in a mechanical niche (planetary gears) with solid growth prospects and where the founding family have kept skin in the game by taking a small stake in Interpump as part of a deal with an overall price that appears very sensible.

After tripling from 2014 to 2017 Interpump's share has treaded water for the last 2 years despite solid sales and earnings growth. We consider this partly a function of the de-rating of European industrials but also recent bearishness linked to uncertainty in Italian politics. Neither should represent long term concerns for Interpump, implying an attractive entry point for a high quality family-linked capital allocator champion.

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In a rare occurrence we participated in an IPO during the quarter, specifically the float of **Envista Holdings**, the dental business of **Danaher**. This was structured as an IPO rather than a spin to shareholders in order to help fund Danaher's acquisition of GE's biopharma business. Danaher (an existing portfolio holding we have owned for over 9 years) was selling ~20% of Envista and retaining 80% for what we believe will be a short term period before spinning or splitting the remaining shares to shareholders. Given the transaction was a small raise of only $600m we were fortunate to participate in the IPO given our strong and long term relationship with the company and acquired a portion of the shares at the $22 IPO price. We subsequently bought more to build a typical position size. The share price ended the quarter at $27.88

Envista is a leading dental supplier selling instruments for the dental studio as well as prosthetics and aligners. The company was formed through a number of acquisitions inside Danaher. As the IPO of a small division we see Envista as a Low Risk Turnaround. In a difficult period it's a business that's seen revenues go sideways and today has mid-teens operating margins, hence the 'low risk' in low risk turnaround - this is not a broken business by any means but does have meaningful operating upside potential. Over the last few years the performance has not been Danaher-like as both heavy internal investment and a weak end market has meant earnings have been going backwards. We now see a stabilising market and investment that is rebased whereby Envista is well positioned for future revenue growth and margin expansion.

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Agilent was also bought during the quarter. The company is a leader in the life sciences sector, an industry we know well and in which we have several other investments. It's an attractive space as the consistent growth is based on steady healthcare and safety demand.

Agilent is a business we have invested in previously, buying first in 2014 when it was spinning off the electronic measurement business (that became Keysight) and soon after turned into a pure play life sciences business. We owned the stock for the next four years as a Low Risk Turnaround and it performed well as management improved both the growth rate and margins. We sold out around 18 months ago when valuation looked excessive and operating trends of 9% revenue growth appeared unsustainable. Since then the stock has gone virtually nowhere and therefore meaningfully underperformed as softer revenue quarters combined with the stretched valuation saw it grow into its share price. We took this opportunity to reinvest in an underappreciated growth company, with both valuation and expectations having returned to favourable levels.

Finally we are in the process of accumulating a UK-based Watchlist stock. As buying is ongoing more detail will be provided post the December quarter.

Sells

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.

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The portfolio also exited **Sandvik**. The initial thesis was to participate in the Low Risk Turnaround unfolding within a high quality but underperforming Swedish industrial champion, led by the 'Atlas Copco mafia' of Johan Molin and Bjorn Rosengren. In the last two years there has been significant progress at the company resulting in a more-than-doubling of the share price from the 2016 lows when Molin and Rosegren came on board. In the last six months short cycle operating trends in end markets have deteriorated significantly, resulting in a sharp deceleration in the Machining Solutions division. In and of itself this would not be a reason to sell as we acknowledge the cyclicality inherent in this business and in any case recent operational improvements should soften the impact on margins in this versus previous cycles.

Secondly and critically however CEO Bjorn Rosengren has announced his resignation from the group to take on the turnaround at Swiss-Swedish industrial conglomerate ABB. While we 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 this 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 – 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) drives our decision to redeploy Sandvik profits into new ideas.

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In recent years the team has increased its research focus on opportunities in Asia and Japan with a consequence that direct investments in non-Asian Emerging Markets are of less interest. The portfolio therefore sold its remaining shares in Mexico-listed **Aleatica** which had become an out-of-scope position.

Stock News

During the quarter **Ferguson** announced a number of changes to its corporate structure and personnel, including a de-merger of the small UK business, review of listing domicile (potentially shifting it to the US) and the promotion of Kevin Murphy (currently head of the US business) to the level of Group CEO. We had been encouraging several of these action points and so view the developments positively. Following a period of corporate simplification Ferguson is now predominantly a North American business (>95% of profits derived in the US & Canada) and the de-merger of the UK business is the final step in this process. A subsequent potential move in listing from the UK to the US should allow more focus by the investment community on the quality of the US business, which generates high returns on capital and has significant growth options over the long term. This is particularly the case given there are a number of high quality, comparable businesses already listed in the US most of whom trade on much higher multiples.

The promotion of Kevin Murphy to CEO at this point makes sense in light of the above changes, combined with his track record and deep operational experience - he joined Ferguson in 1999 following the acquisition of his family's distribution business. Kevin will be working with new Chairman Geoff Drabble, former CEO of Ashtead Group, an equipment rental business with significant US operations. During Geoff's near 12 year tenure as CEO total shareholder return was exceptional and we are pleased with these appointments.

Trip News

We undertook our regular trip to the US visiting several cities including Denver, Dallas, Austin, New York and Philadelphia.

Local headlines focussed on the twin political hot potatoes of Trump impeachment and the environment with the UN Climate Summit taking place in New York during our visit. Looking beyond this our meetings with management at several holdings suggest ongoing solid growth trends and an economy that continues to be mixed but overall ok.

Visits to Austin and Philadelphia were particularly memorable. Austin feels like an emerging market – a small town growing in a bigger city with a 'hipster' vibe one would typically not associate with Texas. We heard many stories of people migrating to Austin from California attracted by a superior lifestyle and more value for money. Similarly Philadelphia has a very different feel to earlier visits to the city a decade ago – the downtown area has changed from a dead zone to a bustling district with busy streets, new café's and significantly more traffic.

We also spent two weeks in Japan visiting companies in Tokyo, Kyoto and Kobe which included meetings with existing holdings, watchlist companies as well as several new names.

With each visit we observe incrementally positive actions stemming from the continued implementation of Corporate Governance Reform related initiatives. We met with two companies that several years ago we would have described as large, un-focused corporates ("Japan Inc") but following recent moves to appoint Independent Directors to the board and implement stock-linked compensation to top executives their focus has increased markedly, albeit from a low base. This was evidenced by actions like deploying capital more efficiently, removing anti-takeover provisions and engaging in more thoughtful discussions with us about their strategies, reminding us that Charlie Munger's quip "show me the incentive and I will show you the outcome" holds just as well in Japan and is slowly tilting closer to alignment with shareholders.

One area of focus this trip was meeting domestic services firms including Retailers and Quick Service Restaurants. In general, they described the environment as very challenging with weak consumer spending, the tight labour market creating cost headwinds and the increase in the sales tax from 8% to 10% on 1 October likely to further dampen spending. Given the permanency of some of these headwinds we believe a number of these businesses will face existential threats in the next few years. But we also met several highly focused players that stand to create significant value from this headwind as they roll out their structurally more efficient business models.

Finally, we were in Tokyo for the first few days of the Rugby World Cup. Walking around the city and listening to first time visitors to Japan describe their experience highlighted the country's unique place in Asia - we don't think any other Asian city could host an event of this size at this standard of quality. It underscored the long term appeal of Japan and her major cities to tourists, knowledge workers and the global companies based there.