COOPER INVESTORS
GLOBAL EQUITIES FUND (UNHEDGED)
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.

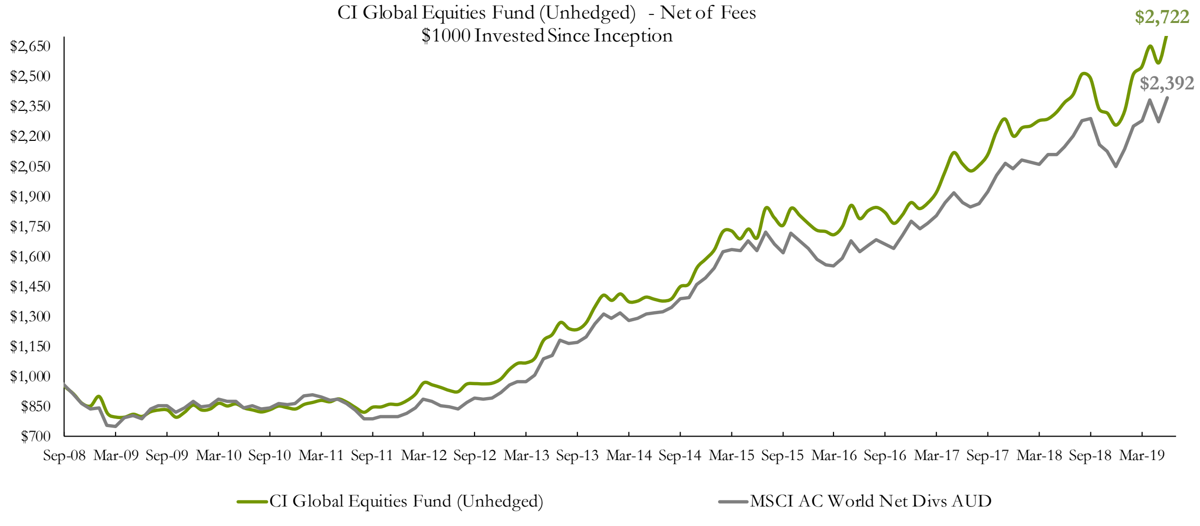
JUNE 2019

"Procrastination is the thief of time" ***Charles Dickens***

"The trouble with Socialism is that eventually you run out of other people's money." ***Margaret Thatcher***

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTHS	6.82%	4.88%	1.94%
ROLLING 1 YEAR	14.75%	11.33%	3.42%
ROLLING 3 YEAR	14.99%	13.86%	1.13%
ROLLING 5 YEAR	14.42%	12.65%	1.77%
ROLLING 7 YEAR	16.54%	15.99%	0.55%
ROLLING 10 YEAR	12.99%	11.72%	1.27%
SINCE INCEPTION*	9.69%	8.39%	1.30%
SINCE INCEPTION^	172.18%	139.22%	32.96%

*Annualised
^Cumulative (1 September 2008).
MSCI AC World Net Divs in Australian Dollars
**Net of fees and expenses



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Market and Portfolio Performance

We have recently marked a decade since the trough of the Global Financial Crisis - widely considered to be the S&P 500 low of 666 recorded on March 9, 2009. Since then the Cooper Investors' Global Equities Fund (Unhedged) has delivered 10 years of consistently positive absolute returns compared with a benchmark with two years of negative returns in 2012 and 2016.

In addition to having no negative years, the portfolio has delivered absolute returns of 12.99% per annum net of fees over a rolling 10 year basis, which is +1.27% ahead of the benchmark. We think the consistency of this performance throughout a decade which included various regional economic crises, industrial recessions, political storms and significant currency volatility is a strong indicator of the proven and repeatable nature of the CI Way investment process.

CI Global Equities Fund (Unhedged)		
	Fund	**Benchmark**
2010	5.2%	7.0%
2011	3.4%	2.7%
2012	6.7%	**-2.3%**
2013	29.9%	30.5%
2014	14.6%	19.2%
2015	22.2%	23.7%
2016	5.6%	**-0.6%**
2017	15.4%	15.3%
2018	14.8%	15.0%
2019	14.7%	11.3%

Net Returns to June Year Ends

The 12 months to June 30, 2019 have been another encouraging year in which the portfolio delivered a double digit absolute return and net outperformance of +3.4% over the benchmark.

The key to success this year has been getting the balance right between concentration and diversification. The concentration aspect means we have maintained larger weights in our highest conviction stocks, those with strong long term investment propositions and multiple value latencies. As an example our favourite cluster Capital Allocator Champions (~20% of the Fund) has once again excelled with stocks like **Danaher**, **Halma** and **Roper** all enjoying strong periods of both operating performance and share price development. At the same time we have resisted noise and the temptation to trade – the number of positions held has stayed around 40 throughout the year with annual turnover around 27-28%.

Regarding diversification, the portfolio has benefitted from having a good spread of sources from which value can be created. In the last 12 months we've seen China go from the talk of the town to the whisper of the village – during our recent European and US trip it was noticeable that management who previously talked up their China prospects tried to avoid the topic altogether.

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At the same time we've seen a complete about-face from the Federal Reserve regarding the future direction of interest rates. A year ago it seemed rates were only going up; by November the 10 Year Treasury yield was heading north through 3.2% and economists were predicting normalisation at 3.5-4%. Fast forward to today and the language has flipped to being dovish with the 10Y now sitting at 1.95%, a 2-and-a-half year low. Throughout this period different parts of the market have outperformed and then underperformed, meaning near term trends that were extrapolated by some investors have had to be hastily re-evaluated.

We will readily acknowledge we are not able to play and win the macro game consistently. Instead we spend our time researching and investing in companies with compelling value latency because we know from past experience that the market ultimately rewards companies that are focused, well positioned, offer a compelling customer proposition, can grow cash flows and have excellent management who can deliver on a simple and focused strategy.

Further, through the lens of Subsets of Value we can make sense of where the value creation will come from and set expectations of how positions might perform in different conditions. For example Bond-Like Equities as a whole have lagged the bull market in recent years but owning none of them in the last six months would have proven costly as interest rates expectations fell off a cliff. While we have higher ambitions for our Bond-Like Equities (such as Getlink and Ferrovial) than simply representing rate proxies, they have indeed delivered the double digit returns over the last quarter that we would have expected despite significant latencies still to be realised.

Looking forward we acknowledge the risks to markets today (decelerating US economy, Brexit, Trade Wars) but are confident that what has delivered the outperformance for the last 10 years will continue to do so for the next 10. That is, sweating our Watchlist, identifying value latencies in great businesses and spending time with focussed and intentional management teams who can work through and execute on these latencies.

For the quarter the portfolio returned 6.8% versus the benchmark which returned 4.9%. The AUD continued to slide, falling 2-3% versus the US Dollar, Euro and Sterling and dropping 4% versus Yen.

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

1. **Halma –** Continued strong execution of the operating model evidenced in full year results. Halma has now delivered 40 years in a row of 5% or more dividend per share growth.
2. **AON –** Improved organic growth rate is beginning to get rewarded by the market.
3. **TE Connectivity –** Shares rebounded this quarter on the back of a stronger than expected quarterly result.

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

1. **Saputo –** Sold off post a weaker than expected result due to soft dairy industry trends.
2. **Unicharm –** Japanese stocks exposed to China fell amid trade war concerns and consumer companies saw additional near term worries around the *daigou* (foreigner) inbound channel.
3. **Shimadzu** – Similar dynamics to Unicharm.

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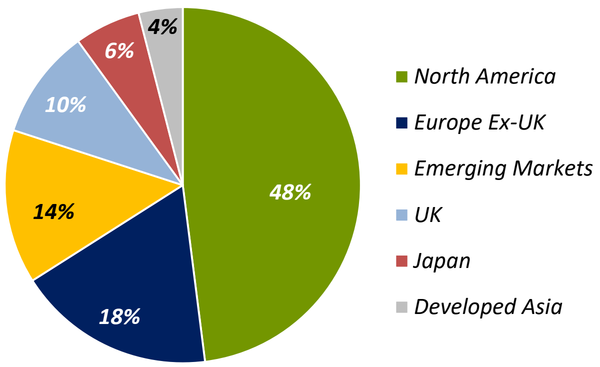
The Portfolio

The portfolio is diversified by country and sector:

No. of Stocks	*40*
Region Weights	*US 51%*
(by listing)	*Europe 24%*
	Asia inc. Japan 9%
Most OW Sectors	*Industrials, Financials*
Most UW Sectors	*Energy, Consumer Disc.*
Cash	*6%*

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:

- **Growth companies** (35%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Costco).
- **Stalwarts** (39% 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. (Aleatica).
- **Asset plays** (5%) – stocks with strong or improving balance sheets trading at discounts to net sset value or replacement value (Liberty SiriusXM).
- **Cyclicals** (10%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who allocate capital prudently. (Ametek)
- **Bond like equities** (4%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Getlink SE).

Buys

During the quarter the Fund initiated a position in **Fiserv**, a leading provider of core banking and payment systems to US financial institutions. In comparison to Australia the US banking market is large and fragmented. There are over 11,000 banks and credit unions in existence meaning there is a market need for off-the-shelf software systems and services. Fiserv is one of three main providers of core processing and payment systems to financial institutions. Fiserv has a privileged position as a “Fintech incumbent”.

Based in Milwaukee, Wisconsin, Fiserv was formed in 1984 through the combination of two major regional data processing firms. A key moment in the firm’s history occurred with the appointment of current CEO Jeff Yabuki in 2005. Yabuki changed Fiserv from a holding company with 77 business units run independently to a more integrated single operating model. This shift has fostered a more collaborative culture and removed duplicative costs.

In January this year, Fiserv announced the acquisition of First Data Corporation in a nearly US$40bn deal which will roughly double the company’s earnings. Excluding a select group of companies we call “Capital Allocator Champions” it is our view that most M&A destroys value for shareholders. This is particularly the case in large scale deals.

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However CEO Jeff Yabuki has over the long term done an excellent job integrating acquisitions, both those made prior to and during his tenure - he has also divested half the company. This has all occurred without disrupting Fiserv's 32 year streak of double digit earnings per share growth. We are confident that Jeff and his team are not empire builders and possess the capital allocation acumen to make the First Data deal a success for shareholders.

Fiserv has been a long time Watchlist stock and we met with them again along with First Data on our recent travels to the US, as well as speaking to several other industry participants. Our due diligence confirms to us that the industrial logic of the transaction is sound. The companies are serving different parts of the same financial and payments infrastructure so combining their capabilities generates clear cross-selling opportunities as well as the potential to develop new and unique solutions for customers.

Immediately on the announcement of the deal the share price fell given it was unexpected but this did not last long and the stock quickly recovered. Despite the price recovering to pre-announcement levels we see a long admired Watchlist stock with the opportunity to add significant value with 40% earnings accretion from the deal over the next 5 years.

Sells

The fund exited its position in **Pentair**. The company had spun off its more cyclical electrical assets to become a focused water pure play serving largely residential and commercial markets with solutions across pools, filtration and pumps. Early results for the new company were positive as they built momentum and trust with the investment community. However in April the company preannounced a very poor first quarter and subsequently downgraded full year EPS guidance by ~9%. We believe that whilst there could be some weakness in end markets, some of which is weather related, the surprise result is more a symptom of weak supply chain management. This will likely require significant investment and management attention to resolve while also highlighting the catch up still required at the company.

Stock News

During the quarter **Sandvik** announced the internal separation of its Materials Technology division ["SMT"] and exploration of a possible spinoff. This marks the end of a period of significant portfolio optimisation and organisational change at Sandvik under the leadership of CEO Bjorn Rosengren and CFO Tomas Elliason and we consider it a favourable development. SMT has a lower return on capital, margin & growth profile than the remaining businesses (Mining and Machining Solutions) both of which operate in niche areas characterised by concentrated market structures with high aftermarket and consumable revenues. These businesses also enjoy high barriers to entry via fixed research and development costs with established distribution and service organisations. Improved management focus and simplicity and accountability should benefit both the remaining Sandvik businesses and SMT as a standalone entity. The current management and Board continue to build a solid track record on capital allocation and operational execution.

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Trip News

This was a very busy quarter for international travel, even by our standards. During the quarter the entire team spent time overseas and in aggregate over 3 months we visited a significant number of holdings and Watchlist companies around the globe. In terms of cities we spent time in:

- Europe: London, Paris, Nuremberg, Turin
- North America: Chicago, Milwaukee, San Francisco, Toronto
- Japan: Tokyo, Kyoto, Nagoya, Osaka, Kobe
- Asia: Hong Kong, Shenzhen

As a reminder, we do not travel for the fun of it. Our visits are crafted and targeted at getting one-on-one time with senior decision-makers at the coal face of the companies we follow and invest in. We often have to build relationships with companies for years before getting time with the person we want. In a sense this is similar to the old-fashioned ‘courting ritual’ of a young couple - both parties are assessing each other’s suitability for a long term partnership.

Of course we expect companies to try and sell themselves to us, but we also go to great pains to sell Cooper Investors to the company. We impress upon them that we’re long term investors who care deeply about building deep knowledge around the company’s history, culture, strategy, industry and opportunity set. These businesses are not just a ticker and a share price on a screen to us but represent cash generating enterprises run by people who have a colossal impact on financial performance through their behaviour.

Our message is becoming increasingly valued in a world of passive ETFs, robo-advisors and fickle algorithmic trading machines with micro-holding periods. Remarkably (given the size of our domestic pension universe) we are still finding multi-billion dollar public companies who tell us we’re the first Australian investors they’ve ever met.

When relationships have been established, companies are often willing to give access to more operational level management. We love to spend time with these people - the guys and girls responsible for managing plants, designing new products and running the factory floor. These interactions often build conviction, unearth new value latencies and reveal tangible evidence of the culture and values espoused in company documentation. One of the most powerful elements of a company visit is what we call Pattern Recognition. This is seeing or hearing something (often small, nuanced, perhaps a throwaway line on the walk back to the elevator) and recognising the signalling power from our other experiences from 10,000+ company visits over the last 15 years.

Our view is that behind every number lies a human decision and there is great signalling power in observing the behaviour that drives these decisions first hand, with detached emotion and contextualised against our unique knowledge base.

As examples of this we undertook two site visits during our travels in the US to businesses in which the Fund is invested. One was to Milwaukee Tools (the main value driver inside **Techtronic Industries**) and the second was to the ETR-407 toll road in Toronto (the major asset inside **Ferrovial**).

Walking around the Milwaukee HQ felt like being inside a technology company rather than a tool manufacturer. Before Techtronic took over, Milwaukee grew plus or minus 4% year in year out, but this changed when Joe Galli took over and the injection of energy, intentionality and ambition was palpable everywhere you looked. Milwaukee’s success has derived from disruptive innovation – bringing world class design and cutting edge technology to a power and hand tools industry that had been stagnant for 50 years, driving the revolution of corded-to-cordless adoption. The secret sauce however has been building an Apple-esque ecosystem through the combination of a backwards-compatible battery platform and a cult-like brand awareness among professional tradesmen.

Milwaukee has been growing at a remarkable rate of 25-30% per annum in recent years and the value proposition for Techtronic from here revolves around sustained strong growth at the brand by disrupting further verticals. The language used during our visit around an obsession with high performance, domination of the job site, agility and relentless urgency added to our conviction that the ambitious targets of US$5bn of sales by 2020 can be achieved if not exceeded.

Moving up to Toronto we got a clear sense of the value proposition that the ETR-407 provides to customers. The road is a key highway spanning 140kms across the outer-ring of the Toronto metro area. For commuters in and out of the city who want the premium experience of a 25-30 minute journey there is simply no substitute. Alternative roads like the 401 are highly congested and with a wealthy and time poor population along the length of the route there is a high propensity to pay with price inelasticity. 407 has world leading EBITDA margins in the order of 87% that are on a par with the best roads in Australia such as CityLink in Melbourne. With traffic expected to grow at least 1-2% per annum and pricing growth of high single digits there is a long runway for further revenue growth on a concession that runs for another 80 years.

As a broad concluding observation from our visit the biggest change in tone from US companies is the attitude towards China. From an investment perspective companies with no China exposure were bragging about the predictability of their businesses while those with big China businesses under pressure were defending their strategies and highlighting the long term opportunities. A big turnaround from only one or two years ago when China was a key driver of many companies' outsized earnings growth.

From an operating perspective the narrative has also changed. 12 months ago with the soon-to-be introduced tariffs executives were analysing and discussing their supply chains and flexibility to protect their costs and margins. So far the majority of companies we invest in and follow have done a great job mitigating any tariff pressures. However today the concerns have moved from cost concerns to revenues. Does China explicitly or implicitly begin to push US companies out of domestic China business? This is top of mind for many CEOs as well as for us as investors.

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Over to Japan where we spent two weeks in June visiting companies from Tokyo down to Hiroshima. One of the focus areas of this trip was meeting some of the Japan's younger technology companies. As we have mentioned in previous reports, whilst Japan is facing a demographic headwind, it suffers from low levels of labour productivity which provides a large and growing opportunity set for B2B companies.

We were impressed by the quality of management teams from this group of companies – their entrepreneurship, management capability and importantly the quality of business models they're building –with a focus on both growth and cash flow. In the Meiji tradition, these leaders are voracious readers who closely study their Western and Chinse peers. We think the future is bright for young companies in Japan with access to world class talent, sophisticated capital markets and a large opportunity set.

Providing this capital and talent is Tokyo. In the shadow of a declining population Tokyo continues to grow through net migration from other parts of Japan. But this growth is almost totally driven by people in their 20's who are attracted to Tokyo's economic and lifestyle benefits. This is providing a strong tailwind

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to Tokyo-focused property companies, recording rental growth over 4%pa compared with no growth in the Kansai region (Osaka, Kobe and Kyoto). This highlights that for small, nimble investors there are many pockets of growth in Japan.

Following the trip we added a number of names to the Watchlist that we're excited about and be monitoring in future for opportunities.