

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.

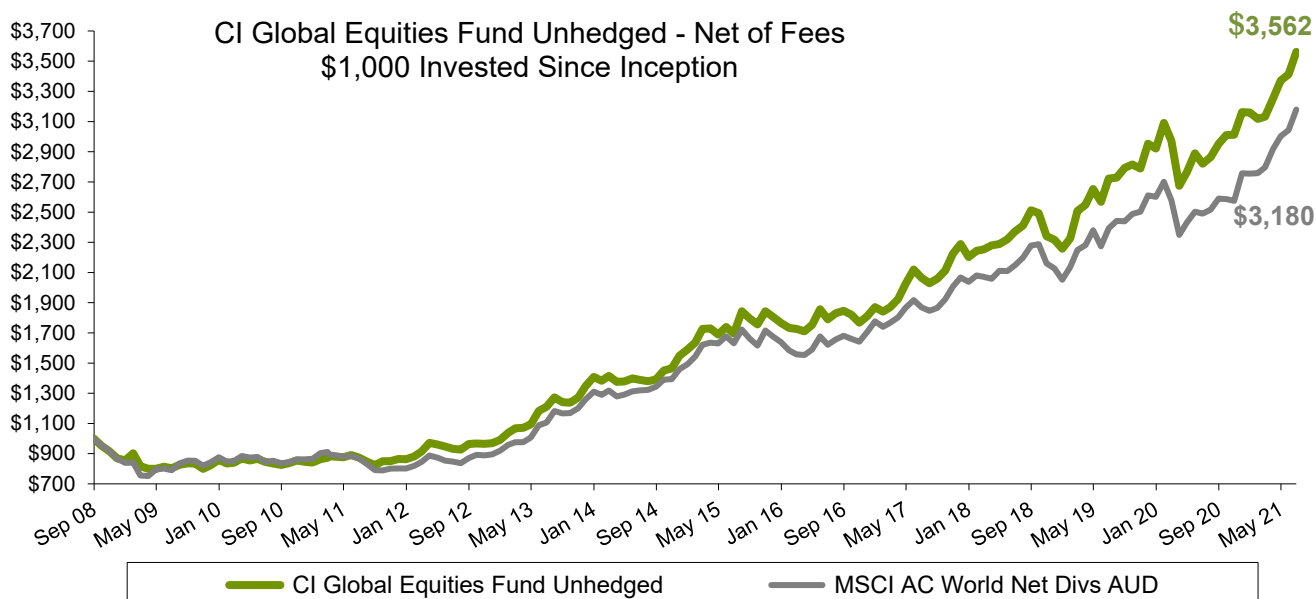
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*“Active management strategies demand uninstitutional behaviour from institutions, creating a paradox that few can unravel. Establishing and maintaining an unconventional investment profile requires acceptance of uncomfortably idiosyncratic portfolios.”* **David Swensen, 1954 - 2021**

*“There are known knowns; there are things we know we know. There are also known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns—the ones we don't know we don't know.”* **Donald Rumsfeld, 1932 - 2021**

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	9.50%	8.95%	0.55%
ROLLING 1 YEAR	26.25%	27.72%	-1.47%
ROLLING 3 YEAR	14.51%	13.95%	0.56%
ROLLING 5 YEAR	14.75%	14.43%	0.32%
ROLLING 7 YEAR	14.41%	13.39%	1.02%
ROLLING 10 YEAR	15.08%	13.87%	1.21%
SINCE INCEPTION*	10.41%	9.44%	0.97%
SINCE INCEPTION^	256.19%	217.99%	38.20%

\*Annualised  
 ^Cumulative (1 September 2008).  
 # MSCI AC World Net Divs in Australian Dollars  
 \*\*Net of fees and expenses  
 Past performance is not necessarily a reliable indicator of future performance



Source: NAB Asset Servicing

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## **Market and Portfolio Performance**

After a wild 18 months the June quarter saw relative calm return to financial markets, with levels of volatility returning to pre-COVID19 levels. Equities markets remain in their bull trend with June seeing fresh all-time highs recorded across US and European indices, while Asia including Japan had a more flat quarter.

The 'inflationary boom' price action that drove markets from November to March, characterised by sharply rising bond yields and an equities rotation from 'Growth and Quality' towards 'Value and Cyclical' appears to have stalled with Growth and Stalwart-type businesses outperforming once again this quarter.

For the 3 months and 12 months to June 30th the Fund returned 9.50% and 26.25% respectively. This compares to the benchmark which returned 8.95% and 27.72%.

Significant contributors to return for the quarter were Intuit (continued strong operating trends in the Quickbooks Online business), Danaher (strong trends in life sciences markets plus M&A – see Stock News) and IQVIA Holdings (continuing strong results).

On the other hand, the largest detractors to return for the quarter were Fiserv, Sony and Baxter. There was no material news in any of these cases, shares simply didn't keep up with the strong market move.

For the full year the drivers of performance for both the Fund and the benchmark have a very different flavour to last year. The 12 months to June 2020 were notable for the extreme narrowness of returns, indeed the Growth subset was the only one in the benchmark that posted a positive return, all the rest were negative. This year sources of return demonstrate more breadth, with Cyclicals and Stalwarts representing around half of the portfolio annual return, with the balance mostly from Growth.

Cyclicals in fact represented the strongest Subset of Value in the benchmark and while the portfolio is relatively underweight this area the more cyclical businesses the Fund does own delivered strong performance; five stocks (Colliers, Ferguson, Diploma, TSMC and Techtronic) contributed ~7% in aggregate, thus accounting for roughly one quarter of the Fund's full year return.

Growth also had another strong year, with stocks like PTC, Eurofins, Intuit and IQVIA contributing materially to the Fund's return for the year.

Regionally, it was interesting to see Developed Markets and Emerging Markets producing similar returns of 25-30%, highlighting the broad-based nature of the global market rally over the last year.

Noise levels in the market seem to grow by the week and after such a strong year it is unsurprising to see talk of 'bubbles' emerging from some commentators. While interesting conversation pieces, looking at market valuations at the macro level are unhelpful to us in finding the next great CI-type management team or the next winning VoF investment proposition, so day-to-day the team remains stubbornly focused on researching our Watchlist and speaking to as many management teams as possible.

In any case, at the stock level we see plenty of businesses (Vontier, Aon, Colfax, Sony, Fiserv, APi Group to name but a few) that appear rather cheap to us, not just in relative terms but in absolute terms too. We are excited to follow these companies as their management teams continue to execute and unlock the value latencies on offer.

Looking forward to a new financial year we feel that the portfolio today owns an attractive and diversified mix of growth and stability. The Fund has exposure to several emerging growth trends like gene therapies (Danaher, Eurofins), augmented reality design (PTC, Synopsys), and metaverse/digital content (Sony, Warner Music, Activision Blizzard). It also has exposure to compounding and recurring business models in

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more traditional areas like financial infrastructure (ICE, S&P Global) and asset management (Brookfield, Colliers). All of these different businesses are looked at through the VoF lens where we are searching for strong and positive operating, industry and strategic trends with value latency that is on offer today (plus future value latency options).

What ties it all together is proprietorial Boards and management who are accessible, transparent, and authentic in being held accountable for decisions on capital allocation, sustainability and remuneration.

The Portfolio

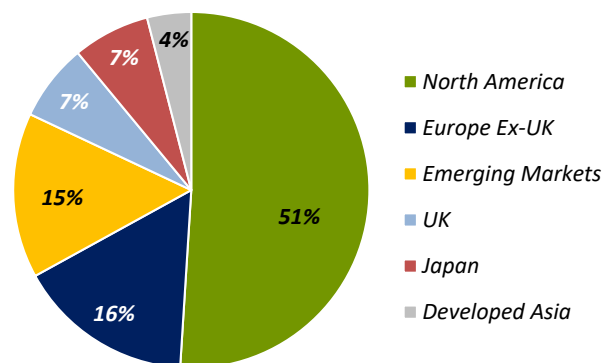
The portfolio is positioned around Subsets of Value:

- **Stalwarts** (36% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (Aon).
- **Growth companies** (35%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Costco).
- **Bond like equities** (4%) – 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** (3%) – 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:

<b>No. of Stocks</b>	42
<b>Region Weights</b>	North America 58%
(by listing)	Europe 24%
	Asia 15%
<b>Most OW Sectors</b>	Industrials, Health Care
<b>Most UW Sectors</b>	Com. Services, Materials
<b>Cash</b>	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

After a very busy 12 months since the dawn of the COVID pandemic and associated market gyrations, the April to June quarter was relatively calmer. While the team conducted many meetings related to portfolio holdings and ongoing research projects, no new positions were initiated in the Fund.

As noted in our previous update stock numbers in the Fund had become temporarily elevated due to participation in a number of spin-off and IPO opportunities. This has reduced back to 42 positions after three stocks were sold during the quarter with proceeds used to upsize recent investments, these sells being **RELX**, **Fast Retailing**, and **Envista**.

RELX, an owner of highly recurring subscription journals and data assets has been owned in the portfolio for nearly 5 years and delivered a solid risk adjusted total return of over 70% (in local currency terms). During the period of ownership management have simplified the corporate structure and continued to deploy capital into faster growing data assets, mainly in the US. Shares were punished in 2020 as the group's Exhibition business suffered a material drop in earnings due to restrictions preventing physical events taking place. After a decent recovery in the share price this year we have redeployed what was a smaller Stalwart position into superior VoF propositions.

Fast Retailing (creator and owner of UNIQLO) was one of several 'Iconic Brands' we invested in (along with Adidas and Estee Lauder) during the peak of retail closures and COVID panic in mid-2020. The business has performed very well with strong development in the e-commerce channel and several highly successful product runs (including their AIRism fabric being used for face masks). The stock more than doubled from our acquisition price of JPY50,000 to over JPY100,000, and with value latencies less accessible at those levels we sold to invest further into our other Japanese positions.

Envista, one of the world's leading dental product companies, was spun out of portfolio holding Danaher in September '19. The Fund participated in the IPO at \$20 and subsequently built up a position. Envista had been an underperforming asset inside Danaher with minimal growth and low teens EBIT margins but with the 'focus dividend' of being independent Envista had an opportunity to improve its growth rate and margins towards peer levels. Management have made great strides with growth turning positive and margins expanding to the high teens. In our view management have now executed on the low hanging fruit opportunities and with shares having responded positively we subsequently sold the position.

## Stock News

Despite the slow pace of vaccine roll-out in Australia, much of the Western world is beginning to look forward to a 'post-COVID normal' with herd immunity appearing close to achievable in the US and the UK. Accordingly, we are seeing levels of M&A appetite and activity re-accelerate in many markets, with significance for several holdings in the portfolio.

Firstly gaming, an area that was already growing in global importance before the pandemic but whose development has only accelerated, with the size of the US videogame industry eclipsing movies and music combined in 2020. The portfolio has exposure to this area through investments in **Sony** (Sony Interactive, producer of PlayStation consoles and games) and **Activision Blizzard** (content studios of IPs like Call of Duty and World of Warcraft series). The first half of 2021 has seen deal activity reaching record levels, around US\$60bn combining both M&A and public offerings. While some giant ecosystem owners like Microsoft have made large bets (e.g. the March US\$7.5bn deal for Zenimax) we prefer the cautious

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approach of Sony taking several smaller but more strategic investments. Examples include the additional US\$200mn participation in Epic Games (creator of the Unreal Engine and Fortnite) in March of this year, or the recent purchase of Finland's oldest gaming studio, Housemarque. The latter case represents a good example of Sony being both a 'safe haven' and a source of scale and support for small but proven studios to retain their culture and grow into potential triple-A game developers over time.

Secondly, physical infrastructure, a sector uniquely impacted by the pandemic. Two recent deals close to home have relevance for portfolio holdings and give an indication of growing global interest in listed infrastructure, particularly from private markets.

Transport-linked real assets (e.g. toll roads and airports) in listed structures are seeing share prices still languishing 20-30% below their pre-pandemic levels, with public markets tending to price near-term traffic volumes rather than longer term recovery potential. The portfolio has exposure to such assets through **Ferrovial** (owns 25% of Heathrow airport) and **Brookfield Asset Management** (owns a diverse range of assets including several toll roads in Latin America). The recent A\$22bn consortium bid for Sydney Airport offers an indication of where private markets are thinking post-pandemic air travel might recover to, and with global commercial flight numbers back to 70-80% of 2019 levels (per *Flightradar24*) there is emerging evidence this recovery is well underway. We also saw a consortium of local superannuation funds bid almost A\$3bn for half of Telstra's towers portfolio. The Fund has exposure to digital infrastructure through recent participation in the float of **Vantage Towers**, a German-listed entity that controls over 80,000 towers in Europe. The 28x EV/EBITDAaL multiple (enterprise value over earnings before interest, taxation, depreciation, amortisation and ground lease costs) paid by the consortium for a non-controlling 49% stake in the Telstra portfolio implies Vantage looks very cheap at ~20x. We would argue Vantage has superior growth optionality too with higher levels of operator competition and co-tenancy potential in European markets.

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During the quarter the Fund's largest holding **Danaher** made a notable acquisition, spending US\$9bn (~5% of its market cap) to buy privately held Aldevron, a leading player in the fast growing field of genomic medicine. Over the years Danaher has built up a unique portfolio of life science and diagnostic assets. Their key life sciences businesses involve providing the tools and services to research, develop and manufacture biotech drugs. For example, they are a key provider to over 400 COVID vaccine and therapeutic projects globally.

Aldevron expands Danaher's capability into gene therapy. Aldevron is a supplier of key ingredients for the next generation of therapies, namely cell and gene therapy and mRNA vaccines. Aldevron is the leader in these fields and this deal puts Danaher in pole position to participate in the wave of innovation occurring in this space.

The acquisition multiple is high - Danaher are paying US\$9bn for what today is a US\$500m revenue business but growing 30% a year with 40% operating margins, in our view justifying the high price. Importantly, management can see an investment return in line with recent acquisitions. As a reminder Danaher's history and skill set is acquiring businesses, it is how the company has been successfully built over 35 years. The shares were up 4% on the news and have gained nearly 20% for the quarter. Most companies would be sold down off the back of an announcement like this but Danaher has a long multi-decade track record of successful acquisitions and this fits a similar enough pattern.

The opportunity is to grow Aldevron into a multibillion dollar business given the growth in genomics and RNA innovation that's occurring and as more of these types of therapeutics become approved. Overall as

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a key supplier with deep global networks across life sciences and medical research Danaher is very well placed to continue growing with the innovation in biotech and diagnostic markets. It remains an incredibly well run company and a high conviction investment in the Fund.

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