

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.

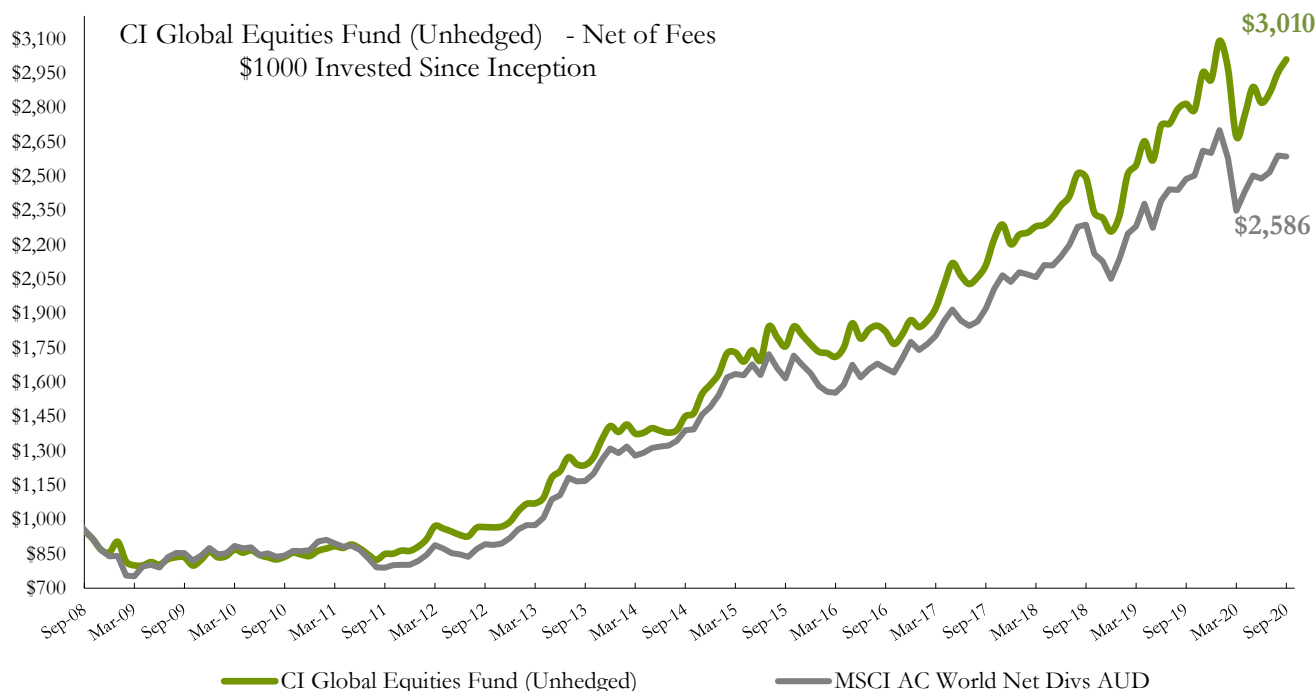
SEPTEMBER 2020

“A crisis does not build character. A crisis reveals it.” Joe Galli, Techtronic CEO

“The only investors who shouldn’t diversify are those who are right 100% of the time.” Sir John Templeton

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	6.70%	3.87%	2.83%
ROLLING 1 YEAR	6.90%	3.92%	2.98%
ROLLING 3 YEAR	12.55%	10.40%	2.15%
ROLLING 5 YEAR	11.37%	9.84%	1.53%
ROLLING 7 YEAR	13.53%	12.01%	1.52%
ROLLING 10 YEAR	13.65%	11.86%	1.79%
SINCE INCEPTION*	9.55%	8.18%	1.37%
SINCE INCEPTION^	201.02%	158.61%	42.41%

*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

Equities markets continue to recover their losses from earlier this year with strong index moves in July and August tempered somewhat by a pullback in September. Attention has shifted from government support packages and easy monetary policy to the uncertain outcome of the US Presidential Election, along with second waves of COVID-19 creating ongoing disruption in Western economies.

The *MSCI All Countries World Index* has just about recovered its losses for 2020 (in local currency) though this conceals significant divergence at the regional and sector level. While the S&P 500 recorded a new all-time high in early September the majority of markets across Europe, Asia and elsewhere remain down, some in excess of 20%. The year has been notable for positive benchmark returns becoming ever more concentrated into a shrinking number of mega-cap technology businesses.

The portfolio returned 6.70% for the quarter versus 3.87% for the benchmark. Over a rolling 12 months the portfolio has returned 6.90% while the benchmark has returned 3.92%.

It is worth noting the Fund only owns one of the top 25 benchmark weights (2.4% weight versus 24% of the index) and in that context the portfolio's ability to outperform calendar year to date has been encouraging, indicating strong relative returns from some of our more 'outside the mainstream' names.

The biggest contributors to outperformance in the quarter were **Danaher** (stronger than expected earnings), **Techtronic** (results for the half-year significantly better than peer group and market expectations), and **TSMC** (continued strong trends including potential outsourcing by Intel for 7-nanometer chips).

The biggest detractors to performance included **Ferrovial** (COVID 2nd wave impact to transport infrastructure assets), **Baxter** and **RELX** (social distancing-driven headwinds on Exhibitions business).

The Portfolio

One valuable insight from COVID has been to expose the true character embedded in company cultures. As CEOs discuss trends and capital allocation decisions we have been monitoring closely for examples of **proprietary behaviour**. There is a world of difference between those who have retreated into a defensive 'batten down the hatches' mindset versus those who see the pandemic as an opportunity, perhaps to re-energise their workforce or double down on their competitive advantages. An example is producer of *Milwaukee* and *Ryobi*-branded power tools, **Techtronic** ("TTI").

As evidence of the virus and resultant lockdown measures emerged earlier in the year TTI looked back to their experience of the GFC (when DIY trends were strong) and stayed in regular contact with key US distributor Home Depot to monitor day-to-day trends. This led TTI to pursue a strategy of opportunity, investing heavily in inventory and front line sales people whilst some peers took the cost cutting approach.

In the second quarter US spring weather coincided with lockdown measures and Home Depot foot traffic surged, resulting in Home Depot staff being at times inundated with customers leaving the potential for shelves to sit empty, awaiting restocking. But with TTI sales people on hand, they could pick up the slack and assist unloading TTI deliveries and ensuring shelves were replenished with their product. This allowed TTI to grow its core Power Tool segment +14% in the first half of 2020 (whilst its key competitor shrunk) a compounding advantage for a business built around a battery platform.

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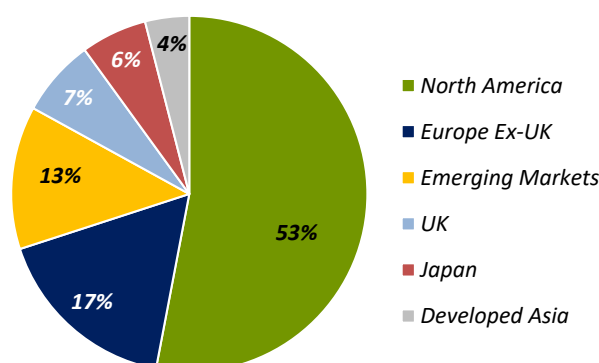
The portfolio is positioned around Subsets of Value:

- **Stalwarts** (38% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (AON).
- **Growth companies** (38%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Costco).
- **Bond like equities** (2%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Ferrovia).
- **Low risk turnarounds** (3%) – sound businesses with good management and balance sheets. (Cerner).
- **Asset plays** (3%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (Sony Corp).
- **Cyclicals** (11%) – 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	41
Region Weights	North America 58%
<i>(by listing)</i>	Europe 24%
	Asia 14%
Most OW Sectors	Industrials, Health Care
Most UW Sectors	Com. Services, Materials
Cash	4%

Geographical Exposure by Source of Revenues[#]



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

Buys

In the midst of the technology pull back in September the Fund bought a position in **Paycom**, a leading Software-as-a-Service [‘SAAS’] provider of payroll and human capital management [‘HCM’] solutions in the US. Founded by CEO Chad Richison in 1998 and based in Oklahoma City, Paycom has built one of the highest quality SAAS businesses we’ve come across, growing its revenues at a rate of 30% with 40% EBITDA margins.

Paycom has a differentiated product with a fully integrated all-in-one HCM and payroll offering. In a Cloud and remote-working world the ability to access all needs such as payroll, recruitment and learning management through a single application and database is a huge advantage versus the incumbent solution which often involves the complexity of multiple vendors.

Paycom has faced headwinds in 2020 notably the decrease in employment which impacts revenues as the business charges based on employee headcount. When the Fund purchased shares Paycom stock had been flat for 2020 despite the strong performance of technology stocks, a brief opportunity when considering Paycom still looks likely to grow its revenues double digits in 2020. We think Paycom can get back to its formerly very strong growth rates given a unique offering and US\$800mn revenue base in a US\$30bn+ addressable market that is growing mid-to-high single digits.

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During the quarter we also participated in the float of **Bentley Systems** ('BSY', US\$8bn market cap), the leading vertical market software business serving the infrastructure industry. Its tools are used across the design, construction and operations continuum for assets like roads, bridges and energy or water utilities.

The initial free float of the business remains small with a further capital raise planned for later in the year, so for now this remains a starter position which we will aim to build up over time.

The business was founded by the four Bentley Brothers – Barry, Keith, Ray and Greg – in 1984. Today Greg remains CEO with Keith and Ray in key executive roles. All four are board members and the family continues to own two thirds of the company. Across our Watchlist and portfolios we have built a deep reservoir of knowledge and pattern recognition around vertical market software businesses like BSY.

These business models possess attributes which tend to manifest themselves with favourable economics and hence attractive returns for shareholders, including well defined oligopolistic markets, high barriers to entry due to deep domain expertise, and recurring revenues due to the mission critical nature of the software. For BSY this is best expressed by their track record of >30% Return on Funds Employed and mid-to-high single digit organic growth – we expect these trends to continue for the foreseeable future. An added kicker for BSY is the fact that digitisation of the construction industry remains very low and so there is a material penetration opportunity.

Sells

In the early period of the pandemic the portfolio exposure to travel-related businesses was materially reduced with the exit of Booking Holdings and Getlink, along with a reduction in the portfolio's weight in **Amadeus IT Holdings**. We retained a smaller weight in the latter as we expect the competitive dynamic to shift further in favour versus major peer Sabre post-COVID, while also observing air traffic volumes (the major driver of cash flows) improving through June, July and August which drove a recovery in the share price of over 40% from the low.

Since then industry trends have deteriorated with a resurgence in COVID-19 in Europe and the US which is timed poorly for the Northern Hemisphere winter. More concerning for medium term value latency is that business and long haul travellers - the most profitable cohort for Amadeus - face the slowest and most difficult recovery.

Further, veteran and highly rated CFO Ana De Pro announced her retirement during the quarter. While this had been planned in 2019 the reality is two decades of experience will be walking out of the door during a period where the commercial aviation industry is in crisis and the company is running volumes 80% below normalised levels. We took advantage of share price strength to sell the remaining position having been invested for over four years.

The risk-adjusted value proposition has evolved materially in a short period since the Fund invested in **HDFC Bank** during March, especially as the share price appreciated over 40%. We still believe it stands out as the best bank in India and will weather the storm significantly better than peers, however industry trends have worsened with India not yet at the inflection point of COVID-19 as observed in other Asian economies. Across the system we expect bad debts to rise significantly over the next 6-24 months and small businesses are under particularly high pressure. While disliking short holding periods these events represent a change in risk-adjusted value latency that drove a decision to exit the small position.

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Stock News

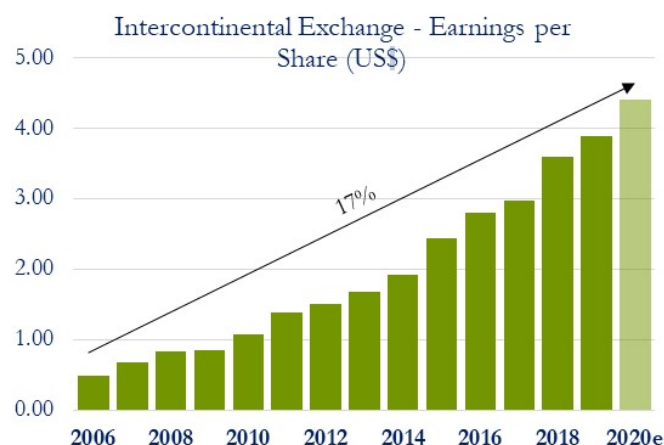
During the quarter **Intercontinental Exchange** (“ICE”, US\$56bn market cap) announced and completed the acquisition of mortgage origination platform Ellie Mae. The deal is material in size at ~US\$11bn as compared to ICE’s ~US\$60bn Enterprise Value. Before discussing the deal it is worth giving a little context.

ICE is run by CEO and Founder Jeff Sprecher who acquired the foundation assets for the businesses 20 years ago for just \$1. Through savvy capital allocation and operational knowhow Jeff has built the pre-eminent financial information and exchange group. ICE’s modus operandi can be summarised as finding analogue markets and applying digital and technology solutions to significantly increase their efficiency.

A clear example of this is the acquisition of the New York Stock Exchange in 2013. At that point, the NYSE had not invested in their trading systems and were losing share to more technically advanced exchanges. ICE took control of the asset and implemented their best-in-class exchange technology, restoring NYSE’s position as the pre-eminent listing and trading venue for equities.

Jeff and his team were also early movers in building a financial data business. They recognised that financial exchange revenue is dependent on trading volumes which can be uncertain in the near term depending on the whims of market participants. However the *data* used to inform the trading decision has a much more stable demand profile and can be used for trading, pricing and risk management. Off the back of this insight, through acquisition and internal investments ICE has built a leading financial data business which is highly complementary to their financial exchange business.

These sorts of deals are truly proprietary and can create significant value for shareholders. The long term vision, operational and capital allocation prowess required to execute them is quite rare. One area we tend to find this sort of thinking is in Family and Founder-led companies and so with regards to our ICE investment, we had identified a deal of this nature as a key source of value latency.



Source: Intercontinental Exchange company filings

ICE's journey in the mortgage space started four years ago as they acquired some smaller assets which provide discrete solutions across the origination process. Over this period management learnt how the industry worked and where the inefficiencies were.

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Today, the mortgage application process in the US still encompasses hundreds of disjointed steps involving things such as submission and verification of unstructured documents, pricing and regulatory filings. It touches many different parties including originators, lenders, counties, insurers and of course borrowers, to name just a few. Because of this inherent complexity, increasing regulatory burden and the manual processes involved the cost of mortgage origination has ballooned to US\$10,000.

Ellie Mae is a Cloud-based platform where many of the aforementioned steps can be performed more efficiently and often in an automated fashion. This creates significant cost savings of up to 25%. It is a market leader in the space which continues to take share as a greater portion of the US mortgage lifecycle reaches a digital tipping point. There are also significant data and analytics opportunities for ICE, an area where they have significant expertise. Combined, these opportunities should underwrite an 8-10% growth rate at an attractive 50%+ EBITDA margin for the foreseeable future. Under this scenario the company could generate a 10% IRR on the Ellie Mae acquisition.

Our broader discussions with industry participants have furthered our thinking around potential significant strategic upside as ICE pairs the Ellie Mae platform with the rest of its assets. We believe that Jeff Sprecher's long term vision will be to first complete the digitisation of the mortgage market and then become the platform where "gold standard" mortgages are created. Having mortgages verified by ICE's processes and data will invoke deeper confidence from investors and allow ICE to use their existing assets and knowhow (equities and derivatives exchanges) to become the clearing house of the US mortgage market, where investors will come to trade mortgages. For context, the US equities market is ~US\$35tn and the US mortgage market is ~US\$11tn.

ICE can create something like the NYSE except this time they would be the only player. Our observations are that these sorts of long term strategic plays and asymmetric outcomes are typically beyond the purview of CEOs whose tenure with a company is shorter than the time required for the vision to be realised.

ICE have made this acquisition from a position of strength. The broader business is built to thrive in an uncertain environment like today. Excluding the Ellie Mae acquisition ICE will grow earnings at a double digit rate this year. We remain very comfortable with our investment, with valuation also attractive and believe the <20x Free Cash Flow multiple does not reflect the quality of the business, management team and the latent opportunities.

~

Back in January we invested in **Eurofins Scientific** ("ERF"), a global leader in lab testing for resilient end markets like food and pharma, as well as specialty clinical diagnostics and genomics services. Highly aligned founder and CEO Gilles Martin has an exceptional long term track record and has built an organisational structure that is highly adaptable, an important trait in times like these. Recurring revenue characteristics of the business model and ERF's market positions are attractive.

In recent years there had been valid investor scepticism about ERF. It was undertaking a long term investment program and continuing to add labs to its network via M&A, which had temporarily increased financial leverage. In addition ERF was slowly developing a more suitable corporate governance structure for a business of its now much larger size. This had resulted in the market valuing ERF's equity at low levels in our view, both relative to peers and relative to the quality of the business and its opportunity set.

Recent performance has begun to prove out the quality of the business that had been obscured in recent years. The key business areas have proven very resilient even in the face of a pandemic, after all food and the safety testing that goes along with it is essential to everyday life. ERF has been able to quickly develop COVID testing and related consumables that directly address the pandemic. While this is

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hopefully a short term revenue stream it highlights the intellectual property and adaptability of the workforce. The result has been organic revenue performance well ahead of its peer set this year. Further the investment program has begun to wind down with a commensurate acceleration in Free Cash Flow growth and de-gearing of the balance sheet leaving more optionality to invest opportunistically, a big positive

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