CI AUSTRALIAN EQUITIES FUND
QUARTERLY COMMENTARY REPORT

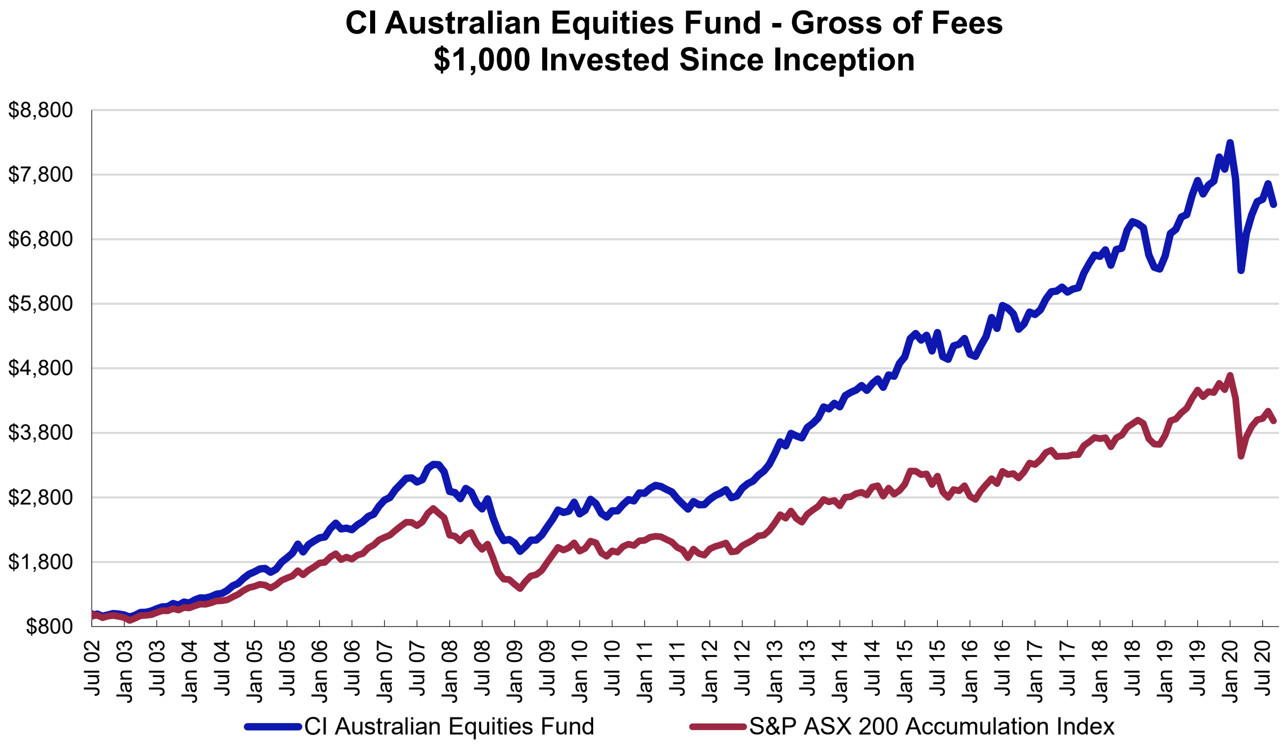
Cooper Investors Pty Limited | AFS Licence Number 221794 | ABN 26 100 409 890

For current performance information please refer to the Monthly Performance Report.

SEPTEMBER 2020

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	-0.55%	-0.44%	-0.11%
ROLLING 1 YEAR	-3.88%	-10.21%	6.33%
ROLLING 3 YEAR	6.67%	4.79%	1.88%
ROLLING 5 YEAR	8.23%	7.31%	0.92%
ROLLING 7 YEAR	8.94%	5.93%	3.01%
ROLLING 10 YEAR	10.55%	6.93%	3.62%
SINCE INCEPTION*	11.54%	7.87%	3.67%
SINCE INCEPTION^	633.99%	298.60%	355.39%

*Annualised
^Cumulative (4 July 2002)
**Before fees and expenses
#S&P ASX 200 Accumulation Index



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

"In the country of the blind, the one-eyed man is king." ***Desiderius Erasmus***

"Be careful the stories you're telling yourself about your current circumstances; a head full of negative thoughts has no space for positive ones." ***Roy T. Bennett, The Light in the Heart***

Market and Portfolio Performance

The ASX 200 gave up a small portion of its prior recovery, falling 0.4% over the quarter.

Better performers over the quarter included OZ Minerals again (start up at new mine Carrapateena seems on track, and copper price recovery), Aristocrat (early signs of casino recovery in the USA) and News Corp (result showing ongoing efforts to increase transparency and greater digital exposure). Stocks which did not perform as well included Ampol (refinery weakness and lack of clarity around capital allocation), Qube Holdings (economic softness will likely impact earnings in FY21) and Telstra (market concerns over dividend sustainability).

The reporting season took place amidst ongoing ructions around the Covid19 pandemic and the risk of a "second wave", now being evidenced in the UK and parts of Europe as well as parts of New York. Companies had in the main either pre released results or updated their earnings guidance over the final quarter of the year which meant that results of themselves were not greatly surprising. Outlook statements, also not surprisingly, were non-committal in the face of uncertainty globally.

Amcor (AMC) hosted a Virtual Investor Briefing during the quarter with Sustainability a key focus area. AMC has been much maligned by investors as having a limited future due to its exposure to plastic waste, and in particular the greater sustainability of other packaging materials (aluminium, glass). In our view the evidence is not yet there to make this observation on a long term basis. Although we recognise greater levels of recycling today in these other packaging substrates, there is little account taken of their emissions footprint (which on an end to end basis appears to be higher than that of plastic) nor of the strides being taken by the plastic manufacturers and users towards recyclability. We believe AMC management take their contribution to the issue of plastic waste very seriously and continue to invest in innovation that will endeavour to make their product portfolio 100% recyclable by 2025. As of today, 61% of AMC Flexible packaging and 95% of its Rigids packaging are able to be recycled on infrastructure that currently exists. The issue remains that just 14% of plastic packaging globally is actually collected for recycling. This is in part due to poor consumer recycling behaviour which leads to waste contamination (unable to be recycled). In addition to this, plastic collection, sorting and recycling infrastructure is inadequate worldwide.

To address these issues, AMC has become a core partner of the New Plastics Economy led by the Ellen Macarthur Foundation and the UN Environment Program. In 2018, the initiative brought together leading companies committed to creating 100% reusable, recyclable, or compostable plastic packaging by 2025. The partnership is significant because it brings together recyclers (Veolia, Suez), brand owners (Unilever, Walmart), packaging companies (AMC, Berry), NGO's and policy makers to ensure that representatives from the entire global plastic industry are aligned on recycling practices and standards. While there is still a long way to go to achieve a circular economy for plastics, we believe that AMC has the scale, resources and management intentionality to contribute meaningfully to finding a solution to these issues. The recent initiatives by federal and state governments in Australia are evidence at a local level of the trends in this direction.

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

During the quarter, **Ampol (ALD)** announced the establishment of an unlisted property trust that will hold 203 freehold Convenience Retail sites. A Charter Hall and GIC consortium will acquire a 49% minority interest in the trust for $682m with Ampol retaining a 51% controlling interest. The trust will receive approximately $77m in rental payments from ALD in the first year (100% basis) and the transaction, which reflects a cap rate of 5.5% and values the entire property trust at $1.4bn, is expected to close by the end of 2020. Whilst it is pleasing to see ALD begin to unlock the latent value across the asset base, the transaction is of smaller scale than previously outlined to the market (203 sites as opposed to 250 sites). With ~230 freehold property sites remaining 100% owned by ALD post transaction, we would encourage further monetisation across the portfolio.

Although we recognise that the heightened levels of uncertainty in the very short term require some degree of prudence, we believe flexibility around capital management frameworks need to be exercised in a manner that both delivers value to shareholders and takes advantage of market opportunities when they arise. In this case, with net debt / EBITDA towards the lower end of management's 1.5-2.0x target post completion of the property transaction, we were disappointed with the lack of intent shown in recent announcements to return capital to shareholders. With two large Hybrid issuances in the market in recent weeks (Scentre Group (A$4.1bn) and AusNet (A$650m)), we would encourage ALD to execute on the A$300-500m hybrid issuance proposed in late 2019 and begin the process of distributing the significant franking credit balance (~$3ps) to shareholders.

The Portfolio

At CI we describe the VoF process as being a pattern recognition system. In part this is in recognition of the number of different cycles that exist within industries, companies, management teams and markets. The VoF process focusses the investors' attention on those characteristics that make for the most attractive investment opportunities, the pattern, and on those areas of the equities market that are most likely to offer the attractive VoF characteristics that we seek.

Given the pandemic related slowdown in economic activity experienced this calendar year it is not surprising that the Cyclical Subset of Value is one area of the market where we have found attractive VoF characteristics more recently. Over the last 12 months the portfolio has moved from being underweight Cyclicals, to being modestly overweight as at the end of the quarter. Cyclical stocks added to the portfolio this year include Lend Lease (LLC) and Santos (STO), while the portfolio has also increased holdings in BlueScope Steel (BSL), Orica (ORI) and Oz Minerals (OZL).

All of these companies had experienced some underperformance during the pandemic outbreak, which provided us with an opportunity to buy the stocks at better prices. However, the key characteristic that they all have in common is the combination of opportunity and management capability to add substantial value over the course of the next few years. Be it LLC and the execution of their pipeline of urban regeneration development projects or OZL and STO, where both companies have a range of investment opportunities across their asset base, they all have clear value adding opportunities that management are intent on delivering over coming years.

Our overarching aim is to invest behind management teams that have the capability, opportunity and intentionality to add value over the next 2-3 years. This is one of the primary reasons why we remain cautious on the banking sector, despite some value latency becoming evident. The sector as a whole has limited opportunity to add value, particularly in the context of a difficult operating environment. With low interest rates compressing margins, subdued loan growth, unclear bad debt resolution and ongoing regulatory pressures, we are finding companies in other industries with better prospects for value creation over the time frame that we look to invest.

We remain overweight stalwarts - sturdy, reliable and generally larger companies with world-class privileged markets and competitive positions (eg. Cleanaway, ASX, Brambles, Woolworths). We believe these companies, while far from immune to the impact of Covid 19 in the short term, have opportunities over the medium to longer term to create value for shareholders.

SEPTEMBER 2020

During the quarter we initiated a position in **Aristocrat (ALL)**. We are attracted to the multiple layers of opportunity available to ALL and its highly capable and focussed management team.

ALL is a world leader in land-based gaming. Years of industry-leading investment into design and development has created best-in-class products that are compelling to customers and a significant barrier to entry. This underpins attractive and sustainable margins. Over the last decade, Aristocrat has also successfully rolled out its best land-based content to on-line social casino users. More recently, the acquisitions of Big Fish and Plarium have extended their capabilities in the social casual arena. While this market is more competitive, the opportunity set is very large and further diversifies the group's earnings. The success of RAID: Shadow Legends gives us comfort in their capability.

We see multiple levels of value latency. Firstly, better-than-expected operating trends in the US support a recovery in the casino sector where ALL has a major presence. Secondly, upside from further penetrating targeted land-based adjacencies, particularly Class II gaming operations video (a leased video gaming machine, with outcomes based on electronic bingo games involving multiple machines throughout the casino) and Class III gaming operations stepper (a leased gaming machine, which has both a mechanical reel and video component, and outcomes based on random number generation). Thirdly, hit digital game, RAID: Shadow Legends, no doubt helped by the pandemic shut down, is run rating at US$350mn p.a. revenue and moving into monetisation phase which will give rise to profits. Fourthly, there is significant scope to grow ALL's current ~2% share of the >US$30bn social casual gaming market. Finally, a strong balance sheet and competitor distress could create opportunities for accretive M&A.

This is a management team with a demonstrably strong track record. From FY15-19, earnings almost tripled, ROE and ROIC grew to almost 40%, and earnings quality improved. Management also has many of the behavioural traits that we look for, namely deep expertise, passion, focus and humility.

Cleanaway (CWY) had a mixed quarter, but ended up performing in line with the market. After the share price responded positively to a result which showed resilience to the Covid affected economy, the stock was heavily sold down in the final part of the period after the publication of multiple press reports relating to overly assertive behaviour in the workplace by the CEO.

The company released a statement confirming the Board had conducted an independent investigation into the issue which resulted in several measures being taken, including the appointment of an external mentor for the CEO. The CEO himself acknowledged the issue, showed contrition and has committed to changing such behaviour.

As a result of this issue, for the FY20 year the CEO forfeited his Long Term Incentive, his Short Term Incentive was reduced, and he was not granted his deferred STI rights. We believe these sanctions are fair and reasonable. We have had a number of discussions on the issue with multiple parties both inside and related to the company as a result of which we believe the problem to be as stated – a highly motivated and passionate CEO who, as the Board stated, "had some issues with overly assertive behaviour in the workplace". We believe the financial sanctions to be reasonable and accept the CEO's statements re future behaviour so have decided to hold the stock for the time being. There remain a number of opportunities for CWY as the waste management industry in Australia matures and evolves. We believe the CEO is capable of taking advantage of such opportunities.

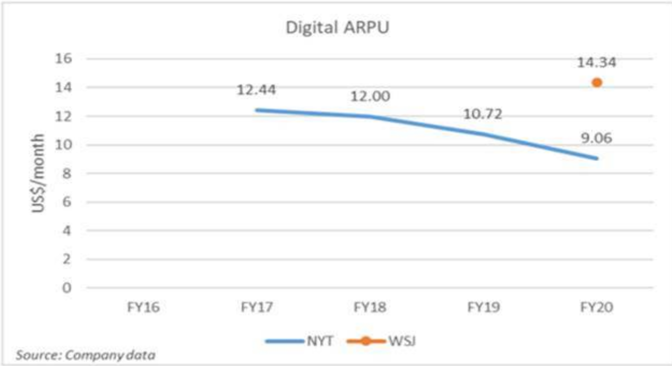
In our last quarterly we wrote about our initial position in **Lendlease (LLC),** a company with enormous unfulfilled potential demonstrated by the urban regeneration pipeline it has been able to build in several major global cities over the last five years. We remain firmly of the belief that the pipeline offers the opportunity for management to create shareholder value well above the capitalisation of the company today, but equally firmly of the belief that to successfully achieve such an outcome:

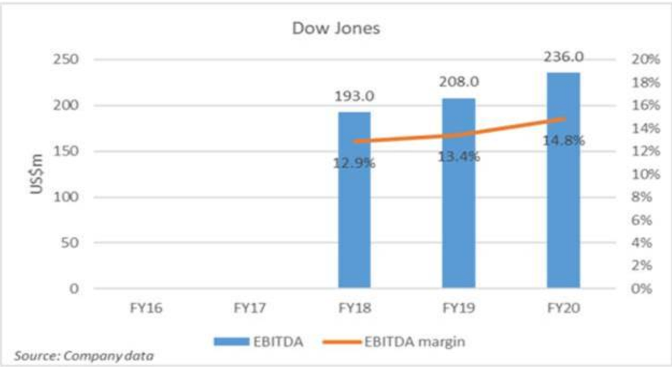
1. LLC needs to refocus back on delivering the pipeline, at the expense of everything else. This would entail the exit from a number of peripheral, non core and distracting businesses (which would have the likelihood of also improving the balance sheet); and

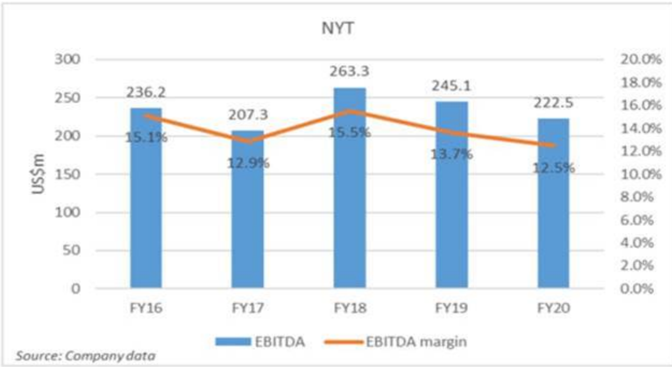
2. LLC needs to focus on executing really well – something which it has not yet proved capable of doing. This requires a culture and expertise around capital (allocation, partners, funding) as well as contracting and project delivery. We would point to Goodman Group and the Westfield Holdings of yesteryear as examples of sustained success in this regard.

We wrote about **News Corporation (NWS)** in the last quarterly and the significant latent value that is yet to be realised. Management took a step in the right direction by separating the reporting of the Dow Jones business from the former News & Information Services segment, and hosted a virtual investor day for the Dow Jones business. It is clear that the existing media assets outside of the Dow Jones business (now named "News Media") currently faces significant operating headwinds. However, analysts and investors are now in a better position to compare the Dow Jones business with its closely listed peer The New York Times (NYT). The investor day highlighted the quality franchises within the Dow Jones business, namely the Wall Street Journal (WSJ) and the Professional Information Products business (Risk & Compliance and Factiva), and the significant opportunity to continue to grow these businesses. As shown in the first chart below, the WSJ is still well behind the NYT on subscriber numbers. The following charts would indicate though that the operating trends in Dow Jones are currently better than its rival. Management is aiming to double the subscriber base (including Barron's) by growing in the US and outside of the US (~10% of current base). The Risk & Compliance business is a real gem, which has consistently grown revenues over the last 4 years and is higher margin.

Our view is that the Dow Jones business has similar attributes to the NYT (which trades on ~24x CY21F EBITDA) and remains undervalued under the current NWS structure. The other key component to NWS' valuation is REA, which continues to perform strongly. We will continue to engage with the board and management to further simplify the business and unlock the latent value.







CI AUSTRALIAN EQUITIES FUND
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