# COOPER INVESTORS ENDOWMENT FUND

COOPER INVESTORS

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

**QUARTERLY COMMENTARY** | DECEMBER 2022

## FUND STRATEGY

The objective of the Cooper Investors Endowment Fund (Fund) is to generate long term returns by investing in a range of listed securities. The Fund is an equities portfolio designed for investors in the pension phase. The Fund will invest in companies who provide sustainable and growing income and through portfolio construction will have the primary objectives of having lower portfolio volatility than the Australian stock market and out-performing the market during periods of market weakness. It is a diversified, long only portfolio of 30-50 stocks. The Fund will be managed on the basis that all unit holders have a zero tax rate and will report and be measured on an after tax basis (allowing for franking credits). The Fund invests in listed Australian and New Zealand securities together with a maximum exposure of 20% to listed securities in other international markets. The Fund can hold up to 20% of the portfolio in cash.

## FUND FACTS

| | |
|---|---|
| Portfolio Manager | Ryan Riedler |
| Inception Date | 3 March 2014 |
| Benchmark | S&P/ASX 200 Accumulation Index, adjusted for franking credits |
| Management Fee | 0.75% per annum of the Net Asset Value (before fees and expenses) plus GST calculated and paid monthly in arrears directly from the Fund |
| Performance Fee | 10% of the Fund out-performance of the S&P/ASX 200 Accumulation Index after adjusting for franking credits plus GST. A high water mark applies |
| Unit Pricing | Every Thursday and the last day of the month. |
| Minimum Investment | $500,000 |
| Maximum Cash | 20% |

## HOLDINGS BY SUBSET OF VALUE*

- Stalwarts 41.8%
- Cyclicals 17.4%
- Growth 17.1%
- Bond Like Equities 13.0%
- Asset Plays 3.0%
- Cash & equivalents 7.7%

## CURRENT HOLDINGS BY SECTOR*

- Financials 19.4%
- Health Care 15.1%
- Materials 14.6%
- Real Estate 9.8%
- Industrials 8.4%
- Communication Services 7.6%
- Consumer Staples 6.3%
- Infomation Technology 4.1%
- Consumer Discretionary 3.6%
- Energy 3.4%
- Utilities 0.0%
- Cash & equivalents 7.7%

* numbers are approximate / may be rounded, CI internal sector definitions.

## FUND PERFORMANCE#

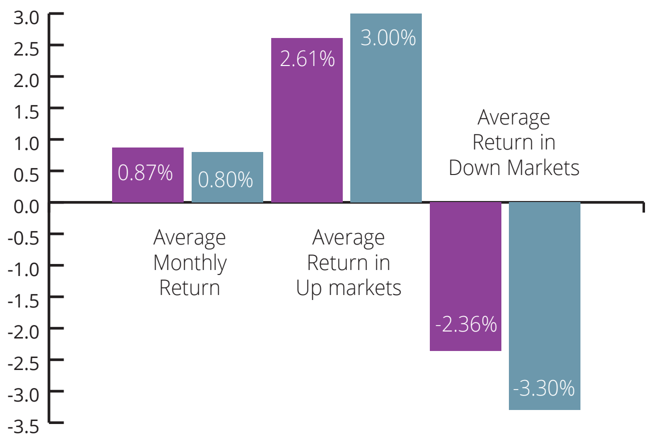
| | Portfolio | Benchmark | Relative |
|---|---|---|---|
| 3 months | 7.05% | 9.59% | -2.54% |
| 1 Year* | -2.90% | 0.51% | -3.41% |
| 3 Year* | 7.54% | 6.92% | 0.62% |
| 5 Year* | 9.58% | 8.59% | 0.99% |
| 7 Year* | 9.98% | 9.95% | 0.03% |
| Since Inception* | 10.25% | 8.92% | 1.33% |
| Since Inception^ | 136.82% | 112.69% | 24.13% |

* Annualised
^ Cumulative (inception date was 3 March 2014).
# Returns are gross of fees and expenses, and adjusted for franking credits.
Past performance is not a reliable indicator of future performance.

## PORTFOLIO SNAPSHOT

| Stock | Investment category |
|---|---|
| ASX Ltd | Stalwarts |
| CSL Limited | Growth |
| Wesfarmers Limited | Cyclicals |
| Transurban | Bond Like Equities |
| Franco-Nevada Corp | Asset Plays |

## PERFORMANCE IN UP & DOWN MARKETS




- Cooper Investors Endowment Fund (gross of fees and expenses, and adjusted for franking credits.)
- S&P 200 Accumulation Index (adj. FC)

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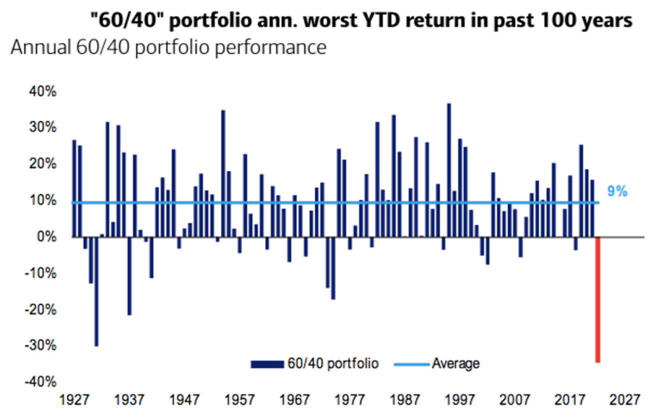
The CI Endowment Fund ("the Fund") is a conservative equities portfolio that aims to steadily compound wealth over time.
Our key objectives are to perform relatively well in down markets, participate in rising markets, be less volatile than the market and provide a growing distribution over time.
We aim to achieve these objectives by constructing a highly diversified portfolio with stocks that are, as far as possible, uncorrelated to each other.
The strategy of the Fund is unchanged since it commenced in March 2014.

## MARKET AND PORTFOLIO PERFORMANCE

The last 12 months has been another volatile year for equities as the emergence of long dormant inflation has led to one of the most rapid interest rate tightening cycles in decades. There have been few places for investors to hide.
Australian shares fared much better than their overseas peers in 2022. The US S&P 500 entered a bear market and finished the year down 19%, while the tech heavy NASDAQ plummeted 33%. In comparison the S&P/ASX 200 fell 5.5%, or a meagre 1.1% once we account for dividends.
Rising inflation has even broken down the inverse relationship (i.e. negative correlation) between equities and bond prices. As such, even traditionally defensive strategies such as the '60/40' portfolio of stocks and bonds failed to protect investors, as shown in the following chart.




We apply a risk framework over portfolio construction of 'Protect & Grow': stocks in 'Protect' are intended to assist in reducing downside capture and dampening volatility, while those in 'Grow' will drive most of the absolute returns. Risk metrics since inception:

| | Grow | Protect | Fund | Index |
|---|---|---|---|---|
| Volatility | 14.1% | 11.6% | 11.6% | 14.1% |
| Downside Capture | 90% | 59% | 72% | 100% |
| Upside Capture | 103% | 79% | 87% | 100% |
| Beta | 0.95 | 0.68 | 0.78 | 1.00 |
| Correlation | 0.95 | 0.83 | 0.95 | 1.00 |

Stocks that performed well over the last quarter included Lifestyle Communities (AGM update confirmed FY23 settlement guidance), EBOS Group (AGM highlighted positive trading environment) and Mineral Resources (strong lithium pricing).
Poor performers included Baby Bunting (poor 1Q23 trading update), Ryman Healthcare (housing market and capital management concerns) and Costco (normalising sales growth post Covid).
Underweight positions in Resources and Banks were a drag on performance, as was our overweight position in Healthcare. Cash also detracted from performance over the quarter.
Overweight positions in Telcos and REITs were a positive contributor to returns, as was an underweight position in Energy.

## THE PORTFOLIO

The portfolio is highly diversified owning 33 securities including six global stocks (~13%) and four New Zealand stocks (~10%). The cash weighting is around 8%.
During the quarter we exited Baby Bunting and reduced positions in Mineral Resources, Computershare, Danaher and Synopsys.
Medibank Private was added to the portfolio after what we considered to be an excessive share price reaction to the cyber attack incident. Medibank is a high quality and resilient business that also offers an attractive fully franked yield, which is attractive from an income perspective.
We added to our holding in Woolworths, a defensive staple for the portfolio.
The portfolio continues to be relatively defensively positioned. The cash position is higher than we would typically want to hold but we expect 2023 will present some opportunities to invest in high quality businesses at more attractive prices. We are excited by this prospect.