COOPER INVESTORS ENDOWMENT FUND
QUARTERLY COMMENTARY REPORT

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

MARCH 2021

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	2.10%	4.68%	-2.58%
ROLLING 1 YEAR	26.32%	38.71%	-12.39%
ROLLING 2 YEAR	7.41%	9.73%	-2.32%
ROLLING 3 YEAR	10.18%	11.76%	-0.92%
ROLLING 5 YEAR	10.57%	11.76%	-1.19%
ROLLING 7 YEAR	10.10%	9.23%	0.87%
SINCE INCEPTION*	10.13%	9.20%	0.93%
SINCE INCEPTION^	97.98%	86.53%	11.45%

*Annualised
^Cumulative (3 March 2014)
**Before fees and expenses and adjusted for franking credits
#S&P ASX200 Accumulation Index – adjusted for franking credits
Past performance is not necessarily a reliable indicator of future performance

The purpose of the Cooper Investors Endowment Fund (the "Fund") is to provide a conservative equities portfolio that may be suitable for investors who are in the pensions/decumulation phase. The portfolio may also be suitable for charities, foundations and others who are looking for a conservative equities exposure.

Whilst return is important the portfolio also aims to perform much better in down markets and to exhibit lower than market volatility.

The Fund commenced in March 2014. Over the ensuing seven years the portfolio has achieved its objectives of delivering a higher return than the market with a lower level of risk. These objectives have been achieved through stock selection and portfolio construction.

Market and Portfolio Performance

The S&P/ASX 200 Accumulation Index (adjusted for franking credits) returned 4.7% over the March quarter and for the 12 month period to March 2021 returned 38.7%. The model Endowment Fund portfolio returned 2.1% and 26.3% for the quarter and last 12 months respectively.

The ASX200 Accumulation Index rose 4.3% over the quarter, and has now risen every month for the last six months, and in eleven of the last twelve months. In so doing it is now within a whisker of fully recovering its losses of a year ago and is up 37% over the twelve months. A remarkable feat in light of the ongoing Covid issues in many parts of the world.

Although 10-year bond yields have risen (US and Australia both from circa 90bps to approximately 1.7%), reserve banks have been public about keeping short rates on hold at all-time lows until they see signs of real inflation and employment gains – so money remains cheap and is supportive of equity markets.

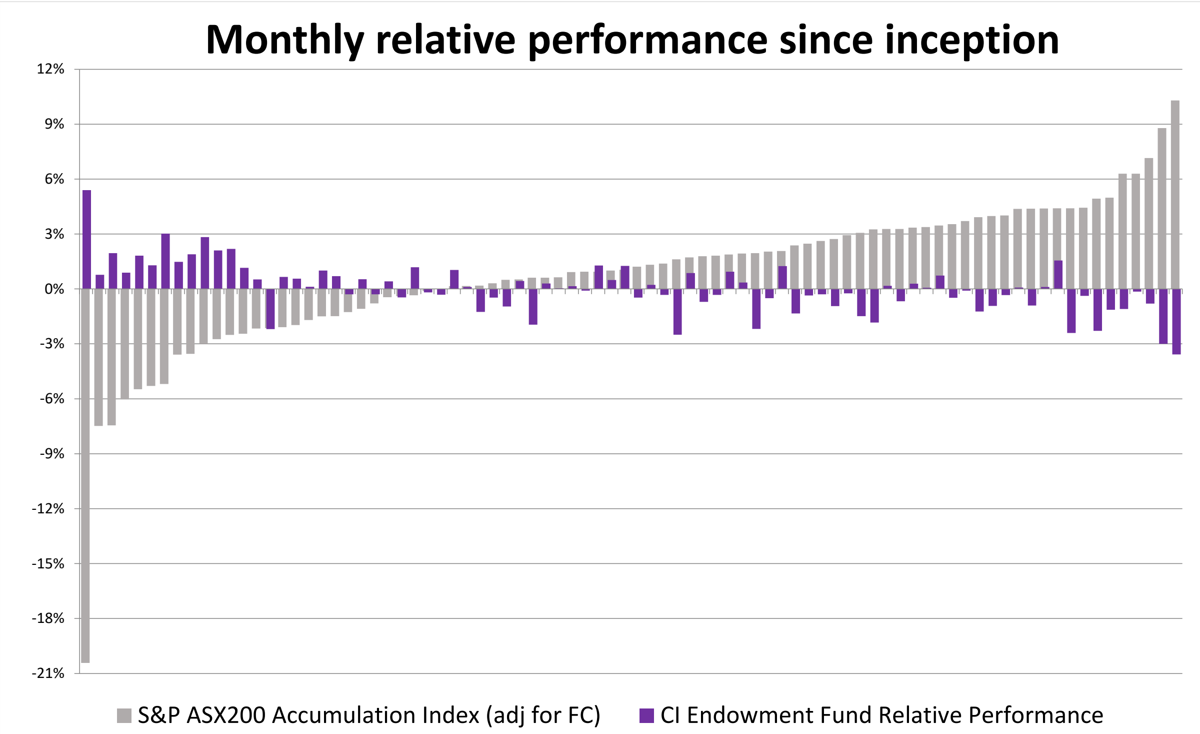
The banks continued their strong run with the sector rising 16% while the telecommunications sector rose 13.7% on the back of a takeover bid for Vocus and a stronger Telstra performance. The technology sector took a breather falling 11%, and healthcare fell 2% with CSL the main detractor falling 6%.

Stocks that performed well over the quarter were **Telstra (TLS)** (positive updates on restructuring initiatives), **ARB Corp (ARB)** (strong interim result and outlook), and **Macquarie Group (MQG)** (upgraded earnings guidance due to extreme winter weather in the US).

The poorer performers for the March quarter included **Chorus (CNU)** (concerns over regulatory risk and rising bond yields), **Waypoint REIT (WPR)** (rising bond yields), and **Ampol (ALD)** (weak refiner margins and uncertainty around refinery closure).

The international stocks in the portfolio (8 stocks, 15% of the portfolio) had a mixed performance over the quarter, although they have been very good performers over longer periods (which we think is a more appropriate measure). The A$/US$ was largely flat over the quarter.

The chart below shows the Fund's monthly relative returns. The grey bars show each month's market return sorted from the worst to best month and the purple bars show the portfolio's return relative to the market for each month.



Since inception the market (adjusted for franking credits) has shown a monthly negative return 30 times and in these months the portfolio has performed better than the market 24 times (80%). The portfolio also outperformed on 94% of 'meaningful' down days where the market fell 50bps or more.

When assessed using monthly data the portfolio has captured 70% of the market's downside and 80% of the market's upside. Since inception the volatility of the portfolio has been 79% of the market's volatility.

The Portfolio

During the quarter we added Mineral Resources to the portfolio, increased our positions in Computershare and NAB, and reduced Waypoint REIT and Chorus. We also sold our holding in The A2 Milk Company.

Mineral Resources (MIN) provides the portfolio with exposure to a stable and growing mining services business, as well as attractive commodities exposure to both iron ore and lithium. MIN was founded in 1993 and listed on the ASX in July 2006.

Founder and CEO Chris Ellison owns over 11.7% of MIN, which provides strong alignment with shareholders, and is critical to the investment proposition. The management team has a very proprietorial feel and an excellent track record around capital allocation. MIN has generated an impressive ROIC of 27% since listing and has proven over a number of years that they are able to consistently create value through project building, acquisitions, and JVs.

A key attraction for us is the huge growth potential within the business, which will help to ameliorate the volatility inherent in commodity businesses. The recent interim result highlighted that growth is front and centre for management, with a target of at least doubling tonnes produced, revenue and profit over the next three years. If this can be delivered we think the investment should perform well.

The business has a strong balance sheet with minimal net debt, which provides MIN with optionality to pounce on any opportunities that present themselves. In addition, if iron ore prices remain elevated the business should generate strong free cash flow which will further underpin its strong funding position and help to underwrite the development pipeline.

MIN is currently paying an attractive ~7.5% dividend yield (fully franked) based on a 50% payout ratio. Another shareholder friendly aspect is that MIN is a good corporate citizen with strong stakeholder relations, which is supported by lack of any serious controversies.

We added to our position in **Computershare (CPU)** via participation in the rights issue undertaken by the company to help finance the US$750mn acquisition of Well Fargo's US Corporate Trust Services (CTS) business.

We believe the purchase of the CTS business is attractive for CPU shareholders.

CTS is a strong strategic fit with the current business as CPU has owned a large corporate trust business in Canada for 20 years. CEO, Stuart Irving, has previously described corporate trust as one of the group's two "jewels in the crown" (the other being Registry Maintenance).

The transaction has attractive financial metrics, Computershare has guided to greater than 15% earnings accretion in five years, which includes $80mn in cost synergies (~20% of the current cost base). The long-dated nature of the synergies is not a surprise as extracting the business from Wells Fargo is complex and requires care.

Computershare is buying (but not relying on) significant leverage to rising interest rates at what may be the bottom of the interest rate cycle.

Stock News

In late March **Chorus (CNU)** submitted to the regulator their estimate of the initial regulatory asset base (RAB) for its ultrafast fibre broadband (UFB) network. The RAB feeds into the regulatory framework which determines the maximum allowable revenue (MAR) CNU is able to earn on its UFB network.

The opening RAB value of NZ$5.5b was consistent with our expectations. CNU also submitted an alternative cost-allocation approach that could support a RAB of up to NZ$6.0b. While the logic is sound for a higher cost allocation, we think the likelihood of this being accepted is low given the cost allocation methodology has already been addressed by the regulator.

The regulatory process will next hear submissions from interested parties before review by the regulator. The market has been concerned given the uncertainty and risks around the outcome of the regulatory process. We are nearing the end of the regulatory road but are cognisant that there is still some way to go with the key next step being the regulator's draft approval of CNU's RAB and initial revenue path which is scheduled for the end of May.

It was quite an eventful period for **Seek (SEK)**. The result was above expectations, driven predominantly by a strong recovery in the ANZ job classifieds business. During the quarter SEK also announced a partial sell down of its Chinese jobs classifieds business (Zhaopin), the appointment of Ian Narev to the CEO role and Andrew Basset transitioning to Executive Chairman and CEO of SEEK Investments, and potentially separating the SEEK Investments business.

The price expected to be realised from the sell down of Zhaopin to 23.5% on a fully diluted basis was below what we thought the business would be worth if management executed well over the medium term. The sale price partly reflected the current competitive environment where relatively new entrants such as BOSS Zhipin have been gaining market share.

Management believe the sell down to a local private equity player who are experienced in the technology investments will add value to its remaining stake over time. On the other hand, we view the appointment of Ian Narev to the CEO role in a positive light as he has executed well in his current role as Group COO and CEO of the Asia Pacific & Americas. It will also allow Andrew Bassat to focus on growing the SEEK Investments portfolio (Early Stage Ventures and Online Education Services) which is where his passion lies.

Management are reviewing options on separating SEEK Investments and introducing third party capital. Provided that the portfolio is valued appropriately when third party capital is introduced, we view this positively as it potentially allows SEK to accelerate the growth of the portfolio. It also potentially removes some of the losses from an accounting perspective that are currently reported on a group basis, which makes the current PE multiple look excessively high.

Having provided information on its corporate structure, and more particularly its infrastructure business, at a strategy day in November, **Telstra (TLS)** confirmed a restructure late in the quarter. The legal restructure is expected to be completed by the end of 2021 thereby paving the way to realising value from both its towers in the second half of 2021 and its infrastructure during the course of 2022. This confirmation, plus a result at which management confirmed its guidance and held the dividend steady, enabled the Telstra share price to rise 15% over the quarter.

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