COOPER INVESTORS
GLOBAL ENDOWMENT 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.

MARCH 2021

	**STRATEGY	#REFERENCE INDEX	VALUE ADDED
ROLLING 3 MONTHS	2.35%	5.79%	-3.44%
ROLLING 1 YEAR	32.42%	48.55%	-16.13%
ROLLING 2 YEAR	13.07%	14.59%	-1.52%
ROLLING 3 YEAR	12.89%	11.45%	1.44%
SINCE INCEPTION*	14.17%	12.90%	1.27%
SINCE INCEPTION^	77.29%	68.91%	8.38%

*Annualised
^Cumulative (Inception Date of Strategy 05 December 2016).
MSCI ACWI 100% Hedged to AUD Net Dividends
**Before fees and expenses
Past performance is not necessarily a reliable indicator of future performance

Portfolio Performance

One year on from the peak COVID panic and the global equities market (by which we refer to the MSCI AC World Hedged 100% to AUD) has gained a remarkable 48.6%.

Markets have continued to rise in early 2021 with an internal rotation supporting an extension of the rally in more cyclical or ‘deep value’ assets such as banks and energy companies which were the big losers of 2020. We observe further signs of aggressive risk taking with the ongoing rise of speculation into ‘cryptocurrencies’, fund-raising of ‘SPACS’ (vehicles launched with the intention of buying companies) and the recent blow-up of a leveraged hedge fund.

With that backdrop the firm focus for this portfolio is to remain highly diversified across a range of high quality VoF propositions from our Watchlist. The portfolio seeks steady long term returns achieved via diversified sources of risk-adjusted value latency, for example music streaming (Warner Music Group), specialty chemicals (Givaudan) and plumbing supply distribution (Ferguson).

The past year or so has been a good test of the resilience of the portfolio and FY2020 results revealed that the vast majority of portfolio holdings navigated the crisis exceedingly well. Even consumer businesses that were forced to close points of sale for long periods like LVMH, L’Oréal and Starbucks were able to leverage their iconic brands and grow online businesses at remarkable rates. The shares of all three have recovered to new all-time highs.

One of the key learnings of the crisis has been that those who entered it with entrepreneurial management teams and sturdy balance sheets were able to run both effective offense and defence at the same time. Thus leading information and analytics companies like S&P Global and AON were able to thrive operationally while also executing sizeable strategic acquisitions that will make both businesses better and stronger.

Balance sheet strength is crucial in times of crisis, as was proved again last year. As a reminder, the portfolio’s average gearing (excluding real asset-linked companies like infrastructure and utilities) is a little under 1x ND/EBITDA, significantly below that of the broader market (we estimate >1.5x).

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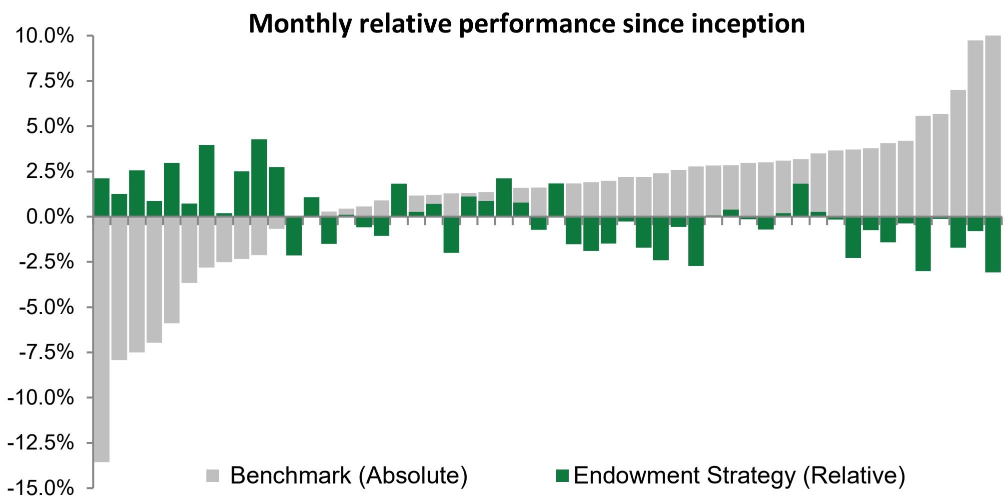
Overall the strategy has continued to deliver solid absolute returns whilst exhibiting lower overall risk and relative volatility of around 80% of the broader global equities market. For the quarter the portfolio returned 2.4% and over 12 months has delivered 32.4%.

The primary intention is to be well positioned to outperform future drawdowns while more or less keeping up in bull markets. While the portfolio may not keep up in very strong bull markets such as we have seen in the past 12 months, the overall trajectory of returns should be a smoother journey that we believe will deliver consistent outcomes over the long term, driven by the compounding of earnings, cash flows and dividends of the portfolio's businesses.

As a matter of course we pay particularly close attention to the behaviour of our businesses during down markets, at the individual stock, Subset of Value, and portfolio level. There is an intuitive feel that comes with following which companies are sensitive to drawdowns during periods of weakness, though we back this up with rigorous statistical analysis.

Since inception the strategy has delivered cumulative downside capture[1] of **62%** and upside capture of **82%**, implying a 'capture spread' of **20%**. It has also outperformed all but one of 12 market down months, and on 'meaningful' down days (where market drops more than 0.5%) has outperformed 80% of the time.

The table below sorts *absolute* monthly market returns since inception from worst to best (grey bars) and shows *relative* return between the portfolio and the market (the green bars).



Portfolio Structure

The current portfolio structure is as follows:

- 36 securities invested across 13 countries and 17 industry groups
- >75% in compounding-type Subsets of Value, zero Turnarounds
- The US represents the largest single country weight
- Cash of 8% (7% net of hedges)
- >90% currency hedged
- Largest and smallest position weights of 4% and 1% respectively

[1] "Upside and downside capture ratios are computed as the ratio of compounded and annualised portfolio returns in the up or down months (of the Reference Index) over the compounded and annualised returns of the Reference Index in the same months."

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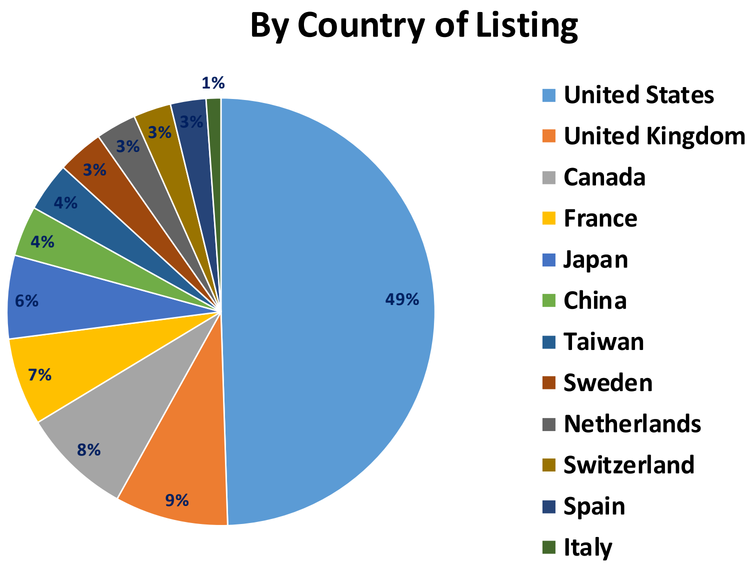
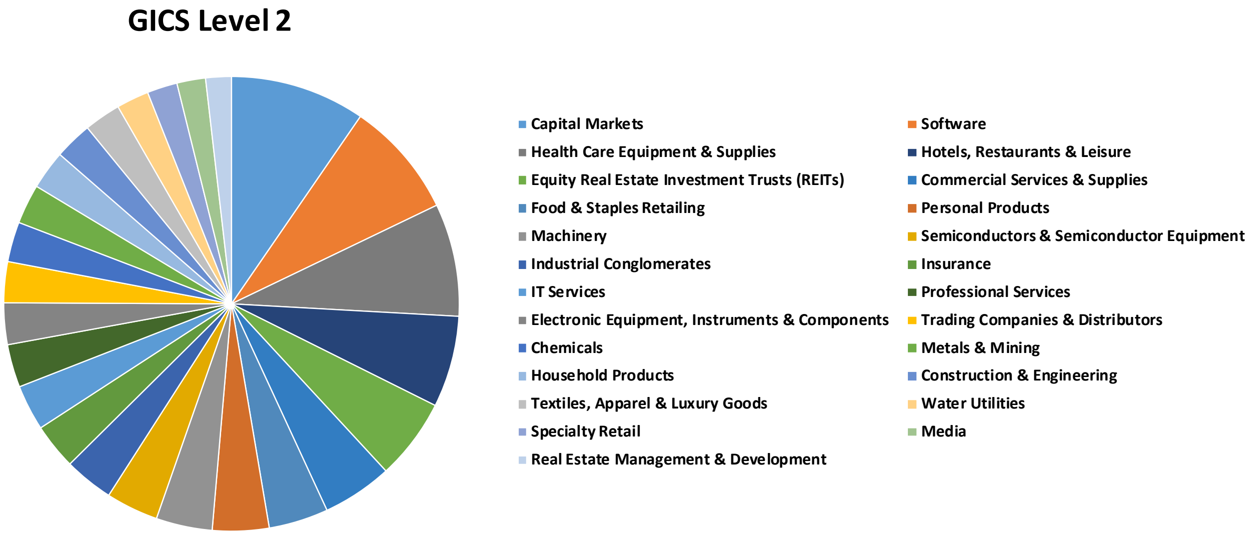
Country weightings as at 31 March 2021 were:



Sector weightings (GICS Level 2) as at 31 March 2021 were:



It is expected the Fund will operate within the following guidelines:

- generally hold between 35 and 40 stocks
- be well diversified by country and industry
- have a bias towards compounding-type businesses per the CI Subset of Value methodology (Stalwarts, Growth, Bond-Like Equities)
- generally not invest in Turnarounds
- generally hold less than 10% cash
- generally hedge at least 70% of foreign currency
- generally not hold individual stock positions at greater than 6% of the portfolio

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Portfolio Strategy

The Cooper Investors investment team undertakes stock analysis and the portfolio managers use this information to create a portfolio designed to meet the investment risk and return objectives of relative outperformance in down markets and lower volatility than the market.

The main way we hope to achieve these objectives is by constructing a portfolio that is well diversified by a number of measures and should have less downside in market drawdowns, although it cannot avoid losses altogether in down markets.

We can achieve diversification through a number of means, for example:

- Uncorrelated stocks
  - We want stocks that are as far as possible uncorrelated to each other, for example **Crown Castle** (a US-listed communications infrastructure provider) and **LVMH** (a French luxury goods company) which have a pair correlation of 0.0 (since inception)
- Industry spread
  - Investing in industries with cycles that move with a different cadence to or are highly resilient to the global economy such **Givaudan** (Swiss-listed manufacturer of flavours) and **American Water Works** (US-listed municipal water utility)
- International spread
  - Investing in domestic exposure of different regions, for example **Fiserv** (US-listed banking software) and **Unicharm** (Japanese-listed diaper company selling into Asia)
- Subsets of Value
  - Investing in Cyclicals like **Ferguson** (Value-added distributor of plumbing supplies) and Asset Plays like **Latour AB** (Swedish-listed family-linked industrial investor)

The main way to achieve the objective of protecting the portfolio downside is to avoid stocks that are:

- Over-valued;
- Over-geared;
- Facing industry head winds;
- Poorly managed;
- Too keen on acquisitions;
- Have poor track records; or
- Paying unsustainable dividends

Stocks that exhibit some of the above features may look cheap and stocks that do not may appear expensive, so we are aiming to balance this trade-off between quality and price.

Portfolio Changes

During the quarter the Fund established a position in **Cosmos Pharmaceutical**, a Japan-listed drug and food retailer.

One of the research clusters we focus on are ‘roll-outs’, typically food/speciality or quick service restaurants (“QSR”) with a unique unit concept that deeply resonate with consumers. We are attracted to roll-outs that demonstrate highly resilient cash flows with strong marginal unit economics and a significant opportunity set to roll-out additional units. The low risk nature of existing units often underwrites a meaningful portion of our entry price and the highly cash generative nature of the assets funds all (or most) of the roll out

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(which occurs at highly attractive incremental returns). Based on our research, Cosmos' unit economics are some of the most attractive we've seen amongst peers, not just in Japan but across the world.

The business operates drug stores in suburban Japan but unlike peers they derive no sales from dispensing pharmaceuticals – they consider this a poor allocation of selling space due to government regulations which limit turnover. Instead Cosmos generate 60% of sales from food (sold at a lower price than local supermarkets and drug stores) and the rest from "daily necessities" including health and personal care products (HPC). The low prices on food (sold at low margins) attracts customers with profits then generated from higher margin HPC products. This model has thrived in Cosmos' home Kyushu region, which is known as the most price competitive retail market in Japan, making it an excellent proving ground for low cost retail models. Today Cosmos has around 55% of their stores in Kyushu which represents less than 15% of Japan's population. Thus we see significant latency in the store roll out strategy, including in larger prefectures of Kanto, Kansai and Chubu.

Several attributes make Cosmos an attractive proposition for this portfolio. First the Stalwart characteristics of very stable cash flows underwritten by the resilient nature of food and HPC demand based around a strong competitive position. Second a significant and steady runway for store growth which should drive earnings growth and high incremental returns on capital. Third, founder and Chairman Masateru Uno maintains around a 50% stake in the company – we find founder-linked companies typically make better long term capital allocation decisions. Fourth the business has a strong net cash balance sheet giving it resilience in a crisis as well as the ability to self-fund its expansion. Fifth and finally an investment in Cosmos represents attractive idiosyncratic risk, that is to say its success or failure will largely be down to management execution with relatively low exposure to other macro trends - Cosmos has very low correlation with the rest of the portfolio and the broader global equities market.