

Cooper Investors Global Equities Fund (Hedged)



QUARTERLY COMMENTARY | DECEMBER 2023

AFS LICENCE NUMBER 221794 ABN 26 100 409 890

“Remember that reputation and integrity are your most valuable assets and can be lost in a heartbeat”. **Charlie Munger, Vice Chairman - Berkshire Hathaway**

“When goods don't cross borders, soldiers will.” **Frederic Bastiat**

MARKET & PORTFOLIO PERFORMANCE

The portfolio returned +8.31% in the December quarter, versus the benchmark return of +8.75%¹.

The biggest contributors were **API Group** (stock re-rating higher after continued delivery of earnings growth), **Salesforce** (resilient subscription growth with margins expanding well), and **Workday** (rebased expectations from investor day preceded improved Q3 results).

The largest detractors were Rentokil (US organic growth in H2 impacted by Terminix integration), YUM China (accelerating store roll-out targets but macro factors dragging on Chinese stocks), and Aon (sold off late in the quarter after announcement of a large bolt-on acquisition in the mid-market broking space).

December's meeting of the Federal Reserve delivered clear evidence this tightening cycle is over in the US with several rate cuts now forecast in 2024. The bond market began pricing this pivot in late October and bonds surged into year-end, 10 Year US Treasury yields falling over 1% from the October peak of 5% to close 2023 at 3.88%. The disinflationary impulse was aided by falling oil prices with crude (WTI) down almost 25% from the September peak, despite OPEC supply cuts and ongoing conflict in the Middle East.

Global equity markets bounced hard from late October – from the trough of a three-month 10% correction, our benchmark rallied ~13% into year end.

The portfolio delivered an absolute return of +19% for CY2023, a strong result in a year of high volatility that began with dire economic predictions from many commentators. Contribution to return was split fairly evenly (roughly a third each) between Stalwarts, Growth and Cyclical investments. However, a meaningful component of relative return came from our more Cyclical investments – despite bearish sentiment we had observed attractive Risk Adjusted Value Latency in many end markets such as our investments in semicap equipment maker Tokyo Electron, industrial services business API Group, and equipment lessors Ashtead and United Rentals.

In Cyclicals the market tends to overshoot both upside and downside – plumbing the depths of the bleak periods is typically where most value can be found. The experience demonstrates the power of ‘Observation not Prediction’;

	**Portfolio	#Benchmark	Relative
3 months	8.31%	8.75%	-0.44%
1 year	18.92%	19.88%	-0.96%
3 year*	3.46%	5.86%	-2.40%
5 year*	9.80%	10.56%	-0.76%
7 year*	9.29%	9.08%	0.21%
10 year*	8.76%	8.75%	0.01%
Since inception*	9.86%	8.50%	1.36%
Since inception [^]	502.14%	374.77%	127.37%

* Annualised

[^] Cumulative (since inception on 1 December 2004). Initially the Fund invested predominantly in Australian equities. However, since May 2006 the Fund has been invested in a broad range of global equities.

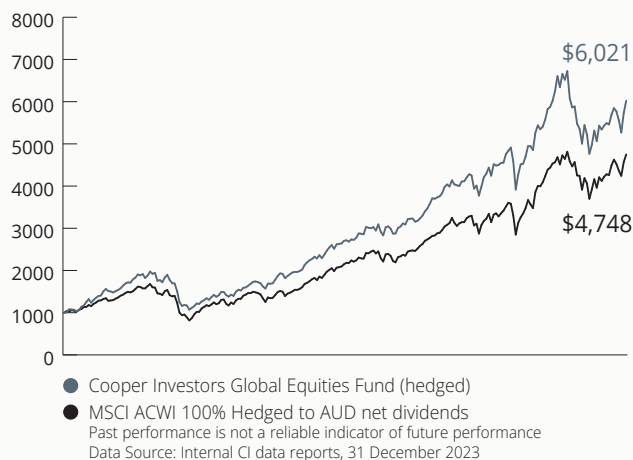
** Net of fees and expenses.

MSCI ACWI 100% Hedged to AUD net dividends.

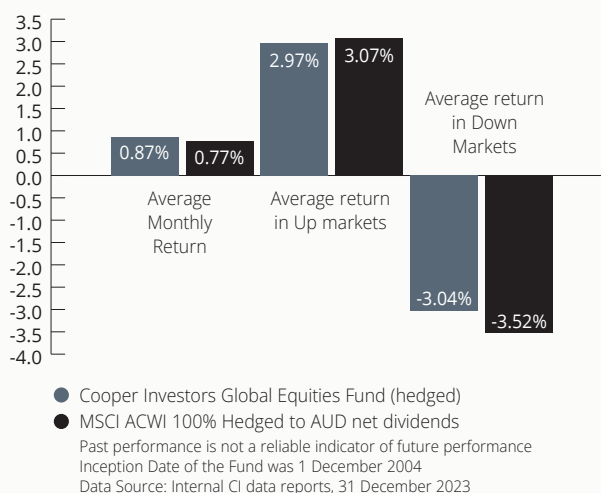
Past performance is not a reliable indicator of future performance.

Data Source: Internal CI data reports, 31 December 2023

Cooper Investors Global Equities Fund (Hedged) – net of fees and expenses \$1000 Invested Since Inception (1-Dec-04 to 31-Dec-23)



Since Inception Net Returns In Up And Down Markets



¹ Past performance is not a reliable indicator of future performance.

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engaging with management and doing multiple industry visits and site tours over the year in both the semi space in Asia, and the industrial heartlands of the US, consistently indicated to us that underlying trends were not as bad as headlines made out. Cyclical delivered over 300bps of alpha in 2023 and we continue to see rich value latency in many high-quality Cyclical today.

In a relative sense, it was pleasing to see the portfolio keep up with the broader index in 2023 despite zero contribution from the "Magnificent 7", a group of well-known mega cap stocks that dominated index returns and now represent large index weights, ~17% of ACWI and ~30% of the S&P 500.

While we can't predict the impact of the Mag 7 in 2024, history and mean reversion show the challenges top index weights have in repeating feats of outperformance. Capital tends to rotate between leaders and laggards, as valuation discrepancies widen and passive flows chase momentum. While this is not the case every year, our analysis on the S&P500 shows that over long periods (15, 20, 25 and 30 years), the Equal-Weighted S&P500 has out-performed the Market Cap-Weighted S&P 500.² An outcome of this years' crowding at the top of the index means many other stocks now offer material relative value. We've identified attractive investment opportunities in the mid-to-large cap space (US\$2-200bn). These are businesses with multiple latencies that represent industry leaders led by the kind of proprietorial management teams we're attracted to, often growing earnings faster than mega cap tech. Some are even leveraged to the very same trends that are driving the Mag 7 group, like AI, Cloud and Cybersecurity. An example is **CDW Corp** which, as a value-added IT reseller, acts as an intermediary between large enterprise customers and vendors of IT solutions including hyperscalers like Microsoft and Amazon. As complexity and risk grows, the role of companies like CDW to act as trusted advisor and solutions provider to Chief Technology Officers becomes ever more critical.

THE PORTFOLIO

During the quarter the portfolio initiated a position in GE Healthcare (GEHC).

² Source: Cooper Investors, MSCI, Factset, ExShare - data to 30/11/23

GEHC is the former Healthcare division of GE, spun out in early 2023. It's a global leader in imaging equipment such as MRI machines, CT scanners and ultrasound systems along with associated consumables. The business has a long and storied history but was trapped inside a larger, underperforming conglomerate, starved of the love and attention it needed to thrive.

From a subset of value perspective, we view GEHC as a Low risk turnaround. The underlying business is fundamentally sound but has ceded market share over time, with sales growth lagging the industry. There is significant margin opportunity with core imaging margins (~50% of sales) much lower than its main peer. We see two drivers in restoring performance. Firstly an increase in research and development spending (since 2017 R&D spend is up 70%, far outpacing revenue growth). Secondly an opportunity to improve SG&A cost efficiency.

What makes the turnaround low risk? Management and Board quality are critical. GEHC features a few of what we call 'CI Alumni'; executives we have invested behind at other companies. Top of this list is Chairman Larry Culp, the former CEO of Danaher, an executive we have the highest respect for.

GEHC has strong financial characteristics. It is a market leader in an oligopolistic industry where market share changes slowly and gross profit comes largely from aftermarket. The balance sheet is appropriately geared with well structured debt. Our analysis of GEHC's accounts suggests there may be some conservatism baked into the P&L numbers. At today's share price you don't need to assume much going right to do well, which partially reflects the backdrop of healthcare stocks having been under pressure this year. If GEHC can deliver on its potential, the upside is significant.

We funded this by exiting Haleon, another spin-off and Low risk turnaround. We invested in Haleon in September '22 at ~£2.80 and the position returned close to 40% (roughly double the index return) achieved partly through earnings growth but also a rerate from ~14 to ~18 times forward earnings. This reflects a reversionary-type return in a short period for what is really an underlying Stalwart business.

The portfolio also sold Tokyo Electron. This was bought in November '22 when sentiment and earnings estimates for the semi-industry were at a cyclical trough. As the industry moved through this phase and there is now light at the end of the tunnel (along with the emerging AI theme), these stocks have re-rated with Tokyo Electron rallying around 60% over our holding period compared to the index around +8%. We continue to admire the company, but the rich Value Latency on offer a year ago has been realised - with Cyclical it is wise to buy when things look terrible and harvest when the going is good.

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The portfolio is positioned around six Subsets of Value.

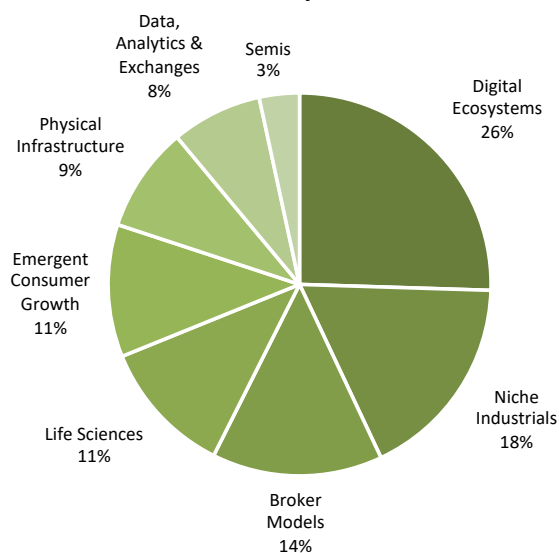
- **Stalwarts** (46% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (Aon).
- **Growth companies** (21%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Eurofins).
- **Bond like equities** (3%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Ferrovial).
- **Low risk turnarounds** (8%) – sound businesses with good management and balance sheets. (Api Group).
- **Asset plays** (5%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (Sony Corp).

- **Cyclicals** (16%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who allocate capital prudently (Ferguson).

The portfolio is also diversified by clusters of opportunity.

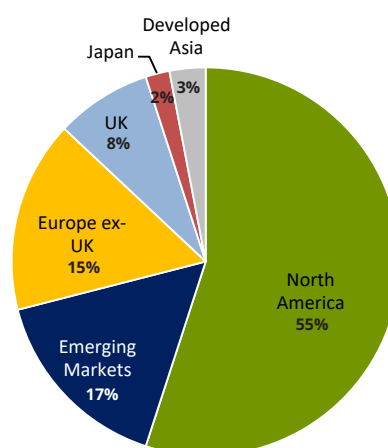
- **Digital Ecosystem** – Payments, SaaS, Marketplaces, Content
- **Niche Industrials** – Business Services, Manufacturers, Distributors
- **Emergent Consumer Growth** – Discounters, FMCG
- **Broker Models** – Insurance, IT Resellers, Financial Brokers
- **Physical Infrastructure** – Toll roads, Airports, Cable, Rail
- **Life Sciences** – Diagnostics, Testing, Services
- **Data, Analytics & Exchanges** – Datasets, Tools and Financial Plumbing
- **Semis** – Semis and Production Equipment

Portfolio by Cluster



Source: CI Internal Data

Geographical Exposure by Source of Revenues#



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

Source: CI Internal Data

No. of Stocks	39
Region Weights (by listing)	North America 62% Europe 24% Asia 10%
Most OW Sectors	Industrials, Comm Svcs
Most UW Sectors	IT, Energy
Cash	4%

Past performance is not a reliable indicator of future performance.
Source: CI Internal data, UBS Quant Answers, as at 31 December 2023

Portfolio Metrics – Weighted Average	
Price to Earnings ¹	20.5x
Price to Free Cash Flow ¹	21.9x
Net Debt to EBITDA ²	1.20x
Return on Equity ²	25.4%
Revenue Growth ²	7.6%
Earnings Growth ²	15.0%
Total Cash Yield ^{2,3}	3.0%

¹ Next twelve months forward
² Estimated, FY1 to FY2
³ Estimated, dividends plus buybacks

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STOCK NEWS

In recent months we have observed several holdings announce decent-sized bolt-on M&A deals.

- Danaher acquired Abcam (UK listed consumable proteins business) for \$5.7bn.
- Fortive acquired EA Electro-Automatik (German private, electronic test solutions) for \$1.4bn
- Diploma acquired several bolt-ons for a total ~£300mn

This is noteworthy because these businesses are what we call 'Capital Allocator Champions'. They are the horse-whisperers of M&A, among the most astute management teams we've found on capital discipline and timing of deployment. Speaking to them across the cycle is always an education and our observation is for most of the last three years, these companies spent very little and kept their powder dry. They like to transact when times are tough and there is fear among sellers, preferring to answer the phone when it rings rather than dialling themselves.

In recent years our conversations with them indicated a view that asking multiples were too high, with sellers valuing their business on backward-looking multiples based on the cheap rates era. Two years into a higher rate regime, it's observable that multiples in private markets are finally compressing. It is very interesting to see some of our most respected management teams starting to open their wallets for what look like attractive assets at palatable multiples.

Selling well can be just as important as buying well. In November portfolio holding Ferrovial announced the sale of its 25% stake in Heathrow airport for £2.4bn, a valuation 20-70% above where the asset was marked in analyst models. We view this favourably. The UK regulator has been intransigent in letting Ferrovial earn an attractive allowed return in the new regulatory regime period, with enforced cuts to passenger charges and little in the way of recognition that, in a post-pandemic era, there are new risks and costs for large hub airports. Exiting the asset at a good price allows reinvestment into more attractive projects in the US, where management are focused. Further good news came in December with the company announcing a mid-teens tariff increase on a key asset, Canadian toll road ETR-407, which had seen a price freeze since the onset of COVID in early 2020.

TRIP NEWS

During the quarter several of our companies conducted investor events (often called 'Capital Markets Days'). Done towards year end, these are opportunities for management to provide updated strategic outlooks and issue new financial guidance. Depending on the structure they are also a good chance for shareholders to view product demonstrations, mix with operations people and exchange views with other owners. As such we try to attend these events in person when possible. During the quarter we attended four across the globe – LSEG (London), Eurofins (Milan), Adyen (San Francisco) and Liberty (New York).

The Eurofins and Liberty days enabled us to get in front of senior management who are rarely available (Gilles Martin at Eurofins, Greg Maffei and Chris Winfrey at Liberty/Charter) but heard little to change our views that these businesses are tracking along well in a 'business as usual' fashion. In contrast, the LSEG and Adyen events were more meaningful in terms of insights and observations.

With LSEG, the day-and-a-half event afforded us the opportunity to hear from most of the key divisional business leaders and view live demonstrations of many new innovations.

When we initially invested in LSEG the proposition was thus: a subscription data and analytics leader that owns systemically important financial infrastructure yet is valued like a regional exchanges group. Value Latency today remains compelling with LSEG (stripping out the 51% listed stake in TradeWeb) trading on around 19-20 times 2024 earnings, a yawning discount to data peers like S&P Global, MSCI, Morningstar and Factset on multiples of 30+.

Since our first investment LSEG has entered a partnership with Microsoft which was announced with relatively little fanfare late in 2022. With the benefit of hindsight, neither we nor the market probably appreciated how potentially significant this would be for LSEG in the long term. We do now.

The event focused heavily on this partnership and the benefits it will drive in innovation, growth, and competitive position. It's a game-changer for 'Workspace', the financial software platform that represents the primary delivery mechanism for LSEG's universe of data. CEO David Schwimmer talked of 'Liberating the Data', describing the virtuous economics that come from being able to push out LSEG's vast data sets to more clients, on more use cases, more often. The power of data migration to the Cloud, along with Microsoft integrating Workspace into Teams (offering AI tools through Copilot), makes the proposition a far more credible competitor to desktop terminal incumbents like Bloomberg and Factset.

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At dinner we were fortunate to sit with the Head of Enterprise Data, who regaled the story of LSEG World Check. This product essentially provides KYC ('Know Your Customer') assurance to companies, say to ensure a prospective customer is not on a Sanctioned Entities list. In the past this product was supplied to banks monthly on a physical disc – not only clunky for clients but it also meant data could not be updated regularly. If a geopolitical event occurred, the lists could be stale by weeks.

As digitisation and data management processing has improved data can now be updated and accessed in real time through web portals. As a result, the use cases and volume of consumption have exploded; demand for World Check went up +800% after Russia invaded Ukraine. With the Refinitiv integration close to complete and cloud data migration projects well underway, our expectation is capex should fade in the coming years, leading to substantial free cash flow growth, facilitating increased dividends and buybacks.

Over in the US, investor sentiment coming into the Adyen investor day could hardly have been lower. Observing and speaking with other investors, talk of commoditisation and competition was rampant. Following the quarterly update (released on the morning of the event), sentiment turned positive quickly and strengthened throughout the presentations.

We were pleased with the improved level of disclosure evident during the event, particularly as it relates to revenue growth building blocks and the customer cohorts, showing that wallet share was indeed growing alongside new wins which underwrote longer term growth.

Concerns around rising costs and hiring were tempered with a confirmation that peak hiring is happening in 2023 and that margins should continue to move higher over time. For the first time, Adyen showcased their talent, a mix of payment veterans based out of Europe and newer San Francisco-based technical and sales leaders hailing from Microsoft and Google. Adyen has been a remarkably volatile stock this year, dropping 60% after H1 and then almost doubling to bely the stable but growing nature of its underlying business.

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