COOPER INVESTORS
GLOBAL EQUITIES FUND (HEDGED)
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.

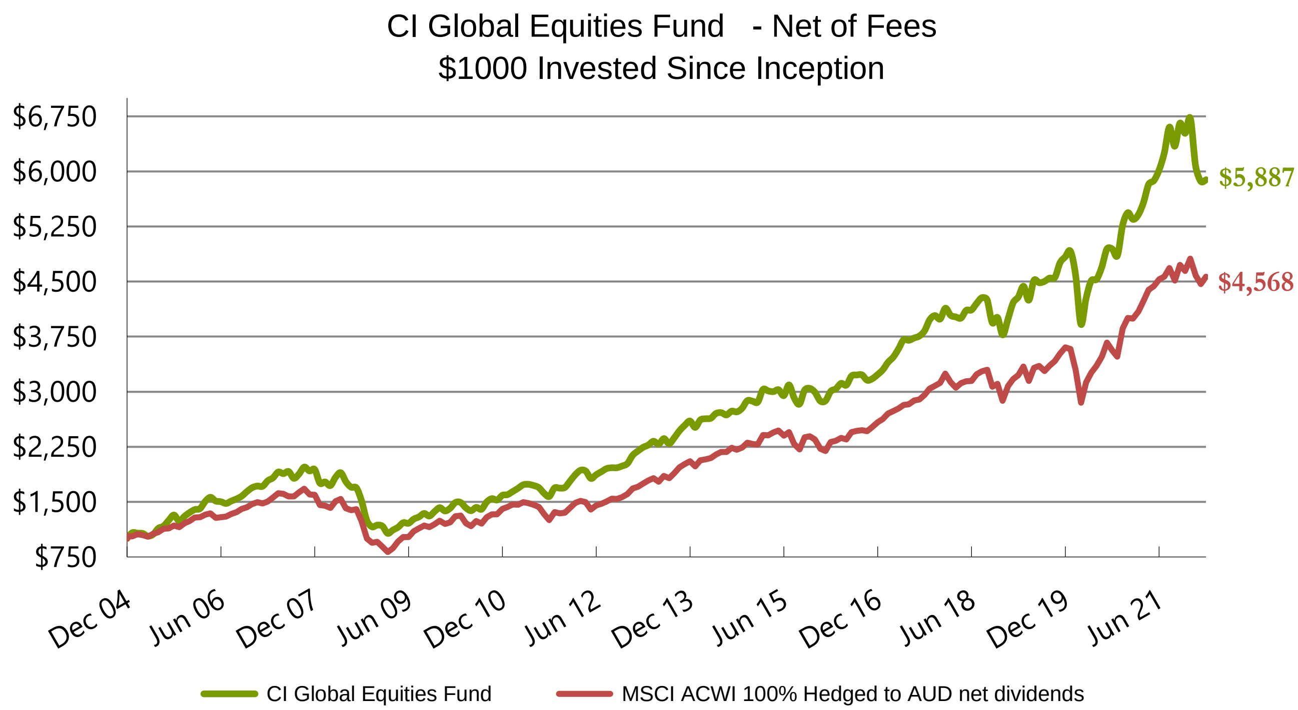
MARCH 2022

"My ventures are not in one bottom trusted, nor to one place; nor is my whole estate, upon the fortune of this present year." **Antonio, from 'The Merchant of Venice'.**

"Pessimism never won any battle." **Dwight D. Eisenhower.**

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	-12.45%	-5.09%	-7.36%
ROLLING 1 YEAR	5.60%	7.88%	-2.28%
ROLLING 3 YEAR	11.11%	12.31%	-1.20%
ROLLING 5 YEAR	11.15%	10.80%	0.35%
ROLLING 7 YEAR	10.05%	9.58%	0.47%
ROLLING 10 YEAR	11.80%	11.68%	0.12%
SINCE INCEPTION*	10.77%	9.16%	1.61%
SINCE INCEPTION^	488.66%	356.76%	131.90%

*Annualised
^Cumulative (1 December 2004). Initially, the Fund invested predominately 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 necessarily a reliable indicator of future performance



Source: NAB Asset Servicing

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Market and Portfolio Commentary

After a year of strong and steady asset prices 2022 has begun with an ice bucket over the head for equities investors.

The Benchmark fell 5.09% for the quarter which, while on the surface appears an average sized correction in the context of history actually conceals severe volatility beneath the service. The reality is many parts of the market have seen material value destruction over the last few months.

First, we've seen a drastic write-down in value of the 'hypergrowth' complex that started to unfold late last year. The epicentre of this bubble was highly valued technology stocks, so while the NASDAQ index fell 20% November peak to mid-March trough this probably understates the carnage with many highly rated but unprofitable growth stocks down 50-80%. This is an outcome of rising interest rates (in response to the sudden spike in inflation) causing a rotation away from those stocks most sensitive to higher discount rates (i.e. where the bulk of value is derived from cash flows due to crystallise in the far distant future).

Second, China has become a 'pariah' market with a further sell-off in the quarter adding to last year's decline. The investment case was hit with the triple whammy of a resurgent Omicron wave, a spat with US regulators around US-listed Chinese securities and an unappealing political association with Russia brought into sharp focus after the latter's invasion of Ukraine. This led to a stampede away from Chinese and Hong Kong equities (both locally and internationally listed) with contagion into developed market stocks with large Chinese revenue pools. From its February '21 peak to March '22 trough the Hang Seng China Enterprises Index (a basket of Chinese businesses listed in Hong Kong) has halved.

Third, the quarter saw extreme moves in commodities. Prices across energy, base metals, and agriculture (already creeping up in 2021) surged higher in the quarter, culminating in 30-50% spikes over a matter of days after Russia invaded Ukraine in February. This boosted oil and gas, mining and materials-related stocks, the S&P Energy index is +40% in 3 months as an example.

After a strong 2021 the Fund has endured a tough start to the year, returning -12.45%. In simple terms, the very narrow parts of the market doing well year to date (oil and gas, miners, some banks) are areas in which the fund is underweight, whereas many of the businesses we do own got dragged into a period of indiscriminate selling early in the quarter.

While we typically wouldn't delve into huge detail around one 3-month period, since inception it has been fairly unusual for the Fund to underperform a weak market hence it is worth making some further comments regarding key drivers of the relative underperformance versus the Benchmark.

1) Cyclicals – The Cyclicals owned in the portfolio tend to be focused businesses that are leaders in niche industries – **Ferguson** in plumbing and HVAC distribution, **Colliers** in commercial property, **Techtronic** in electrified power tools, **API** in security solutions and **Diploma** in value added component distribution. These stocks performed well in 2021 and benefitted from a resurgent economy. As higher quality businesses with strong returns on invested capital these businesses, while relatively Cyclical, are not in the 'short cycle' or 'deep value' parts of the market that bounced in Q1, and indeed have pulled back 15-20% year to date.

Conversely, Cyclical areas the portfolio does not own, for example Energy and Mining did very well in the quarter. With the crude price up ~35% in three months oil and gas producers, refiners and related services saw share prices jump ~50%, thus the Energy sector with a benchmark weighting of 4% up 50% led to a ~2% drag to relative performance.

Our view is that the Cyclicals we own today exhibit **significant** value latency. With prices off 15-20% and ongoing earnings growth up 10-15% we own businesses today led by best-in-class management teams (and not dependent on commodity prices) that are roughly 30% cheaper than 3-6 months ago. An example is **Ferguson** which after the price fall combined with double digit earnings growth trades on around 14-15x next years earnings. During the quarter the business moved its primary listing to the US, where direct peers trade around 10 turns of multiple higher (Reece as a local comparative trades at ~30x). Ferguson carries almost no debt, and is returning 4-5% a year of cash to shareholders through dividends and buybacks.

2) Stalwarts – This Subset of Value comprising compounding-type businesses has traditionally been the major driver of returns for the portfolio over the very long term. Relative to the Benchmark our Stalwarts are typically smaller in size, more focused businesses that grow faster, are more profitable, and generate consistently higher returns on capital. Examples include **S&P Global** (Mcap $98bn, -14% year to date) in the US and **Unicharm** (Mcap $23bn, -10% year to date) in Japan.

This combination of attributes was not in favour during a quarter where the market rotated into larger, more traditional index heavyweights that, while growing more slowly and generating lower returns on capital, typically trade on lower headline multiples. In Healthcare for example, we saw portfolio holdings **Danaher** and **Agilent** fall 10-15% in the quarter whereas 'big pharma' names like Novartis, Johnson and Johnson and Sanofi were up mid-single digits. Given the relative business quality and growth prospects for a life sciences capital allocator champion like Danaher versus a large diversified pharma company, we think this period of underperformance is likely more a blip than a trend.

In terms of underlying businesses, the portfolio holdings are going well and largely reported solid numbers during earnings season with positive language around the outlook for 2022. Our insurance brokers **Aon**, **Arthur J Gallagher** and **Ryan Specialty** are stand-out performers, delivering low-double-digit organic revenue growth at the same time as margin expansion - these are businesses that benefit from higher interest rates, emerging risks and inflating premiums. While rising rates, supply chain constraints and war in Europe represent a myriad of challenges for many industries, our view is that our management teams are highly experienced focused operators. They are well equipped to deal with these challenges, having shown great resilience and flexibility during many crises, the most recent example (COVID) proving yet again the power of their business models.

We are honest with ourselves that there will be periods of relative underperformance and not every decision we make will go our way. While we would love to outperform every time period, we acknowledge this is not realistic in volatile markets. During these periods we refocus on the VoF process and the businesses we own. To this end the team is looking forward to recommencing international travel. Over the next 3 months we have extensive itineraries organised across the US, Europe and Japan where we will be reconnecting in person with executives at around 20 portfolio holdings (and 40+ watchlist stocks) after two years of COVID restrictions. We look forward to sharing insights in our June newsletter.

In the meantime, we continue to find good opportunities within our Watchlist. The volatility over the quarter led to several 'babies being thrown out with the bathwater' amongst high quality Watchlist businesses, and relative value latency versus other portfolio holdings become compelling in the case of three new positions which were funded by selling three existing holdings (see Portfolio Changes).

Significant contributors to return for the quarter were **Aon** and **Arthur J Gallagher** (strong operating trends for insurance brokers) and **Teleflex** (bounced with improving trends in elective surgical procedures post COVID lockdowns).

The largest detractors to return for the quarter were **Ferguson, API Group** and **IQVIA**, all of which sold off ~15-20% though no company specific news.

Finally the quarter saw high currency volatility with a strong Australian dollar bucking the usual pattern of weakness during times of a market sell-off. The AUD gained ~4% against the USD, ~6% against Euro and Pound, and ~10% against the Japanese Yen.

The Portfolio

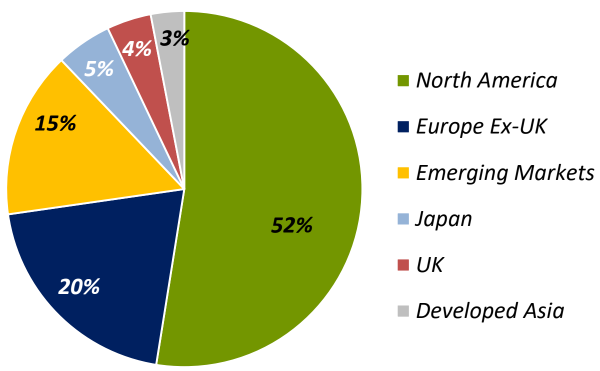
The portfolio is positioned around Subsets of Value:

- **Stalwarts** (32% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (AON).
- **Growth companies** (35%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Costco).
- **Bond like equities** (4%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Ferrovial).
- **Low risk turnarounds** (5%) – sound businesses with good management and balance sheets. (Vontier).
- **Asset plays** (3%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (Sony Corp).
- **Cyclicals** (17%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who allocate capital prudently (Ferguson).

The portfolio is diversified by country and sector:

No. of Stocks	*41*
Region Weights	*North America 58%*
(by listing)	*Europe 23%*
	Asia 15%
Most OW Sectors	*Industrials, Health Care*
Most UW Sectors	*Com. Services, Materials*
Cash	*5%*

Geographical Exposure by Source of Revenues#



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

Portfolio Changes

During the quarter the Fund established a position in **Cintas Corporation**, a market leader in uniform rental services across North America (Mcap $44bn). This service provides workwear for large corporate and government clients, for example managing supply and laundry of uniforms for the nationwide employee base of customers such as Home Depot.

Uniform rental is a tough local business (Cintas has a million customers) but management have built a high quality business operating with stable and growing recurring revenues and have consistently delivered for shareholders. They have the scale and a superior service offering which drives a unique and attractive return profile, including mid-to-high single digit sales growth, 40% returns on tangible funds employed, and earnings per share that have risen for an impressive 50 of the last 52 years.

The opportunity to invest arose following a 20% sell-down as Cintas was caught up in the sell down in stable compounding businesses during the quarter, despite no change in the outlook or fundamentals for the business.

We view Cintas as a well-positioned Stalwart that can successfully navigate the existing environment. They have the ability to leverage what is a dominant position to grow market share and raise pricing to align with inflation. Cintas could enter a strong period of growth as job openings are filled, manufacturing moves back onshore and the continued growth from service-based industries outsourcing their uniforms. Led by Chairman and descendent of the founder Scott Farmer (also the largest shareholder at 15% of the company) we expect Cintas to continue their track record as excellent operators over the short, medium and long term.

The Fund also initiated a position in **Simcorp**, a global leader in investment management software listed and headquartered in Denmark. Simcorp provides a full front-to-back office suite of products ('Dimension') to large asset managers, pension funds, sovereign wealth funds and insurers. We have followed the business for many years and have been impressed with management's operational execution and pragmatic approach to evolving the business model in line with industry trends towards Cloud computing.

Simcorp's software is mission critical to clients and once implemented is incredibly sticky. Given operations are complex and constantly evolving, clients require a software partner with deep domain expertise and high reinvestment rates. Simcorp ticks both of these boxes, having been a vendor to the industry for many decades and invests close to 20% of sales back into product development. The result of all this is incredibly low client churn (~2%) and above 100% net revenue retention. As part of our research process we were fortunate to meet directly with IT procurement executives at a large Australian superannuation fund who had recently implemented the Dimension suite. They were highly complimentary of both the solution and implementation process.

Recent operating trends have been below average for two key reasons; COVID disruptions to new client wins and higher than usual product investment as Simcorp's SaaS product offering is rolled out and scaled up. As a result, the share has been significantly de-rated over the last year, trading below DKK600 today having hit almost DKK900 in August 2021. In multiple terms this represents a mid-20s multiple of earnings, a level where we see attractive value latency derived from three key sources; low risk and high quality cashflows from existing customers, where there is significant upside via selling additional products, the continued growth opportunity from new customer acquisition, and margin expansion over the medium term, something we expect as the business passes through current elevated investment in its SaaS portfolio.

Finally, the Fund also initiated a position in **Hoya**, a Japanese business whose core technology is optical glass for a variety of applications. We have followed Hoya for many years and this quarter we took the opportunity after the shares fell ~30%.

Hoya is a collection of high margin, niche businesses in healthcare and IT. Aspiring to be the "big fish in a small pond" it has market leading positions in two niche IT businesses which will be the main drivers of growth.

First, Hoya has >75% market share in EUV mask blanks for semiconductors – fine sheets of glass that are used in the lithography process of transferring semiconductor patterns onto wafers, like high tech stencils. Demand for leading edge semiconductors across various applications, industry R&D budgets, and ongoing miniaturisation ('shrink') of chips will drive strong demand for mask blanks for many years.

Secondly, Hoya has 100% market share in the next generation of glass substrates for hard disk drives (HDD), the stacked 'platters' that fit inside a drive housing. These are anticipated to grow with demand for data storage, where the volume of enterprise data storage is projected to grow 30% annually to 2025. Further, HDDs are likely to remain the primary means of storage due to an enduring cost advantage over Flash.

We have been impressed with Hoya's small and focused executive team. The business recently transitioned CEO to Eiichiro Ikeda, a 20-year veteran and part of the executive team since 2015. Ikeda-san has been recognised as transforming the IT business into a growth driver for Hoya, after divesting businesses and investing in growth.

We see value latency in the long-term growth of Hoya's IT businesses and deployment of ¥300bn of net cash (8% of market capitalisation). Hoya have been disciplined in waiting for the right M&A opportunity and have a strong track record in deploying capital, with group wide return on invested capital above 40%. Absent of M&A, Hoya historically return at least 2% of cash to shareholders per annum though dividends and buybacks.

Three stocks were sold during the quarter.

Olympus has been on a turnaround journey and while we continue to like management's focus on becoming a leading global med-tech company the low hanging fruit of the turnaround is largely complete. The next stage of the journey is about gradual improvement through changes in internal culture and processes. At the same time industry trends have become more challenging, particularly in the key Chinese market where a government mandate for hospitals to 'buy local' is hurting foreign medical device players.

Warner Music and **CoStar** were also sold to fund new investments. Both businesses are entering a period of significant capital deployment that is more extensive than we expected, representing a change to our original value propositions. While these investment phases make sense for longer-term strategic positioning, they also raise execution risk and push free cash flow growth further to the right at a time when other Watchlist stocks have been on sale.

Stock News

This quarter **S&P Global** announced the successful completion of its acquisition of IHS Markit. The deal makes S&P a global leader across the information services industry.

The Fund has been long term shareholders of S&P, building a position back in 2015 when the organisation was still named McGraw-Hill Financial. We saw the initial opportunity as it refocused the business from a publishing and financial conglomerate towards its core data and financial assets. S&P's credit ratings, benchmarks and analytics businesses in global capital and commodity markets carry leading positions, defensible offerings, consistent growth and high margins – as true today as it was seven years ago. With the increased focus management have applied over a lengthy period we see improved revenue growth, margins and cash flows.

In our December 2020 commentary we discussed our view on the announced acquisition of IHS. At the time, we highlighted that the deal was somewhat contentious due to its size (~50% of S&Ps market capitalisation) as management had typically focused on smaller deals and returning cash to shareholders.

As we have improved our understanding of IHS and management have communicated the scale of the opportunity our view of the merger benefits has grown increasingly positive.

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1) The deal strengthens S&Ps core business while diversifying more adjacent offerings, in particular Fixed Income. Ratings, which have historically dominated S&Ps narrative remains important but is no longer the ‘be-all and end-all’ for the group.
2) S&P management have shown an ability to run financial data businesses with growth and industry leading margins, thereby providing an opportunity to improve the IHS operations and generate synergies from the combination.
3) Additionally, there is a renewed commitment to return large chunks of free cash flow to shareholders (~85%).

As a result, S&P are well positioned to grow their foundational capabilities while also pursuing evolving adjacencies like risk management and ESG. From a financial lens, the merger should be beneficial to existing shareholders and is expected to be accretive by the end of next year (2023).

It leaves S&P in a stronger position than previously. Once the businesses are integrated they will be more profitable and more diversified, with top line growth expected to compound at high single digits, generating 50% profit margins that can expand annually with operating leverage. Based on S&Ps track record, we see these targets as being eminently achievable. We will be monitoring progress against these objectives and importantly what additional value latencies are potentially on the table.