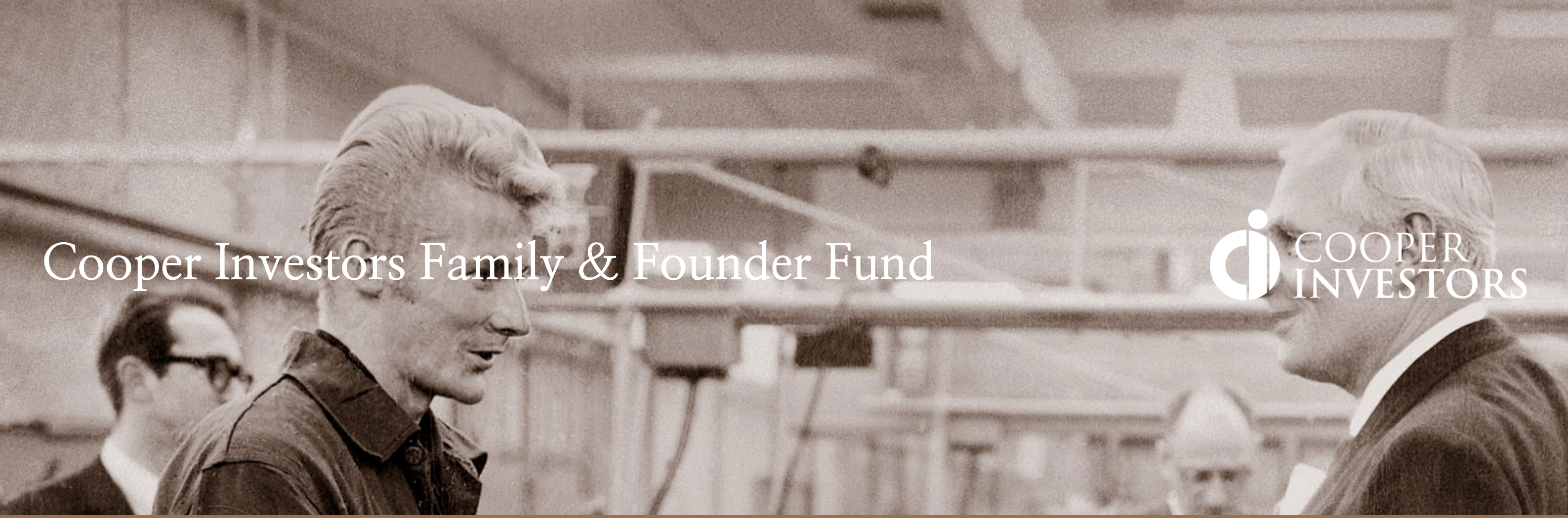


# Cooper Investors Family & Founder Fund

COOPER INVESTORS

**QUARTERLY REPORT** December 31, 2024

AFS LICENCE NUMBER 221794 ABN 26 100 409 890

## Performance Summary

| *Net of fees and expenses* | 3M | FYTD | 1Y | 3Y* | 5Y* | Inception* | FY2024 | FY2023 | FY2022 | FY2021 | FY2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cooper Investors Family & Founder Fund % | 5.78 | 11.91 | 15.72 | 2.56 | 8.86 | 9.80 | 9.54 | 11.63 | -12.06 | 28.37 | 8.30 |
| MSCI Midcap Net Dividends AUD % | 8.17 | 14.37 | 20.66 | 6.40 | 9.32 | 9.57 | 10.41 | 15.74 | -11.99 | 32.09 | -2.66 |
| Relative 1 % | -2.39 | -2.46 | -4.94 | -3.84 | -0.46 | 0.23 | -0.87 | -4.11 | -0.07 | -3.72 | 10.96 |
| MSCI AC World net dividends in Australian Dollars % | 10.94 | 13.86 | 29.48 | 11.23 | 12.89 | 13.07 | 18.98 | 20.38 | -8.02 | 27.72 | 2.64 |
| Relative 2 % | -5.16 | -1.95 | -13.76 | -8.67 | -4.03 | -3.27 | -9.44 | -8.75 | -4.04 | 0.65 | 5.66 |

Past performance is not a reliable indicator of future performance

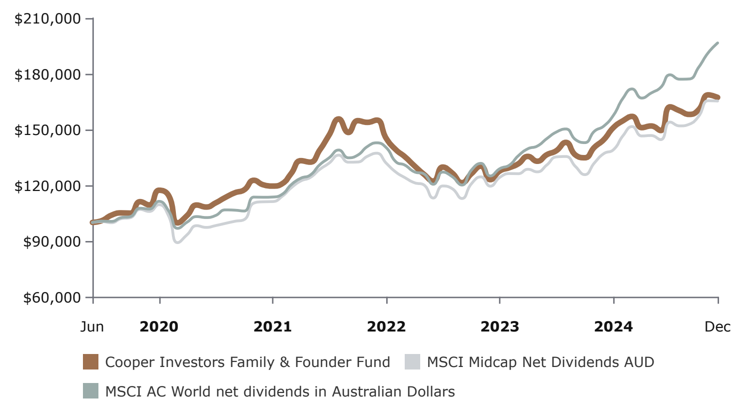
Source: Internal CI data reports, December 31, 2024

Inception Date: 2 July 2019

*Annualised

Download Data

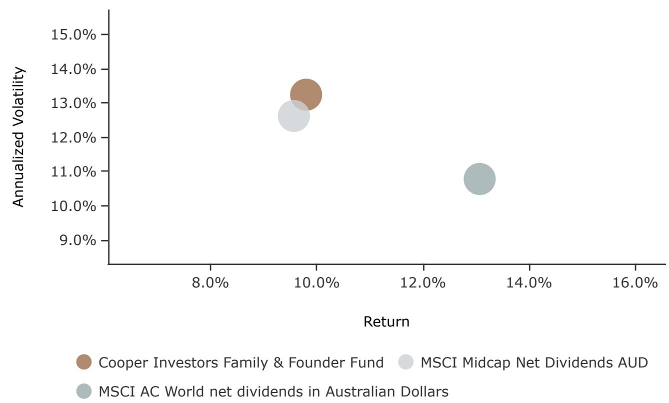
### $100K INVESTED SINCE INCEPTION (NET)




Past performance is not a reliable indicator of future performance

Source: Internal CI data reports, December 31, 2024

### RISK/RETURN SINCE INCEPTION (PER ANNUM)




## Quarterly Highlights

- For the quarter the Family & Founder fund returned 5.8% and since inception has returned 9.8% pa net of all fees and expenses[1].
- Larger companies as seen by the MSCI ACWI index, continue to perform better than smaller ones, with small and midcap MSCI indices down in local currency. The US and in particular Nasdaq continue to be amongst the top performing markets.
- The top performer in the Fund was **Paylocity (PCTY)** and bottom performer was **Installed Building Products (IBP)**, which are discussed in greater detail below.
- The USD rallied compared to AUD and most major currencies.

**Paylocity (PCTY)** was the standout performer up 23% during the quarter. Paylocity with 39,000 customers, provides HR software to mid-market North American companies. We have followed the business for 5+ years, admiring the management team led by Founder Steve Sarowitz and Exec Chair Steve Beauchamp who combined own 20% of the company. The fund opportunistically invested in Paylocity beginning 2024 following a price fall on the back of an unrelated earnings result from competitor Paycom. The initial multiple paid for Paylocity was 24x PE, compared to the 100x PE multiple it traded on back in 2021.

Over the years following the company we have observed two dynamics that drive our positive outlook:

1. Paylocity expanding their suite of products from what was originally Payroll, now to Onboarding, Benefits, Budgeting etc, which has grown their TAM significantly.

2. Paylocity are taking market share with the best-in-class product. Larger incumbents ADP and Paychex despite their success lose ~250k customers per year, which results in an opportunity for Paylocity to win new clients and continue to grow its $1bn+ software revenue base.

Through conversations with the Paylocity Exec Chair, CEO and CFO alongside customers, former employees and competitors, we have built a thorough understanding of the industry landscape and the businesses positioning within it and maintain confidence in double digit growth. However, we had not seen an opportunity and waited patiently until for the opportunity to emerge, which did so this year.

The bottom performer was **Installed Building Products (IBP)** which fell 29%. IBP is the second largest installer of insulation in US residential construction with ~25% market share. IBP has a scale advantage as they buy insulation fibre direct from the manufacturers and have a much lower cost than mom & pops. CEO Jeff Edwards grew his small family business into a USD 5bn market cap company and scaled player through acquisitions and share gains.

The IBP share price suffered as US long term yields rose with the US 10 year rising to 4.6%, dampening the outlook for a recovery in homebuilding demand. IBP is a high-quality cyclical business which has a number of growth drivers:

1. Build out their presence across more of the US. IBP only competes in 65% of housing permit areas.
2. Continue to expand into other building products. IBP also sells and installs gutters, garage doors, shower screens.
3. Scale the distribution arm that can also sell to other installers and profit from revenues elsewhere in the large US economy.

We visited IBP during the quarter at their headquarters in Columbus, Ohio. The executive team are long tenured members that have been a part of the company's success. Team stability is an important ingredient in a successful family business and is a signal of a strong culture. Whilst higher mortgage rates are causing affordability issues and dampen near term demand for new home builds, the company sees a bright future as they execute on the above mentioned growth drivers, return cash to shareholders, find high returning acquisitions and new home starts get back to more normalised levels which the consensus view is 10-20% above the current ~1.2m new builds today.

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

## Portfolio Insights & Market Observations

For calendar year 2024 the Fund returned 15.7%[2]. The largest contributors were long standing investments of **Brookfield Corp (BN)**, **Brown & Brown (BRO)** and **Constellation Software (CSU)**. Other top performers included **Investor AB (INVE.B)**, **Lennox (LII)**, **Marriott International (MAR)** and **Arthur J. Gallagher (AJG)** plus others.

The drag on Fund performance has been European-listed companies as well as healthcare stocks (Healthcare +1% and Materials -2% were the worst-performing sectors in the S&P 500).

European markets continue to be weak, down for the quarter and up 6% for the year. The economic performance discrepancy between the US and Europe has continued and so has stock market performance.

| GDP growth | 2023 | 2024 forecast |
|---|---|---|
| US | 2.5% | 2.8% |
| Euro | 0.4% | 0.8% |

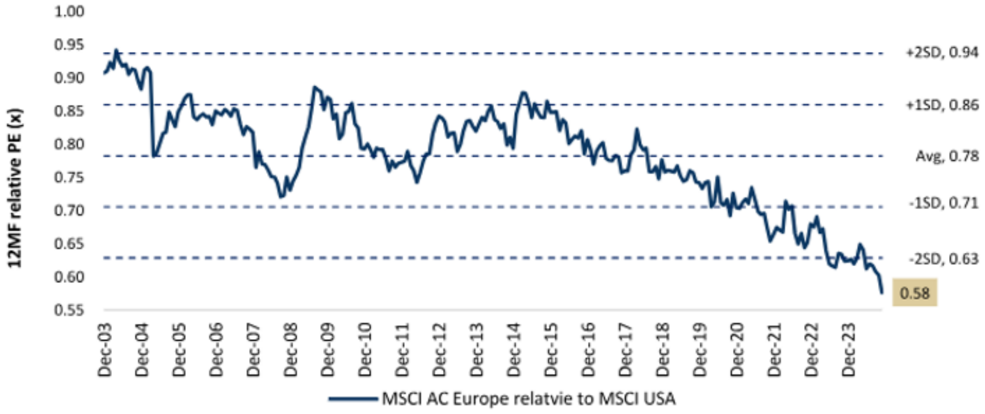
Source: World Bank

**Chart 1: Forward price-to-earnings ratio**


Source: FactSet

Europe is as cheap as it has ever been versus the US.

**Chart 2: MSCI AC Europe relative to MSCI USA - 12-month forward PE**

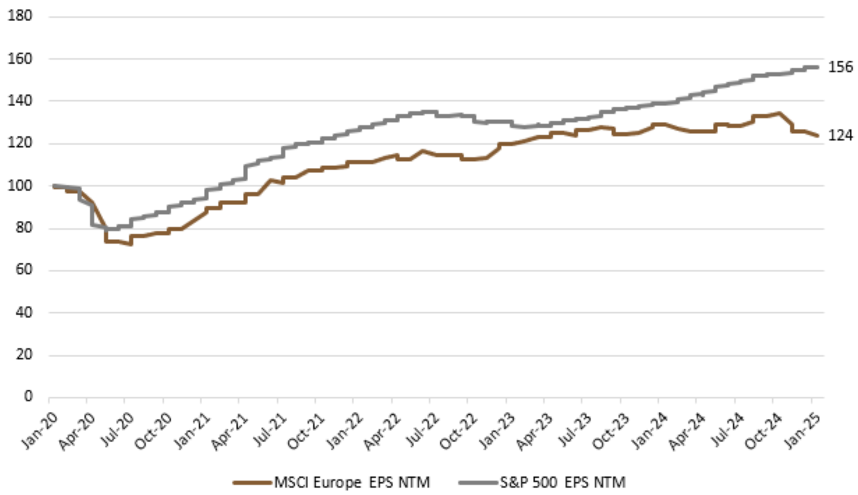



Source: Jefferies, FactSet.

Note: MSCI weights based on changing universe

At the beginning of the year the fund had 32% exposure to European equities. As the year moved on the fund adjusted and reduced this exposure to 21% today. The fund sold **Bechtle (BC8)**, **Pernod Ricard (RI)** and **Sodexo (SW)** during the year. Europe has many listed local and global champion family companies. It is much more ingrained in European culture for a family to maintain the listed business as the core wealth engine. However, earnings growth for Continental European companies has disappointed with the weak economic environment. See below chart showing 5 years of EPS for US and Europe. The MSCI Europe is flat over 2024 whilst S&P 500 has continued growing earnings.

**Chart 3: Earnings Per Share Indexed Comparison: MSCI Europe & S&P 500**



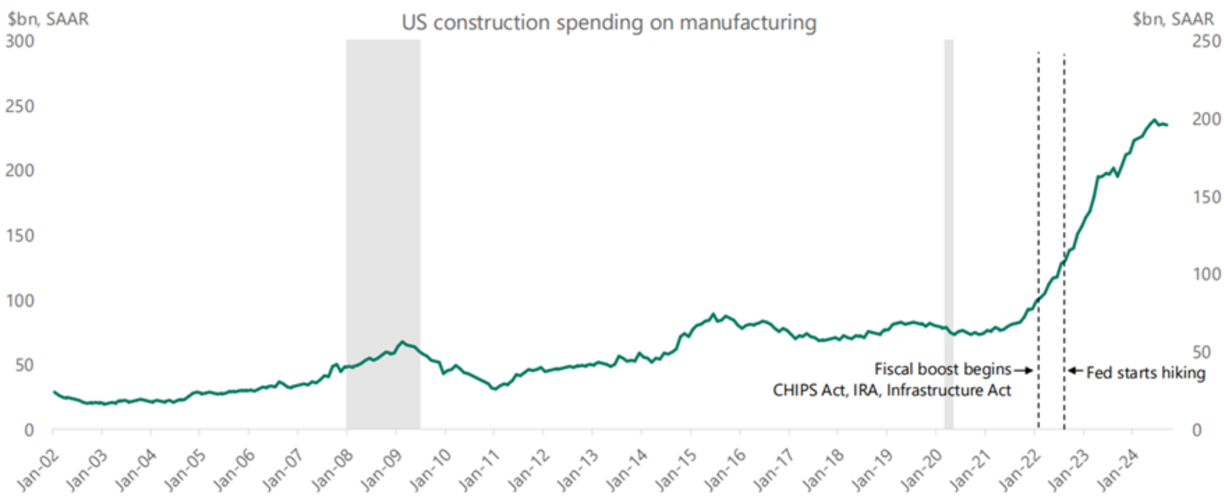

Source: Factset

We maintain a sizeable Europe investment but with a focus on Nordic and Swiss companies. These are quality global businesses with market leadership positions and world class stewardship. There is a much greater entrepreneurial and proprietorial spirit and feel in these markets and is reflected in the family and founder businesses we invest in. Company holdings include:

- **Investor AB (INVE.B)** – holding company of the Wallenberg family with stakes in Atlas Copco, SEB bank, EQT and trading at >10% discount to NAV.
- **Aker ASA (AKER)**– holding company of Kjell Inge Røkke, Norways richest person, with stakes in energy, fishing and software assets. Trading at 25% discount to NAV and paying a 9.5% dividend yield. Aker has compounded at >20%pa for 20 years since listing.
- **Schindler (SCHP)** – Swiss elevator manufacturer with services the golden goose income stream. 45% owned by Schindler family that is focusing on profitable growth.
- **Alfa Laval (ALFA)** – 30% owned by the Tetra Pack family, is a leading manufacturer of equipment for heat transfer, separation and fluid handling.

We would welcome a more pro-growth mindset from Europe given the low valuations, however a recent meeting with European listed cement manufacturer **Holcim (HOLN)** brings to life the US versus Euro trajectory. Holcim is planning to spin off and list its North America business. This business is positioned as a growth opportunity with the construction and infrastructure spend in the US. The remaining business will be dominated by Europe with a focus on decarbonisation to drive margins and cash flows. Pricing to recover the decarbonisation investments will be the main growth vector as volumes are expected to be lacklustre. While this highlights the malaise in Europe, it also speaks to the continued opportunities in the US. Post the election we spent time in the Midwest and Southern US – Cincinnati, Columbus, Louisville and Dallas. Whilst there is some concern over President Trumps policy impacts, the mood is typically positive. Construction spending on manufacturing has significantly increased since 2021 with re/on shoring still a priority. The US has exposure to the key theme of data centre demand, with the US hosting over half the world's data centres.

**Chart 4: US construction spending on manufacturing**




Source: Apollo economics

When investing in the US some 15 years ago, companies needed to be exposed to emerging markets or software to have growth opportunities. Today local industrial demand and utilities have attractive growth prospects. The fund has significant exposure to local US growth with companies such as: **Techtronic (669)**, **Lennox (LII)**, **Installed Building Products (IBP)**, **Colliers International Group (CIGI)**, **Cadre (CDRE)** and **Brookfield (BN)**.

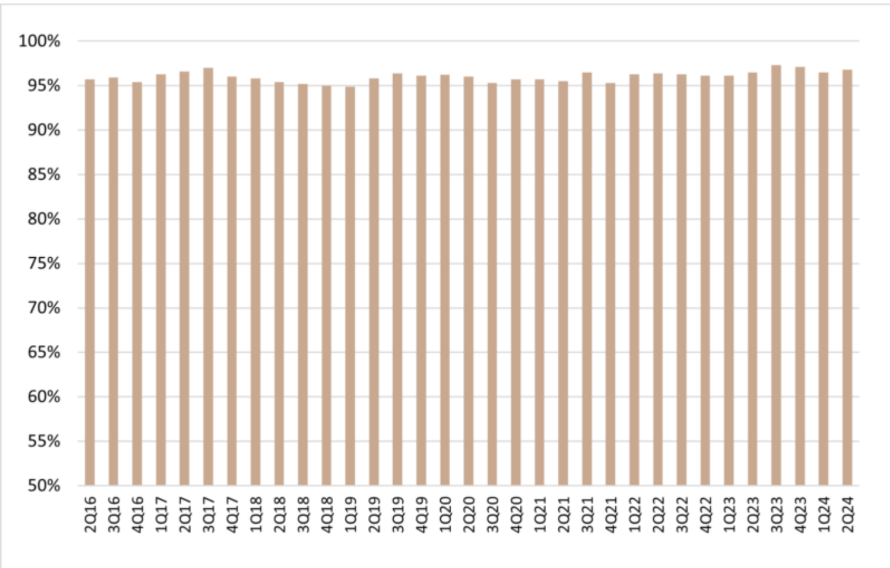
[2] Past performance is not a reliable indicator of future performance.

## Stock In Focus

The solid US environment is a positive backdrop for financial firms too. One underappreciated founder led firm in this space is **SS&C Technologies (SSNC)**, a new investment and a top 10 position for the Fund. SS&C are the largest global fund administration business for hedge funds, listed equities and alternatives. They sit in the “uncool” part of the investment value chain, providing outsourced middle and back-office operations and software. Leading investment firms such as Point72, Millennium, St James Place, Elliott Management, Carlyle and Baupost, are SS&C clients.

We like the SS&C businesses as they play a critical role in the ecosystem as its backbone. SS&C is exposed to the same growth drivers as front-office investment firms with FUM growth and market activity, however, it has predictable revenue streams with 5+ year contracts and 97% revenue retention.

**Chart 5: SS&C Revenue Retention %**




Source: Company reports

For SS&C, an inevitable industry trend we see playing out is the ongoing outsourcing of middle and back offices of investment management firms. It is often cheaper, easier and lower risk to outsource the non-core. SS&C is strategically positioned as the #1 player globally, offering superior scale, quality, offering depth and customer references.

During the quarter, SS&C signed a large agreement with Insignia Financial (formerly IOOF) to provide superannuation admin services to their 1.1 million Australian fund members. This multi-year contract is testament to SS&C’s best-in-class positioning, and aligns to the potential we see for them to take share from existing fund administration providers such as Link Group. This deal, and the opportunities it could open for SS&C was profiled in the AFR during the quarter.

One of the quotes that gets us excited is “SS&C is coming in hot. At a time when big super funds bemoan back-office delays, one of the bigwigs globally (SS&C).. is going big. They’ll be free to chase other contracts before too long.”

The other attractive aspect is the refocusing aspect of management. CEO and founder Bill Stone built up SS&C through acquisitions during its near 40 years in operations. With a revenue base approaching $6bn, SS&C is now focusing on leveraging its scale and growth through organic means. We see SS&C as having an ability to deliver >10% EPS growth consistently whilst trading on 13x PE.

## Portfolio Characteristics

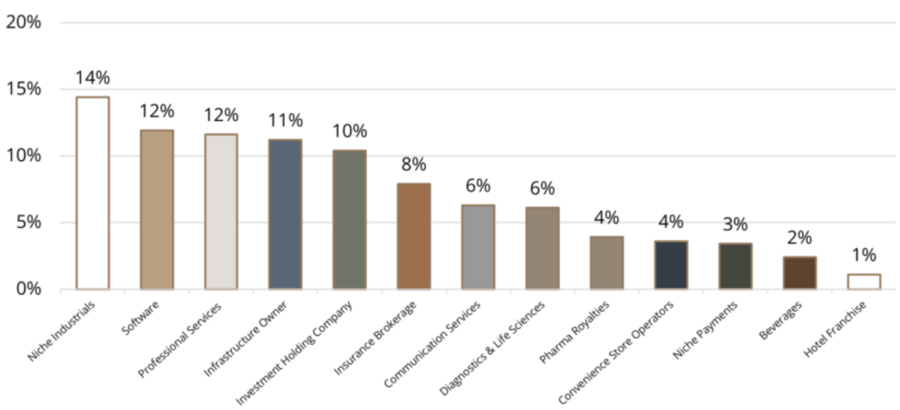
Markets had another strong year, but again was skewed to large technology and US businesses. The S&P 500 trades on more than 23x forward PE, a figure in line with 2021 peak and not far off the dot com highs. The funds PE and FCF multiple still offer attractive value being 18x. Small and mid sized companies have underperformed larger companies in 3 of the last 4 years reflecting the value discrepancy. The factset consensus EPS forecast for the portfolio is for over 12% growth for the 2025 calendar year. The funds returns over the long term have been driven by earnings growth. Importantly these companies continue to be led and stewarded by insiders who on average control 24% of our companies. We continue to see growth opportunities for our businesses and are optimistic that these quality earnings streams can get rewarded with higher multiples over time too.

| Top 10 names |
|---|
| Brookfield |
| Brown & Brown |
| Constellation |
| Colliers |
| Investor AB |
| Hess Mid |
| Royalty Pharma |
| Paylocity |
| SS&C |
| Techtronic |

| Market Cap USD | Fund weight |
|---|---|
| Cash | 6% |
| <$1-5 billion | 10% |
| $5-20 billion | 30% |
| $20-50 billion | 22% |
| $50-100 billion | 25% |
| $100 billion+ | 7% |
| **Total** | 100% |

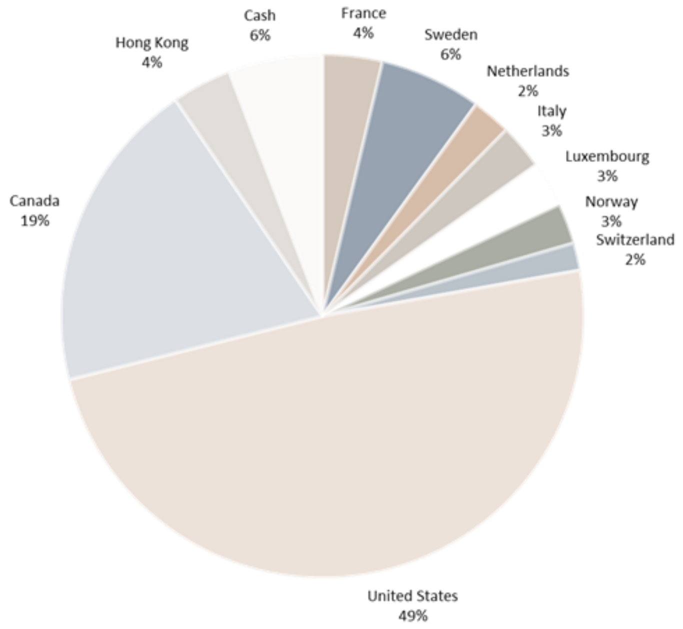
Source: Internal CI data reports, December 31 2024

**Chart 6: Portfolio by Sector**




Source: CI Estimates

**Chart 7: Holding Weight by Geography**




Source: CI Estimates

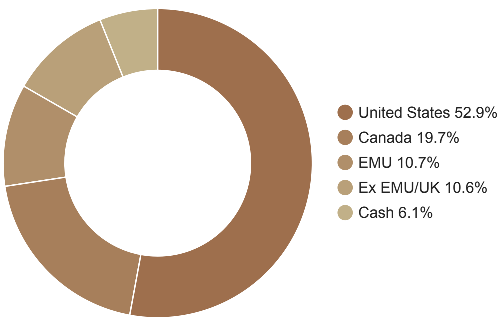
# Portfolio Snapshot

Source: Internal CI data reports, December 31, 2024

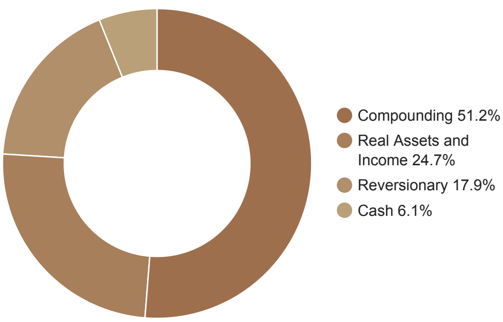
## TOP 5 FUND HOLDINGS

| NAME | REGION | CAPITAL POOL |
|---|---|---|
| Brookfield Corporation | North America | Real Assets & Income |
| Brown & Brown, Inc. | North America | Compounding |
| Constellation Software Inc. | North America | Compounding |
| Colliers International Group Inc. | North America | Reversionary |
| Hess Midstream LP Class A | North America | Real Assets & Income |

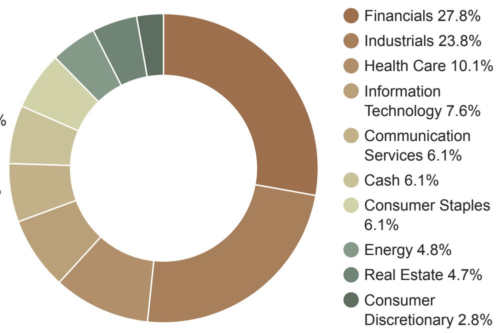
## REGIONAL EXPOSURE



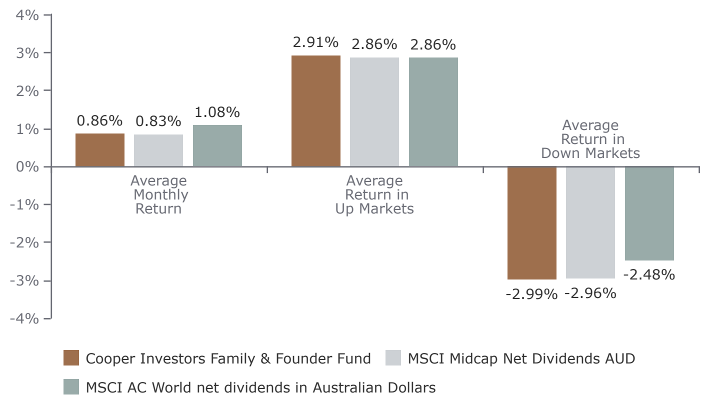

## CAPITAL POOLS




## SECTOR EXPOSURE




## SINCE INCEPTION NET RETURNS IN UP/DOWN MARKETS



# Further Information

Looking for further information regarding the Fund, please don't hesitate to get in touch:

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