COOPER INVESTORS FAMILY AND FOUNDER FUND

COOPER INVESTORS

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

QUARTERLY COMMENTARY | SEPTEMBER 2020

The aim of the Cooper Investors Family and Founder Fund (Fund) is to generate attractive long term returns by applying Cooper Investors' VoF investment process to build a concentrated portfolio of listed Family and Founder (F&F) led businesses. These companies must meet our high bar for a Family and Founder company – the unique and rare management teams and boards with extreme levels of financial and emotional skin in the game, or "Soul in the Game".

Our observations and experience lead us to believe that a portfolio of these companies - those which exhibit the highest quality stewardship combined with operating and capital deployment excellence - will deliver attractive long term returns.

	**Portfolio	#Benchmark	Value Added
Since inception^	17.67%	6.61%	11.06%
Since inception*	13.89%	5.25%	8.64%
Rolling 3 months	7.53%	3.87%	3.66%
Rolling 6 months	17.04%	10.08%	6.96%
Rolling 1 year	11.89%	3.93%	7.96%

^ Cumulative (2 July 2019) * Annualised (2 July 2019)
** Returns are gross of fees and expenses. # MSCI AC World Net Divs in Australian Dollars
Past performance is not a reliable indicator of future performance.

QUARTERLY PORTFOLIO REVIEW

For the quarter the fund delivered a 7.5% return. Since inception on 2nd July 2019 the fund is up 17.7%. For reference the MSCI World ACWI delivered 3.9% for the quarter and 6.6% since inception of the fund.

There were many contributors to performance during the quarter. Top performers included Techtronic Industries (owner of Milwaukee tools and Ryobi) which was up 34% and FirstService (property maintenance and remodelling services) which was up 28%. Both benefitted from a strengthening US property market. Other strong performers included Latour (Nordic Investment Company), Danaher (life sciences and diagnostics), Eurofins (laboratory services) and Veeva Systems (life sciences software), which were all up over 20%.

Five stocks were down for the quarter with three of them seeing very modest declines of less than 2%. Ferrovial (infrastructure owner including toll roads and Heathrow Airport) was the only meaningful decliner, down 12%. It is worth noting that four of the five decliners have exposure to real assets. These companies are owners and operators of the highest quality assets from toll roads to renewable energy generation and residential housing communities. We think the F&F leadership dynamic will be an important driver of future value within these areas that are under some mild near term pressure.

The USD fell nearly 4% and was the weakest currency this quarter while the other currencies (CAD, SEK, EUR) were more or less in line with the AUD.

More broadly, as it relates to the pandemic, the April-June period is expected to be the most severely impacted quarter from an economic standpoint, and hence the earnings of our F&F portfolio companies. While quarterly earnings are not the main game, the recent reporting period (which took place in August relating to the June quarter or Q2) provided us a valuable window into both management and operational performance.

Overall we remain comfortable with the diversified collection of businesses in the portfolio - it was pleasing that the revenues from the fund's holdings were roughly flat as a group for the June quarter, highlighting the resilience of the businesses we own. We expect to see a rebound to growth in the upcoming reporting of third quarter results.

Where companies were impacted the effect was not as bad as predicted. Take Fortive, an industrial technology company, where revenues were down 16%, much better than the 20-25% which management had initially guided to. Q3 revenues are expected to rebound to growth again. Importantly, cost control and cash preservation came to the fore. The company expects Free Cash Flow to be in line or up for the full year. We believe these sorts of outcomes speak to the quality of the stewardship at our F&F companies.

STOCK NEWS

There was some material corporate activity in the quarter.

Intercontinental Exchange [ICE] ($56bn market cap) announced and completed the acquisition of mortgage origination platform Ellie Mae. The deal is material in size at ~US$11B as compared to ICE's ~US$60B Enterprise Value.

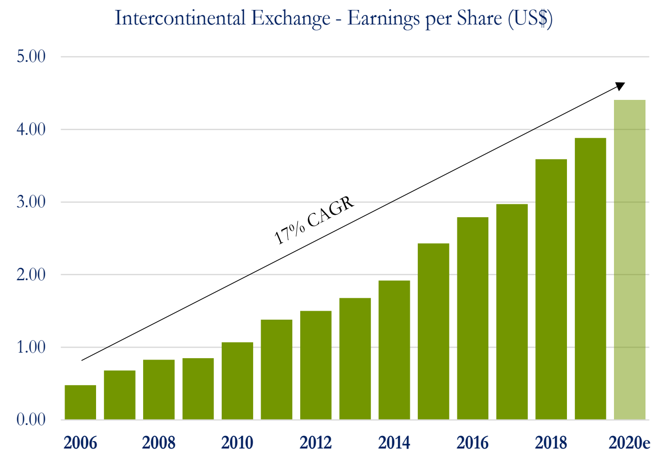
Before discussing the deal, we think it will be valuable to provide some context and background and hopefully some insight into the F&F mindset around capital allocation.

ICE is run by CEO and Founder Jeff Sprecher who acquired the foundation assets for the businesses 20 years ago for just $1. Through savvy capital allocation and operational knowhow, he has built the pre-eminent financial information and exchange group. ICE's modus operandi can be summarised as finding analogue markets and applying digital and technology solutions to significantly increase their efficiency.

A clear example of this is the acquisition of the NYSE in 2013. At that point, the NYSE had not invested in their trading systems and were losing share to more technically advanced exchanges. ICE took control of the asset and implemented their best in class exchange technology and have restored the NYSE's position as the pre-eminent listing and trading venue for equities.

Jeff and his team were also early movers in building a financial data business. They recognised that financial exchange revenue is dependent on trading volumes which can be uncertain in the near term depending on the whims of market participants. However the data used to inform the trading decision has a much more stable demand profile, and can be used for trading, pricing and risk management. Off the back of this insight, through acquisition and internal investments, ICE has built a leading financial data business which is highly complementary to their financial exchange business.

These sorts of deals are truly proprietary and can create significant value for shareholders. The long term vision, operational and capital allocation prowess required to execute them is quite rare. One area where we tend to find this sort of thinking is in Family and Founder led companies and so with regards to our ICE investment, we had identified a deal of this nature as a key source of value latency.



Source: Intercontinental Exchange company filings

ICE's journey in the mortgage space started four years ago as they acquired some smaller assets which provide discrete solutions across the origination process. Over this period management learnt how the industry worked and where the ineffiacies were.

Today, the mortgage application process in the US still encompasses hundreds of disjointed steps involving things such as submission and verification of unstructured documents, pricing, regulatory filings and touches many different parties including originators, lenders, counties, insurers and of course borrowers (just to name a few). Because of this inherent complexity, increasing regulatory burden, and the manual processes involved the cost of mortgage origination has ballooned to $US10K.

Ellie Mae is a cloud based platform where many of the aforementioned steps can be performed more efficiently often in an automated fashion. This creates significant cost savings of up to 25%. It is a market leader in the space which continues to take share as a greater portion of the US mortgage lifecycle reaches a digital tipping point. There are also significant data and analytics opportunities for ICE, an area where they have significant expertise. Combined, these opportunities should underwrite an 8-10% growth rate at an attractive 50%+ EBITDA margin for the foreseeable future. Under this scenario the company will generate an adequate 10% IRR on the Ellie Mae acquisition.

Our broader discussions with industry participants have furthered our thinking around potential significant strategic upside as ICE pairs the Ellie Mae platform with the rest of its assets. We believe that Jeff Sprecher's long term vision will be to first complete the digitisation mortgage market and then become the platform where "gold standard" mortgages are created. Having mortgages verified by ICE's processes and data will invoke deeper confidence from investors and allow ICE to use their existing assets and knowhow (equities and derivatives exchanges) to become the clearing house of the US mortgage market, where investors will come to trade mortgages. For context, the US equities market is ~US$35T and the US mortgage market is ~US$11T. ICE can create something like the NYSE, except this time they would be the only player. Our observations are that these sorts of long term strategic plays and asymmetric outcomes are usually beyond the purview of typical CEOs whose tenure with a company is shorter than the time it may take for this vision to be realised.

ICE have made this acquisition from a position of strength. The broader business is built to thrive in an uncertain environment like today. Excluding the Ellie Mae acquisition, ICE will grow earnings at a double digit rate this year. We remain very comfortable with our investment, with valuation also attractive and believe the >20x Free Cash Flow multiple does not reflect the quality of the business, management team and the latent opportunities.

Upland Software ($1.1bn market cap) conducted a sizeable capital raising during the quarter. Founded by CEO Jack McDonald in 2010, Upland is a cloud based enterprise software provider. Insiders own 16% of this company with McDonald owning 6%, billionaire Joe Liemandt, having provided founding capital, owns 6% and other executives also owning a combined 4%.

Austin based Upland sells cloud software to enterprises and has over 10,000 customers, $250m of subscription revenues and 33% adjusted EBITDA margin. Upland is a unique SAAS business in that it has a very active acquisition strategy. At a high level, we believe that most corporate M&A does not create shareholder value, however there are those rare companies where management have been able to turn the acquisition process into a core competency and they are in fact able to create significant value. We call these companies "Capital Allocation Champions" and Upland certainly fits the mould.

Upland's strategy has been to acquire sub $30m companies often from venture capital owners. The acquired businesses have typically built a quality product over 10+ years and are generating $20m of revenues and growing 20% growth but are unlikely to become the next Silicon Valley Unicorns. Upland acquires these businesses at attractive valuations as Venture Capital is looking to exit. These businesses are usually loss making and Upland are able to instil a more appropriate cost structure, taking the margins to healthy corporate levels, thereby generating attractive returns whilst continuing to grow the business.

The company reported a strong Q2 where revenues grew 35% and 8% organically. Subsequently the company raised ~$130m or 13% of the market capitalisation via a share placement which is a sizeable amount. These proceeds will place Upland in a position of strength to make the most of any acquisition opportunities that arise out of the pandemic. Upland had spent ~$200m on acquisitions over the last 12 months and management had been planning on slowing down that pace and deleveraging however given the potential for deals that otherwise would likely have not occurred management opted to raise capital instead.

Pre the raise the shares were trading above $40 with the raise occurring at $35. The Fund participated in the capital raising and the shares ended the quarter at $37.70 and have continued to increase since.

Upland continues to provide an attractive opportunity. A SAAS business growing at high single digits with accretive acquisition opportunities, strong profitability levels, run by its experienced founder and trading on 18x adjusted earnings.

During the quarter we participated in the IPO of **Bentley Systems [BSY]** ($7.8bn market cap) who are the leading vertical market software (VMS) business serving the infrastructure industry. Its tools are used across the design, construction and operation continuum for assets like roads, bridges, energy and water utilities.

The business was founded by four Bentley Brothers – Barry, Keith, Ray and Greg – in 1984. Today Greg remains CEO with Keith and Ray in key executive roles. All four are board members and the family owns ~67% of the company.

Across our watchlist and portfolios we have built up IP around VMS businesses like BSY. We believe VMS businesses possess many favourable attributes which tend to manifest themselves with favourable economics and hence attractive returns for shareholders. These include well defined oligopolistic markets, high barriers to entry due to deep domain expertise and recurring revenues due to the mission critical nature of the software. For BSY this is best expressed by their track record of and our expectations for >30% ROFE and mid-high single digit growth for the foreseeable future. An added kicker for BSY is the fact that digitisation of the construction industry remains very low and so there is a material penetration opportunity.

The initial free float of the business remains small, with the company planning to raise more capital later in the year and so for now this remains a smaller starter position which we will aim to build up over the long term.

COOPER INVESTORS FAMILY AND FOUNDER FUND

COOPER INVESTORS

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

QUARTERLY COMMENTARY | SEPTEMBER 2020

OBSERVATIONS AND PORTFOLIO POSITIONING

The Fund's holdings have weathered the pandemic well thus far. The recent results from the portfolio holdings have given us further vindication in the merits of the Family & Founder led strategy. The stocks have displayed resilient businesses, strong balance sheets and value latency. Importantly cash generation continues to be strong which allows these businesses and managers to continue investing in their operations. While the strong balance sheets and cash flows have helped support these businesses and stocks in weaker times we are starting to see a shift to the deployment and investment phase. Savvy decisions by management while competition is under pressure can set up a company for the next period. We have discussed some of these moves and in particular the acquisition ICE made this quarter. Over the coming quarters and years we expect to see many more value creating actions and opportunities across the portfolio.

SENIOR PORTFOLIO MANAGERS

Allan Goldstein B.Comm
Allan is the Lead Portfolio Manager for the Family and Founder Fund and joined CI in 2007, having been a foundation member of the CI global equities team. Allan has over 12 years of experience investing in international equities markets.

Marcus Guzzardi B.Comm, M.Comm (Hons), CFA
Marcus is the Deputy Portfolio Manager for the Family and Founder Fund. Marcus joined CI in 2012 and has 10 years of experience in equities research and investing, primarily in North American companies.

CLIENT RELATIONS

Clientrelations@cooperinvestors.com | **T** 03 9660 2600