COOPER INVESTORS FAMILY AND FOUNDER FUND

COOPER INVESTORS

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

ANNUAL COMMENTARY | JUNE 2021

The aim of the 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 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.

Financial Year	**Portfolio	#Benchmark
2020	9.43%	2.64%
2021	29.95%	27.72%
Total	**42.20%**	**31.08%**
Annualised	**19.26%**	**14.50%**

MSCI AC World Net Divs in Australian Dollars
** Returns are gross of fees and expenses

PORTFOLIO REVIEW

For the 3 and 6 months to June 30, 2021 the Family & Founder Fund returned 10% and 16% respectively.

For the year ended June 30, 2021 the Family & Founder Fund returned 30%. Since inception on July 2, 2019 the fund has returned 42%, or 19% on an annualised basis.

For reference the MSCI All Countries World Index returned 28% for the 12 months and is up 31% since the fund's inception, or 14% annualised.

Over the last 12 months there have been a broad range of performance drivers for the Fund. This has also been the case when looking at performance drivers since inception. Healthcare and Software exposed businesses have been strong performers, but certainly not the only areas of strength. Top performers cover a spectrum of diversified industrials (Latour), gold royalty owners (Franco Nevada), real asset managers (Brookfield) and power tool manufacturers (Techtronic) alongside providers of laboratory services (Eurofins), SAAS companies (Veeva Systems and Sprout Social) and life sciences businesses (Danaher).

Strong performers also come from different subsets of value. Included in those names above are growth stocks, stalwarts and asset plays. They also come from all over the world with headquarters located in the US, Canada, Sweden, Belgium, and Hong Kong. This is pleasing as we seek to invest in attractive Family & Founder (F&F) led companies exhibiting a range of characteristics and attributes - the commonality is the "soul in the game" behaviour of our F&F companies, which we believe to be an important driver of long term attractive risk adjusted returns.

In a similar vein the detractors to performance have also been from a number of different businesses. The majority of our "detractors" have done so through failing to keep pace with strong overall market and portfolio returns albeit as is to be expected, some investments have lost money. These include Hyatt Hotels and Liberty Media which were sold as COVID emerged. While these stocks have rebounded from their depressed prices, we believe our alternative uses for capital justify our decisions to sell. The other negative performers have been Just Eat Takeaway and Royalty Pharma which are more recent investments and so far are down on their purchase prices.

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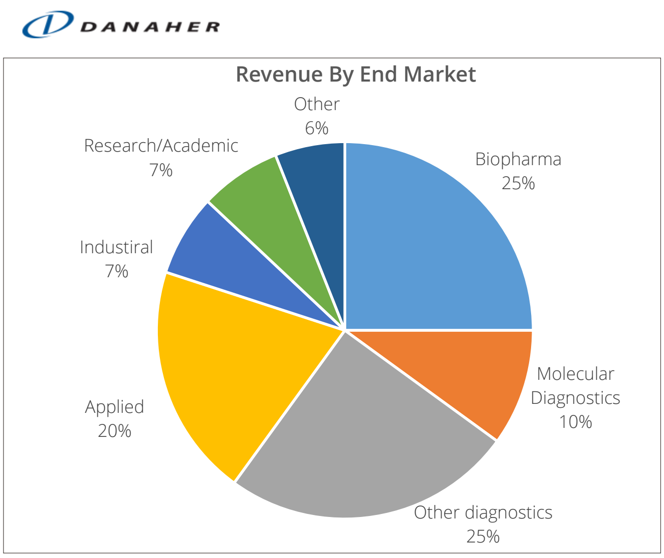
Whilst the AUD to USD exchange rate has pulled back lately, for the 12 months and since inception currency has been a drag on performance. The AUD has strengthened from US71c at the fund's inception to US75c today. USD denominated stocks make up 57% of the portfolio. Cash averaging a roughly 8% weight has also been a drag considering the 30% market returns since inception.

BACKGROUND TO THE FAMILY & FOUNDER FUND

At Cooper Investors investing in and backing proprietorial management teams has always been a key part of our investment process. **VOF** is the acronym that describes our investment philosophy - **V** being Value Latency, **O** for Operating, Industry and Strategic Trends and **F** for Focused Management Behaviour. To elaborate on the Management Behaviour component, we are looking for focused leaders that demonstrate a clear vision, authenticity, energy, passion and competency for their business and industry.

The high performing founder led or family linked "F&F" companies rank uniquely strong on the above attributes. Those characteristics described are what differentiate the good F&F management teams and owners from the less desirable corporate management or underwhelming founder and family led businesses.

With this overarching investment philosophy and history, F&F companies have been involved in CI portfolios through our 20 year history. A founder led business we have owned in international markets for over a decade is Danaher. They are almost the poster child for what we are looking to invest in and trying to achieve. Since the F&F Fund's inception Danaher has been and remains a core fund holding.



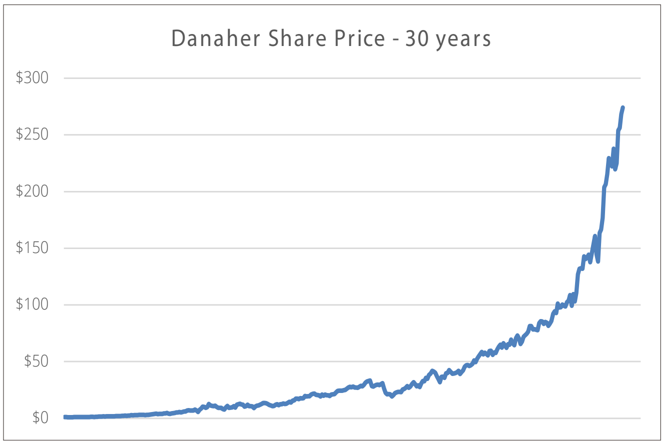
Source: Company data

Today Danaher is a US$190bn market cap company with leadership positions in diagnostics and life sciences. On the diagnostics front Danaher makes the machines and consumables for testing for a broad range of conditions including infectious diseases, cancer, sexual health and many more. In life sciences Danaher manufactures the equipment and tools used in manufacturing biotech drugs.

But this is not what Danaher looked like 35 years ago when it was founded by brothers Mitch and Steve Rales. Steve has been Chair of the board since founding in 1984 and Mitch Chair of the Executive committee also since 1984. The brothers still own a combined 11% of the company, or near $20bn.

What is remarkable is that this company started out as a manufacturer of brake parts for trucks and automotive repair tools. With the acquisition of these businesses, Mitch and Steve Rales moved their focus from property development to manufacturing. Around the same time they were exposed to Kaizen, the Japanese business philosophy of continuous improvement. Danaher was one of the first companies in North America to adopt Kaizen, applying it to their own operations and calling it the Danaher Business System (DBS). DBS drives a cycle of never-ending improvement and permeates every aspect of Danaher's culture and performance. In the company's words "exceptional people develop outstanding plans and execute them using world-class tools to construct sustainable processes, resulting in superior performance". We have seen this first hand with visits to a number of their facilities. Manufacturing operations have yellow tape on the floors designating the flow of people and goods, tools drawn on the wall to highlight where they are to be stored. The marketing departments have green, red and amber post it notes all over the walls signifying the progress or otherwise on key accounts or research projects. This is all done to remove waste and drive productivity continuously. While many companies talk to continuous improvement, we are yet to see anyone reach the level of integration and performance of that of Danaher.

Danaher reinvests its cash flows into acquisitions to grow and pivot the company towards attractive growth areas. Whilst most acquisitions by listed companies often struggle to create shareholder value, with its continuous improvement mindset and business system, Danaher has a long history of generating attractive returns. Over time Danaher has moved up the technology curve focusing on more sophisticated industrial equipment and technology. In the mid-2000s the company pivoted and established positions in healthcare markets. In 2016 the industrial assets were spun out into its own company called Fortive leaving Danaher with a $20bn+ revenue base exposed to attractive healthcare markets.



Source: Company Data

The shares have generated a 21%pa return over 10 years and 23% pa since its IPO in 1990. The company has been able to deliver attractive mid-teens earnings growth over the long term. More so with the shift from a cyclical industrial business to a predictable, higher margin healthcare technology company the Danaher shares have been re-rated. The organic growth profile and margins have never been stronger. Danaher have a unique presence in life sciences where they are the leading supplier of ingredients and parts into the biotech manufacturing process. We continue to see an attractive outlook for Danaher given their leadership position in growing markets. But the point of this story is to revisit our experiences with a leading and unique founder led business.

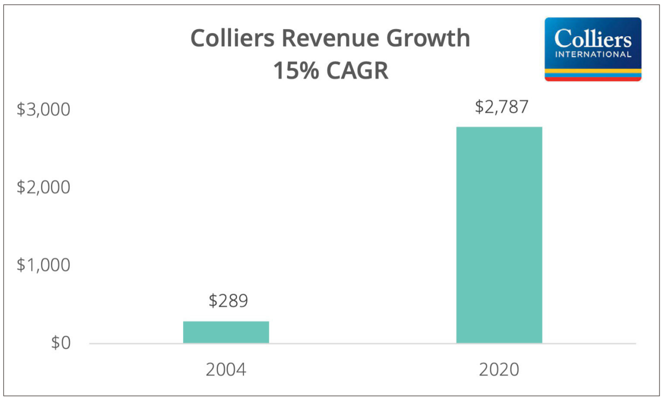
THE POWER OF PATTERN RECOGNITION

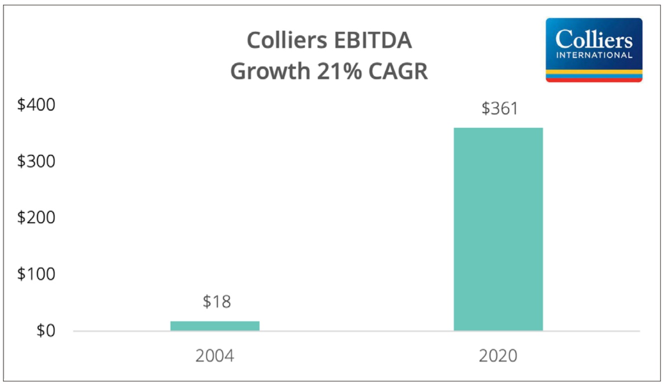
Pattern recognition is a key tenet of our beliefs and process at CI. Where we have had success we like to dig in deeper and find more of the same. Our experience with Danaher taught us first-hand the power of the entrepreneurial founder. In particular their long term focus in the pursuit of cash flows and returns, obsession about the customer proposition, reinvesting in the business for the future, being frugal not cheap, continuous improvement, and leadership development.

We have seen both locally and globally the valuations and multiples great F&F companies trade on because of their consistent high performance. Here in Australia companies we greatly admire are the likes of ARB (35x PE), Reece (40x PE) and in New Zealand Mainfreight (30x PE). These companies trade on premium valuations because of their strong and consistent long term performance, and expectation that this will continue.

Since we started the portfolio we have begun identifying and backing some of what we believe are the next generation F&F companies. These are companies with a strong businesses yet are still expanding into more recurring or faster growing areas, or scaling their margins. These companies are in a number of attractive industries such as med tech, software, logistics, life sciences and professional services and have market caps in the $1-10bn bracket. They have built up sizeable and successful businesses but have yet to demonstrate the track record in public markets for long enough. When a company is not in a "sexy" business or industry it can take a long time i.e. more than a decade for the market to recognise and reward the consistent high performance. They also present significant value latency i.e. they are all trading below 20x earnings (We do not use one year forward earnings as our key or only value latency input but we reference the PE for simplicity). The point we are making is that companies get rewarded for their consistent performance over the long term and we believe we are buying these companies at very attractive starting points as they have significant runway to grow their businesses and cash flows.

One that has recently started to be recognised is Colliers ($5bn market cap), a stock that has been held since the Fund's inception and is up 49% over this time period. With headquarters in Toronto, Colliers is a leading property professional services company. Many of you will be familiar with their brokerage and leasing services in the commercial property space. Today Colliers is much more having grown into a diversified services business with high value recurring revenues. Business lines like valuation services, investment management, debt placement and engineering design make up 60% of the company's EBITDA today. These are recurring revenue businesses that are benefitting from the increasing third party and institutional ownership of property.





Source: Company data

CEO and Chair Jay Hennick bought the Colliers business nearly 20 years ago and has grown EPS at 15%pa since as he transformed it into a world leading diversified property services company. The company proved out the resiliency of its business during COVID with flat EBITDA year on year in 2020. 2021 is looking promising with 30% growth on the cards.

The shares have moved up but still only trade in line with market multiples. We continue to be excited with this business that has grown at 15%pa for 20 years with a unique entrepreneurial CEO who owns 15% of the company with other management and board members owning another 15%.

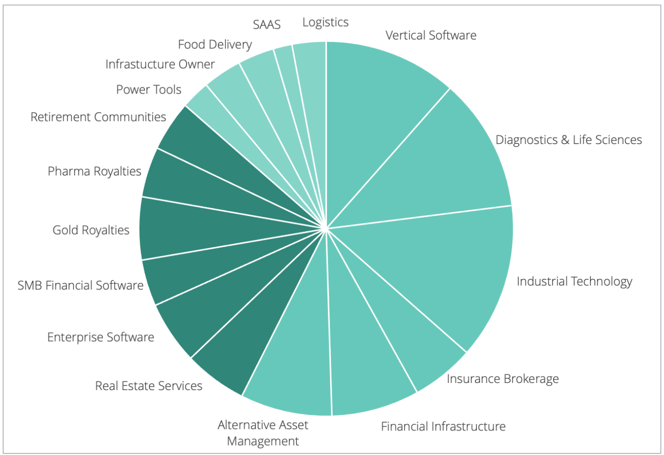
Whilst Danaher is further down the line in its recognition and reputation and Colliers appears to now be in that phase, one company we think that is yet to be recognised by the market as belonging in this category of top tier F&F companies is APi Group.

Based in Minnesota, APi with a $4bn market cap is the largest provider of fire protection and sprinkler services in the US. The key focus of the business is the inspection, servicing and installation of fire and safety systems such as sprinklers, fire extinguishers and smoke alarms.

APi is a recently listed company having gone public in 2020, but has been around as a privately owned business since 1926. APi was a family and employee owned company until entrepreneur Martin Franklin and his team acquired the business in 2020 and listed it. Martin, Ian Ashkin and James Lillie, all directors of APi, previously had bought and built up consumer products company Jarden Corp from a $2m business in 1992 to its sale to Newell Rubbermaid for $15bn in 2015. This group and CEO Russ Becker own a combined 13% of APi Group. Russ has been CEO for nearly 20 years and grown APi revenues 5x and tripled margins. This is an exceptionally high quality group of owners and executives.

We are excited by the opportunity set for APi. Their end markets of fire and safety are heavily regulated driving repeat business and growth. As market leader in a large fragmented mom & pop industry they have significant share gain opportunities too with a professional and technology based operation. More so there are still significant productivity and margin opportunities for the business.

A large value driver and underappreciated area is their acquisition opportunity set. APi's history is acquiring smaller operators and giving them the scale and tools to succeed. By typically paying 4-5x EBITDA APi is generating attractive growth and returns from this spend. Our successful investment in FirstService highlighted the attractive opportunity in otherwise fragmented services businesses when a scale player approaches the industry with professionalism and an entrepreneurial spirit. FirstService is the largest manager of residential communities in the US managing 8500 community properties and condos. As leader in this large fragmented market they have been able to grow revenues above 15%pa for 25 years as they take share, expand into new services , adjacencies and acquire mom & pops with high returns. We see a similar business profile here with APi.



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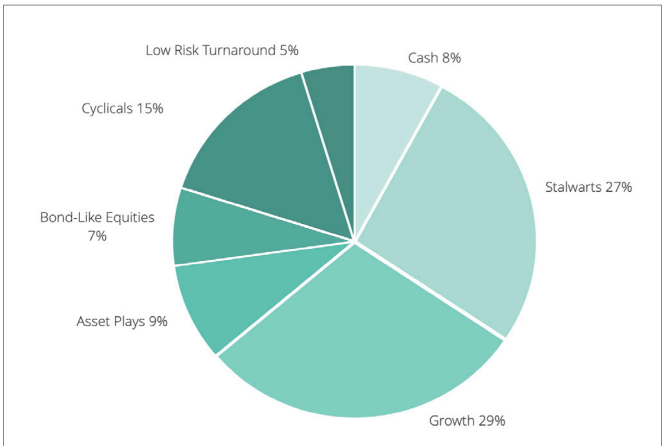

Source: company data

PORTFOLIO POSITIONING

The Fund is seeking to invest in a range of businesses whereby management exhibit the F&F characteristics we are seeking. This is seen through different types of industries and subsets of value. The Fund has been able to perform thus far in a consistent manner i.e. returns were not solely reliant on a single market narrative such as the growth market cycle of 2020 or value rebound of 2021.

The fund continues to be exposed to a range of exciting business opportunities. There are those like the SAAS companies that are right at the heart of the digital disruption and technology change. But the beauty of the F&F leader is their ability to see opportunity in many places. We mentioned Colliers as an example of a company bringing an entrepreneurial spirit to a mature area like property services who have delivered 15% pa earnings growth over the long term. This dynamic can also be seen in other industries such as retirement communities, insurance brokerage and lab testing.

We analyse companies and construct portfolios according to subset of value. One change made to the portfolio has been a reduction in growth stocks since the end of 2020. This was due to the strong performance of the growth subset and resulting lack of value latency. Very recently, we have observed some pullbacks in the stock prices of certain growth names on the watchlist and have started to deploy some capital to this subset again.

The portfolio companies have a mid-teens medium term earnings profile when combined as a group. With the Fund performing slightly better than these levels there has been some re-rating occur in a number of stocks. A key part of our job is knowing which companies to continue owning or which ones to sell. The reason we love the F&F Company is their knack of long term outperformance to the upside. VOF is ultimately how we make that decision. Are all the value latency opportunities exhausted or is there a deterioration in industry trends or management behaviour. A small number of strong performers were sold as we no longer saw value latency available. This includes Firstservice, a company and management team we highly admire but saw its valuation approaching 45x earnings.

Overall the bulk of the portfolio and in particular the larger stalwart positions have remained the same as we seek to back these unique entrepreneurs over the long term.

The Cash balance is at 8%. As mentioned in the beginning cash has been a drag. It has been a strong market and often over any long-term time period cash is a drag to our returns, however cash offers some optionality and comfort. We will continue to look to deploy the cash balance opportunistically into attractive VOF investment opportunities.

VALUE LATENCY OBSERVATIONS

We started this Fund in the middle of 2019. It was after a strong period in markets with a decade long recovery since the GFC. We thought F&F companies would be a way to continue finding attractive returns in what could be a difficult market. We now know that despite COVID, markets have continue to power ahead. This idea could not be more relevant today.

One positive dynamic to starting the Fund after a strong market period was that should a significant correction occur our companies would be in strong operating and balance sheet positions which would enable them to capitalise on any significant opportunities. The COVID downturn was so quick and sharp and ditto the recovery as central banks around the world propped up markets. This meant opportunities to buy assets from distressed sellers did not occur. There have been a few larger acquisitions from our companies, but they were more nuanced opportunities as opposed to buying off any forced seller. An example here is TFI International, a leading North American logistics provider acquiring UPS's Less Than Truckload business for below book value, as the new UPS CEO looked to offload non-core assets.

While downturns often create unique acquisition opportunities they do not always occur overnight. After the financial crisis in 2007-2008 many F&F companies we follow made investments that set them up for the next 5-10 years however it took a number of years to get the deals done. For example in 2011 Danaher bought Beckman Coulter, its major foray into diagnostics. Whilst it would have been great to see some acquisitions off distressed sellers over the last 12 months, history has shown opportunities take time to play out.

The F&F Fund is long only with the intention to benefit from the long term earnings growth and value creation at these companies, like one would owning these as private businesses. While we see an attractive outlook for our companies, markets have a habit of regularly falling in the meantime. Just like when we started the fund, our holdings are in strong operational and financial positions and have excelled at capital allocation and acquisitions. Given the COVID backdrop there is already likely a deep pipeline of acquisition targets. So whilst any further market falls may feel painful there is a very good chance they create opportunities.

The Fund owns 22 stocks with the average insider ownership of ~17%. We seek to invest in unique founder led, family linked or employee owned organisations. 17% insider ownership is a significant and sizeable amount of wealth these entrepreneurs and insiders retain. We are pleased with the level of "Skin in the Game". Skin in the game is important but what we love is "Soul in the Game" alongside it. Seeing these entrepreneurs continuing their deep level of engagement, passion and influence in the business.

We are investing in multibillion dollar businesses. The smallest company we are investing in has hundreds of millions of dollars of revenues. These organisations are more than an individual. The best companies have good people throughout the organisation. But the founder has unrivalled influence in a business. They have an ability to zig when others in their industry zag and to take risk when others are protecting and vice versa. To set strong cultural norms and behaviours. To set long term strategy and objectives and be there to see it through. These dynamics give a business a great head start versus the short termism and consensus like, institutional behaviour amongst we often see at typical listed corporates.

We are pleased with how the fund is progressing after 2 years in operation but it is a long term opportunity. We continue to be excited about all the great businesses and entrepreneurs we are investing in.

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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.

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