COOPER INVESTORS FAMILY AND FOUNDER FUND

COOPER INVESTORS

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

QUARTERLY REPORT | SEPTEMBER 2021

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.

Financial Year	**Portfolio	#Benchmark
2020	9.43%	2.64%
2021	29.95%	27.72%
2022 FYTD	7.11%	2.84%
Since inception^	**52.32%**	**34.80%**
Since Inception*	**20.56%**	**14.19%**

^ Cumulative (2 July 2019) *Annualised (2 July 2019)
# MSCI AC World Net Divs in Australian Dollars ** Returns are gross of fees and expenses

QUARTERLY PORTFOLIO REVIEW

For the quarter, the Fund delivered a 7% return. For 1 year, the fund is up 29% and since inception on the 2nd of July 2019 the fund is up 52% or 21% pa. For reference, the Benchmark was up 3% for the qtr and 35% since inception or 14% pa. Currency movements were a positive contributor to returns in the quarter as the AUD fell 3% against the USD. Since inception FX has been a minor headwind. During the quarter, the majority of companies reported their second quarter 2021 results.

Given our long-term focus, we do not typically provide commentary on quarterly company financial performance. However, the earnings season just passed is lapping the second quarter of 2020, a period when the economic impacts of COVID-19 were most acute. For example, the impact of lockdowns caused US GDP to contract over 30%. As a reminder, the portfolio stocks as a group were able to successfully navigate this difficult second quarter of 2020 and held revenues at a stable level. While some businesses were heavily impacted, the portfolio also has exposure to a range of highly predictable businesses largely immune to lockdowns such as life sciences, software, retirement communities and insurance brokerage that were still able to grow despite the big short term fall in the economy.

Given the large falls in GDP and company earnings last year, we saw the requisite rebound in the quarter just passed. According to Factset, revenue growth for the S&P 500 was 25% and earnings growth was 90%. With markets relatively flat in local currency for the quarter, this strength was largely anticipated by the market and these sorts of growth rates are not expected to persist. For the portfolio companies, the earnings and growth figures were generally pleasing.

Topicus, the recent spin off from Constellation Software, was the standout performing stock for the quarter with the share price appreciating 48%. Other top performers included companies rebounding off a difficult Q2 of 2020, such as property services company Colliers with revenues up 72% and Paycom, the Oklahoma based human capital management software company that saw revenues up 33%. Strong secular growers like Danaher in life sciences and Eurofins in testing & inspection generated double digit share price returns for the quarter. So did TFI, the North American logistics company, that benefitted from its savvy recent acquisition of the UPS freight business.

Our attraction to the F&F company is their long-term focus combined with a unique skin and soul in the game. The belief has been that these companies make the most of downturns through their long-term mindset and boldness to invest counter-cyclically. With strong balance sheets and franchises, our companies can continue investing in their businesses even if revenues or earnings are a little lower for a short-term period such as last year. The benefits do not occur overnight, but 12 months down the road we are starting to see some strategic decisions begin to play out.

There are a number of ways our companies have capitalised on these unique downturn opportunities such as market share gains, strong operating leverage or immediate returns on M&A. What this looks like in a practical sense is sticking with employees and avoiding the mass sackings and subsequent re-hiring sprees; a course of direction many take to save a few dollars for a quarter, but costs a lot more over the long term and importantly in culture. Even more so, what can look like little things such as always paying suppliers on time are meaningful when demand snaps back and the balance of power shifts to the suppliers. Eurofins is a company that has gone from strength to strength despite the shocks of the last 18 months. CEO Giles Martin who still owns 33% of Eurofins founded the company in France but has built a global leader in food, environment, pharmaceutical and cosmetic testing. Eurofins has regained all pre COVID momentum with 2021 revenues up organically ~13% over 2019. Eurofins peers are barely above the 2019 levels, highlighting the leadership position and strategic bets Eurofins has made.

Another way to make the most of the opportunity is with timely acquisitions. One company that did this is TFI. TFI is a $10bn North American logistics leader and as mentioned earlier, has been a strong performer during the quarter. CEO Alain Bedard has transformed this business from a loss-making Canadian trucking business 25 years ago into a regional powerhouse. Alain along with the Saputo family, who have been exceptional stewards on the board, own a combined 10% of TFI. In January this year, TFI announced the acquisition of UPS freight, the UPS Less than Truck Load business in the US for $800m. UPS had been running this business at minimal profitability and was using it to bundle multiple services. Less than Truckload "LTL" is a logistics shipping service for relatively small quantities of freight i.e. not a full truckload. The US "LTL" market has developed some of the most attractive financial and enduring characteristics of any logistics market we see. LTL benefits from ecommerce growth and the increasing complexity of supply chains. The industry average is 15% margins with the number 1 player nearly double this. TFI has already made great strides on growth and profitability and see 30% returns on this investment already. Alain and the team were ready to pull the trigger as soon as they could. Today this business would trade hands for multiples of what they paid for it.

While it is pleasing to see the right behaviours from our companies and consequent share price performance, not every holding has performed so well with regards to their stock price during the quarter or year. Even though the share prices have not yet responded positively in 2021, we see continued growth in the businesses and execution of the opportunity set. Companies such as Upland software, a $300m revenue enterprise software as a service or "SAAS" company continues growing, albeit more muted in 2021, as they faced difficult comparisons from elevated business spending in the prior year from the US election. Upland's share price is down for the quarter and year but as Upland overlaps these difficult comparisons and gets back to its typical ~15% earnings growth model we see an attractive outlook given its 15x PE.

One company where we did see a changing proposition is Just Eat Takeaway which was sold during the quarter for a small loss. While we very much admire the Just Eat team, increasing industry competition and investment into the grocery delivery opportunity means that expectations for significant cash generation have been pushed further into the future.

STOCK NEWS

The dominant trend as the year has progressed is the increasing levels of M&A. Empirical evidence says that most M&A does not create shareholder value, and so we tend to view any acquisition with caution. On the other hand, there are a small group of companies that do excel at it. We believe the F&F company outperforms in this regard. Founders and entrepreneurs have used acquisitions to accelerate their strategic objectives and generate attractive returns on the capital deployed. They spend this money with their hearts and minds in the right place, which gives them a head start over the many institutionally run board rooms.

One company that made a significant acquisition this quarter is APi group, a company we discussed in our previous letter to investors. The company is the leading fire and safety services company in the US. APi is a recent listing to the share market and one we believe has the hallmarks and potential to be a great F&F company over time.

During the quarter APi announced the $3bn acquisition of Chubb Fire and Security from Carrier, the recent spin off from United Technologies. Carrier is a products manufacturer of HVAC systems, refrigeration equipment and fire and security products. The business they are selling to APi is a services business and non-core to Carrier's operations.

The acquisition is material in the context of APi being a $5bn market cap company. In our conversations with the executive team, we believe their actions are in line with the F&F attributes we seek to back. The management and board own ~15% of the company and are acquiring Chubb to create long term value for shareholders. Chubb is a solid business with significant opportunity to improve its performance and potential to deliver significant financial returns. On the strategic side, the acquisition further expands and strengthens APi as the leader in fire and safety services. The leadership of APi have significant experience with acquisitions, using M&A to build APi to its current leadership position and strength today, and also in a previous life, the Chair and Vice Chair had major success in creating the consumer products company Jarden via a number of acquisitions.

We see significant earnings power post the combination, backed by a large piece of regulatory driven recurring revenue in a growing end market, margin expansion and tuck in acquisition opportunities. APi conducted a $400m capital raising to help fund the acquisition which the fund participated in.

The other meaningful deal during the quarter was Intuit's acquisition of Mailchimp for $12bn. Intuit was founded in the 1980s by its Executive Chair Scott Cook. Intuit has reinvented itself over the last decade and thrived with a leadership position in QuickBooks Online, the financial accounting software for small business (think of the Xero of the US). The fund bought Intuit in April 2020 excited by QuickBook's prospects. Management have executed exceptionally well on the opportunity set, which has seen the shares double since the initial purchase. However, the company has now conducted 2 meaningful deals worth a combined $20bn over the last 12 months. With Intuit on 50x PE we no longer see the reward for the level of execution risk and the company was sold out of the Fund.

The Fund participated in the IPO of Ryan Specialty Group. With a $9bn market cap, Ryan is a leading specialty wholesale insurance broker. The company was founded by Pat Ryan and Tim Turner only in 2010. Pat Ryan founded Aon Corporation in 1964 and was Aon's CEO until 2008. With the Cooper Investors Global Equities Fund having been shareholders in Aon for nearly 10 years we are very familiar with what Pat Ryan has built and achieved. Pat was so confident in the opportunities in wholesale insurance broking, that in 2010 two years after "retiring" he founded Ryan.

The Fund has had a successful investment in Arthur J Gallagher, the retail insurance broker, led by the Gallagher family based in Chicago. Whereas Gallagher is a retail broker, Ryan Specialty is a leading provider of specialty and wholesale insurance brokerage. The Gallaghers and Aons of the world use a wholesale broker to place risk which cannot be underwritten by standard insurance contracts. This is known as the Excess & Surplus portion of the market. Ryan's highly specialised wholesale brokers work with insurers to place what is often highly complex or unique risk. Accordingly, retail and wholesale share the commission paid by the insurer. Note they do not take on any underwriting risk. E&S accounts for ~17% of the insurance market today, and continues to grow in prominence as economies and businesses become more complex. Much like the aforementioned retail broking industry, the wholesale space is also consolidating and as an industry leader, Ryan have been able to supplement their organic growth via an attractive acquisition programme.

In our interactions with the management team, we have been incredibly impressed in the quality of the organisation and culture that has been built in such a short time. With management and employees still owning 80% of the company, we are excited to be on the journey backing Pat and his team again.

COOPER INVESTORS FAMILY AND FOUNDER FUND

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

QUARTERLY REPORT | SEPTEMBER 2021

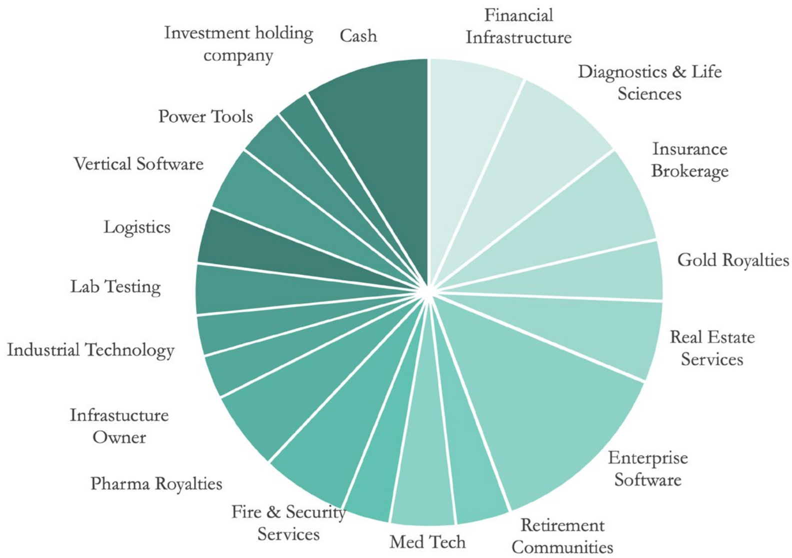
OBSERVATIONS & POSITIONING

The Fund owns 23 stocks with a diversity of businesses (see below). Cash is at 8%.

The average insider ownership is at 17% highlighting significant skin in the game to go alongside the vital soul component.

As we sit here today and look out 3, 5 and 10 years, we continue to see the same attractive dynamics as when we started the fund back in July 2019. We own a group of companies that meet our F&F criteria and VOF process. The fund trades at a very small premium to the market on cash flow metrics yet has superior track record, growth outlook and teams stewarding these companies.

Delta, supply chain disruptions and inflation are likely to throw up some surprises in the near term. It is inevitable that some companies will be impacted even if modestly. We heard from one of our companies, a leading orthopaedic surgical manufacturer, that elective procedures have started to be impacted. Having only recently been through the onset of the COVID pandemic 18 months ago we have confidence in our holdings' abilities to weather and continue growing through difficult periods. The strong customer propositions, business relationships and financial profiles mean that these companies are in a good position to handle these operational difficulties like inflation or supply chain disruptions. More so we have witnessed how these management teams and businesses come out even stronger. We continue to be excited by the opportunity these great F&F leaders and companies provide.



Yours sincerely

Allan

Allan Goldstein
Senior Portfolio Manager

CLIENT RELATIONS

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