COOPER INVESTORS FAMILY AND FOUNDER FUND

COOPER INVESTORS

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

QUARTERLY COMMENTARY | MARCH 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.

	**Portfolio	#Benchmark	Value Added
Since inception^	28.94%	20.31%	8.63%
Since inception*	15.64%	11.15%	4.49%
Rolling 3 months	5.15%	5.94%	-0.79%
Rolling 1 year	28.25%	24.23%	4.02%

^ 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

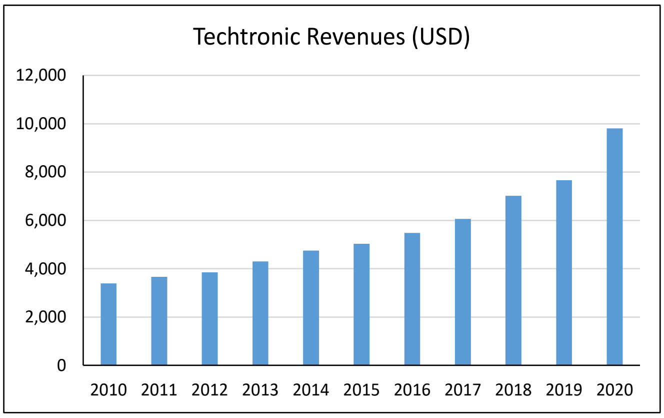
For the quarter the Fund delivered a 5.15% return. Since inception on 2nd July 2019 the fund is up 28.94% or 15.64% annualised. Following three quarters of headwinds via a weakening USD, the impact of currency to returns was muted this quarter.

For reference the MSCI ACWI AUD delivered a 5.94% return for the quarter and 20.31% since the inception of the Fund or 11.15% annualised. Continuing a trend from the end of 2020, cyclical stocks performed strongly. For example, Energy and Bank stocks posted remarkable returns of 30% and 23% respectively.

Sprout Social was the best performing stock for the quarter up 27%. Sprout with a $2bn market cap and based in Chicago is a leading social media management software tool with over 26,000 customers. The software helps companies manage their social media content, data and messaging across the numerous social platforms such as twitter, Facebook, Pinterest, etc in one centralised tool. We very much admire Sprout and its 4 founders who are still leading the business today. However, the strong share price performance has extinguished much of the future value latency we had previously identified, meaning we reduced the position weight meaningfully.

Following Sprout the best performers were growth stocks outside of the information technology space, such as Techtronic up 20% and Eurofins up 19%.

Techtronic is a US$30bn market cap company that owns the Milwaukee and Ryobi tools brands. Chairman Horst Pudwill who owns over 20% of the company has transformed Techtronic from an outsourced manufacturer to a high quality brand business with the savvy acquisitions of Milwaukee and Ryobi over the last 20 years. Their lithium ion battery technology is driving industry innovation in the power tools sector resulting in a platform based business that is taking share in a growing market. Techtronic reported strong growth of 28% in 2020.



Source: Company Data

Eurofins with a US$17bn market cap is a lab testing business across food, environmental and pharmaceutical end markets. The company was founded in France but has global operations. CEO Giles Martin continues to own 33% of the company and after 33 years of building out a global network of 800 labs, Eurofins has moved from "build out" mode to leveraging their infrastructure by pushing volume through the network at attractive incremental margins. The combination of this strategy shift as well as some benefits from COVID testing saw cash flows double and the balance sheet materially deleverage in 2020.

As is often the case, there were a number of stocks which underperformed. This quarter they were typically the more predictable businesses or fast growing technology stocks.

Food delivery marketplace Just Eat Takeaway (JET) was down 15% for the quarter. We bought JET at the end of 2020 after the stock price had underperformed for the year, however that trend has continued into the first quarter of 2021. JET with an US$13bn market cap was created via the acquisition of Just Eat Group by Takeaway.com. JET's CEO is Jitse Groen who founded the highly successful Takeaway.com in 2000. Jitse has developed a very attractive playbook in food delivery for example in Takeaway.com's home market of the Netherlands, where they have built a clear market leadership, revenues are growing 47% with 35% EBITDA margins. This success has been replicated in Germany which in 2020 grew 87% at 30% margins.

JET is using the profits from the Netherlands and Germany to invest in the Just Eat markets like the UK and Canada. Recent results showed momentum in the business is strong with both robust demand for food delivery services and JET seeing progress in its underlying business performance. In response Jitse and his management team are continuing their investment program which means the $177m of free cash flow they generated in 2020 won't be inflecting materially higher just yet. We believe the market has taken a short term view around this continued investment and the subsequent delay in free cash flow generation. However our view is that these investments will set the company up strongly in its pursuit of longer term market leadership and the profitability profile that comes with this leadership.

Finally, JET also own 33% of Brazil's largest food delivery business iFood for which they have received bids in excess of £2.4bn, which they have turned down, deeming them too low. JET will monetise this investment at an appropriate valuation. When assessing the value latency on offer at JET and adjusting the £11bn market cap for the iFood stake, we see a business trading at very attractive levels given a ~£3bn revenue pool growing 30% plus, with the investment program hiding the underlying profitability of the core markets.

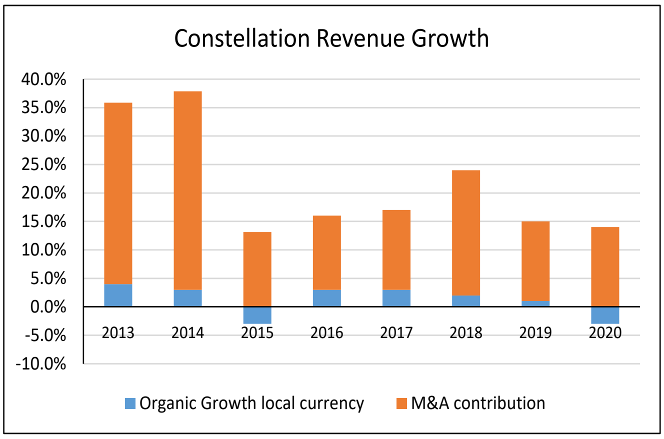
STOCK NEWS

During the quarter Constellation Software spun out one of its operating divisions, TSS, into a new standalone listed company called Topicus.com. Constellation Software is a Canadian listed US$30bn market cap software company. It is a unique software company in that the business is a portfolio of hundreds of niche vertical software businesses. This has been an attractive strategy as vertical market software, which is software for specific industries such as the marine industry or public transportation, is highly sticky business with enduring revenues and attractive margins. CEO & Founder Mark Leonard has built the company up from scratch over the last 25 years by acquiring small vertical market businesses for typically ~1x sales. With 25% EBIT margins, Constellation is able to generate 25%+ returns on these acquisitions. Constellation has been a successful investment for the portfolio, up 45% since the fund's inception (note the CI Global Equities Fund has owned Constellation software since 2015. When travel is allowed a trip to Toronto for the AGM is a must for any keen investor).

Netherlands based TSS was acquired by Constellation in 2014, with TSS founder Robin Van Poelje still running the business and maintaining a minority share in TSS under the Constellation Software umbrella. In 2020 TSS announced the acquisition of a fellow Dutch company Topicus and the merged entity spun out into its own listed company this quarter, adopting the Topicus.com name. Robin is Chairman of the new company Topicus.com where he and other insiders will own ~40% of the equity, while Constellation will retain a ~30% stake leaving only 30% free float. With a US$7bn market cap Topicus.com has zero broker coverage.

As shareholders in Constellation Software we received a small amount of shares in the newly listed Topicus.com. Following the distribution of shares to investors, the Fund increased its position in Topicus.com. TSS had been one of the star performers inside Constellation with faster growth than the corporate average as well as better operating margins. We see an attractive opportunity for Robin and the team to replicate the Constellation playbook in Europe via Topicus.com.

At the same time Constellation has now grown into a US$4bn revenue and US$1bn free cash flow generating business. Given the size and breadth of revenues Constellation is now a mature low organic growth business. At this size, Constellation can no longer deploy all their free cash flow into acquiring niche vertical software businesses. Constellation is still growing its revenues double digits but it is all being driven by acquisitions which are becoming more difficult to find. In a letter to shareholders this year Mark Leonard outlined his intentions to lower return hurdle rates on larger acquisitions or potentially move outside vertical market software as a way to continue investing all their free cash flow. This combination means a lower growth outlook and additional risk as they attempt to do things they haven't done before, whilst shares trade on an all-time high of 30x earnings.



Source: Company Data

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The fund sold its position in Constellation Software to fund the purchase of additional Topicus shares, which trades on a similar earnings multiple to Constellation. Topicus is the same size today as what Constellation was back in 2013. We see Topicus as a back to the future opportunity on Constellation Software - a clear growth opportunity with an ability to deploy free cash flow into acquiring small businesses with returns that are highly accretive. We admire Mark Leonard and Constellation Software and will be following their moves closely. In the meantime we are excited by the opportunity at Topicus.com a company that can grow organically mid-single digits, expand margins and deploy all its free cash flow at 20%+ returns.

Another item of note occurred at Colliers International Group (US$4bn market cap). The company reached an agreement with CEO and Chairman Jay Hennick to restructure its Management Services Agreement including the settlement of its long term incentive arrangement. This agreement was put in place in 2004 in exchange for Jay agreeing not to participate in the stock option plan. The intent was to provide Jay with an incentive to create shareholder value over the long term.

Jay founded FirstService (another fund holding where he is Chair) in 1989 and spun out Colliers into its own independent company in 2015 after acquiring the business in 2004. Jay, with his entrepreneurial approach, took Colliers from a franchised real estate broking business into a global professional services organisation where 2/3 of profits now come from recurring professional service streams such as investment management, project management and valuation services.

FirstService had a similar incentive arrangement which was settled in 2019 with minimal controversy or impact to shareholders as the strong business performance offset the costs and dilution associated with settling the agreement.

Jay has committed to leading Colliers for at least another 5 years and with a 14% stake is still heavily engaged in the business. Other management and directors own an additional ~25% at Colliers. The Colliers team proved out its resilient professional services driven business model in 2020 with EBITDA flat year on year. They are in a strong position to capitalise on the recovery and are expecting to see 20% growth in 2021 with an attractive growth profile continuing beyond. Despite growing earnings at ~15% pa since 2004 the shares still trade on ~18x earnings.

OBSERVATIONS AND PORTFOLIO POSITIONING

The majority of our holdings reported their full year 2020 results during the quarter. Most of the companies also report quarterly earnings during the year so there are not many major surprises, nevertheless it's a good opportunity to review a company's performance over the calendar year.

Our companies handled the pandemic very well. Many have built strong recurring revenue models. Those that were more heavily impacted on the sales line did a great job of mitigating the impact to operating margins and cash flows. Balance sheets are strong and remain so - nearly half the Fund's holdings have a net cash balance sheet.

With the rebound in economic expectations our more predictable businesses have seen more muted movements in their share prices so far in 2021. These include stalwarts (e.g. an insurance broker), bond like equities (retirement communities) and certain asset plays (the fund owns two royalty businesses). These strong, sturdy businesses typically trade at premium valuations to the market due to their consistent growth. However, this is not always the case today and we continue to see an attractive opportunity in these businesses.

The portfolio of stocks as a group grew its earnings in 2020 despite the economic impact of the pandemic. In 2021 earnings for our holdings are expected to grow ~20%. This is a little higher than the normalised mid-teens range we would typically expect due to the rebound post the 2020 pandemic. Whilst markets have had a good run and the near term is highly uncertain we are excited about the medium and long term given a portfolio of exceptional Founder and Family management teams and businesses growing earnings in the teens with identifiable value latency.

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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.

CLIENT RELATIONS

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