COOPER INVESTORS FAMILY AND FOUNDER FUND

COOPER INVESTORS

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

QUARTERLY REPORT | MARCH 2022

Warren Buffet: "Market prices for stocks fluctuate at great amplitudes around intrinsic value but, over the long term, intrinsic value is virtually always reflected at some point in price"

Financial Year	**Portfolio	#Benchmark
2020	9.43%	2.64%
2021	29.95%	27.72%
2022 FYTD	-1.59%	0.13%
Since inception^	**39.96%**	**30.91%**
Since Inception*	**13.01%**	**10.29%**

^ 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 returned -12.42%. Since inception the fund has returned 39.96% or 13.01% pa.

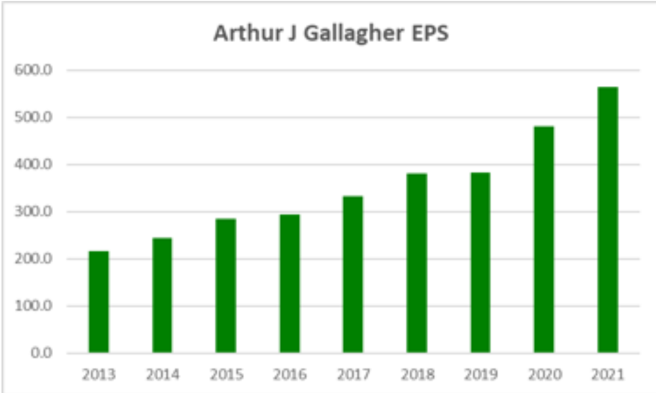
For comparison the MSCI returned -8.37% for the quarter and 30.91% since inception or 10.29% pa.

FX was a negative contributor to returns for the quarter as the AUD increased by 3% to the USD and to most other currencies. Prior to this quarter, FX had a minor impact on performance. As such, FX impact since inception has similarly been negative 3%.

The intention in creating the F&F Fund was to set up a dedicated structure to invest alongside the small number of great family & founder led businesses we had been investing in at Cooper Investors and to invest in any future F&F opportunities. By identifying these management and stewardship teams, we are able to benefit from their long-term mindset, reflected in their business growth and gains. There are bumps along the journey and we witnessed that again this quarter. Two years ago, we lived through a 35% fall in markets over a short 6-week period and this time around it was a fall in markets but with energy and commodity stocks rocketing ahead. The S&P energy sector was up nearly 40% for the quarter and the biggest driver of our underperformance. With this backdrop it was a difficult quarter for the Fund to outperform. In addition, FX contribution exacerbated the stock price declines. We can't own everything and the Fund ethos is about investing in those unique founder and family led companies for the long term. This does not mean the underperformance is not painful. We remain confident the portfolio is comprised of high quality VOF companies led by unique entrepreneurs.

When markets fall, typically our strong, sturdy stalwarts provide a lot of ballast. Arthur J Gallagher, a stalwart in the financial services industry was the top performing position increasing 3%. Other better performers included Royalty Pharma and Upland, the underperformers of 2021.

Stalwart companies were hit hard in the very beginning of the year as the threat of increasing rates hit valuations sharply. We saw an opportunity to add to this subset. Stalwarts now make up 34% of the fund and is the largest subset of value exposure. In a world where the outlook is highly uncertain around inflation, growth and interest rates these companies are in attractive and very steady businesses and post the price falls, began to offer more attractive value latency. A company such as Arthur J Gallagher, one of the world's leading insurance brokers is well placed to benefit from inflation as insurance premiums rise at a faster pace than previously seen. They take no insurance risk but get commissions on ever increasing insurance pools. See below Arthur J Gallagher's last decade EPS in a period of low premium inflation. Arthur J Gallagher trades on 20x this year's earnings and is an example of the undervalued compounding part of the portfolio.

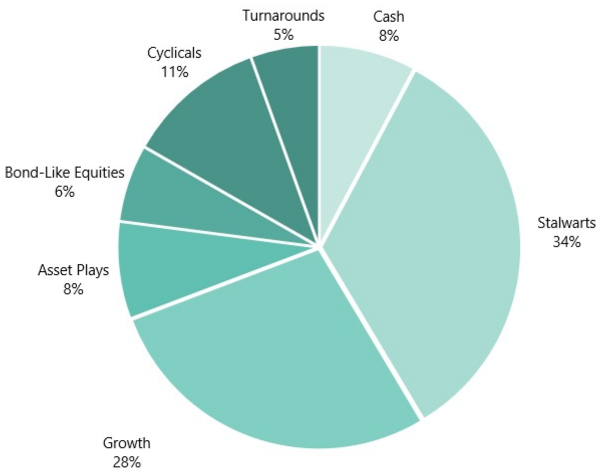


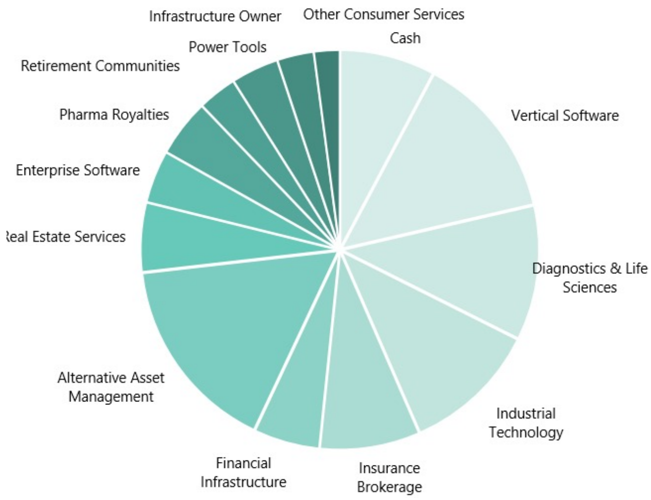
The rest of the portfolio performed largely in line as a group and found life more difficult this quarter. Cyclicals, asset plays, growth and real assets were down double digits. The largest detractors for the quarter were some of last year's strongest performers that have a cyclical component to them and were benefitting from the recovery. Stocks in this category include Api Group, Colliers and Techtronic. As concerns on global growth emerged, these companies' shares were hit. These companies with exceptional long-term track records trade on 16x, 18x and 21x earnings respectively after the pullback. Even our real assets pool which includes retirement communities and infrastructure weren't immune but have unique irreplaceable assets and thus we remain confident in these companies.

We increased the exposure to asset plays, as often when markets fall, companies can begin to trade at big discounts to their underlying assets. Onex Corporation is one such opportunity we see. Onex is a long standing Canadian based private equity firm with balance sheet assets of >USD$8bn invested in its private equity and credit assets, including $1.6bn of cash with zero debt. Today the company is being valued at less than $6bn, a meaningful discount to its asset value (this has not always been the case as when we first met them in 2017, they were trading at a 20% premium to asset value). The company has a track record of buying back shares when they begin to trade at a discount and have bought back more than half the shares over the last 25 years. This has helped turn Onex founder and CEO Gerry Schwartz into a billionaire. We expect Onex to do the same today and buying back shares is a valuable use of capital given the material discount. The company also manages $33bn of external fee-paying capital that is used to help cover the costs of running the company. Should this continue to grow and scale, this part of the business could create a nice fee earnings stream which is free optionality.

OBSERVATIONS & POSITIONING

The portfolio has 22 stocks with 7.5% cash. The breakdown by subset and business is below





The majority of portfolio companies reported their full year earnings this quarter. Earnings continue to be strong and growing. As the quarter went on and concerns of inflation, interest rates and war shifted to potential economic impacts the market outlook for earnings is less certain. We remain confident in our businesses and their ability to grow and see through tough times, just like they did recently during the Covid lockdown period. Our estimation is that the portfolio revenues were approximately flat in Q2 of

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2020 when GDP fell ~30% in the US. We feel our companies are well placed for a tougher macro environment and we have made adjustments in reducing the cyclical and growth buckets while adding to stalwarts and asset plays.

During the 35% COVID market drop in 2020 our companies share prices suffered just like the rest. However, as the market started to discern amongst the crowd, our companies performed strongly in the following 18 months. We would expect once things settle down, the quality and value latency of our businesses and management teams will get noticed and rewarded just like they have in the past time and again.

Metric	CI F&F Fund
Organic Revenue Growth	**~8%**
Operating Profit Margin	**~27%**
Earnings Growth	**~15%**
Net Debt/EBITDA	**~1.1x**
Free Cash Flow Margin	**~21%**
% Free Cash Flow returned to Shareholders	**~35%**

What we love about the F&F company is their ability to get through the tough times but then flick the switch and make the most of cycles and opportunities that present themselves in periods of uncertainty. Colliers is a prime example of this as the senior management team and board waived their pay for a period during 2020 so the company could continue generating cash flows whilst avoiding sacking employees. The business bounced back better than ever in 2021 with revenues increasing 47% after falling 8% in 2020.

So what does making the most of the opportunity look like this time around? We have already seen our companies implement or increase buybacks as their prices fall in the face of strong results. However, the main priority is to deploy their capital into new business and commercial opportunities, but it takes time for acquisition targets (and private markets) to adjust to lower prices/valuations and for deals to get done. Our companies have strong balance sheets and generate lots of cash so buybacks are stepping up today as they wait patiently for attractive acquisition and investment opportunities to present themselves.

Markets are uncertain as war and inflation continue and interest rates begin to rise. We continue to be focused on the long-term opportunity these family & founder led companies provide. As the 2022 summary statistics show we think they present an attractive long-term opportunity. We remain confident if they execute on their opportunity set and realise the value latency, us as shareholders will continue to be rewarded over the long term.

Yours sincerely

Allan

Allan Goldstein
Senior Portfolio Manager

CLIENT RELATIONS

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