COOPER INVESTORS
GLOBAL EQUITIES FUND (HEDGED)
QUARTERLY COMMENTARY REPORT

Cooper Investors Pty Limited AFS Licence Number 221794 ABN 26 100 409 890

For current performance information please refer to the Monthly Performance Report.

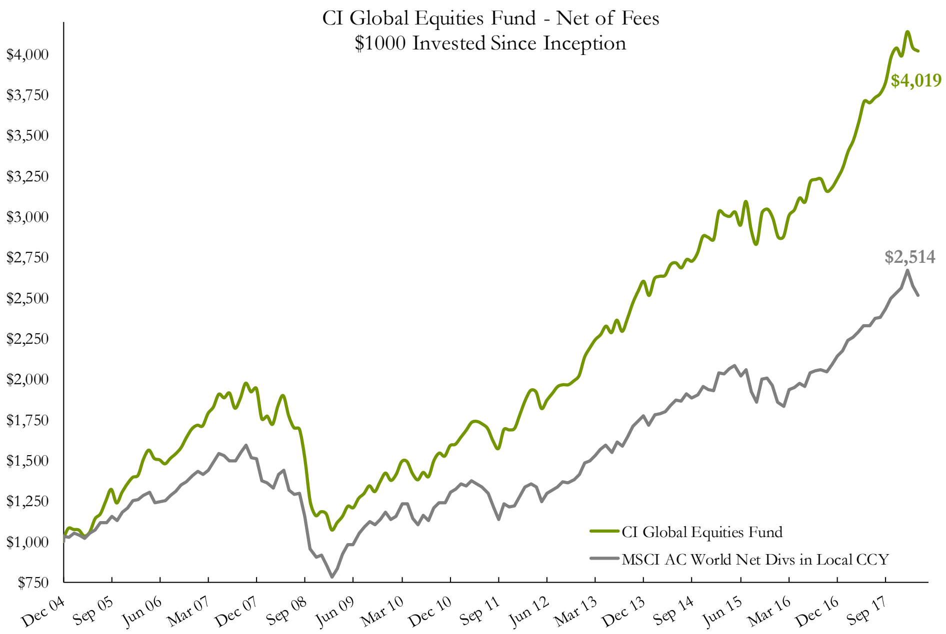
MARCH 2018

"Like all great travellers I have seen more than I remember and remember more than I have seen." Benjamin Disraeli

"Today everyone needs to be their own actuary, their own investment manager, and the trustee of their own pension. Or they have to find a trusted advisor to do this for them." Andrew Croft, St. James Place CEO

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTHS	0.72%	-1.86%	2.58%
ROLLING 1 YEAR	15.78%	11.23%	4.55%
ROLLING 3 YEAR	10.10%	7.36%	2.74%
ROLLING 5 YEAR	12.38%	10.43%	1.95%
ROLLING 7 YEAR	13.22%	9.36%	3.86%
ROLLING 10 YEAR	8.85%	6.57%	2.28%
SINCE INCEPTION*	11.00%	7.16%	3.84%
SINCE INCEPTION^	301.85%	151.41%	150.44%

*Annualised
^Cumulative (1 December 2004). Initially, the Fund invested predominately in Australian equities. However since May 2006, the Fund has been invested in a broad range of global equities.
**Net of fees and expenses
MSCI AC World Net Divs in Local Currency



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Market and Portfolio Performance

In December's newsletter we noted the remarkably consistent rise of the *MSCI AC World* during 2017, with the benchmark index rising every single month for the first time it its history.

After a long streak of calm, the first quarter of 2018 has finally seen the return of volatility. For the entirety of 2017 there were only 5 days where the benchmark moved plus or minus 1%. In 2018 to date, we have already had 19 days of +/- 1% moves, and several +/- 2% moves (there were none of those in 2017).

One very important attribute of the portfolio, observable since its inception, has been its outperformance in down markets. In a period where markets seem only to rise we have had few recent opportunities to test how this characteristic is holding up.

So while we wouldn't normally comment on a single month's performance, it was pleasing to see the portfolio outperform the globally weak markets of both February and March.

There was no single clear driver behind the outperformance but we would make three observations:

First, our portfolio of mid-caps and smaller large caps (65% of the portfolio today comprises companies with a market capitalisation of US$35bn or below) tends to be less correlated with the ETF-driven indices on big draw-down days. A rising tide lifts all boats but when the tide goes out, owning the biggest weight in an index tends to be painful. The portfolio also owns 9 stocks that are not in the benchmark index at all (examples include Heico and Colliers International) and it is interesting to note that all but 2 of these outperformed their local index during the quarter.

Secondly a sharp rise in bond yields over the period (the US 10 year rose as high as 2.95%) saw Bond-Like Equities in sectors such as Utilities, Telcos, REITs and Infrastructure come under some pressure. The portfolio is underweight Bond-Like Equities relative to the benchmark and those we do own, like Getlink (formerly Eurotunnel) and OHL Mexico were bought at sufficient discounts that their equity value has not been impaired by rising costs of capital.

Thirdly we saw a snap-back in the performance of US-based global stocks. In the prior quarter they had underperformed those domestic US stocks (in which the portfolio is underweight) that benefitted from US corporate tax cuts. This trend did not last long. This quarter saw those companies with global footprints come back with a number of holdings delivering double digit returns for the quarter, including S&P Global, Booking Holdings (formerly Priceline), Heico and Roper.

For the three months to 31st March the portfolio returned 0.72% versus the benchmark which returned -1.86%. The AUD was quite weak this quarter, falling against all major currencies (-2% versus USD, -7% to JPY, -4% to EUR and -5% to GBP).

The biggest contributors to performance in terms of total shareholder return included:

1. **Constellation Software** – Continues to execute on its strategy**.**
2. **Booking Holdings (Priceline)** - Reported improved results in February post a more difficult back half of 2017.
3. **S&P Global -** Results continued to show strong operating momentum across the business. See discussion of M&A activity in Stock News.

The biggest detractors to performance in terms of total shareholder return included:

1. **Comcast** - Submitted an informal offer for Sky Plc (discussed below).

2. **RELX -** Weakness amid concerns around delayed renewal of one academic journals contract.
3. **Spectrum Brands -** Underlying operating momentum remains mixed as several company specific issues are worked through. These should dissipate in the back end of the year. Also the consumer products sector in general came under pressure.

The Portfolio

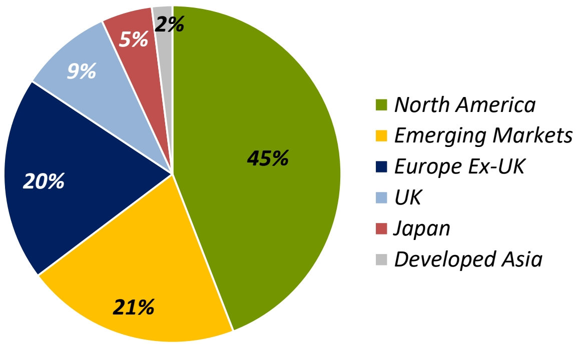
The portfolio is positioned around Subsets of Value:

- **Growth companies** (37%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Costco).
- **Stalwarts** (30% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (AON).
- **Low risk turnarounds** (15%) – sound businesses with good management and balance sheets. (Brinks).
- **Asset plays** (4%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (Liberty SiriusXM).
- **Cyclicals** (11%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who allocate capital prudently. (Ametek)
- **Bond like equities** (3%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Getlink SE).

The portfolio is diversified by country and sector:

No. of Stocks	**42**
Region Weights	**US 51%**
(by listing)	**Europe 28%**
	Asia inc. Japan 7%
Most OW Sectors	**Industrials, Healthcare**
Most UW Sectors	**Energy, Materials**
Cash	**5%**

Geographical Exposure by Source of Revenues#



#Derived on a look-through basis using underlying revenue exposure of individual Fund stocks

Buys

During the quarter a position was initiated in **Spectrum Brands.** Spectrum is a diversified consumer products company (Pets, Home Improvement, Garden, Auto Care) with a focus on non-discretionary, daily household use items with a strong value orientation. We see Spectrum in the Low Risk Turnaround subset of value latency as the company is currently in the process of divesting its Batteries and Household Appliances businesses, which account for ~40% of group revenues. We are attracted to companies that increase the focus on their core business.

Furthermore, there will likely be minimal tax leakage from these divestments owing to a simplification in Spectrum's ownership structure with majority owner HRG Group that will result in the transfer of significant tax assets to Spectrum. With these concurrent transactions, we have line of sight to a faster growing, higher margin business with restored balance sheet capacity, managed by excellent stewards of capital.

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The equity trades at a very attractive valuation being a low teens multiple of Free Cash Flow, which to put in perspective compares to the sale of the lower growth and lower margin battery business for 11x EBITDA.

Sells

The Fund fully exited **UPS** during the quarter having owned a position for 5 years. The company's top line has benefited from the e-commerce growth in the US with revenues averaging 5% per annum growth since 2009. However, the mix of headwinds from this shift to e-commerce are so great that profits in the US are still below pre-financial crisis levels. We see this as a continuing headwind and have re-deployed capital elsewhere.

Stock News

M&A activity is a not an uncommon occurrence for our portfolio companies and for the most part it does not warrant mentioning in the Quarterly Reports. Indeed for our 'Capital Allocator Champions' cluster acquisitions are a core competency and driver of value creation.

However over the last three months several of our US companies announced large M&A deals which we wouldn't characterise as 'regular business'. Focused Management Behaviour is a cornerstone of our VoF Investment Process and capital allocation is one of management's primary levers to create (or destroy) value.

S&P Global acquired *Kensho Technologies* for US$640mn. Kensho is a provider of machine learning and analytics. This is primarily an acquisition of internal capabilities that enhances the group's ability to analyse data across the existing Ratings, Indexing and Benchmarking businesses. Monetising the technology with customer facing applications (and generating an earnings stream) is a secondary focus. By definition this will make it difficult for external investors to track if management generate a return on the investment. S&P Global's leading market position and excess balance sheet capacity combined with the fact that the Kensho purchase price equates to less than 2% of enterprise value means for now we're content with management making a bet on next-gen technology. Regular deals of this nature would however raise questions around management focus.

CME Group announced the planned acquisition of *NEX Group* for US$5.4bn. The deal has sound strategic merit and will bring together CME's derivatives business with NEX's presence in the complimentary underlying FX and Fixed Income cash markets. In addition to material cost synergies equating to ~30% of NEX's cost base, customers of the merged company will benefit from improved capital efficiencies and product innovation. Funding for the deal is half each debt and equity, allowing CME to maintain a strong balance sheet and use its highly valued scrip as currency. Since current CEO Terry Duffy took over in late 2016 we have been impressed with CME's increased focus on core operations and this deal appears to be a nice complement to these businesses.

Comcast submitted an informal offer for Sky Plc, the European entertainment company. Comcast's US media peer 21st Century Fox already owns 39% of Sky and is currently trying to secure approval to acquire the 61% it does not already own. Comcast's offer of £12.50 per share is at a 16% premium to that of Fox.

The situation is further complicated by the fact that Disney has separately agreed to an acquisition of the majority of Fox's assets, including the existing 39% (or potential 100%) Sky stake. As per UK takeover laws, Comcast are now conducting due diligence before making a formal offer. Under CEO Brian Roberts, Comcast have attempted several high profile acquisitions including Disney, Time Warner Cable and more recently Fox in its entirety. Comcast's rumoured offer for Fox was above the current Disney offer, however regulatory concerns meant the Fox board accepted Disney's proposal.

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There is speculation that Comcast's interest in Sky is a precursor to revisiting the Fox acquisition pending the regulatory outcome of AT&T's takeover of Time Warner Inc, as this will be a vertical integration similar to a hypothetical Comcast-Fox deal.

On the occasions when Comcast have been successful in closing acquisitions (notably AT&T Broadband and NBC Universal) they have created tremendous value for shareholders. At this stage, without a formal offer and without speculating on synergies, what we do know is that management have historically displayed impressive discipline around capital allocation.

Sky is a profitable, well-managed and growing business that provides international diversification and is unlikely to destroy value if acquired at these levels. The market is currently heavily discounting the uncertainty around Comcast with the stock price falling 18% since the deal was announced - a loss of US$28bn in market cap or ~90% of Sky's entire value. Comcast consists of the best in class US cable operations and a well-run yet still under monetised NBCU. Given the company hasn't even made a formal offer let alone got into a bidding war we think management still deserve the benefit of the doubt.

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In early March listed Italian infrastructure company Atlantia announced they had acquired the entire stake in **Getlink** (formerly Eurotunnel) owned by Goldman Sachs Infrastructure Partners. This represents 15.49% of the capital and 26.66% of the voting rights. The price of EUR12.40 per share was a 19% premium to the previous close. Atlantia have since nominated two directors to Getlink's board including Atlantia's CEO. We see Atlantia's arrival and board representation as positive for our Getlink position as we believe it reduces the risk of value destructive deals and should focus management's mind on managing the current assets and opportunity set.

Trip News

This quarter we travelled to both the US and Europe once again.

In the US we visited cities on the West Coast, East Coast and in some of the Southern states. We circled the country to meet with a number of key holdings and potential investments. The vibe from the meetings was generally positive, most of our holdings are doing well and we see strong management teams driving and creating value in end markets that are typically growing.

Our job, therefore, is to analyse the relative opportunity set of the stocks we own versus those we follow in our Watchlist, as opposed to a conversation surrounding the need to replace an underperforming position and find a new one.

With tax reform, global growth and domestic construction vibrant, the environment feels positive for most businesses. We continue to be surprised on the upside by the amount of commercial, residential and infrastructure construction occurring across most major cities from Atlanta to Boston to Seattle. This positive backdrop has been clouded by headlines of "trade wars" and rising interest rates. So far these issues continue to remain as headlines and while markets have whipsawed around we have so far seen minimal impact to the operating trends of the businesses we own and follow. We will be watching closely to see what, if any, implications these issues do in fact have on the real business environment.

In Europe the agenda saw us covering 10 countries in 10 days, a busy schedule but necessary when you consider that of the 13 stocks we own in Europe only 2 are based in London. As usual the priorities were meeting with management at existing fund holdings and prospective Watchlist companies.

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The vibe was broadly positive across most companies we met - for what feels like the first time since the Euro crisis all economies in Europe are growing steadily and company executives are excited to be able to discuss business, growth and investment without the conversations being dominated by politics or 'the macro'. This outlook contrasts with recent performance of the major indices where Europe has increasingly lagged the US and Asia over the last year (see chart below).

A major driver of this underperformance is the sustained weakness of the USD against European currencies. Thus since mid-2016 the dollar has fallen to 80 Euro-cents from close to parity against the Euro. Many large European index-weights tend to be multinationals deriving significant revenues either directly from the US or from dollar-linked regions like Greater China or industries like Energy and Pharma.

Selected Country Indices in Local Currency (1 Year TSR Mar17-Mar18)

24.8%	Hong Kong (Hang Seng Index)
13.5%	Japan (TOPIX)
11.8%	MSCI AC World
11.8%	US (S&P 500)
10.2%	India (Nifty 50)
0.9%	France CAC 40
-1.8%	Germany DAX
-3.6%	UK (FTSE 100)
-6.2%	STOXX Europe 50
-8.2%	Spain (IBEX 35)

Source: Factset

From our perspective the stocks we own and follow have seen a share price impact greater than EPS revisions from the weaker USD and so this is actually quite positive - Europe doesn't feel as expensive today as it did 6 months ago. The combination of ongoing earnings growth and languishing equity prices has served to de-rate many high quality businesses against where they were.

For example, the intrinsic value and future earnings power of portfolio companies like Henkel, Sandvik and Aalberts Industries are benefitting from internal improvement programs run by focused management teams whilst enjoying the return of cyclical tailwinds in many of their key end markets. All three companies have strong future opportunity sets, solid balance sheets that are getting stronger and pay a decent dividend yield. Yet all three trade today for under 17x forward earnings. It is strange to think that market commentators were discussing bubble-like equity valuations not long ago - we feel a lot more comfortable with current valuations in Europe and are looking at a number of potential opportunities.