COOPER INVESTORS
GLOBAL EQUITIES FUND (UNHEDGED)
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.

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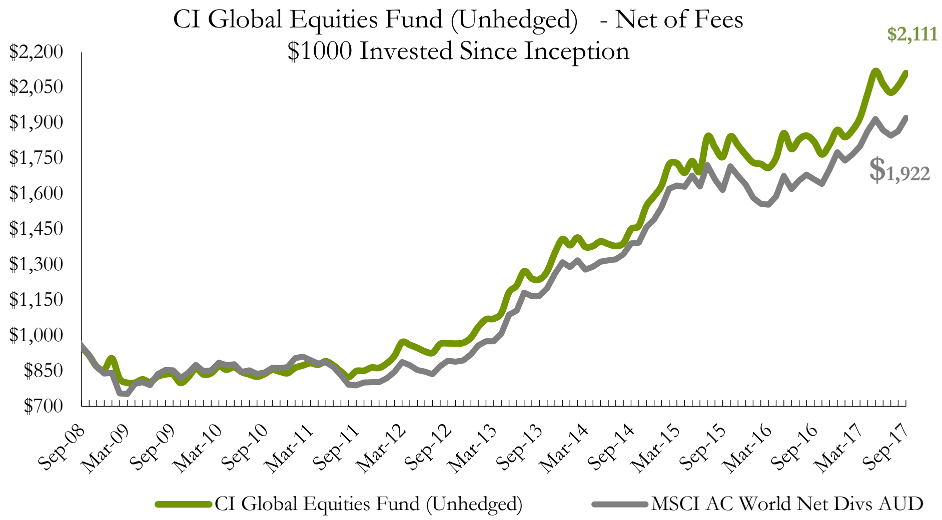
"Everyone has a plan till they get punched in the face." ***Mike Tyson***

"If you lose your ability to sustain concentration you're gonna become less and less relevant to this economy." ***Cal Newport****, author of Deep Work, discussing social media use.*

"The United States does the right thing, but only after exhausting the alternatives." ***Winston Churchill***

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTHS	2.51%	2.82%	-0.31%
ROLLING 1 YEAR	17.49%	15.71%	1.78%
ROLLING 3 YEAR	14.77%	11.41%	3.36%
ROLLING 5 YEAR	18.41%	16.59%	1.82%
ROLLING 7 YEAR	15.51%	12.50%	3.01%
SINCE INCEPTION*	9.77%	7.46%	2.31%
SINCE INCEPTION^	133.19%	92.20%	40.99%

*Annualised
^Cumulative (1 September 2008).
MSCI AC World Net Divs in Australian Dollars



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Market and Portfolio Performance

Global equity markets continue their remarkable run with seemingly nothing able to halt what has become a slow but inexorable grind higher.

Despite the apparent threat of nuclear war on the Korean peninsula, Russian interference in US politics and increasingly fractious headlines out of Europe (Brexit, Alternative für Deutschland, Catalonian referendum) the benchmark MSCI AC World in local currency notched another three up months this quarter.

The index has now recorded a streak of **11 up months in a row**. One has to look back to October 2016 'pre-Trump' to find the last month the market didn't rise (for the record, a mere 50bps decline).

Remarkably you have to go back even further (25 years!) to find a streak better than this – August '92 to August '93 the index saw 13 up months in a row.

Of course not all sectors and regions have been winners – rotations in and out of various parts of the market over this period are part of the journey. U.S. retailers for example, pummelled for the last couple of years, saw relative underperformance get worse after the Amazon/Wholefoods deal in June. Companies in the payments sector on the other hand have enjoyed a solid period - leaders like PayPal rose double digits over the quarter with several M&A deals consolidating other players in the sector.

From our substantial travels and meetings with companies over the past year, a *very* general observation is that management teams seem relatively bullish about business prospects, are investing and doing deals and believe they can continue to grow earnings. With the obvious exception of Brexit most of the big political uncertainties (Trump, France, Germany) are now out of the way and an environment of easy (albeit very slowly tightening) monetary policy and low taxes is still supportive for corporate profits.

There are a number of potential 'new paradigms' – for example, every company we meet in the industrial sector claims some exciting exposure to the 'Connected World', a megatrend that touches all manner of sub-trends, from 'Internet of Things' and 'Autonomous Cars' to 'Factory 4.0' and 'Big Data'. We agree that the potential here is huge, though we carry some scepticism into meetings on how transformational it will be for every widget maker out there.

More broadly we remain heedful around the risk of a material correction in markets. We continue to apply discipline around company balance sheets – for example the gearing up of Reckitt was an under-appreciated aspect of the Mead Johnson deal, yet for us it represented the significant removal of a key value latency. Belatedly the market is now baking this into the valuation, which has fallen 20% since June.

In the portfolio today around half of our holdings' balance sheets are net or nearly net cash (defined as <0.5x Net Debt /EBITDA). We really like this aspect of latency because when the inevitable correction does come, not only do these stocks typically outperform but they're also in a position of strength to do deals at cheaper prices.

For the three months to 30th September the portfolio returned 2.51% versus the benchmark which returned 2.82%. For the 9 months of 2017 to date the portfolio has returned 13.95% versus the benchmark return of 8.20%.

Over the quarter the AUD gained approximately 2% vs the USD and JPY and fell 1% versus the GBP and EUR.

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

1. **Brinks** – reported strong results whilst updating longer term guidance
2. **HEICO** – continued to trend upwards whilst completing a number of acquisitions with results trending positively
3. **AON** – Shares rose on continued strong operating performance and speculation that the US hurricane season will lead to rising premiums in the future

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

1. **OHL Mexico** – The stock was volatile around the conclusion of the tender offer – see Stock News.
2. **Colliers** – No particular stock news
3. **Remgro** – Share price weakness due to pressure at Mediclinic, one of its key holdings.

The Portfolio

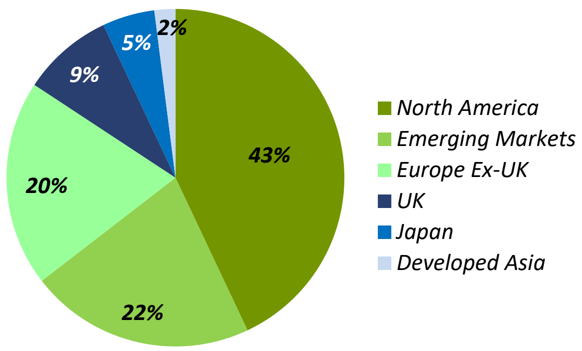
The portfolio is positioned around subsets of value:

- **Growth companies** (34%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Danaher).
- **Stalwarts** (31% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (AON).
- **Low risk turnarounds** (14%) – sound businesses with good management and balance sheets. (Brinks).
- **Asset plays** (6%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (Remgro).
- **Cyclicals** (7%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who allocate capital prudently. (Ametek)
- **Bond like equities** (4%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Unibail-Rodamco).

The portfolio is also diversified by country and sector:

No. of Stocks	**42**
Region Weights *(by listing)*	**US 53%** **Europe 28%** **Asia inc. Japan 7%**
Most OW Sectors	**Industrials, Financials**
Most UW Sectors	**Energy, Materials**
Cash	**4%**

Geographical Exposure by Source of Revenues#



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

Buys

During the quarter the Fund initiated a position in **Colliers International Group**, a leading real estate services company. Colliers was separated from FirstService Corp 2 years ago, its former parent of 12 years. We greatly admire what CEO Jay Hennick has done with both of these businesses, having founded FirstService over 20 years ago. Jay chose to be CEO of Colliers at separation which we see as a positive signal for the large opportunity set ahead.

Sells

This quarter the Fund sold entirely out of **Time Warner Inc.** Time Warner is being acquired by AT&T with both companies hoping the deal receives regulatory approval sooner rather than later. While regulatory approval is likely, it is not a certainty. We have been selling the shares as they approach the takeout price.

Stock News

On 27 July 2017 **OHL Mexico** announced that OHL ES and IFM had been successful in achieving 85.85% acceptance for their tender offer at MXN27 per share which was above the 85% threshold they had set. This will result in OHL Mexico remaining a listed company with Magenta Infraestructura being the new controlling shareholder. Cooper Investors did not tender any shares and we remain a committed long term shareholder who welcome IFM (an experienced infrastructure investor committed to strong corporate governance) to the register.

Late in the quarter **Orkla** completed the deal to sell their 50% interest in SAPA to the other joint venture partner (Norsk Hydro) having had it approved by the appropriate regulatory authorities. From the deal Orkla received NOK12bn in cash (representing a valuation of NOK27bn for SAPA on a debt-free basis). The proceeds will be used to fund organic and inorganic growth, in addition to a NOK5 special dividend to be paid at the end of October.

This is a good outcome for Orkla shareholders as the SAPA aluminium extrusion operation was one of the last major non-consumer parts of the old industrial conglomerate. With this out of the way management can focus entirely on the self-help story as operating margins and working capital efficiency of the Nordic FMCG assets lag significantly behind peers. Further latency should be a reduction in the group's holding company discount over time, as the earnings mix moves closer to 100% branded consumer goods.

Trip News

This quarter the global team visited Germany, The Netherlands, Ireland, France, the U.K, the U.S. and Canada.

The takeaways from Europe were as follows. First, the economic backdrop feels the most benign it has since the GFC in terms of broad-based steady growth. No countries or sectors are 'shooting the lights out', yet most are growing. Unemployment rates are at, or close to, record lows across most of Northern Europe, and are finally improving in the South.

The major political boxes have been ticked, with our time in Paris revealing cautious optimism among business leaders that Macron can actually get things done. In short, we see no macro impediment to the good companies that we follow in Europe continuing to grow profitably.

Second, the better quality meetings we had were highly concentrated around our Level 1 Watchlist stocks. Meeting the CEOs of these businesses, whether in the Fund (Unibail-Rodamco, St. James Place) or on the periphery (Rational AG, Aalberts Industries N.V.) was another reminder that a focused and repetitive visitation program enables you to get deep insight and conviction around these investments.

This is at a time when MiFID 2 is about to be implemented, a multi-faceted piece of regulation the most notable outcome of which is brokers will no longer get paid for research through commission. In essence research will become priced separately. The impact of this is that quality insights will become scarcer, and as markets become less efficient we think the value of our networks will increase.

We talk about capital allocation a lot, and despite some of these companies sitting outside our 'Capital Allocator Champions' cluster we find standards of discipline and execution to be just as high. Consider Unibail, Europe's largest and best shopping centre REIT.

Bond-like equities have not been flavour of the month of late and the share price has fallen around 20% from its highs in early 2016. Over this period management have worked diligently to improve the capital structure of the business by borrowing for longer tenures at lower rates, harvesting their weakest assets through sales, developing new prime assets such as the Mall of Scandinavia, and more recently announcing the initiation of a buyback given they now consider the share price to have fallen below the NAV of the business. We are very comfortable owning Unibail which we view akin to a Euro-denominated bond yielding 5%, though unlike a fixed coupon bond here the dividend actually grows ~5% per year.

Thirdly and finally from Europe, the lack of progress around Brexit from a corporate perspective is becoming a major concern. We met companies across a variety of sectors, from liquor to banking, property development to airlines, stock exchanges to e-commerce, and the message was consistent: everyone knows this is going to affect their business to some degree, but no-one really knows what the hell is going on. Very few companies have bothered to appoint 'Brexit Committees' simply because there wouldn't be much for them to do at this stage.

And yet the official deadline of March 2019 already looms large. The pace of implementation seems entirely at odds with the urgency required, leading to a huge void of uncertainty where companies will surely stop spending and enter-wait-and-see mode unless the deadline gets pushed back. This is something the politicians say they don't want yet it is inconceivable how everything can get done in time. There is a major risk of unintended consequences from rushed legislation.

Companies operating in regulated industries such as financial infrastructure and asset management seem most exposed, at least to headline risk if not specifically risk to their operating models. We were told that 75% of Europe's private wealth is currently managed out of London. It is hard to see the EU power-brokers allowing this to remain the status quo as Brexit negotiations continue, though having visited Dublin, Frankfurt and Paris it is also hard to see where the London-based bankers (whether British, European or American) will agree to live if London is forced to give up some of the pie.

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It was a busy quarter of travel and company visits across North America. As at September 30th the S&P 500 has achieved a 14% Total Shareholder Return p.a. for 5 years and 17% for the last 2 years. These types of returns won't last forever. With this in mind, we packed our bags again this quarter and covered extensive ground, travelling across nine states and meeting with the management teams of 14 portfolio holdings (which accounts for 61% of the portfolio's North American investments and 34% of the portfolio in total).

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Most of these stocks have done well with their share prices rising, so it was pleasing to hear about the next legs of value opportunity and latency that appear to be on offer at these businesses. Whether it be the continued progression around merger integration at Quintiles IMS and Willis Towers Watson, execution of operational improvement plans at S&P Global and Baxter International, or capital deployment at SiriusXM and Ametek, our holdings each have self-determined propositions distinct from just trading in line with stock market indices.

More so, there continues to be a vibrancy to the US economy. Following on from our observations earlier in the year of cities like Atlanta and Miami, we are seeing more cranes and large towers being built and plenty of home construction and renovations. Previously this only happened in Manhattan and San Francisco but now can be seen and felt in places like Philadelphia and Los Angeles too. Cities which had been quiet and have seen only slow growth for the best part of a decade.

The company visitation program forms the bedrock of our VoF investment process – it is where we gain key insights into company culture, management behaviour as well as operating, industry and strategic trends. As bottom-up stock pickers we prefer to spend our time thinking about individual company investment propositions. However, insights gained from our company meetings affords us the opportunity to stitch together a "real world" view of macro trends and issues. We touch briefly on a couple of these below.

The disruptive nature of online commerce to legacy businesses continues to play out every day. Traditional retailers whose business model can be replicated online in a format more convenient for consumers have had to bear the brunt of this disruption. A second iteration has been the erosion of brand value as the internet removes search costs and increases price transparency. The markets have been indiscriminate in punishing the equities of traditional bricks and mortar retailers as well as many branded consumer companies. What is often overlooked was the period of share price weakness followed a period of strong performance, as the extension of low interest rates and low growth saw money fly into consumer related stocks which were seen as predictable and generating solid income streams. We think it's important to take this into consideration before jumping into any apparent opportunities.

With our discerning stock specific hat on, this dynamic has thrown up potential investment opportunities across a number of our watchlist stocks – companies with focused management teams, compelling customer propositions and clearly articulated strategies which we believe are insulated from or may even thrive in an increasingly digital world. We see this as an area of higher research focus in the near term.

In our meetings with management teams we often discuss the potential implications of the Republican Administration on their business. Clearly to date the progress on political reform has been slower than many were originally anticipating. Slightly more positive has been a change in the overall regulatory environment – "no *new* regulations" is something we frequently hear and appears to be aiding general business confidence. More specifically, key members of the Administration released a tax framework in late September - the centrepiece of which is a reduction of the US corporate tax rate from 35% to between 20 and 25%.

Without getting bogged down in the minutiae of tax policy, we are encouraged by our analysis which indicates that any movement on the tax reform front would materially increase the free cash flow power across a high majority of our portfolio companies.

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