CI BRUNSWICK FUND
QUARTERLY REPORT

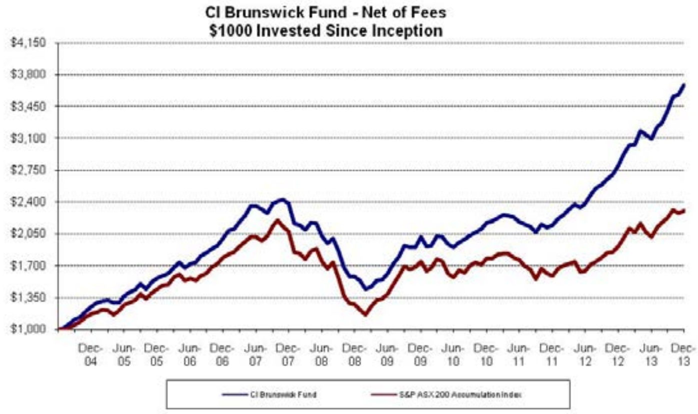
Cooper Investors Pty Limited AFS Licence Number 221794 ABN 26 100 409 890

DECEMBER 2013

"In the financial markets, there is rarely anything new under the sun, but you can never say you've seen it all, and what you thought you would never see can clobber you." Seth Klarman.

"A good decision is based on knowledge and not on numbers." Plato.

	**PORTFOLIO	BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	9.10%	3.42%	5.68%
ROLLING 1 YEAR	34.20%	20.20%	14.00%
ROLLING 2 YEAR	33.09%	20.21%	12.88%
ROLLING 3 YEAR	21.56%	8.94%	12.62%
ROLLING 5 YEAR	20.47%	12.47%	8.00%
ROLLING 7 YEAR	11.20%	3.66%	7.54%
SINCE INCEPTION*	18.49%	9.15%	9.34%
SINCE INCEPTION^	401.30%	129.88%	271.42%



* Annualised
^ Cumulative (1 July 2004)
** Before fees and expenses

Market and Portfolio Performance

The S&P/ASX200 Accumulation Index rose 3.42% over the quarter to finish the calendar year up a solid 20.20%. Consumer Discretionary and Financials were the better performing sectors over the year, up 40.99% and 30.26% respectively, while the Materials sector under-performed, down 0.81%. Higher equities market valuations and increased confidence led to a rush of IPO activity in the second half of 2013, along with some early indications of a pick-up in M&A activity.

Global stock markets also enjoyed a good year with low interest rates and ample liquidity driving increased risk appetite and asset price inflation. The S&P 500 was one of the strongest performing markets, up 29.60% while the UK FTSE was up 14.43%. Asian market performance was mixed with Japan delivering a return of 56.72%, its best in 4 decades, following unprecedented stimulus efforts by Prime Minister Shinzo Abe to kick-start the economy, while the Chinese market under-performed, down 6.75%.

Over the course of the year Australian bond yields increased from 3.4% to 4.2%, while US Treasury yields rallied from a low of 1.6% in May to finish the year just shy of 3%, marking the first negative year for US bond investors in more than a decade.

The portfolio returned 9.10% and 34.20% over the quarter and year. Over the quarter, portfolio out-performers included Bega Cheese, NIB Holdings and TPG Telecom while under-performers were Oil Search, Woolworths and Amalgamated Holdings.

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The Portfolio

During the quarter we participated in 2 IPOs (OzForex and Affinity Education Group), added to existing positions in Summerset and Transpacific Industries on the back of final sell-downs by their respective private equity shareholders and increased our position in Recall Holdings following its demerger from Brambles. The portfolio exited positions in Bega Cheese and Navitas.

Over the course of 2013 we selectively reduced our exposure to yield stocks where either the underlying cash flows had been adequately re-rated or the investment proposition had changed. In aggregate, we halved our exposure to yield stocks to around 9% over the year.

Looking to the year ahead we find the following themes/trends particularly interesting:

- The domestic economy is in a transition phase with lower commodity prices and a falling Australian dollar over the year highlighting that the resources boom is well and truly over. We continue to seek out companies and industries that can prosper through this adjustment phase, for example tourism should benefit from an increase in private sector investment and is a natural beneficiary of a lower dollar through increased inbound visitation.

- There are early indications of major State and Federal government divestures that were a feature of the market during the privatisation cycle of government assets in the early 1990's. Buoyant equities markets combined with weaker government balance sheets could see a number of unique assets sold through trade sale or IPO in 2014. State owned electricity and transport infrastructure assets and Australia's largest health insurer Medibank Private are potential candidates for the year ahead. We are particularly attracted to public-to-private turnaround opportunities where the operations tend to have significant latency and there is a large energy release when these businesses are 'set free' in private hands.

- We continue to look favourably upon companies with structural growth characteristics and we are particularly attracted to the following areas:
    - Aged care ~ a near doubling in the older population over the next 20 years should underpin demand for affordable retirement living, aged care services and niche health care companies.
    - Airports ~ ongoing liberalisation of air rights, increased penetration of low cost carriers that stimulate leisure travel demand and a growing middle-class Asian consumer should continue to deliver strong growth in passenger traffic numbers.
    - International trade ~ globalization incentivizes labour and capital mobility that supports growth in international trade finance at a multiple of GDP.
    - Wealth management ~ the burgeoning Australian wealth management industry remains well supported by mandatory superannuation and favourable tax structures.

The portfolio remains positioned around five pillars or stock clusters:

- **Stalwarts** (37% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (CSL, Telstra and Westpac).

- **Bond like equities** (9%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Carindale and Auckland International Airport).

- **Niche growth companies** (28%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (OzForex, Lifestyle Communities and TPG Telecom).

- **Asset plays** (13%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (British Empire and WH Soul Pattinson).

- **Turnarounds** (11%) – sound businesses with good management in place and good balance sheets essential. We especially like government to private turnarounds (Aurizon and Z Energy).

Currently the portfolio holds around 2% cash and another 2% in high yielding hybrid securities such as Transpacific Preference Shares. The portfolio has around 8% of assets invested in overseas markets (excluding NZ stocks) or 24% (including NZ stocks). These positions are spread across UK, Singapore and Hong Kong listed companies.

Portfolio attributes as at December 2013 are summarized below:

P/E	16.8
Beta	0.82
Yield	3.2%
P/Book	2.1x
ROE	12.1%
Tracking error vs. ASX 200	5.16%
Stock Numbers	35

Major sector exposures are:

Sector	Portfolio Weight
Financials	27%
Industrials	15%
Consumer Discretionary	15%
Consumer Staples	3%
Telecommunications	11%
Energy	8%
Healthcare	4%
Materials	5%
Information Technology	2%
International Equities*	8%
Cash	2%

** Excludes NZ stocks which are considered domestic along with Australian listed securities.*

OzForex (OFX) ~ during the quarter we participated in the OzForex IPO. OzForex is a global provider of online international payment services for consumer and SME clients. The business was established in 1998 as an information-only website and commenced dealing FX as principal in 2003. Macquarie purchased a majority stake in the business from its founders in June 2007 and Accel/Carlyle acquired a 43% interest in November 2010. All 3 major financial sponsors sold out in full as part of the IPO process.

OzForex specialises in providing retail clients with a platform to transfer funds securely from one bank account to another in 50+ currencies and more than 900 currency pairs. The business also provides international payment solutions to partner companies that leverage its infrastructure to in turn provide international payment services to their own customers (Travelex in the UK and MoneyGram in the US). OzForex markets its services in 19 countries and over 30 states in the US through a multi-brand strategy (www.ozforex.com.au, www.ukforex.co.uk).

The revenue model is relatively simple. OzForex generates income by taking an FX spread on each customer's transaction (~0.7%) at rates well below major bank competitors (2-3%). In addition to price, OzForex offers its customers an efficient online capability, 24/7 service and superior settlement speeds.

We believe that the overall customer value proposition is compelling, particularly when compared with competitors such as commercial banks and money transfer specialists like Western Union, who are motivated to charge large fees for relatively simple FX transfers in order to sustain expensive physical retail networks and legacy systems/processes.

The international payments market is a large and growing market driven by increasing international trade and migration. The Bank of International Settlements estimates that the global FX market turnover is worth over US$5 trillion per day and the spot FX market worth around US$2 trillion per day, having grown at double digit rates for the last decade. OzForex is a very small participant with only 1-2% market share in Australia and negligible share in other jurisdictions.

OzForex participates in a highly fragmented segment of the market. It competes for customers above the global remittance space (average transaction size below $1,000) which is dominated by incumbent Western Union but is under threat from new entrants such as Xoom, and competes below the wholesale corporate market. Incremental market share gains are expected to come from the major domestic and international commercial banks.

We are attracted to the disruptive innovator attributes of OzForex that are not dissimilar to nimble and focused businesses like Seek, Xero and Google who have successfully taken profits from and disrupted incumbents in their respective industries. To be successful OzForex would only need to take a very small slice of what is a large and growing global pie.

OzForex is not licenced as a bank, instead it uses a network of local bank accounts (currently 115 accounts) to facilitate international payments. Importantly, this structure avoids the costs/time associated with using an international correspondent bank network such as SWIFT. All core business functions are supported by a proprietary technology platform developed internally over 12 years. The platform is scalable across multiple jurisdictions, fully automated, low cost and provides a smooth customer experience. We believe that the non-bank structure combined with the technology platform represents a unique competitive advantage.

The international payments market is highly regulated. Regulation tends to be focused on anti-money laundering and counter-terrorism protection with a global trend towards tighter regulation that should increase barriers for new entrants over time. We are mindful of the regulatory risks associated with the business model, particularly the risk that a change of regulation within one jurisdiction could have flow-on effects to the rest of the business (especially within the US). OzForex holds around $6m of regulatory capital, which is small given the size of the business and indicates the risk of regulation may also be small.

OzForex attracts customers predominantly through online marketing such as Google. In FY13, 97% of new clients were acquired online and 55% of clients were acquired through a paid online marketing channel. OzForex needs to maintain its online marketing presence to remain competitive. Although the business does not currently enjoy the market position and pricing power that comes with a dominant franchise like Seek or REA Group, it does have a highly scalable global growth option (particularly in the US) and a genuine customer value proposition.

We believe that OzForex represents an attractive multi-year global growth story and that it is well placed to win market share through a strategy built around:

- Continued developments of its core business ~ grow organically through increased marketing and enhancing the customer experience with improved website/smart phone functionality and tweaks to the registration process.
- Expand its geographic footprint ~ build out and ramp up the US business through submission of additional US state licences (currently licenced in 30 states with an additional 7 applications under submission) and increased marketing efforts.
- Expand its payment solutions capability ~ grow existing white-label partnerships (Travelex, MoneyGram) and execute on a pipeline of new branded partnerships. The growth optionality from these partnerships, particularly Travelex where the business will soon launch a consumer product in the US market, could contribute materially to earnings over the next 3-4 years.

Action in the dairy sector reached fever pitch levels during the December quarter. **Bega Cheese's (BGA)** bid for Warrnambool Cheese & Butter (WCB) (discussed in our September quarterly) kicked off a relentless bidding war for the Western Victorian dairy producer with Saputo (a large Canadian dairy company) and Murray Goulbourn (a local dairy co-operative) attempting to gain control of WCB. BGA has now effectively stepped out of the race for WCB as price expectations reached exorbitant levels and it looks as though it could be headed for stalemate due to the difficulty of anyone gaining control, with several large blocking shareholdings.

Additionally, other large players in the Australasian dairy sector looked to secure "strategic" positions in local players – Kirin (owner of Lion Nathan and National Foods) purchased a 10% position in WCB and Fonterra (the largest dairy exporter in the world) purchased a 9% position in BGA. We decided to sell our BGA shares to Fonterra during October for $4.95 – this price was 10% above the last close and we felt it represented very compelling value. This closed out a very successful investment for the portfolio in BGA (we purchased our position for ~$1.80 in late 2012) and we believe management have done a fantastic job at creating shareholder value since their IPO. We would look to revisit investments in the dairy sector if price expectations were to moderate.

We also participated in the **Affinity Education Group (AFJ)** IPO. Affinity is an owner/operator of child care centres in Australia and as part of the IPO process the company acquired 57 child care centres with management rights for an additional 11 centres.

The child care industry has been in a consolidation phase over the last few years following the high profile collapse of ABC Learning along with a number of smaller operators between 2008 and 2010. In our view, these businesses failed because management lacked acquisition discipline (overpaid for assets), used excessive financial leverage, took on green field development risk and expanded capacity to the point where the industry was over-supplied in 2007/08. Importantly, a number of the failures were borne from property development businesses that lacked critical child care operational expertise.

Despite these failures, we believe the economics of corporatized child care remain attractive and when these businesses are run well they can be highly cash generative with low working capital and capex requirements. G8 Education (GEM) has been extremely successfully by focusing relentlessly on the underlying operations and making disciplined acquisitions.

The child care market today is supported by some strong industry tailwinds. The industry remains highly fragmented and conducive to further industry consolidation ~ 84% of the market is run by sub-scale private operators, local councils and community organisations, and although the industry is relatively mature, demand for child care services has been strong with industry revenues growing at 4.7% CAGR over the last decade, in part driven by higher female labour force participation.
The regulatory and compliance burden on child care operators is increasing, which we believe should benefit scale operators like Affinity in the longer-term. In 2012, the Federal Government implemented the National Quality Framework as a new national approach towards regulation and quality

assessment for child care services. The purpose and effect of the framework is to set appropriate staff-to-child ratios, maintain appropriate physical space requirements, set OH&S standards and improve early childhood learning and development programs.

Although Affinity does not have an established track record as a corporate entity, the individual centres are well established and profitable businesses in their own right. The core operations team are experienced child care centre operators that will play a crucial role in the integration and operation of the acquired centres. We also take some comfort from the roll-up acquisition/integration experience of the Board.

The key risks to the Affinity investment proposition include acquisition/integration risk, increased competition and potential changes to regulation and/or government funding. We will monitor these risks carefully, but at this point we believe that Affinity has the appropriate structures, processes and management capability in place to navigate its way through these challenges.

In December, **Brambles (BXB)** demerged its information management business, **Recall Holdings (REC).** Recall traded below our view of its intrinsic value through December so we took the opportunity to add to our position. Recall is one of the two largest information management solutions providers globally. Its core business is storing physical documents and digital information for its customers across 308 secure facilities in 23 countries. It also offers ancillary services including secure destruction of documents and business process automation.

Recall is a quality cash-generative business that in our view presents an exciting turnaround opportunity. Under Brambles ownership Recall had lacked focus and it was deprived of capital to grow. In addition, the failed sales process undertaken during 2011 and 2012 was a major distraction for the business and resulted in questionable management actions that increased short-term profitability at the expense of customer relationships and the long-term health of the business. We are becoming increasingly confident that the current management team is rectifying these issues.

Our research to date has focused on the US (25% of earnings) and Australian (40% of earnings) operations. On our trip to the US during the quarter we met with many contacts, including competitors, ex-employees, customers and industry consultants, and we have spoken with similar contacts from an Australian perspective to understand these markets in more detail. Recall is the clear market leader in Australia but it has lost market share in recent years due to poor customer service, although there appears to be an opportunity to halt this market share loss under the right management team. In the US Recall is relatively smaller and it has many opportunities to grow its market share through acquisitions and improved customer service levels.

Aspects of the Recall business and industry that we find attractive include:

- The business produces stable recurring earnings with high cash flow conversion and mid-teen returns on capital;
- Mature industry but experiencing GDP-type growth as net storage volumes are still growing (despite digital threat);
- Ample opportunities to boost organic growth through acquisitions (e.g. US is fragmented with Recall the 2nd largest with a ~7% market share), emerging market expansion and penetrating un-vended markets;
- Balance sheet at 2.4x ND/EBITDA has some headroom given ability of the business to carry debt;
- Many small customers – largest customer is <2% of group revenue;
- High switching costs – document storage is a small part of a customer's cost base (storage costs ~$2-3/box per year), "customer inertia" is a very strong force in the industry; and
- A new management team that is driving change, reinvesting back into the sales force and improving customer service levels.

In addition to the risks involved in implementing a turnaround and growing via acquisition, probably the largest risk to Recall is the impact that digitisation of information will have on its business model. Since the 1975 prediction of the "paperless office", commentators have incorrectly been calling the death of paper.

Physical storage volumes in mature markets continue to grow (albeit at a much slower pace than digital volumes) due to regulatory requirements, the lack of sophistication across the records management industry and the relatively low cost 'insurance' from storing physical records in a rapidly evolving digital world. In the medium-term we see digitisation as a low risk to REC but we will continue to monitor the situation as it is not yet clear how Recall will compete in the digital world longer term.

Stock News

In October M.H. Carnegie & Co and Perpetual Investment Management requestioned meetings of both **Washington H Soul Pattinson (SOL**) and Brickworks (BKW) shareholders to vote on a transaction primarily designed to break up the cross-shareholding structure that has been in place for over 40 years. The Carnegie/Perpetual proposal is complex but essentially involves:

- Demerger distribution transaction (Resolution 1)
  - An in-specie distribution of TPG Telecom shares owned by SOL to all shareholders, including BKW.
  - The distribution to be made in part as a return of capital and in part as a demerger dividend to enable tax effective demerger roll-over relief.
- Cancellation of shares (Resolution 2)
  - The cancellation of BKW shares held by SOL. Consideration for the cancellation of shares to be made in part by cash and in part through a promissory note.
- Appointment of Elizabeth Crouch as a Director (Resolution 3).

Over the coming months we look forward to determinations from the ASX and the Australian Taxation Office regarding voting eligibility for the BKW meeting and potential tax implications of the proposed transactions.

In December, **TPG Telecom (TPM)** announced the acquisition of AAPT from Telecom NZ (TEL) for $450m. The acquisition was priced at 6.4x EBITDA and will increase TPG's gearing levels to a manageable 1.2x net debt/EBITDA.

AAPT is an Australian telecommunications infrastructure business focused on the wholesale, corporate and SME segments of the market. The business was previously acquired by Telecom NZ through two separate transactions (AAPT + PowerTel) for over $2.5bn and its network is regarded as one of the highest quality telecommunications networks in the country. Its core assets include 11,000km of fibre and 410 exchanges across 6 states, fibre access to over 1,500 premises, 15 data centres and a strong Ethernet capability to 254 exchanges. The business is set to generate $410m revenue and $70m EBITDA on an FY14 run-rate basis.

We believe the acquisition makes a great deal of strategic sense for the following reasons:

- The acquisition extends TPG's infrastructure competitive advantage such that TPG now has the 2nd largest network in the market and a vertically integrated business model capable of carrying data traffic from a customer premise, through its network assets and onto its Pipe international cable.

- Adds scale to TPG's wholesale/corporate business and provides the company with a platform to address the higher value SME market. In the longer-term we believe that there is scope for TPG to compete in the SME market as an industry disruptor, similar to its approach in the consumer broadband market where it has a strong customer value proposition as the lowest cost provider.

- AAPT's network is grandfathered under current anti-cherry picking legislation which will allow TPG to leverage the network assets unencumbered as part of its FFTB initiative (discussed in our September Quarterly Report).

- There is limited scope for further telecommunications infrastructure consolidation given that AAPT and NextGen (acquired by Ontario Teachers' Pension Plan in June 2013) were the last major network assets for sale, making it increasingly difficult for new entrants and/or infrastructure light ISPs to vertically integrate their business models.

There is significant scope for TPG to extract synergies from the transaction, particularly from labour rationalisation and network related cost reductions. In aggregate, we think the acquisition could deliver $40m+ in synergies over the medium-term.

It was a busy quarter for **Village Roadshow (VRL)** with the company announcing a 25cps shareholder distribution (over and above the ordinary dividend) and its intention to distribute a further 25cps after July 2014. The company also completed the sale of its Phoenix, Arizona Wet'n'Wild theme park for US$27m and announced its intention to divest the balance of its US theme park portfolio, with capital to be reinvested in higher growth markets such as Asia. VRL also opened the marquee Wet'n'Wild Sydney water park to the public on 12 December with over 65,000 patrons visiting the complex in its first week of trading, although disappointingly it cancelled its NYE event.

Lifestyle Communities (LIC) acquired a 160 home site in Bell Park, Geelong for $6.9m. The site is well positioned in a population growth corridor with favourable demographics and limited competition in the affordable housing segment of the market. Construction is expected to commence during the second quarter of 2015.

The CEO transition at **Vitasoy (345-HK)** appears to be occurring smoothly. Like his predecessor, Laurence Eisentrager, who recently retired after more than 10 years with the company, Roberto Guidetti comes from a multinational FMCG background, including significant time in Greater China. Vitasoy continues to be the clear market leader in the soy milk segment in Hong Kong and Guangdong.

In Hong Kong (where the group enjoys market share of 40-70% in certain categories), the company is focussed on using its formidable distribution network to roll out adjacent products. As is the case in Hong Kong, where there is already high consumer acceptance, Vitasoy is focussed on expanding geographically in China. We expect the soy milk market in China to continue shifting away from bulk form (loose and powder) to packaged, reflecting rising incomes, urbanisation, and food safety concerns, which should benefit the company. With the completion of a new plant in China and expansion in Australia, we expect capacity constraints to ease and an increasing contribution to earnings from China.

IOOF (IFL) acquired a 12% stake in **Equity Trustees (EQT)** from Perpetual (PPT) following the successful scheme implementation between Perpetual and The Trust Company (TRU). Equity Trustees also upgraded earnings guidance, guiding to FY14 NPAT growth of 15-20% due to the strong performance of business development and growth initiatives implemented over the last 18 months.

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International Visits - Observations from CI's investment team

During the quarter CI's investment team travelled to the US and Europe. Our observations from these visits are summarised in brief below:

US

- We saw limited evidence of the financial market recovery hitting the "real world" – life remains extremely tough in middle America with the overhang of the debt fuelled consumption binge over the past 20 years likely to persist for the foreseeable future. The "non-recovery recovery" was the best description of the current environment that we heard.
- Income and wealth inequality is at an all-time high with loose monetary policy and skewed tax policies continuing to widen the gap between the rich and poor.
- Americans don't trust government, especially young Americans. The public's trust in President Obama hit a new low in the lead up to Christmas on the back of a poor start to the Obamacare rollout and excessive government spending.
- There is a huge efficiency drive by corporate America with businesses looking to increase productivity of existing workers rather than hiring new workers leading to the so-called "jobless recovery".
- The housing "recovery" has been a relative bright spot but has come from very depressed levels – it will be interesting to see if starts can recover back to the long-term average of 1.5m (from ~1m today) in the medium-term given the points above and the impact of rising mortgage rates as the Federal Reserve begins to taper its quantitative easing program
- The rollout of The Patient Protection and Affordable Care Act, aka Obamacare that promises to provide an additional 48 million uninsured and under-insured Americans (~15% of the population) with health insurance coverage has made a slow start with only 1 million sign-ups at the time of writing. At this point we don't expect Obamacare to have a material impact on the healthcare stocks in the portfolio, namely CSL and Alchemia.

Europe

While in London we visited portfolio holding **British Empire Securities & General Trust (BTEM).** BTEM invests in companies trading at discounts to asset backing, European/Asian family-linked holding companies with good governance, listed closed end funds and property and resource companies. BTEM's portfolio is currently skewed towards Europe where there are signs economies have stopped deteriorating and value is on offer. BTEM maintains a substantial position in Jardine Matheson which in turn owns 80% of Jardine Strategic, another portfolio holding. The stock continues to trade at a double discount ~ 12% discount to stated NAV and 28% discount to look-through NAV.