CI BRUNSWICK FUND
QUARTERLY REPORT

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

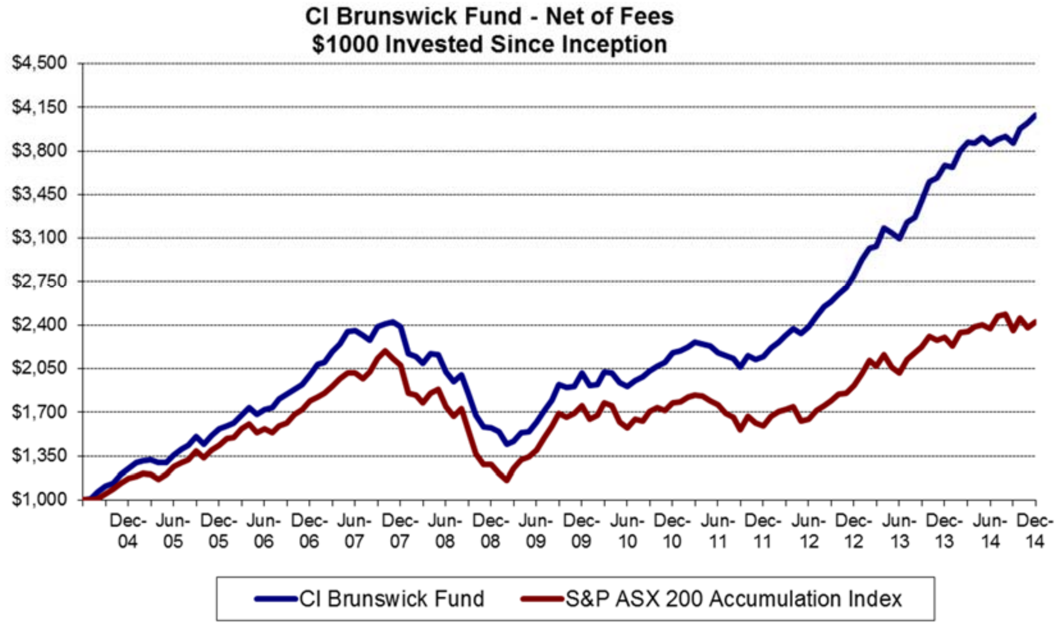
DECEMBER 2014

"The only function of economic forecasting is to make astrology look respectable." John Kenneth Galbraith.

"Banking is necessary banks are not." Bill Gates 1994.

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	6.29%	3.11%	3.18%
ROLLING 1 YEAR	12.68%	5.61%	7.07%
ROLLING 3 YEAR	25.91%	15.14%	10.77%
ROLLING 5 YEAR	17.21%	6.76%	10.45%
ROLLING 7 YEAR	9.67%	2.27%	7.40%
ROLLING 10 YEAR	15.64%	7.56%	8.08%
SINCE INCEPTION*	17.92%	8.81%	9.11%
SINCE INCEPTION^	464.87%	142.78%	322.09%

* Annualised
^ Cumulative (1 July 2004)
** Before fees and expenses
# S&P ASX 200 Accumulation Index



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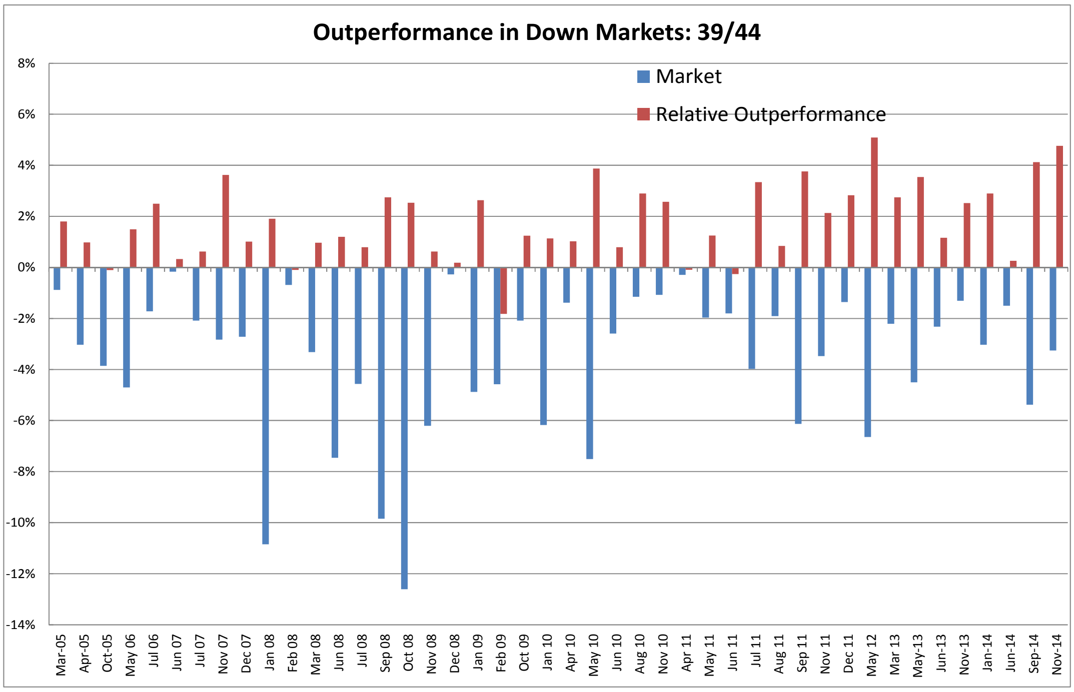
Market and Portfolio Performance

The portfolio returned 12.68% for the calendar year compared with 5.61% for the market. Pleasingly, the portfolio continues to show strong relative performance attributes in negative markets due to portfolio positioning that has exposure to companies with enduring qualities and cash currently at around 10% of the portfolio. Since inception the portfolio has out-performed in 39 months out of a total 44 months when the market has shown negative returns.



The portfolio's relative performance was assisted by the low direct holding in industries exposed to Australia's declining terms of trade. For example, the portfolio has a resource industry exposure of 7% vs. 17% for the ASX 200. Confidence in the resource sector has switched to bearish as falling energy and metal prices imply lower profits than broker forecasts. Current spot prices (if maintained for the balance of 2015) will see more profit downgrades, e.g. RIO is trading on a 2015 PE of 13.7x based on spot commodity prices compared with a consensus PE of 11.5x . Forecast dividend increases and yields appear challenged under the current spot commodity assumptions.

The positive contributors to performance included:

1. Recall – takeover offer from Iron Mountain;
2. Caltex – continued strong performance on the back of operational turnaround underway;
3. Amcor – helped by falling currency; and
4. CSL – helped by falling currency.

The worst performers over the quarter included:

1. Oil Search – continued weak oil price;
2. Woolworths – slightly weak first quarter sales and broker anguish over the likelihood of Woolworths facing the same misfortunes as have befallen Tesco in the UK; and
3. QBE – no substantive news.

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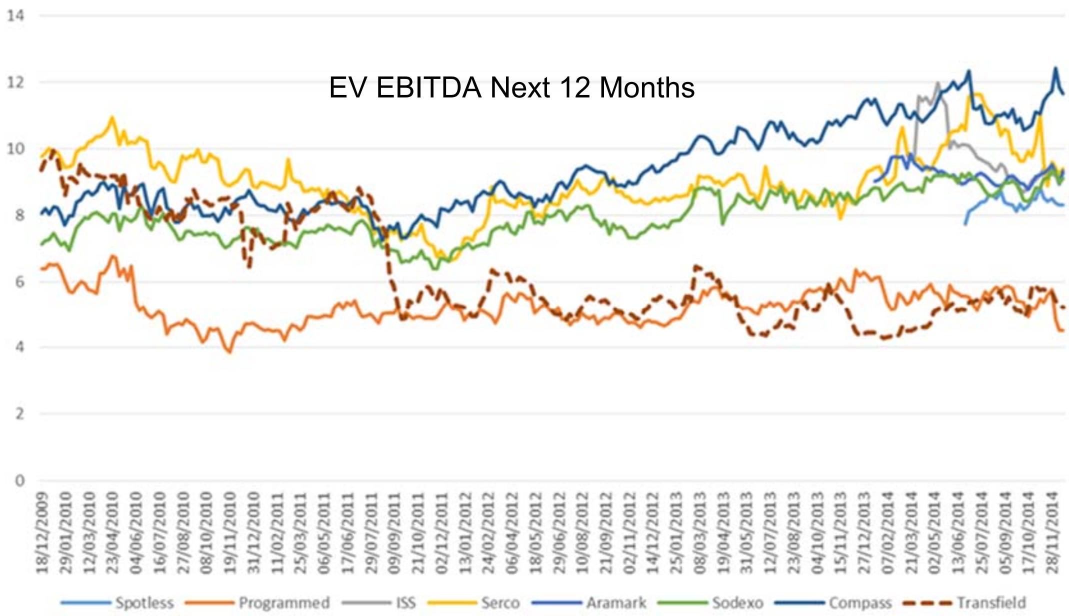
The Portfolio

During the quarter we sold a residual position in Rubik Financial for a small loss.

Ferrovial (FER) made and subsequently withdrew its revised $2.00 offer for **Transfield (TSE)** Services which saw the TSE share price retreat to $1.55. TSE is currently on a self-help program aimed at restoring value and dividends by improving cash conversion through efficiency programs, better working capital management, debt reduction and reduced non-recurring cash costs as bad contracts roll off. The main risk facing the company is the difficult resource and energy environment (the mining sector represents 3% of revenue and the energy sector represents 29%.)

The Ferrovial services division generates an EBITDA margin of 8.5%. Inputting 7.5% for TSE generates a valuation of about $2.80 and using a 6.5x multiple on management's FY15 EBITDA guidance of $260-$280m yields a $2.25 - $2.50 valuation.

EV/EBITDA multiples for domestic & international players in the facility management space:



Source: Factset

	EV/EBITDA Next 12 mths	EBITDA margin
Transfield	5.22	5.80%
Spotless	8.30	9.65%
Programmed	4.52	4.05%
ISS	9.23	5.92%
Serco	9.39	6.81%
Aramark	9.33	7.32%
Sodexo	9.10	6.51%
Compass	11.65	9.12%
Average (excl TSE)	**8.79**	**7.05%**

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Stock News

Telstra (TLS) signed revised definitive agreements with NBN Co and the Commonwealth to enable the rollout of the multi-technology mix (MTM) national broadband network. The estimated net present value in the revised agreements is expected to be equivalent to the original agreements (i.e. approx. $11bn post tax NPV as at 30 June 2010). There is also potential for Telstra to provide planning, design, construction and maintenance services to NBN Co in addition to the revised agreements and generate additional profits for Telstra.

The Government released its policy response to the Vertigan review of the NBN which has implications for **TPG Telecom (TPG)**. The main points of the Government's policy response:

- Operators of high speed broadband networks will need to be functionally separated from 1 July 2015, i.e. have separate retail and wholesale divisions. TPG will also be required to provide other retail service providers access to their network.
- Under previous legislation, there was an implicit cross subsidy, i.e. a flat access price for metro and regional areas which would take into account the higher cost to roll out to regional areas. This cross subsidy will now be explicit and providers of high speed networks will need to pay a levy to NBN Co, which will be introduced on 1 January 2017. The levy amount is still to be determined. As a consequence, the return that TPG Telecom generates on this investment will be reduced. TPG management will need to weigh up these costs to determine whether the company should continue to roll out its FTTB network.

There has been a slight pickup in competition in the mobile industry over the past few months. Although plan pricing in post-paid mobile remains largely unchanged, mobile providers are offering more value to customers in the form of bonus data, entertainment offerings and credit towards switching costs. Optus has been the most innovative and aggressive on this front and recently introduced data share plans whereby customers pay a one-off $5 fee for each additional device (tablets) they connect to their post-paid plan. In comparison, Telstra charges $10 per device per month and Vodafone does not offer data sharing. While this move by Optus is likely to cannibalise their mobile broadband customers, it appears that they are aiming to move their customers onto higher price point plans. It is too early to tell whether this will reduce their overall revenues and it will be interesting to see whether Vodafone and Telstra follow Optus' footsteps. We think a key challenge for the industry is to monetise increasing data usage. Optus and Vodafone have made large investments to improve their networks and we expect they will look to regain market share. However, it appears that competition is still relatively benign as we are yet to see a pickup in handset subsidies.

International Visits

We visited Hong Kong and China as part of our quarterly research program and made the following observations:

1. Expectations have been reset to the "new normal" level of 7% GDP growth, with downside risks in our view, for the next 3-5 years. This trajectory will be more sustainable (e.g. recognising environmental costs, being geographically diversified) and inclusive (involving urbanisation, Hukou reform and greater share from service industries), which are positives. The anti-corruption crack down continues to impact a broad range of sectors, ranging from the obvious (luxury goods, gaming) to the not so (hypermarket retailing, restaurants). The Party leadership has a high satisfaction rating, which suggests that the anti-corruption crack down may persist for some time still.
2. SOE reform: the most popular phrases from our meetings with SOE companies were "mixed ownership" (i.e. the introduction of new private shareholders and continued government sell-down – there is tangible evidence of this) and "market orientated" (harder to quantify) policies.

3. Environmental issues cropped up in every meeting. These range from restrictions on cars (e.g. a three year wait on getting licence plates in Beijing is not uncommon), to plant closures/restrictions in polluting industries (e.g. glass, textiles) to ongoing environmental checks (virtually every industry). This remains an absolute priority for the central government.
5. "Occupy Central": the demonstrations were a culmination of broader issues (a lack of affordable housing) and by the end the demonstrators had overstayed their welcome and suffered a loss of populist support. That said, the longer-term outlook for Hong Kong appears more difficult - locals have been "crowded out", it is an expensive place to do business e.g. office rents are almost twice that of Singapore's, and the city state's importance to China is diminishing.

We visited the following portfolio companies:

Vitasoy –Under CEO Mr. Roberto Guidetti's leadership (who has been in the role since April 2013), the company is focussed on:

1. broadening its product mix - particularly in Hong Kong, where it dominates certain categories; and
2. geographical expansion in China adjoining its home markets in Shanghai and Guangdong province where it has already built up scale.

Drivers for Vitasoy's China business are rising per capita consumption (PRC dairy consumption is 1/3 – 1/4 of the global average, with plant-based beverages being an alternative and cheaper source of protein), conversion from loose to packaged products (modern retailing), as well as premiumisation (in developed markets, plant-based beverages have higher price points versus dairy). Due to the strong cash flow generating characteristics of the Hong Kong business, Vitasoy should be able to comfortably fund its growth plans in China without significant balance sheet strain. Overtime China's contribution to group earnings should continue steadily rising from the current c30%. We sense that growth momentum is accelerating for Vitasoy.

Jardine Strategic – Jardine companies have expanded their presence in China in the retail and automotive sectors through investments in (listed entities) Zhongsheng and Yonghui (the latter is subject to regulatory approval). These moves are consistent with the group's approach of being opportunistic and contrarian. There should also be opportunities to extract synergies with other group companies. Jardine remains an excellent proxy for the emerging pan-Asian middle class story, with market leading positions in its chosen consumer-related industry segments. Its investment prospects remain favourable given the sizeable discount to assessed NAV, with the latter incorporating some interesting unlisted businesses.

VoF Observations

"You can tell the quality of the asset by the smell as you walk around an age-care facility." Age-care executive.

- Capital stock has risen by 2/3rds and the population has increased by 2 million in Australia over the past decade due to the mining boom.
- More nappies are sold in Japan to old people than to babies. If you are born today in Japan, by the time you are 70 years old the population will be 50% less i.e. 65m vs. 130m today.
- Electricity demand is in a secular decline.
- Coal demand: Nigeria and Bangladesh with a population of 150m each consume as much electricity as NYC; Japan and Germany are looking at restarting coal fired power stations; Aurizon shipped record coal volumes in the December quarter.

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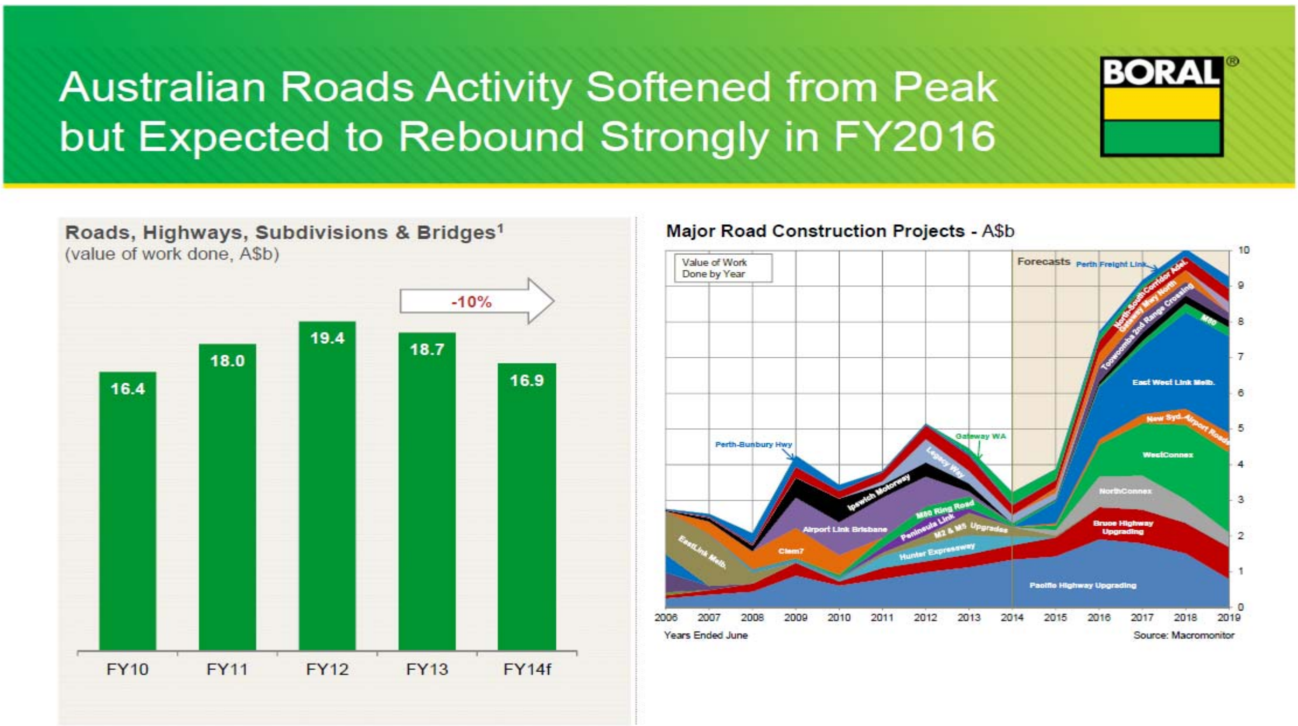
- Mining companies are finding "massive" cost and capex reduction opportunities. The impact of falling prices has seen capex budgets dramatically reduced in an attempt to restore cash flows – this is appropriate after a decade of above normal capacity expansion.
- Commodities were above their natural economic price levels which led to capacity investments that have now seen significant falls with coal, copper, oil and iron ore being the big stand outs. Prices appear to be returning to a more normal levels that reflect long run cost and supply demand fundamentals.
- One complication with using cost curves to determine future price estimates is the falling cost environment. After a decade of capital and labour inflation especially in Australia we are now seeing significant mining sector input cost deflation. This has the effect of decreasing operating cash cost break even rates, enabling higher cost producers to survive for longer.
- Productivity and The Dutch Disease: The term "Dutch Disease" was coined after the crisis in the Netherlands in the 1960s as a consequence of large natural gas discoveries in the North Sea. The resultant wealth caused the Dutch guilder to increase, rendering non-oil products uncompetitive. Great Britain suffered the same condition in the 1970s. When the price of oil quadrupled along with an increase in North Sea Oil production Britain went from oil importer to a net exporter. The British pound appreciated in value, unions demanded higher wages, exports became uncompetitive and Britain subsequently fell in to recession. After a century long significant resource boom Australia faces a productivity challenge. If not resolved, the implications are rising unemployment, higher government deficits, higher taxes, lower growth and further falls in the AUD. A comment by a building executive summarises the issue: "we currently employ 40% more people than needed in our plants due to union and labour law impediments".
- The M&A cycle has been slow in Australia but it is starting to get traction and is now following the rest of the world.
- Current government plans for infrastructure spend have been slower than expectations but company management outlooks are optimistic about better times ahead.



Source: Company Presentation

1. RHS&B refers to roads, highways, subdivisions and bridges. Original series data from ABS. FY2011 to FY2014F figures are an average of BIS and Macromonitor data.

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Market Observations

Over the calendar year new floats raised circa $18.6B, the largest number for the last 14 years, and twice the amount raised in 2013. Towards the end of the year fatigue set in and a number of floats were repriced (Godfreys, Surfstitch, OohMedia) or abandoned.

The Government privatisation of **Medibank Private (MPL)** on the 28th November 2014 provides investors both good quality and liquidity with an initial capitalisation of $5.6B.

Our core investment proposition for MPL was based around the "privatisation dividend" from an increased focus on costs and operating efficiency, as well as the release of management energy as the organisation moves from a government bureaucracy to a more commercially focused listed operator. Management also emphasised the significant opportunity to improve margins via claims cost management, given claims costs represent around 87% of premium revenue. We think the industry and regulatory structure is such that to arrest market share declines in recent years, MPL will have to reinvest at least some of their cost savings into lower premium prices.

The market clearing price for MPL of $2.15 (representing 23x FY15 pro forma earnings) was above our bid price and as such we are not shareholders.

The listed **Australian residential aged care sector** emerged this year with a number of IPOs including Japara Healthcare, Regis Healthcare and Estia Health. We expect further IPOs over the coming 12-18 months reflecting the capital investment flowing into the sector and investor demand for structural growth assets.

The attraction of the Australian residential aged care sector is based around the strong demographic tailwinds from an ageing population, the large consolidation opportunity in what is a highly fragmented market, and the pipeline of greenfield and brownfield developments required to meet the burgeoning demand.

In addition, regulatory changes effective from 1 July 2014 mean that operators will be able to charge accommodation bonds for high care places, which typically represent over 80% of places in a facility. This will be very positive for the industry in terms of funding their ongoing operations and improving the economics of their business model.

During the year the regulatory risks for the sector were brought into sharp focus by the Government's announcements around the removal of the Payroll Tax Supplement and the Dementia Supplement. These businesses are highly regulated with around 70% of revenues sourced from Government funding. We believe that the risks around funding should not be underestimated, particularly as the Government seeks to move to a more user pays system and deals with greater budgetary pressures.

There is also significant operational complexity involved in these businesses in terms of managing a revenue model which has 64 possible permutations, rostering staff and providing high acuity care across a large number of facilities. This is compounded by the emotive nature of the business given elderly residents are in the last years of their lives. As an example, Japara has had repeated issues in terms of reporting results and managing their payroll, which has been a drag on credibility for the stock, further highlighting how important robust systems and processes are to these business.

The residential aged care sector initially proved popular with investors as Japara, Regis and Estia were listed on price-to-earnings multiples of 19-23 times and EV / EBITDA multiples of 10-13 times. However, the sector has de-rated meaningfully in recent months as investors reassessed the operational and regulatory risks associated with these businesses. We note that Regis has performed well, which we think reflects their long and consistent track record as well as confidence in their systems and processes. Estia has performed poorly to-date, with the share price falling 17% since listing. The table below provides a snapshot of how the stocks have performed since listing and the valuation multiples they are now trading on.

Listing metrics	Japara	Regis	Estia
Listing date	17-Apr-14	7-Oct-14	5-Dec-14
Offer price	2.00	3.65	5.75
PER multiple (1yr fwd)	19.0	22.8	21.0
EV/EBITDA multiple (1yr fwd)	10.5	12.2	12.9
Current metrics			
Share price	2.07	4.15	4.80
PER multiple (1yr fwd)	19.7	25.9	17.6
EV/EBITDA multiple (1yr fwd)	10.9	13.9	10.8

Source: Company Prospectus, FactSet

In our opinion, New Zealand retirement operators such as Ryman and Summerset continue to set the benchmark for the sector. Valuation aside, they have a long track record of strong operating performance and have demonstrated an ability to manage both operational and regulatory risks. Importantly, portfolio expansion has been driven organically via greenfield developments and without acquisitions. Organic expansion may mean slower growth but we believe on a risk adjusted basis it is a superior operating model. We note that a number of operators in both Australia and New Zealand have had significant issues following an acquisition led expansion strategy

Resource (and resource related – mining contractor) companies under-performed as commodity prices continued their downward trend in the quarter. The diversified low cost miners such as BHP and RIO out-performed the small to mid-cap miners where a mix of high cost operating assets and leverage proved disastrous against the backdrop of falling commodity prices. Some relief was provided to the junior iron ore miners by the WA Government in the form of a reduced royalty over a 12 month period. However, it is worth noting that a number of the junior iron ore miners still produce a cash loss at the current spot price.

Both **BHP** and **RIO** held their investor days during the quarter. It is clear they have shifted their focus to reducing costs and maximising their existing asset base following a period of high capex spend. Although both companies should benefit from an increase in production over the next few years, it comes at a time when commodity prices, including iron ore and coal, are trading at multi-year lows. As we noted in our previous quarterly, we are yet to witness any significant iron ore mine closures. Following a period of under-performance, both companies now trade at large discounts to consensus valuation. However, the spot commodity prices are now well below the consensus long-term price assumptions. Lowering the long-term price assumptions would indicate that both BHP and RIO are closer to fair value rather than outright cheap. We believe that it is prudent to use lower long-term price assumptions given that industry cost curves for most commodities are likely to fall further over time.

We have done some analysis with these lower long-term price assumptions in our models for the next two years. As illustrated in the table below, profits for both companies would deteriorate significantly based on these numbers. The progressive dividends on offer are attractive but both companies would struggle to fund this out of free cash flow. To fund this shortfall, management can reduce capex and there is some balance sheet capacity. All of this does not paint a pretty picture, but we need to remind ourselves that mining is cyclical and it will eventually turn. Based on asset multiples, both companies are starting to look attractive.

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BHP

	FY14A	**FY15F**	**FY16F**
NPAT	13,447	8,296	7,504
change		*-38.3%*	*-9.6%*
P/E	12.9	15.3	16.8
Div yield #	3.7%	5.1%	5.1%
P/B	2.0	1.5	1.5

RIO

	CY13A	**CY14F**	**CY15F**
NPAT	10,217	7,877	6,249
change		*-22.9%*	*-20.7%*
P/E	11.9	10.9	13.7
Div yield#	2.9%	4.1%	4.1%
P/B	2.3	1.6	1.6

Assumes dividend held constant (121UScps for BHP and 192UScps for RIO)