CI BRUNSWICK FUND
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.

DECEMBER 2017

"I know a lot of you are wondering, why did the Murdoch's come to such a momentous decision (to sell Fox)? Are we retreating? Absolutely not. We are pivoting at a pivotal moment." Rupert Murdoch

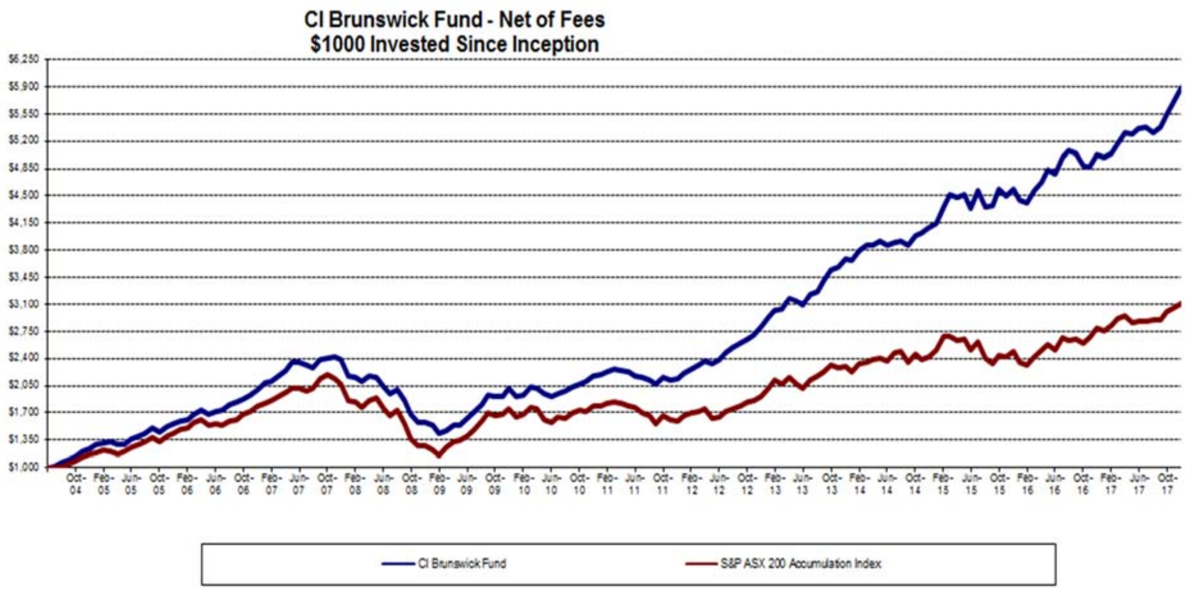
"Landlords use their high bargain position to extract as much rent as possible from retailers without actually sending them broke." Frank Lowy

"Selling your winners and holding your losers is like cutting the flowers and watering the weeds." Peter Lynch

"The strategy is to find a good business – and one that I can understand why it's good – with a durable, competitive advantage, run by able and honest people, and available at a price that makes sense." Warren Buffett (in Forbes)

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	9.77	7.64	2.13
ROLLING 1 YEAR	18.05	11.80	6.25
ROLLING 3 YEAR	14.60	8.63	5.97
ROLLING 5 YEAR	17.88	10.23	7.65
ROLLING 7 YEAR	17.26	8.33	8.93
ROLLING 10 YEAR	11.13	4.14	6.99
SINCE INCEPTION*	17.18	8.77	8.41
SINCE INCEPTION^	750.34	211.20	539.14

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



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

DECEMBER 2017

Market and Portfolio Performance

The ASX200 Accumulation Index performed strongly in the December quarter, rising 7.6%, mirroring the performance in US and Asian markets.

In December, the US government passed the tax reform bill, one of the most significant changes to the US tax code in 30 years. The changes involve lowering the corporate tax rate (35% to 21%), increasing the deductibility of capital spend, and putting some limitations on the deductibility of interest. The net result is an expected ~$1.5 trillion tax cut and a ~10% increase to corporate earnings per share (domestic focused businesses to benefit the most) – a key driver of the recent strong performance of the US share market. Second and third round impacts are harder to read, although simplistically the tax cuts are likely to be stimulatory for the US economy with flow on effects to FX, rates etc.

The other interesting news during the quarter were the decisions by two of Australia's most successful businessman – Frank Lowy and Rupert Murdoch – to sell parts of their business empires (Westfield to Unibail-Rodamco and Fox to Disney). It's likely there are multiple reasons behind these decisions. However, they do come at a time when long-term "structural" concerns, such as the threat of Amazon/online to retail shopping malls, and the threat of Netflix and others to the traditional cable/media model, are rising. The loss of Westfield from the ASX and the takeover of tech company **Aconex (ACX)** by US based **Oracle (ORCL)** also points to the ongoing challenge of trying to find long-term equity investments in the Australian market. The tech sector remains a very small component of the ASX200 (1-2%), relative to the MSCI Global (16%) and Asia ex Japan (34%).

Finally, while they don't always get it right, insider selling is also highly suggestive of where value lies (e.g. is it possible Westfield's high quality malls can trade on better cap rates than current?). Although fundamental metrics of value can be justified with present day nuance, eg interest rates are low therefore multiples are higher, behavioural signals are perhaps more telling with the fear of missing out increasingly observable (bitcoin being the most obvious recent example). Therefore, while the portfolio's performance over the 2017 calendar year was pleasing (18.0%) and well above our expectations, we remain ever vigilant to the build-up of risks in financial markets. As previously mentioned we think the best protection against systematic risk is to remain focused on our VoF process which has proven successful through various cycles.

During the quarter the Brunswick Fund performed well, up 9.5%.

Key contributions to portfolio performance during the 3 month period include **Aconex (ACX)** (takeover bid at a ~50% premium), **Elmo (ELO)** (accretive acquisitions), and **Lifestyle Communities (LIC)** (new site acquisition at Officer).

Portfolio stocks that performed poorly during the quarter included **TPI Enterprises (TPE)** (insider selling), **Lion Selection (LSX)** (underperformance of portfolio investments) and **Freightways (FRE)** (no specific news).

In December, **Aconex (ACX)** received a cash offer for its shares from US based **Oracle (ORCL)**. The offer price of $7.80/share is a 75% premium to the portfolio's entry price in ACX one year ago.

Oracle is one of the largest enterprise software companies globally with a long history of using acquisitions to support growth. Oracle recently stated a target of being the first to reach $10bn of "cloud" revenues, believing it can reach this level even before pure-play cloud businesses like Salesforce.
Cloud or "SaaS" (Software-as-a-Service) businesses differ from the traditional software model by being subscription-based (user pay monthly ongoing), with customers accessing software via the internet. These businesses have been an area of interest for the portfolio in our "Platforms" cluster, with a number

of "vertical" platforms in Australia that specialise in either a functional area and/or a particular industry. Oracle's attraction to ACX appears to relate to the deep knowledge the company has built in the construction industry in the last 15 years, helping to assist the sector to digitise many of its processes. ACX has a leading offering in a key part of the building and construction value chain – the management and control of documents (some large construction projects require tens of millions of documents), with additional strong offerings in workflow management, tendering, cost estimation and visualisation of 3D models all of which should provide a multi-decade runway of growth for ACX and now ORCL.

With interest costs still low, and corporate gearing manageable, there is potential for more M&A activity in the Australian market in 2018.

Another cloud based business the portfolio recently invested in at IPO is **Elmo (ELO)**. During the quarter ELO acquired a number of businesses to help round out its platform of modules. The acquisitions included "PeoplePulse" an online HR survey tool, "LiveSalary" an online salary database for benchmarking and "Sky Payroll" a cloud based payroll business. We expect all to add materially to ELO's platform capability, with their proposition to target SME clients as well as to the revenue and profit of the business over the medium to longer-term.

ELO is well placed to benefit from a tailwind of growth as HR teams increasingly embrace HR specific software in a cloud based environment (current penetration rates are low at ~10%). In our view, ELO's VoF proposition remains strong, given the strength of operating and industry tailwinds ("O") the value latency created from its platform of modules ("V") and ability to cross and upsell, underpinned by a management team highly focused ("F") on reinforcing their relative advantage based on two key factors 1) their single source of code and 2) a "microservices architecture" approach (which translates to a having a highly configurable platform which can be tailored to the changing needs of customers).

Finally, we continue to be wary of the risk of regulatory changes that have impacted sectors such as banks, telcos and aged care as just some examples. More recently, portfolio stock **Aurizon (AZJ)** was impacted by the draft decision released by the regulator (QCA) in late December. The regulatory revenue in AZJ's below rail network business over the next 4 year period is now expected to be well below AZJ's proposal and our expectations. Underpinning this outcome, the QCA has assumed what we believe to be an aggressively low cost of capital and low operating and maintenance cost recovery despite the QCA forecasting coal volumes to grow over the period. The draft weighted average cost of capital outcome of 5.43% is lower than recent regulatory decisions on both comparable and lower risk assets (Hunter Valley Coal Network and SEQWater).

One wonders how many companies, in a regulated environment or otherwise, would invest for a sub 5.5% return even in the current low interest rate and low inflation environment. There is currently a consultation period before a final decision is made around mid-2018. This decision is disappointing on a number of fronts and in the short term it potentially offsets some of the improvement in the industry outlook around coal volumes and further productivity initiatives.

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

DECEMBER 2017

The Portfolio – Strategy, Structure and Process

Strategy

- The strategy targets long-term capital growth and tends to outperform in down-markets.
- The strategy is suitable for investors with an endowment or family office mindset.
- The strategy is an unconstrained application of Cooper Investor's VoF process that we call the "CI Way", in that it has no institutional constraints and is completely benchmark unaware.
- Because the portfolio is significantly different to the benchmark it can, at times, materially underperform relative to the benchmark.

Structure

- Concentrated, long-only, long-term equities fund (20-40 stocks)
- Portfolio of companies with value latencies, across 6 subsets of value, focused around several key "clusters"
- Long-term investments in "proprietorship managers" with enduring and unique cultures that display the following characteristics:
  - Humility, focused
  - Aligned interest
  - Deep, nuanced knowledge of business/industry
  - Counter-cyclical and value-based capital allocation

The portfolio remains positioned around six subsets of value:

- **Stalwarts** (12% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions. (ASX, Freightways)
- **Bond like equities** (5%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time. (ALE Property Group, Arena REIT)
- **Growth companies** (40%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management. (Lifestyle Communities, Xero, Bega)
- **Asset plays** (8%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value. (Soul Pattison, Brickworks)
- **Low Risk Turnarounds** (10%) – sound businesses with good management in place and good balance sheets. We especially like spin offs and government to private turnarounds. (Clydesdale, Sims Metal)
- **Cyclicals** (15%) – stocks showing upside leverage to the cycle with experienced and contrarian managers who can allocate capital prudently and with good balance sheets. (Boral, Iluka)

Currently the portfolio holds around 10% cash. The portfolio has around 11% of assets invested in overseas stocks that own businesses in USA, Canada, UK and Mexico.

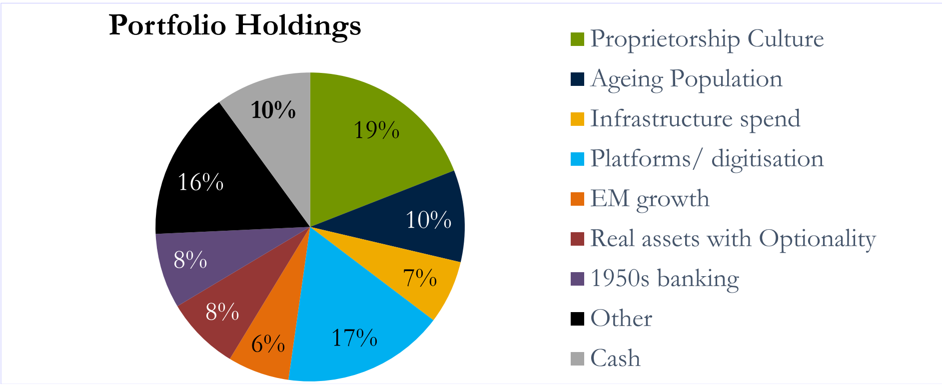
Portfolio attributes as at December 2017 are summarized below:

P/E	18.61
Beta	0.78
Yield	2.70
P/Book	2.27
ROE	12.04
Tracking error vs. ASX 200	5.62
Stock Number	38

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

DECEMBER 2017

Below is a summary of the portfolio split by "Cluster" grouping:

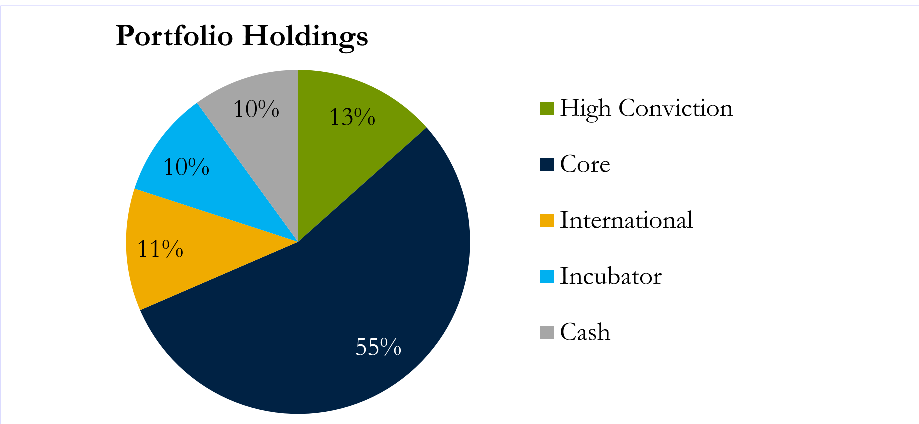


Clusters define sets of companies that are exposed to particular industry, economic, demographic or other trends, as well as companies that share similar operating models or management styles. These clusters are a summary of the "O" (operating, industry and strategic trends) in our VoF investment process. Clusters help us "fish in the most attractive ponds".

Process – VoF

- Repetitious implementation of the VoF process utilising CI's market access and networks
- Take advantage of liquidity events, and market /stock dislocations
- Active positions yet more diversified than the benchmark (size, geography, cluster, value subset). Risk controlled for liquidity and conviction.
- Small team leveraging CI's well-resourced research platform and back office strength

Below we have split the portfolio according to our own levels of confidence:



The portfolio weightings are managed according to both our conviction levels as well as other overlays such as diversity, liquidity and risk metrics.

The High Conviction category includes stocks where we have increased levels of confidence in the stock's value latency and in management's ability to execute. These stocks have a higher weighting within the portfolio. The Core category includes portfolio stocks that are generally long-term holds.

International stocks are added by leveraging Cooper Investor's global research platform, which includes ownership of 165 stocks globally, $2bn of FUM in International assets, and 19 fund managers/investors/analysts focused on tracking the CI watchlist stocks.

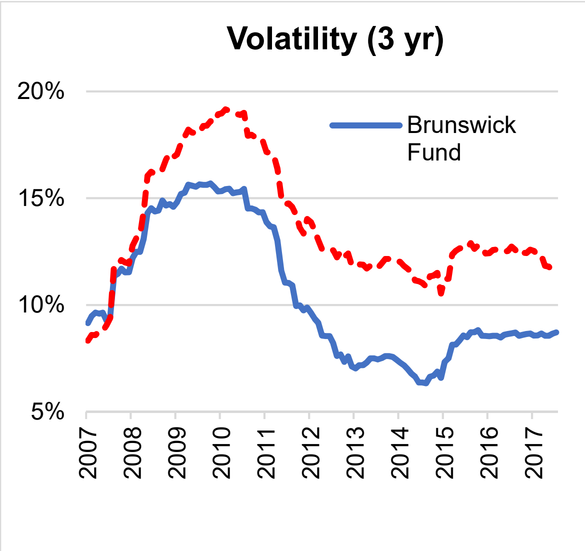
Finally, the Incubator category are stocks that require an "up or out" decision, and are generally our smallest weightings in the portfolio. The incubator category adds optionality to the portfolio where we can add to positions as conviction levels increase or make the decision to exit.

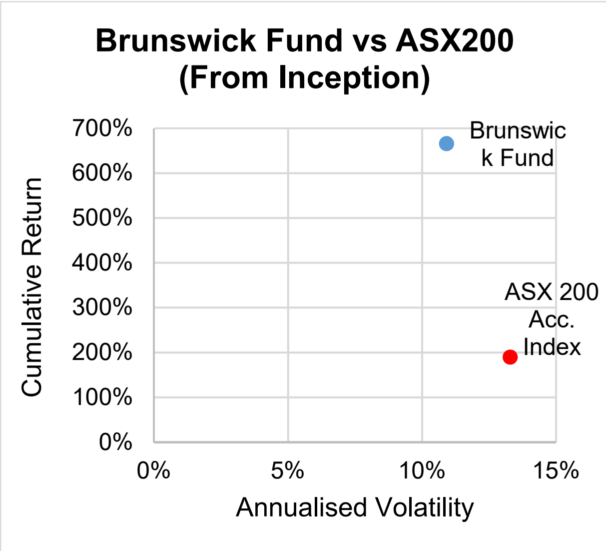
Portfolio Risk Metrics

The portfolio's volatility remains below the benchmark, driven by the portfolio's more diverse stock holdings and lower concentration risk to the big 4 Banks and large resource companies:

	*PORTFOLIO	#BENCHMARK
Total Return	+750.4%	+211.2%
Max Drawdown	-40.0%	-47.2%
Best Month	+7.4%	+8.0%
Worst Month	-10.1%	-12.6%
Positive Months	+69.8%	+63.6%
Annualised Volatility	+10.8%	+13.2%

*Cumulative (1 July 2004), before fees and expenses
S&P ASX 200 Accumulation Index





DECEMBER 2017

Industry Observations

Stock Commentary

- We attended **Reece's (REH)** AGM during the quarter. As the company rarely talks to investors/analysts, the room was packed with shareholders, hanging on the words of both Alan and Peter Wilson:

    "Our culture is our competitive advantage"
    "Some investments take 10 years to work"
    "Our 'super seed' investment is trying to disrupt Reece and disrupt our thinking"
    "Our biggest focus in on technology and innovation"

- For many companies, the above comments can sound empty. For Reece they are almost understatements. Alan Wilson (Chairman) summarised Reece's performance over the last 40 years:

    - Sales +1000%
    - Share price +2000%
    - Dividends +2000%

- To put this in context, Forbes recently had a table showing US greats like AT&T, US Steel, and Goodyear who had achieved similar shareholder returns, except they achieved this over a 100yr period (from 1917-2017, which obviously includes a period of incredible economic growth in the US).

- The natural question, given this outstanding performance, is whether it can be replicated in the future. In particular Reece has had incredible tailwinds from the housing cycle, and a weak, underinvested competitor in Tradelink.

- What struck us was Reece's commitment to staying ahead. They mentioned investments in:

    1. Distribution:

        - Reece has just completed a brand new, very large distribution centre (DC) in Sydney (20k SQM).
            - They mentioned they now have DC space equivalent to 7 MCGs.
        - Their vision is a fully automated, near people-less DCs, similar to what they have observed in Germany.

    2. Technology:

        - They have a tech unit called Reece Tech with 140 developers (separated to try and attract the best graduates).
        - Their point-of-sales system was built in-house; it is therefore unique and very hard to replicate.
        - They have a new app called MAX, rolled out this year which has:
            - Seamless integration with Xero (one of the first to achieve this)
            - Uber-like delivery vehicle tracking
            - The ability to see if there is a particular stock item in every Reece store.

3. People

    - They have completely refreshed (reshuffled/promoted) their senior management team (new CFO, new head of people, new head of innovation and a new chief digital officer – who Peter Wilson described as their most important hire) and they've added 2 new Directors.

4. Brand

    - They have bought into an advertising agency (the agency they have used for 20 years) bringing them in-house in an innovation hub to work alongside their 'super seed' innovation group which is trying to "disrupt Reece and disrupt Reece's thinking".
    - They showed a series of video clips of new products/brands that they have exclusive arrangements on – all leading edge products.

- The AGM reinforced our view on Reece's VoF proposition:
    - A stand-out "proprietorial" owner/manager, who takes a long-term patient approach to investing in the business.
    - Racing ahead in terms of the proposition to their customers around product, distribution, IT and overall service levels.

Trip Notes

In October we travelled to the UK as part of our company visitation program, which included meetings around **Clydesdale Bank (CYB)**. We came away from our meetings with reinforced confidence in our investment proposition for CYB as a low-risk turnaround, a key part of which is backing a high quality management team that continues to meet or exceed targeted milestones. As a general comment, while the UK economy remains stable, we remain cognisant of macroeconomic risk given the companies we met with were more concerned about Brexit and dysfunctional politics than they were 6 and 12 months ago.

In terms of value latencies, the cost-out story remains attractive and our sense is that there is more to do beyond the current 2019 targets to get the cost base back in-line with peers. The advanced accreditation (IRB) process for the mortgage portfolio remains on track for October 2018 which we conservatively estimate will release at least £550m of capital. CYB is also well positioned to benefit from the 'Williams & Glynn' program that the European Union is making RBS fund in order to increase competition in the UK SME sector. This could be substantial for both revenue and costs, as well as potentially fast-tracking CYB's growth plans in the SME sector.

During the quarter we travelled to the U.S. looking at construction materials and building products, which have become much more significant to **Boral (BLD)** since its acquisition of Headwaters. The outlook for the U.S. economy remains positive and the tax cuts proposed by Trump could provide further stimulus, which provides a nice backdrop for these sectors. We remain somewhat more sanguine about tailwinds from infrastructure spending given there has been a lot of talk about it but to-date there is little evidence it is happening.

DECEMBER 2017

Consistent with our trip in March, the housing market is continuing its gradual recovery, particularly in the South, where housing starts and permits are at 10 year highs. Industry feedback was that, as a result, building product prices are generally increasing in the mid-single digit range, which is a good sign.
Encouragingly for BLD, the fly ash business is expected to experience strong growth given its ongoing and increasing use as a partial replacement for cement in producing concrete. This demand is underpinned by the competitive cost position of fly ash relative to cement. Overall our trip reconfirmed the positive industry and operating trends in the U.S. for BLD.

In the US we also attended the investor day for **TE Connectivity ("TE")**, a stock in the connector and sensor industry which was recently added to the portfolio. It was a good opportunity, not only to hear updates but also to meet the next layers of management and view product demonstrations. When initiating the position we saw it as a Low Risk Turnaround as performance had been good, but not much more, post its spin from the disgraced conglomerate Tyco over 10 years ago. In 2016 a new CFO arrived who was known to us from a prior investment. We had also previously invested in Amphenol, the number 2 player in the connector industry. We have found that investing in people and industries we know well makes for good Low Risk Turnaround candidates.

2017 showed us that TE is well out of its turnaround phase with revenues up 9% and margins expanding over 1%. The investor day was a good opportunity for the new CEO and CFO to lay out their thinking around the business and its positioning. Rather than specific short-term EPS goals they provided a framework for shareholders, running through the levers on growth, margins and capital allocation. This felt very familiar given the background of the CFO and we like this long-term outlook that favours sustainable shareholder value creation.

TE has the benefit of some powerful tailwinds given its leadership position in the connector and sensor markets. The electrification of all things, in particular cars, planes, factories and consumer appliances is clear for all to see - a typical car now has US$62 of connector content up from US$50 five years ago. With an electric vehicle containing US$120 of content you can see where TE is headed. After 10 years of transformation as a standalone company, TE now has the product set, customer relationships, margin structure and management team to capitalise on the opportunity set. We believe 2017 was just the beginning of the new TE.