CI BRUNSWICK FUND
QUARTERLY REPORT

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

JUNE 2013

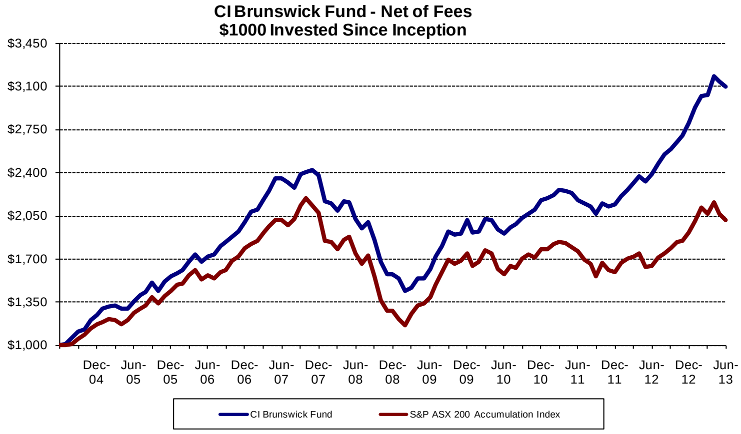
"In politics we presume that everyone who knows how to get votes knows how to administer a city or state. When we are ill… we do not ask for the handsomest physician, or the most eloquent one." Plato.

"If the job has been correctly done when a common stock is purchased, the time to sell it is almost never." Philip Fisher.

"He who will not economize will have to agonize." Confucius.

	**PORTFOLIO	BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	2.90%	-2.48%	5.38%
ROLLING 1 YEAR	31.97%	22.75%	9.22%
ROLLING 2 YEAR	21.76%	7.00%	14.76%
ROLLING 3 YEAR	19.84%	8.56%	11.28%
ROLLING 5 YEAR	10.50%	2.94%	7.56%
ROLLING 7 YEAR	11.11%	3.68%	7.43%
SINCE INCEPTION*	17.21%	8.11%	9.10%
SINCE INCEPTION^	317.47%	101.70%	215.77%

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



Market and Portfolio Performance

The S&P/ASX200 Accumulation Index fell by 2.48% over the quarter but rose 22.75% over the year to 30 June 2013. Global stock market performance was mixed. Over the quarter, in comparison with Australia, the S&P 500 rose 2.9%, UK FTSE 100 fell 2.0%, Japan Nikkei 225 rose 10.3%, while the China A Shares Index fell 4.4%. The Australian dollar finished the quarter at $US0.91 having peaked at $US1.05 in April this year. Australian 10-year bond yields followed global trends rising to 3.8%, almost 0.9% higher than June 2012.

The portfolio returned 2.90% and 31.97% over the quarter and year. Over the quarter, portfolio outperformers included Ryman Healthcare, Village Roadshow, News Corp, Brambles and Vitasoy. Under-performers were ASX, NIB Holdings, Transpacific Industries and Westpac. The resources sector fell 10.9%, whilst the financials and industrials sectors out-performed the market but were still down 1.7% and 1.3% respectively.

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The Portfolio

"Wide diversification is only required when investors do not understand what they are doing." Warren Buffet.

Over the quarter the portfolio established a new position in TPG Telecom and sold Rio Tinto Plc, Prime Ag and Equity Trustees. The portfolio also participated in capital raisings announced by ASX and Lion Selection.

The portfolio remains positioned around five pillars or stock clusters:

- **Stalwarts** (36% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (Telstra, CSL, Westpac).
- **Bond like equities** (14%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Transurban, APA Group).
- **Niche growth companies** (20%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Lifestyle Communities, Navitas).
- **Asset plays** (13%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (Amalgamated Holdings, Jardine Strategic).
- **Turnarounds** (11%) – sound businesses with good management in place and good balance sheets essential. We especially like government to private turnarounds (Aurizon, Bega Cheese).

Currently the portfolio holds around 6% cash and another 3% in high yielding hybrid securities such as Australand Notes and Transpacific Preference Shares.

The portfolio has around 9% of assets invested in overseas markets (excluding NZ stocks) or 14% (including NZ stocks). These positions are spread across the UK, Singapore and Hong Kong listed companies.

Portfolio attributes as at 30 June 2013 are summarized below:

P/E	15.5
Beta	0.73
Yield	3.8%
P/Book	1.8x
ROE	11.9%
Tracking error vs. ASX 200	5.57%
Stock Numbers	36

Major sector exposures are:

Sector	Portfolio Weight
Energy	5.4%
Materials	3.8%
Industrials	31.2%
Health Care	3.9%
Financial	22.8%
Utility & Infrastructure	6.3%
Telecommunications	8.6%
Foreign Equities*	9.0%
Cash & equivalents	9.0%

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

Stock News

"Lenin was right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency." John Maynard Keynes.

TPG Telecom (TPM) ~ during the quarter we established a position in TPG. TPG was founded by its current CEO David Teoh in 1986 (formerly SP Telemedia) and initially sold internet related services and computer equipment. The company listed on the ASX in May 2001 and has grown organically and through acquisitions to become a major player in the Australian telecommunications industry.

The business has a strong network presence established through its strategic investment in DSLAM infrastructure that commenced in 2005 and its acquisition of Pipe Networks in 2010 for $373m.

TPG's consumer division provides broadband, voice and mobile services nationwide. The business is Australia's 4th largest and fastest growing ISP with 630k broadband subscribers (~11% market share) and 300k mobile subscribers supported by a large exchange presence in 400+ DSLAMs and an extensive east-coast backhaul network. TPG's industry leading low cost business model has allowed the company to pursue an aggressive price-led broadband strategy. In FY12 the consumer division generated $403m of revenues and $149.7m of EBITDA.

TPG's corporate division provides high speed data connectivity to corporate and government clients on the east-coast with over 3,800km of fibre optic cable across the major metro markets. In FY12 the corporate division generated $260m of revenues and $110.8m of EBITDA.

The key points behind our investment proposition include:

- TPG has a strong balance sheet (current net debt of $75m) and we expect the company to be in a net cash position within 12 months, which provides optionality to acquire complementary businesses, invest in new organic growth opportunities and/or return capital to shareholders.
- TPG generates a high proportion of recurring revenues with a large number of small customers. The company has a low pay-out ratio (~35%) with ample headroom to increase

dividends over time. We are particularly attracted to companies with recurring revenues and latent capacity to increase dividends sustainably in this current environment.

- The domestic telecommunications industry is a large market generating over $43bn of revenues and $11bn in EBITDA. Despite its success, TPG's proportion of industry profits remains relatively small (~1.5%) with significant headroom for the company to grow its share of industry profits over time.
- The fixed broadband market is a relatively mature and consolidated market with 90% of subscribers serviced by the 4 largest players. Oligopolistic industry structures generally support rational competitive behaviour.
- TPG is an extremely efficient business. We estimate that its consumer division operates with SG&A % sales at around 14% compared with 26% for iiNet and 35% for Telstra. This cost advantage allows TPG to price aggressively with home phone/broadband bundles currently around 30% cheaper than Telstra for an equivalent service. Recent broadband trends have been strong ~ TPG acquired 36k subscribers in 1HFY13 (the bulk of industry net adds) highlighting that its competitively priced products and trusted brand have struck a chord with consumers looking for better value in this current environment. The business also looks to have reached a scale tipping point with over 600k customers driving word of mouth referrals. TPG is well placed to continue growing broadband market share at a rate of 0.5% - 1%pa over the next few years.
- Telstra dominates the broadband market in regional areas with an estimated 90% share. The NBN in its current form or alternatively under the Coalition's FTTN plan should open up regional markets to increased competition and allow ISPs to compete with Telstra on a level playing field.
- The threat of new market entrants in an NBN world appears to be relatively low given the already highly consolidated market structure and the difficulty facing new entrants in accessing sufficient backhaul to establish scale and broad coverage across at least 100 points of interconnect.
- Regulation is a constant theme and risk in the telecommunications industry. Although the current regulatory environment is stable, TPG is susceptible to changes in regulated access pricing, particularly ULL pricing, given that the bulk of TPG broadband customers are on bundled ULL plans. We see this as a key risk going forward.
- TPG recently acquired 20MHz of mobile spectrum in the 2.5Ghz band for $13.5m through the government's recent 4G spectrum auction. Although only a small investment for the company, we think it provides longer-term optionality to potentially offer complementary wireless broadband products by leveraging its existing large fibre footprint or alternatively offering a cheap full-service mobile offering as technology evolves over time.
- The company is run by a high quality management team. We take comfort investing alongside CEO David Teoh, who owns 34% of the company, and has proven to be one of Australia's most savvy businessmen. WH Soul Pattinson, another portfolo holding, owns 27% of the company with Chairman Rob Milner sitting on the TPG board.

In April, **Lifestyle Communities (LIC)** signed a Memorandum of Understanding (MOU), conditional on planning approval, to extend the Chelsea Heights JV to the adjoining site which is 3.2 hectares. This will add another 80 units to the project, bringing the total number of units for the project to 185. Once planning approval is obtained, LIC will pay $2.5m for its 50% share of the adjoining site. We understand that as at April, 70% of Phase 1 had been sold, with Phase 2 to start in the second quarter of calendar year 2014. We view this as a positive development given the performance of the project to-date.

In June the **ASX (ASX)** announced an unexpected 2:19 rights issue at $30 per share to raise $553m. The equity raising will support the capital base of its futures and over the counter clearing businesses after European regulators increased the capital requirements for clearing houses that clear for European banks. As many of the ASX clearing participants are European based it followed that the ASX needed to increase its capital base. At this point the ASX capital base has increased without an immediate increase in earnings and therefore the return on equity for ASX has decreased. We expect that the increased capital requirements will provide a further degree of protection against new competition in clearing, thus enhancing the likelihood that the ASX will be able to develop a profitable over the counter clearing business.

Transurban (TCL) ~ announced a move to Stage 3 in the F3-M2 project in Sydney. While acknowledging that TCL is in a good position to negotiate a good deal on this project due to leveraging its Sydney network (i.e. it is really the only party capable of delivering such a project), we believe that such green field projects carry a significantly higher risk profile than brown field expansions (such as lane widening) and as such will closely monitor the risk parameters to ensure the overall group risk profile is not changing materially. We remain cognisant of Scott Charlton's background as a "deal maker".

During the quarter **Lion Selection (LSX)** completed a $10m capital raising, with funds earmarked for One Asia Resources' Pani and Awak Mas prospects in Indonesia. LSX also plans to retain some additional funding to invest opportunistically across its existing portfolio at discounted valuations. The capital raising was well supported by insiders and large shareholders. During the quarter One Asia Resources declared a maiden 1.88Moz resource at Pani, with LSX management rating Pani as the best gold discovery the company has been involved in since listing in 1997. Pani is shaping up as a potentially large (>3Moz), low strip ratio (0.5:1) open pit mine with high heap leach recovery that minimises the infrastructure required to operate the mine. The major risk to commercialisation is permit approval. Indonesia's track record regarding protection of ownership rights is poor, a case in point being Intrepid Mines (IAU) which lost its 80% interest in the Tujuh Bukit project when its Indonesia partner established a new company and subsequently sold its stake to Indonesian investors.

In early June **Transpacific Industries (TPI**) released a trading update and also announced the resignation of the CEO. While the trading update was mildly negative (EBITDA guidance of $405-415m – down ~6% on FY12), it was not completely unexpected given the numerous profit downgrades from domestically exposed businesses in the preceding weeks. We feel that the magnitude of the profit decline is relatively small against what is an extremely tough operating environment and does not substantially change our positive view of the core underlying waste business. The resignation of the CEO provides the Board with an opportunity to appoint a CEO who is more focused on operations / strategy and less focused on compliance. We used the share price weakness to add to our position as we believe the multi-year turnaround story remains intact, albeit requiring some patience on our behalf!

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Investment Observations, Trends and Themes

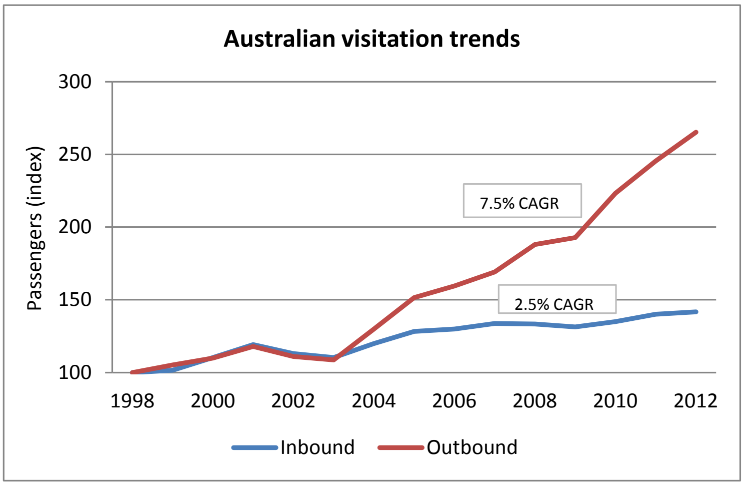
Australian tourism

Over the last decade the Australian tourism industry has struggled against a backdrop of increasing regional competition, lack of investment, falling international airfares and a shift in consumer preference towards overseas travel. The industry has become less relevant to the makeup of the Australian economy and lagged the strong growth enjoyed by the healthcare, resources and education sectors.

	Tourism		**Education**		**Healthcare**		**Resources**	
	1998	**2012**	**1998**	**2012**	**1998**	**2012**	**1998**	**2012**
Share of GDP	3.1%	2.5%	5.0%	5.2%	4.9%	6.0%	9.6%	9.8%
Share of total exports	11.6%	8.0%	2.8%	4.8%	1.1%	1.2%	30.8%	55.0%
Share of employment	4.9%	4.5%	7.2%	7.8%	9.3%	11.9%	0.9%	2.3%

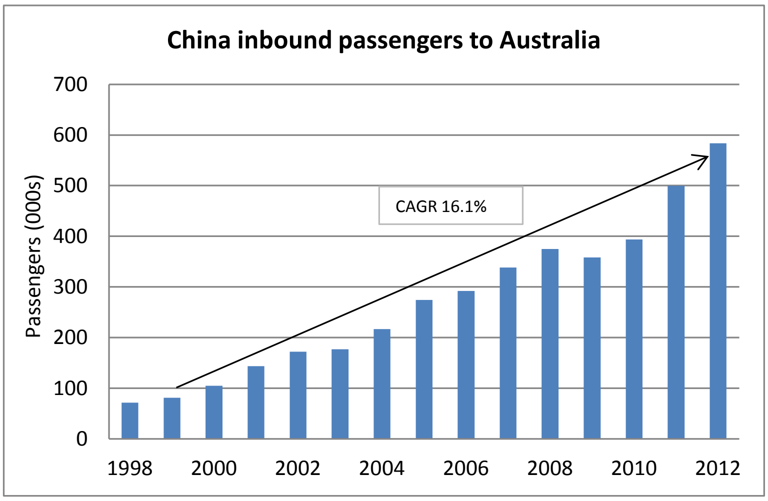
Source: ABS, CBA **Medicinal and pharmaceutical products*

Australians have developed a strong preference for overseas travel with outbound visitation growing at 7.5% CAGR since 1998. Over the same period inbound visitation has grown at 2.5% CAGR, yet lagged well behind global trends, highlighting that Australia has been losing visitation share over the last 17 years from a peak of 0.75% in 1996 to 0.60% in 2012. The well-publicised strength of the Australian dollar may have also been a contributing factor, improving the affordability of overseas travel.



Source: ABS

Despite relatively lacklustre growth in total inbound travel, the Asian region, and in particular Chinese visitation, has grown incredibly strongly from a modest base of 72k in 1998 to 583k in 2012, a CAGR of 16.1%! China's share of inbound visitation has increased from less than 2% to around 10% over this period, making China our 2nd largest inbound travel market after New Zealand.



Source: ABS

This emerging trend looks set to continue with Tourism Australia forecasting international visitor arrivals from China will grow to over one million visitors by 2020. Andrew McEvoy, MD of Tourism Australia recently commented that "we continue to adapt to the Asian century and the enormous opportunities provided by the region's fast emerging and increasingly mobile middle class".

The backdrop supporting this statement is incredibly strong with the number of middle-class Asian consumers set to grow by more than one billion people over the next decade ~ roughly half of the world's middle-class is set to reside in Asia by 2020. This middle-class expansion follows the rise of the western consumer through the industrial revolution and post WWII boom.

Australian companies are equally attracted to the emerging Asian consumer story, with a growing number of firms investing capital and positioning their businesses in readiness for the expected growth in demand from Asia.

- By 2014, Crown Limited (CWN) will have committed $2.8bn of capex over an 8-year period towards its marquee resort-style properties in Melbourne/Perth that will directly benefit from this trend. At its FY13 AGM Chairman James Packer said that "China's middle class will change the world … and we need to make sure we are positioned to take advantage of this massive opportunity".
- At its most recent investor update Sydney Airports (SYD) outlined the key structural drivers for its business over the next decade, reaffirming its ongoing Asian focused initiatives. In Asia, the company expects ongoing liberalisation of air rights to release pent-up tourism demand across the region and the emergence of low cost carriers to drive down airfares and stimulate leisure travel demand. Carriers including Scoot, AirAsia X and Jetstar were highlighted as early movers well placed to replicate the success enjoyed by European low-cost carriers in winning market share and stimulating demand through improved affordability. Sydney Airports anticipates that future growth in inbound aviation capacity is expected to be primarily sourced from Asia-Pacific markets with 52% of the world's population proximate to Sydney with China and India individually larger than the EU and USA combined.
- Village Roadshow (VRL) has committed $60m expanding its Gold Coast theme parks and invested a further $120m in Sydney's Wet'n'Wild. The company is aiming to leverage its

theme park expertise in Asia and has also established a Chinese film production business to tap into growing entertainment consumption in Asia. CEO Graham Burke recently described the growth expected from Chinese tourism as “explosive”.
- In May, David Jones (DJS) announced it will launch a partnership with Chinese payments provider UnionPay in an effort to tap into lucrative Chinese tourist spend.
- Qantas (QAN) recently restructured its international business by establishing an Asian-focused growth strategy with routes and schedules increasingly coordinated to meet the needs of Asian travellers. The company also signalled an intention to establish stronger links with Asian carriers.
- Airbus estimate 42% of wide body aircraft will be delivered to the Asia Pacific market through to 2020.

Over the last decade Asia has been viewed as a lucrative export market for Australia’s resources sector, particularly iron ore and coal. However as the commodity price cycle normalises and consumption becomes an increasingly important driver of the Chinese economy, investment opportunities need to be reconsidered in this context.

The portfolio is well placed to benefit from this emerging trend through positions in Village Roadshow and Amalgamated Holdings. Both companies are direct beneficiaries of rising international tourist visitation, Village through its portfolio of theme park assets which contribute 50% of group EBITDA and Amalgamated through its portfolio of Hospitality & Leisure related assets which contribute around 24% of group EBIT. Village is also well positioned to participate in China’s growing consumption of entertainment through its developing interest in Asian theme parks and its Chinese film production business.

International Visits - Observations from CI’s investment team

During the quarter CI’s investment team travelled to the US, visiting companies across a range of industries.

<u>Brambles</u>

After meetings with BXB management, competitors, customers and other industry contacts we came away more confident in our BXB thesis. Specifically:
- The competitive landscape in US pallets industry is the best it has been in many years – major competitor Peco continues to be rational, disruptive competitor iGPS continues to lose customers and entered bankruptcy during the quarter.
- Operating trends in the US pallets business are positive – improving asset productivity, strong cost focus (lowering cost to serve, utilising network scale advantage).
- Customer relationships and pallet quality continues to improve, albeit there is still room for improvement.
- The PMS whitewood business (acquired as part of IFCO in 2011) is highly strategic in helping industry conversion from whitewood (one-way) pallets to pooled pallets.
- The multi-year structural growth opportunity for the US RPC business from converting the fresh food industry from cardboard packaging to pooled RPCs (14% penetration today, potential for >50%) is substantial if executed properly.

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News Corp

In preparation for the NWS demerger of its global publishing and Australian media assets, we met with the company and many of its competitors. In short, the industry and operating trends that we have written about in previous quarterly reports remain intact. Specifically:

- The pay TV ecosystem is not breaking down despite ongoing inflation in content/programming costs – consumers are able and willing to pay for valued content.
- Digital distribution of pay TV (time-shifting, on-demand) is a structural change from traditional linear distribution that is growing demand for content.
- There is still a large runway ahead in re-pricing of content as value continues to move ‘upstream’ to content owners – content/network margins still have room to increase.
- International opportunities are plentiful – global box office, increasing pay TV penetration.
- Large media companies continue to narrow their focus to content production through divestments/demergers.

The parent company (to be renamed 21st Century Fox) will house some of the world’s most valuable media assets, with >80% of earnings from content production. With a greater proportion of earnings now subscription-based and recurring, there is an argument that the stock should attract a higher multiple. Combined with our view that the company can grow EPS at a double digit rate per annum over the medium-term, we continue to be attracted to this company. The demerged company (to be renamed News Corp) faces structural headwinds in its global newspaper businesses. However, it is very well capitalised (with $2.6bn of net cash), has over half of its earnings from non-newspaper pay TV and digital assets and appears to have a focussed management team that is confronting the structural issues head-on. We will continue to watch the evolution of this business with interest.