CI BRUNSWICK FUND
QUARTERLY REPORT

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

JUNE 2015

"The Intuitive mind is a sacred gift, the rational mind a faithful servant, we have created a society that honours the servant and has forgotten the gift." Albert Einstein.

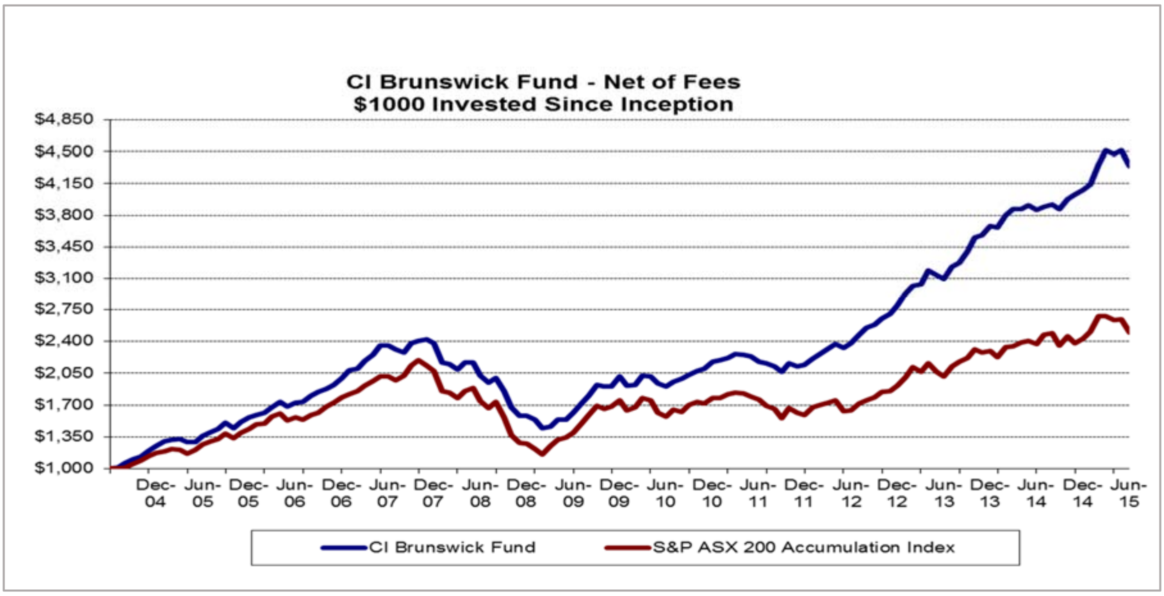
"Not everything which can be measured counts, and not everything which counts can be measured." Albert Einstein.

"We can't solve problems by using the same kind of thinking we used when we created them." Albert Einstein.

"The difference between genius and stupidity is that stupidity has its limits." Albert Einstein.

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	-3.32%	-6.55%	3.23%
ROLLING 1 YEAR	14.30%	5.68%	8.62%
ROLLING 3 YEAR	24.15%	15.07%	9.08%
ROLLING 5 YEAR	20.06%	9.69%	10.37%
ROLLING 7 YEAR	13.24%	5.29%	7.95%
ROLLING 10 YEAR	15.16%	7.08%	8.08%
SINCE INCEPTION*	17.78%	8.70%	9.08%
SINCE INCEPTION^	505.02%	150.31%	354.71%

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



Market and Portfolio Performance

After a very strong three years to March this year, the stock market suffered a fairly severe fall during the June quarter. The benchmark fell 6.55% over the June 2015 quarter and rose 5.68% over the last year.

The Australian stock market fell more than many other major world markets. The MSCI world index was only down by 0.3% over the quarter which suggests that, despite concerns around rising interest rates and Euro problems, the drop in Australia was more about stock specific issues.

The banking sector led the market down with the major banks dropping by around 10%, mainly in response to concerns about how much equity they would have to raise to meet expected higher regulatory capital targets. NAB raised $5.5b. Westpac underwrote its dividend reinvestment plan to $2b and also subsequently sold over $400m of its holding in BT Investment Management. ANZ included a 1.5% discount on shares issued under its dividend reinvestment plan that should result in a 20% participation in the plan and therefore build its capital position.

We expect that banks will continue to increase their capital ratios and amounts of common equity held. CBA report their full year results in August and it will not surprise if they also have a substantial capital raising then.

The other main drag on the market was the retail sector, led by Woolworths and Wesfarmers, whose prices fell by 8.5% and 10.3% respectively as operational problems (for Woolworths) and increasing competition emerged.

The main macro issues were the quite substantial increase in bond yields around the world, a slowing China and the consequences of a Greek exit from the EU. Fixed interest markets have been in a twenty year bull market that may have peaked earlier this year. Falling bond yields have been a strong support for rising stock prices generally, and if yields are indeed heading up that would have large implications for all sectors of the stock market.

Whilst Greece is problematical, the evaporation of AUD$3.6 trillion in equity value (six times Greece's entire foreign debt) since the Chinese market peaked on June 12th is of greater concern. Over the year the impact on commodities and resource stocks of a slowing China is illustrated below.

	Return from 18 month highs	**12 month Return**
WTI Oil	-51%	-49%
Iron Ore	-63%	-48%
Copper	-28%	-25%
Aluminium	-22%	-14%
Nickel	-49%	-45%
BHP	-24%	-20%
Fortescue	-67%	-58%
RIO Tinto	-22%	-14%
Santos	-47%	-44%

Positive contributors to the portfolio included:

1. Aurizon ~ appointment of new chairman
2. Village Roadshow ~ lower currency should help the tourist related assets
3. Summerset ~ profit upgrade and continued roll out of retirement villages
4. ALE Properties ~ strongly performing secure growing income stream
5. Telstra ~ market returning to strong balance sheet & cash flow businesses

The worse performers over the quarter included:

1. Soul Pattinson ~ conglomerate structure value neglected by the market
2. Sims Metal ~ US industry scrap volumes and margins continue to be poor
3. NAB ~ concerns around equity needed to be raised to meet higher regulatory capital targets
4. Recall ~ concerns over the value of the Iron Mountain acquisition of Recall
5. Brambles ~ concerns over global growth

The Portfolio

"Lovely days don't come to you, you should walk to them." Rumi

The portfolio remains positioned around five pillars or stock clusters:

- **Stalwarts** (17% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions. (Brambles and Telstra)
- **Bond like equities** (13%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time. (Ale Properties, Auckland Airport, Carindale)
- **Niche growth companies** (29%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management. (Vitasoy, Summerset and Ryman)
- **Asset plays** (13%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value. (Amalgamated Holdings and Remgro)
- **Turnarounds** (14%) – sound businesses with good management in place and good balance sheets essential. We especially like government to private turnarounds. (Sims Metal)

Currently the portfolio holds around 6% cash and another 2% in high yielding hybrid securities such as Bendigo Preference Shares. The portfolio has around 11% of assets invested in overseas markets. These positions are spread across the USA, UK, Singapore and Hong Kong listed companies.

Portfolio attributes as at June 2015 are summarized below:

P/E	17.4
Beta	0.73
Yield	3.5
P/Book	2.1
ROE	12.1
Tracking error vs. ASX 200	5.37
Stock Numbers	37

Major sector exposures are:

Sector	Portfolio Weight
Healthcare & retirement	18%
Industrials	12%
Telecommunication	7%
Non-Bank Financials	13%
Foreign Equities*	11%
Energy	8%

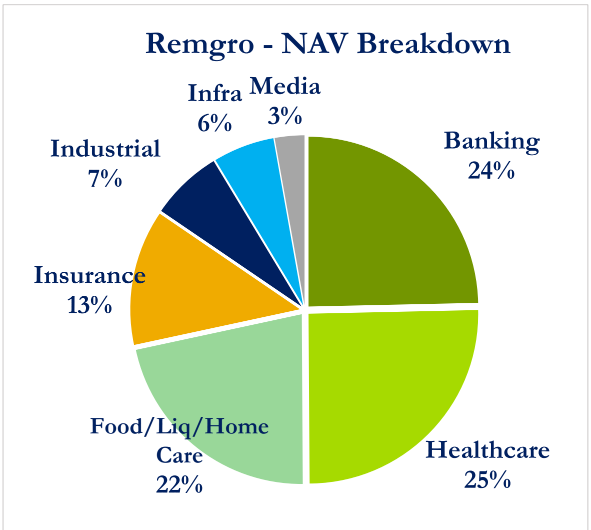
Banks	8%
Materials	6%
Consumer	8%
Utilities	2%
Cash	8%

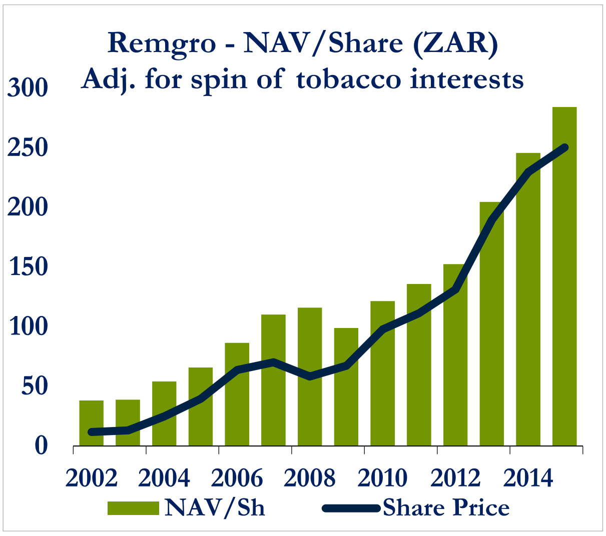
** Excludes NZ stocks which are considered domestic along with Australian listed securities.*

Remgro - Over the quarter we purchased Remgro. Based in Cape Town, South Africa, **Remgro** (US$10bn MCap) is an asset holding company founded in the 1940s by the late Anton Rupert and today chaired by his son Johann (also Chairman of Richemont, the luxury goods company). Remgro has a long and rich history that first began with a modest tobacco manufacturing operation in Mr Rupert's garage and has since divested to British American Tobacco. Over this period, Remgro's entrepreneurial spirit saw it build up a successful portfolio of listed and unlisted investments across 7 core areas: banking, healthcare, insurance, food/home/liquor, infrastructure, industrial and media and sport.

Remgro invests with a long term mindset as many of the companies Remgro invests in have had Remgro as a shareholder since inception. These include world class companies such as First Rand Bank (the Commonwealth Bank equivalent of South Africa), Mediclinic International (AUD $10bn hospital group with operations across Africa, Switzerland, Middle East, and most recently the UK) and Distell group (the leading local wine and spirits producer). Remgro's longevity lies in its success in building world class companies but also its low risk appetite. Risk management is a key objective at Remgro and growing the dividend sustainably over the long term through NAV growth is the prime focus. A net cash balance sheet highlights the conservative nature and provides dry powder for any immediate opportunities.

Despite only a small exposure today outside South Africa, Remgro is well placed for the long term potential in Africa given its history of success in the region, business contacts, conservative nature and early successful forays into the markets outside of South Africa. We expect Remgro to continue growing its NAV and as investors this return is potentially compounded by an unnecessary discount to the underlying NAV. Remgro is currently trading at a 15% discount to its NAV when using current listed prices and conservative valuations for its unlisted assets. The discount has increased recently having been less than 10% in 2014. Placing internal assumptions on the unlisted assets which are high quality businesses like Unilever South Africa and Air Products Africa the discount widens to 25%.





Also this quarter we participated in the 2 for 25 @ $28 capital raising by **National Australia Bank (NAB).** The raising was not a major surprise and it was generally well received by the market as it indicated that NAB is aggressively executing on its plan to exit low returning businesses and increase the emphasis on the core Australian and New Zealand banking businesses. It also announced plans to demerge its Clydesdale Bank to existing shareholders and reduce its exposure to life insurance.

We initiated a small position in **Wesfarmers (WES)** during the quarter. We comment on the retail sector and its participants later in this report but reasons for buying WES in the portfolio include:

- Coles is the best positioned, and has the clearest strategy, of the three major supermarket chains to continue to prosper in a tough and competitive environment.
- Bunnings continues to dominate its landscape and can grow further.
- Liquor and Target are in the midst of turnarounds which we believe will bear fruit over time.
- The balance sheet remains in good shape.
- The stock is trading around what we perceive to be fair value with upside from ongoing profit growth and use of its balance sheet.

Risks come in the main from the potential entrant of a second discounter into the Australian grocery market (there are rumours the German discounter Lidl may enter), and we are mindful of succession issues at Bunnings.

Stock & Industry Observations

"Watch your thoughts, they become words, watch your words; they become actions. Watch your actions, they become habits, watch your habits; they become character. Watch your character; it becomes your destiny." Lao-Tze.

Recall

Recall has entered into a Scheme Implementation Deed which will see the company acquired by US listed competitor Iron Mountain (IRM). While the takeover presents significant top and cost line synergies, it is a predominantly scrip based deal (0.1722 IRM shares per REC share plus US$0.50 per share cash) meaning REC investors must be comfortable with the IRM shares they will receive.

Sims Metal

We remain comfortable with the operational initiatives Galdino Claro and his team at SGM are undertaking as they transform the business from what we viewed as a volatile scrap metal trader, to a metal and electronic recycling distribution business with an asset network that is highly valuable and difficult to replicate. However, macro conditions are currently against the company with scrap prices and volumes significantly weaker than prior years.

In this context we continue to meet with various industry participants to observe conditions and measure these against commentary from the company. While all our observations suggest the market remains weak by historical standards, we also view SGM as adhering to the adage “never waste a crisis”. With a robust balance sheet, excellent management and an asset network that offers significant competitive advantages our analysis has strengthened our VoF proposition and we continue to see latent value which will be further enhanced if and when the cycle turns in the company’s favour.

JUNE 2015

Aurizon

Following a successful ruling from the Full Bench of the Fairwork Commission to terminate various existing Enterprise Agreements (EAs) in Queensland, AZJ has struck updated EAs with its respective Queensland unions. This presents significant opportunity for the company to improve its operating margins through initiatives such as rostering, head count, train time table management and better maximising returns from its current capital spend. As we analyse the challenges and opportunities ahead for the company we have met with numerous industry participants ranging from Australian competitors to Australian regulators to Canadian comparative players. This has strengthened our investment proposition that AZJ is currently under performing relative to its potential with companies such as Canadian Pacific highlighting the margin and returns optionality for AZJ management now the prior restrictive EAs have been terminated.

We are further encouraged by the recent appointment of Mr Tim Poole as Chairman. We believe he will bring a fresh set of eyes in looking at how to maximise stakeholder returns though reviewing areas such as capital allocation, network value and existing corporate culture.

Retail

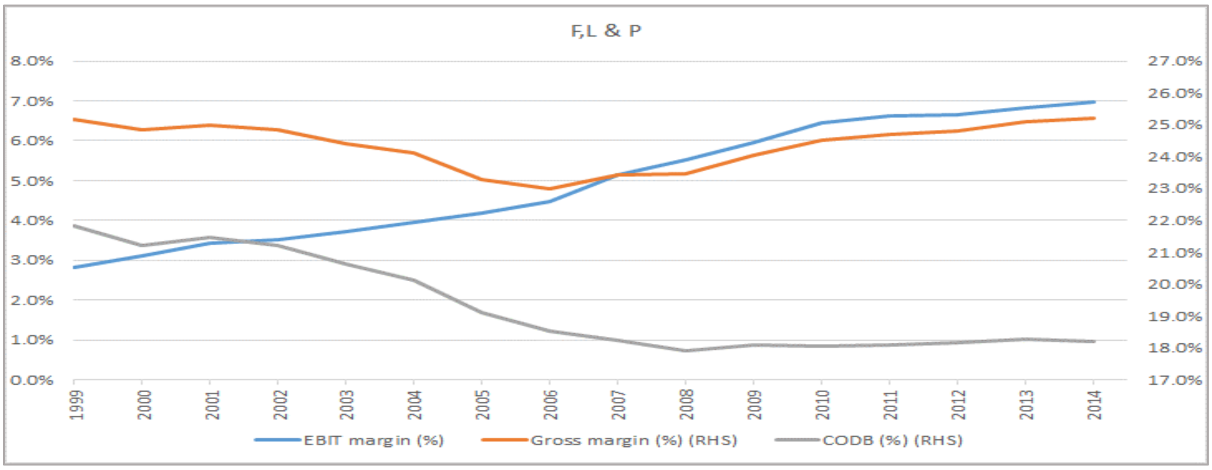
The rise of discount supermarket retailer Aldi in the Australian market has exposed weaknesses within the incumbent operators of the supermarket industry. Aldi's first store opened in 2001 and they have grown to a position where they are now around 10% of the grocery market in Australia. Apart from this growth, one of the great changes wrought by Aldi in the domestic market is to shift the consumer's perception of value. This is due to Aldi's ability to deliver quality product at a discounted price through their own branded offering.

Having initially dismissed Aldi as a serious threat, the incumbent operators now recognise this changing dynamic in consumer behaviour and see Aldi as a serious competitor; albeit the degree of this recognition varies. The strategic responses to date have also varied.

Wesfarmers owned Coles has enunciated a clear strategy of delivering value to the consumer to drive volume, and use efficiencies driven by the increased volume and cost reductions to offer more value to the consumer. In this instance value is not just price, although that is a key component, but also includes emphasising what differentiates it from the discounters, including fresh produce, in store bakery, range, etc.

The independent supermarket sector, which includes the Metcash banner IGA, has borne a large proportion of the impact of Aldi entering the market. With higher cost structures, a lack of scale and fragmented store ownership, they have struggled to provide a coordinated response to the more value focussed consumer. Over the last year Metcash has been working closely with the IGA network to implement a number of strategies to stem the loss of sales that they have been experiencing. These include price matching across a core basket of items, store refurbishments, refreshing their private label offer "Black & Gold", as well as emphasising the local differentiated nature of the IGA supermarkets as a key competitive advantage.

Woolworths has been the least responsive to the changing market dynamic. This is a function of lack of management focus and strategic direction in the supermarket business. It is only in the last six months that Woolworths' management has recognised that its prices and value proposition is not matching that offered by competitors, and that this was resulting in slowing sales momentum across the business. The key strategic response announced has been to invest in lower prices and in store service, funded through a renewed cost savings program. However, sales have continued to come under pressure, culminating in the retirement of the CEO, Grant O'Brien. The issue facing Woolworths is how to respond to the increased competitive market place and protect the current earnings level. The chart below illustrates the issue. Since 2006 the EBIT margin for Woolworths' food, liquor and petrol operation has risen 250bps to 7.0%, and this has been driven predominantly by an increasing gross profit margin. WOW current EBIT margin is also 250bps above the 4.50% achieved by Coles. Reinvigorating sales growth and sustaining the current margin would appear to be a difficult, if not impossible, task.



Source: Company reports

The disruption caused by low cost entrants, such as Aldi, is not unique to Australia or food retailing. It has been seen in industries as diverse as stock broking to airlines. The experience in the UK grocery market, which has been disrupted by the growth of discount operators Aldi and Lidl, is often pointed to as a lead for where Australia is heading. Although the specific circumstances of each situation is unique, there are some overriding similarities and lessons to be learned from them. In his article "Strategies to fight low-cost rivals", published in the Harvard Business Review, Nirmalya Kumar highlights that incumbents must first recognise the threat, and when they do the response generally follows two paths, differentiate or imitate through the launch of their own low cost operation. Responding solely on price does not work for incumbents and generally leads to price wars and the rapid loss of earnings and market position for the incumbents.

The failure of the Australian incumbents to recognise earlier the threat that Aldi represented has effectively seen Aldi achieve a position in the market from which they are unlikely to be removed. The focus of the incumbents now is on limiting the market share that Aldi can achieve over the longer term. No incumbent is currently pursuing an aggressive price discounting strategy. As already mentioned, both Coles and IGA are pursuing a strategy of being close enough on price for it not to be a major factor in the consumer's decision making, and are attempting to differentiate the value proposition in ways that the discounter will struggle to match. The challenge is to differentiate in a way that the customer values and is willing to pay for.

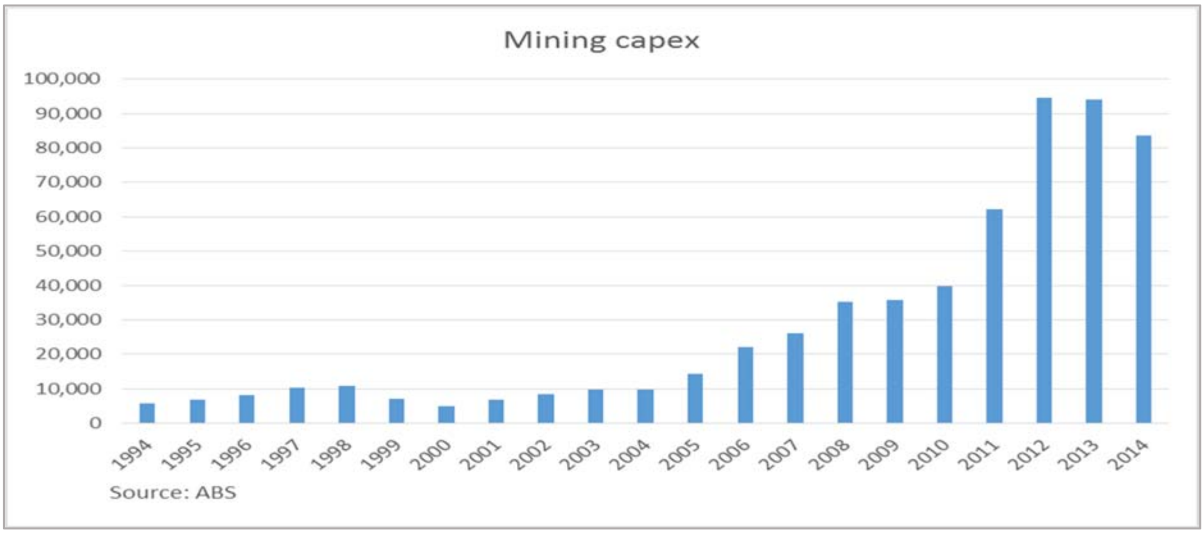
Woolworths was the last incumbent to fully recognise the threat and it is yet to settle on a coherent strategy. Even now, Woolworths' management appears primarily focussed on Coles as a competitor rather than developing a strategy to combat Aldi. Given Woolworths is the industry leader, with industry leading margins, both it and the industry have a lot to lose from any strategic miss-steps on their part. Although there is a risk that Woolworths unwittingly sparks a price war in attempting to reset the business under new management, it is likely that management will be careful to avoid this outcome. It is recognised by industry participants that a price war would be detrimental to industry profitability and would not be successful in unseating Aldi's positon in the market.

JUNE 2015

Trip News

We recently visited Perth, meeting with a range of companies with a focus on mining services. These meetings included numerous listed and unlisted players, bankers and accountants. Although many mining related companies have seen sharp share price declines, our meetings reinforced our view that there is further danger ahead. For example, while there is less work available, surprisingly there has not been a material reduction in contractors bidding for that work. With the contractors' clients under financial strain and a large pool of operators bidding for a shrinking pool of work, not only is revenue in decline, but margins are also under significant pressure. Equally important, the mining companies are shifting more and more risk onto the contractors which we believe will continue to have severe consequences as much of this work cannot be executed on time and on budget.

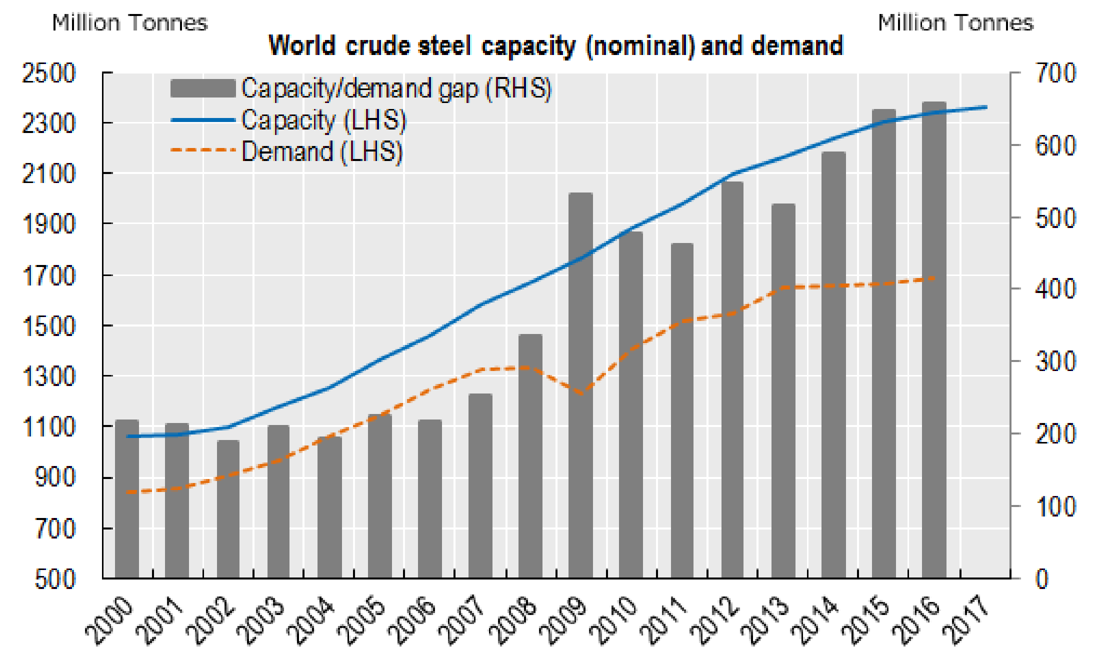
Making the problem even harder from an investment perspective is the opaque nature of many mining services companies' earnings and the limited transparency into individual contracts. This makes trying to find a "core" level of value fraught with danger both as the margins on all work deteriorate and risk profiles increase.



Market Observations

There appears to be excess capacity wherever we look in the world today. Leading into the GFC capital was abundant and poured into mining and other projects around the globe. Since the GFC central banks have flooded the world with liquidity in an attempt to stave off deflation and recession. These efforts have only partially succeeded – economic growth is for the most part anaemic and inflation is not an issue for the time being. The main impact of central bank actions has been to pump up asset prices (most notably share markets and property prices) and to keep interest rates at historically low levels. Very little of the liquidity has ended up in the "real" economy. This is likely due to a number of factors including nervousness on the part of companies in investing and making an adequate return (companies have been slow to drop return hurdle rates for new investments in the face of lower interest rates), partly it may be due to the ease with which buying back shares has enhanced shareholder and thus management returns, and partly it may be due to over-capacity and thus lack of necessity to invest. Increasingly the corporate balance sheet has gone into merger and acquisition activity.
A few examples of areas where there is excess (ample capacity) include:

1. Steel capacity. The graph below tracks world steel capacity and demand since 2000. It shows excess capacity has been expanding since the global financial crisis in 2009.



Notes: The Secretariat assumes demand growth of 0.5% in 2015 and 1.4% in 2016. These are the most recent rates of growth forecast by the World Steel Association of world apparent steel use (April 2015 Short Range Outlook).

Sources: OECD for nominal capacity and the World Steel Association for demand.

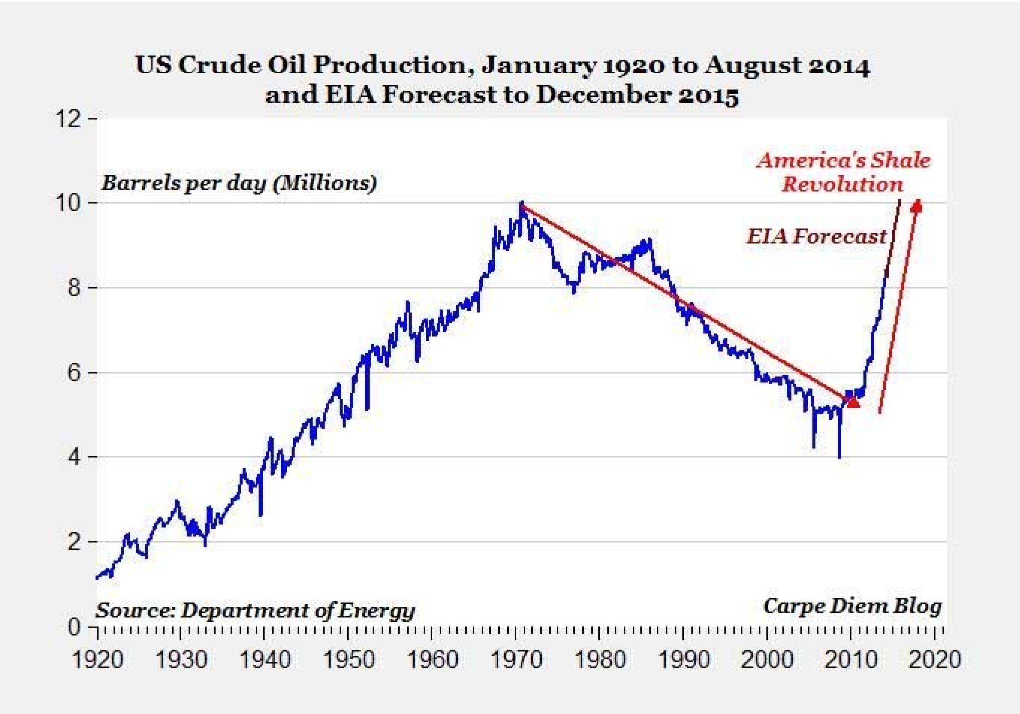
China accounts for approximately half of global steel capacity (having grown its capacity substantially since 2000) but it is producing at 800mtpa – a rate which has been rising for some years but this year is flat on last as GDP slows and steel makers are barely profitable.

It is interesting to look at the Japanese experience in the 1970 and 1980s in this regard when economic growth rates ratcheted down and steel capacity of 160mtpa ultimately had to be cut to cope with demand of only circa 90mtpa. It is likely to be difficult to quickly or easily dismantle capacity, which with tepid demand for the time being, is likely to keep a lid on steel prices.

2. Iron Ore. In order to cope with the expanding requirements of China (as illustrated above), Australia (predominantly BHP, RIO and Fortescue) have poured billions of dollars into growing their iron ore businesses. And more is to come with both BHP and RIO still talking expansion, as is Vale in Brazil, and Gina Rinehart is poised to bring on another 55mtpa with her new mine over the next two years. It is difficult to see a lot of strength in the iron ore price as this supply comes on, particularly if steel makers are already struggling.

3. Oil and gas. The chart below shows the highly significant ramp up in domestic US production of oil since 2010 when technology (horizontal drilling and fracking) allowed the long term decline in production to be reversed. The Saudis, unwilling to give up share, have continued to keep the pumps wide open through this period, resulting in over supply of oil and the resultant fall in the oil price from $100 back to $60. Given the US security concerns, they are unlikely to wind back production any time soon so a period of full supply and lower oil prices looks likely in the

absence of a shock to the system. As oil production has risen, so has the amount of gas which has been produced. The Henry Hub (US price of gas) price has fallen to sub $3 from averaging higher levels over the last few years. As US LNG, priced off this gas price, becomes a reality, new LNG projects using an oil price link in this lower oil price environment may find it difficult to get off the ground.



4. As liquidity has been pushed into the global monetary system, and this has gone into asset pricing rather than the real economy, so we have witnessed the rise of the huge asset managers. According to the RBA, asset managers are estimated to have had $76TR in assets under management at the end of 2013, equivalent to more than half of global banking assets at the time. This number is up from $35TR in 2001/2, and $50TR immediately post the GFC. The likes of Blackrock ($4.5TR+), Vanguard, State Street and Fidelity (each $2TR+) have come to dominate this world. In our own small part of the world, when CI first started managing client's money fourteen years ago, there were (from memory!!) roughly 50 equity managers in the published performance surveys. Today that number is over 100 and there are a number of managers who do not go into the surveys. Likewise the "sell side" of our market continues to evolve as brokers and bankers are laid off but appear again in another guise elsewhere in the industry.

5. People. Unemployment, and the more difficult to measure underemployment, are a major issue around the globe. In Australia the end of the mining boom has seen thousands laid off while in Spain it has been documented that unemployment overall is above 20% and youth unemployment there (and in Greece, Croatia and Italy) is closer to 50%. In the US, although the unemployment rate has fallen of late, the country is struggling to get back to the same employment numbers as 2007/8, despite the population having risen from 301m people in 2007 to close to 320m today. As for Europe, unemployment is slowly improving today but the rate of unemployment rose from 7.5% in 2008 to 12% in late 2013.

6. In addition to the phenomenon described in 4 above, as liquidity has been promulgated, so too have global debt levels risen. Greece is clearly the most topical example of the result of too much debt, but this trend has been witnessed elsewhere. Towards the bottom end of the scale is Australia, where thanks predominantly to the Rudd and Gillard governments, our balance sheet has moved from sub 10% in 2010 to a level where our public debt is now circa 30% of GDP. According to a study by McKinsey global debt has grown by $57TR since 2007 (from $142TR to $199TR), of which government debt accounts for $25TR of the growth. The most spectacular rise is China whose total debt has risen from $7Tr in 2007 to $28Tr in 2014, representing 280% of GDP (having been 120% of GDP as recently as 2001). Clearly deleveraging has not been on the agenda, and in today's low growth environment, it would appear countries will not be able to grow out of their debts (in fact heavy debts stifle the ability to grow in any event). (Viz what is going on in Greece.) It seems logical that somewhere along the line there will need to be defaults and/or debt forgiveness and write offs. The repercussions of such events are very difficult to forecast, as second, third and fourth derivative events and exposures take place – we need only to look back six or seven years to see that the unexpected most often can and does happen.

In conclusion we believe we are in an era where, as has been the case for the last few years, for the time being at least, inflation will be low as will rates of economic growth. Pricing power will remain difficult for companies and thus new capital expenditure will be difficult to justify if traditional return metrics are used as hurdle rates. Merger and acquisition activity, especially for those perceived to have a lower cost of capital, is likely to continue apace.

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