CI BRUNSWICK FUND
QUARTERLY COMMENTARY REPORT

COOPER INVESTORS

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

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

JUNE 2018

"Throw out your conceited opinions, for it is impossible for a person to begin to learn what he thinks he already knows." Epictetus

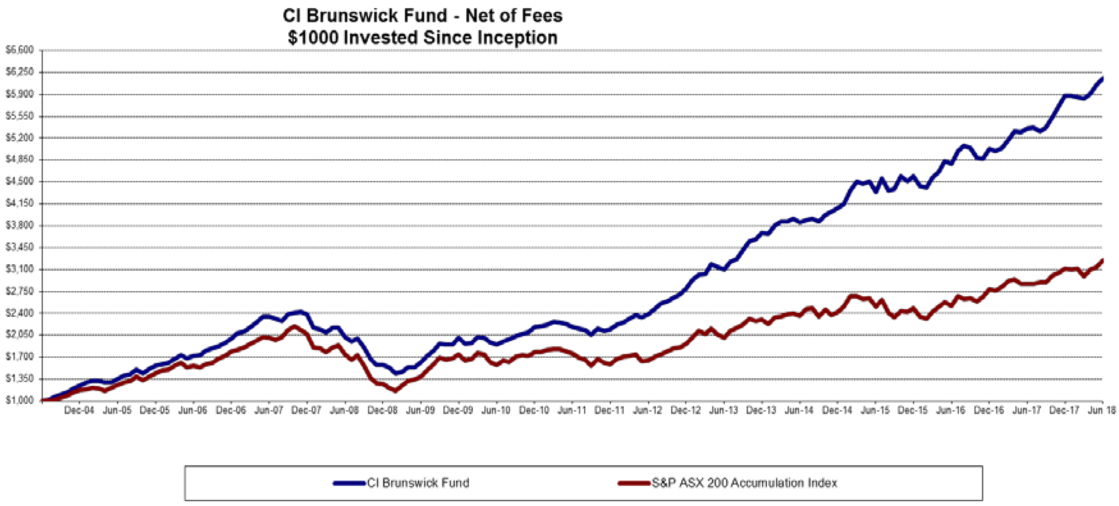
"The wisest of men follow their own direction and listen to no prophet guiding them." Euripides

"You can do so much in ten minutes' time. Ten minutes, once gone, are gone for good. Divide your life into 10-minute units and sacrifice as few of them as possible in meaningless activity." Ingvar Kamprad

"I noticed that the dynamic range between what an average person could accomplish and what the best person could accomplish was 50 or 100 to 1. Given that, you're well advised to go after the cream of the cream. A small team of A+ players can run circles around a giant team of B and C players." Steve Jobs

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	5.80%	8.47%	-2.67%
ROLLING 1 YEAR	16.04%	13.01%	3.03%
ROLLING 3 YEAR	13.94%	9.04%	4.90%
ROLLING 5 YEAR	16.48%	9.98%	6.50%
ROLLING 7 YEAR	17.97%	9.12%	8.85%
ROLLING 10 YEAR	13.45%	6.40%	7.05%
SINCE INCEPTION*	16.95%	8.77%	8.18%
SINCE INCEPTION^	795.05%	224.54%	570.51%

*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.

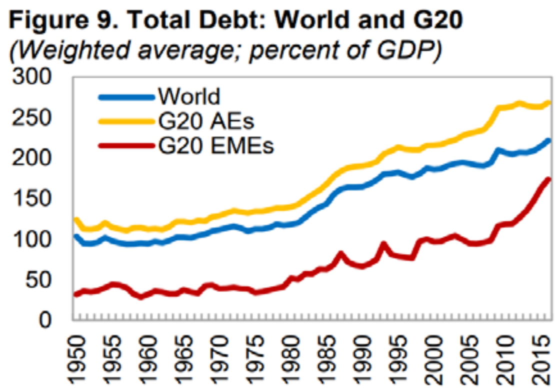
JUNE 2018

Market and Portfolio Performance

The ASX 200 Accumulation Index performed strongly during the June 2018 quarter, up 8.5%. Australia was one of the top performing markets globally, significantly outperforming Asia (Shanghai Composite -11.4%), and other emerging markets in Europe and South America. Contribution across sectors in the ASX200 was broad-based with energy, mining and health sectors among the best performers.

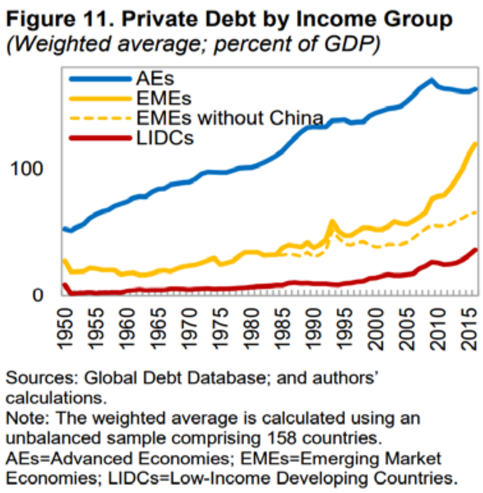
The poor performance in Asia appears to reflect concerns of an escalating trade war between China and the US, with China perceived to be most impacted.

During the quarter the International Monetary Fund ("IMF") compiled a report with a detailed set of historical data of debt levels across the world, starting in 1950. Even post the GFC, debt levels continue to rise (country weighted average) when measured relative to GDP, underpinned by central bank policies of near zero interest rates:



Source: IMF

However, the most significant increase in recent years has been in emerging market private (non-government) debt, driven by China:



Source: IMF

JUNE 2018

On the positive side, debt in emerging markets is still well below Western countries (~100bps difference in total debt % GDP). However, the rate of growth is the concern – since 2005, per the IMF report, *"China has accounted for almost three-quarters of the growth in global private debt".* However, some caution is warranted with this observation, given the inability to confidently separate China's government and private debt.

China is clearly important for Australia, and Australian stocks. The obvious exposures are direct via mining and resource companies. However, just as important are the indirect exposures which include property, banks, tourism, and construction to name just a few.

While so far the Chinese government has managed this growth in debt without significant issue, the debt has clearly supported China's growth in recent years. It suggests China has a delicate tightrope to walk as it rebalances to a domestic-focused economy from an export-focused economy, to consumption growth from capital growth and as it deals with a changing relationship with the US.

During the quarter the Brunswick Fund increased 5.8%, underperforming the index by 2.7%. Key contributors to portfolio performance during the 3 month period include **Reece (REH**) (accretive acquisition in the US), **Xero (XRO)** (strong momentum in the UK), and **CSL (CSL**) (acquisitions and solid organic growth). Portfolio stocks that performed poorly include **OHLMEX (OHL)** (tender offer below fair value), **Spectrum Brands (SPB)** (profit warning), and **Brambles (BXB)** (concerns about cost pressures).

In May, portfolio stock **Reece (REH)** acquired US based Morsco for A$1.9bn, arguably the company's most significant decision in its 40 year history. Australian companies have a history of poor acquisitions overseas. Bunnings recent retreat from the UK illustrates that even the best can get it wrong. Given this, some caution is warranted, particularly in the short to medium term. However, there are a couple of reasons why Reece might have a better chance of success:

1. The Wilson family have contributed $300m of their own capital to the acquisition. In addition, they have put the family's excellent reputation on the line.

    - As a family linked company, with a very strong culture, REH scores highly in terms of "Focused Management Behaviour" in our VoF process.

2. Perhaps with an eye to history, REH will leave Morsco alone for the time being; there will be no change in management, no-rebranding, no change in strategy. Both companies will spend time getting to know each other.

Over the longer-term, we see two key sources of new value latency for REH from the acquisition:

- Firstly, plumbing distribution is much more fragmented in the US then Australia. Ferguson (who is the #1 player) has < 20% market share and at the tail end of the industry there are many locally owned, small family run businesses. Morsco is focused in Texas, one of the highest growth states in the US, in part due to low state taxes (corporates are relocating to the state), making Morsco an ideal platform for growth. REH's growth in Australia followed a path of building density in a state (eg Victoria) before stepping out to the next state (NSW). We expect REH/Morsco to follow a similar strategy in the US. This should give REH a multi-decade runway for investment in the biggest plumbing market in the world.

- Secondly, over-time REH should help Morsco expand its margins, which are well below Ferguson, and even further below REH (even adjusting for the fact REH tends to own its land

and therefore has a lower lease expense). This will take time but following REH's Australia playbook, the strategy could include:

- Building scale and network density both organically and inorganically
- Enhancing the service proposition to grow volumes and reduce discounting
- Focusing on smaller "network" plumbers who are higher margin
- Developing distribution and IT capabilities to improve delivery times
- With scale building out a private label strategy and a set of exclusive products.

During the quarter the Fund also purchased UK Wealth manager **St James Place (STJ).** STJ fits into our '1950's Banking' cluster being a high-service, focused financial services company run by a team of long serving executives who act like stewards for key stakeholders (clients, employees and shareholders). We believe the demand for STJ's model of trusted, face-to-face advice is growing materially in the UK market as baby boomers face the increasingly complex task of managing their finances.

Adelaide Brighton (ABC) announced in May that CEO Martin Brydon would be retiring after over 30 years of service with the company. This comes on top of Les Hosking stepping down as Chairman after 15 years as a Director and seven years as Chairman. This is significant change for the company in terms of the loss of corporate memory, industry knowledge and commercial acumen. We regarded both Martin and Les very highly and little more is required to acknowledge their achievements than the fact that the share price has more than doubled over the last four years under their stewardship. We remain confident in ABC's ability to manage these two key successions.

During the quarter **Lifestyle Communities (LIC)** upgraded its expected settlement by 25 homes (or 9%) and said it continues to see strong demand for its product. This was pleasing given another listed peer had announced earlier that settlements would be impacted due to the more difficult housing market, effectively downgrading their guidance. There has also been M&A activity in the sector with GIC (and local JV partner Tasman Capital) acquiring National Lifestyle Villages in WA. In addition, Gateway Lifetsyle Group (GTY) has received takeover offers from both Brookfield and Hometown Australia. This suggests that interest in the residential land lease sector is increasing, which is still in its infancy when compared to offshore markets like the US. This is positive for LIC.

The Portfolio – Strategy, Process, and Structure

Our single purpose goal is to identify risk adjusted value latency. At CI we take a qualitative and observation first investment approach to research and analytics. We seek to partner client capital with what we call 'Focused Management Behaviour' – companies that display enduring proprietorial qualities with the ability to deliver the value latency options afforded by good operating, industry & strategic position/trends. The management and governance cultures of the companies we seek fall into 3 broad categories:

1) Family linked companies and Founder-led;
2) Owner operator cultures; and
3) Focused and experienced management teams that are resetting governance & management priorities (note these categories are further discussed below in this report).

All these proprietorial management styles have the following behavioural qualities:

- Humility – authentic, energetic and long-term value obsessed
- Focus – intentional and know what they are doing

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

JUNE 2018

- Alignment with and respect for shareholder interests
- Deep, nuanced knowledge of business/industry
- Counter-cyclical and value-based capital allocation
- Invest in skills, talent, innovation

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.
- We seek a spread of diverse exposures across small, mid and large capitalisation companies as well as different industries, clusters and countries (within a maximum of 25% overseas exposure. Note: overseas means non-ANZ listed stocks).

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, subsets of value).
- Risk controlled for liquidity and conviction.
- Small team leveraging CI's well-resourced research platform and back office strength.

Structure

- Concentrated, long-only, long-term equities portfolio (20-40 stocks).
- Portfolio of companies with value latencies, across 6 subsets of value, focused around a number of key "clusters".
-

The portfolio remains positioned around six subsets of value:

- **Stalwarts** (10% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions. (ASX, Brambles)
- **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** (44%) – 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** (7%) – sound businesses with good management in place and good balance sheets. We especially like spin offs and government to private turnarounds. (OHL Mexico)
- **Cyclicals** (20%) – stocks showing upside leverage to the cycle with experienced and contrarian managers who can allocate capital prudently and with good balance sheets. (Iluka, Adelaide Brighton)

Currently the portfolio holds around 6% cash. The portfolio has around 11% of assets invested in overseas stocks that own businesses in USA, Canada, UK and Mexico.

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

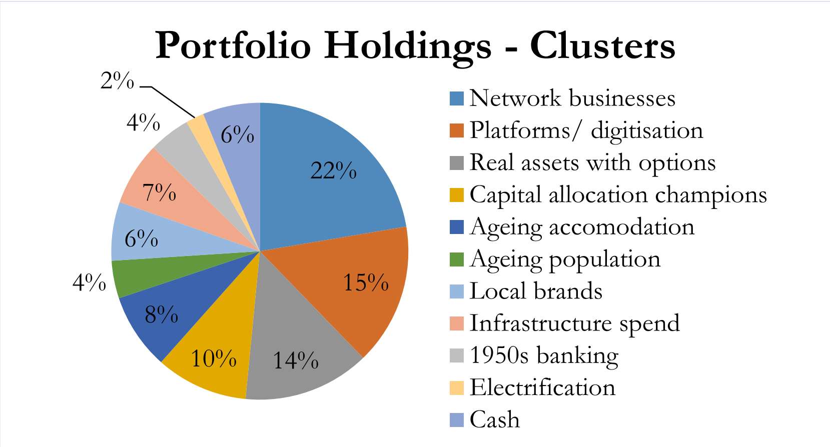
JUNE 2018

Portfolio attributes as at June 2018 are summarized below:

P/E	18.64
Beta	0.76
Yield	2.61
P/Book	2.52
ROE	13.51
Tracking error vs. ASX 200	5.16
Stock Number	37

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. They 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".

Our current focus is on the following clusters:



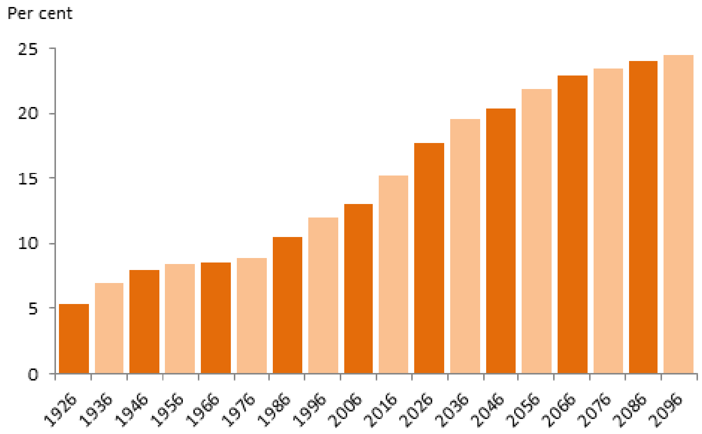
- **Network businesses** – sturdy, strong and generally larger companies with world class competitive positions, where growth reinforces the business model. (CSL, Reece, Mainfreight).
- **Platforms /digitisation** – companies that are at the forefront of digitising industries, preferably with software that requires investment to scale, but once scaled have a low cost of adding incremental customers (Xero).
- **Real assets with options** – companies that own real assets like property, infrastructure, minerals or agriculture products that are under-utilised, under-rented or hidden (ALE Property)
- **Capital allocation champions** – companies with a history of value-creating and counter-cyclical capital allocation/investment across a portfolio of assets. (Soul Pattison).
- **Ageing accommodation /population** – companies providing accommodation or services to people aged in the 65+ age group (Lifestyle Communities).
- **Local brands** – companies with strong brands that will benefit from a trend towards local, boutique, fresh, home-grown food (Bega).
- **Infrastructure spend** – companies set to benefit from increasing spend on infrastructure, domestically or globally (Adelaide Brighton).

- **1950's banking** – banks and other financial companies with a high level of customer service backed by smart IT (St Jame's Place).
- **Electrification** – companies benefitting from the trend towards increasing electrification of things such as cars, and homes (TE Connectivity).

Cluster deep dive - Ageing Population

Like many developed countries, Australia's population is ageing. The % of the population aged 65+ has grown from ~5% back in 1926, to ~15% in 2016, and is expected to hit nearly 20% in 10 years time:

Figure 1: Australian population aged 65 and over, at 30 June, over time (per cent)

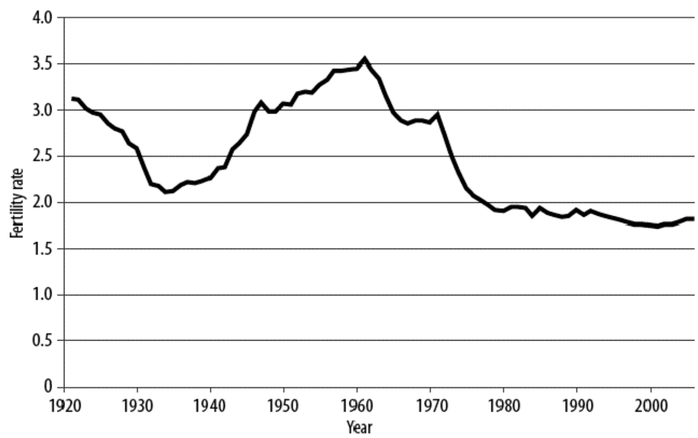


Source: Australian Institute of Health and Welfare, ABS data, 'mid' forecast assumptions.

In essence, this trend is a mechanical outcome of two factors:

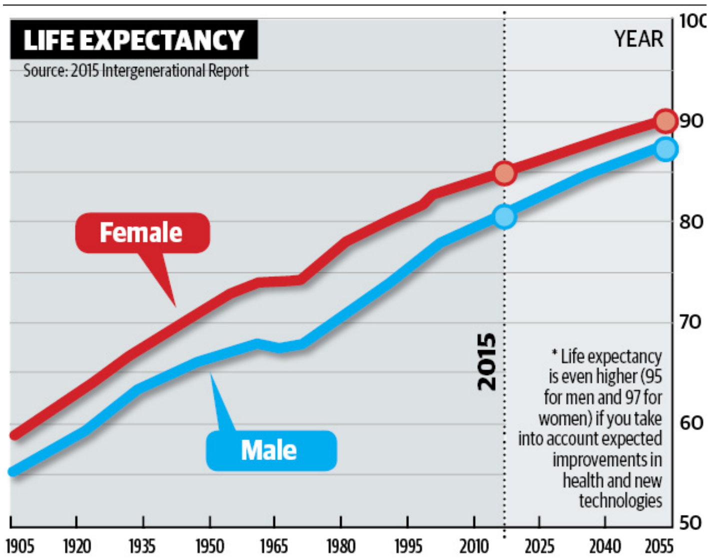
1. Declining fertility rates, which peaked in 1961 when the Pill was introduced (this demographic group is now in their late 50s):

FERTILITY RATES – AUSTRALIA (ratio of births to total population)



Source: Australian Institute of Family Studies, ABS

2. An increase in life expectancy:



Source: Intergenerational Report, Treasury Department

Together, these two factors will soon result in our oldest age cohort (85+) growing by ~4% p.a., or more than 2x the average population (which is currently growing at 1.6% p.a.). In addition, growth in the 65-85 year old cohort is also expected to be strong.

There are a number of ways the Fund remains focused on this trend:

1. Accommodation providers, such as:
   a. **Ryman (RYM)** – a tier one operator of mixed retirement living/ aged care assets at the high end of the market.
   b. **Lifestyle Communities (LIC)** – provides manufactured housing estates ("MHE") at the affordable end of the market for people looking to release some of the equity in their home.
   c. **Eureka Group (EGH)** – rental accommodation at the lowest end of the market, mostly individuals without assets who are reliant on the pension.
2. Healthcare companies providing health services such as primary care and homecare, as well as healthcare product companies like **CSL** (particularly via their Influenza products).
3. Other service providers, which could include financial advice and wealth providers, as well as travel and other leisure companies.

In recent years, some of the impact of the ageing population has been offset via Australia's significant skilled migration programme, as on average migrants tend to be younger (~80% are <40yrs old, vs ~50% for the population). This offset could prove to be temporary although, unless the rate of immigration accelerates, as immigrants will also eventually age.

One by-product of Australia's growth in immigration, is the increasing need for domestic spend on infrastructure. Various state governments have announced increases in road, rail and other infrastructure spend, just to keep up with the population. A number of building materials and service companies are set to benefit and this remains another key cluster for the Brunswick Fund.

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

JUNE 2018

Aged Care and Accommodation – NZ vs Australia

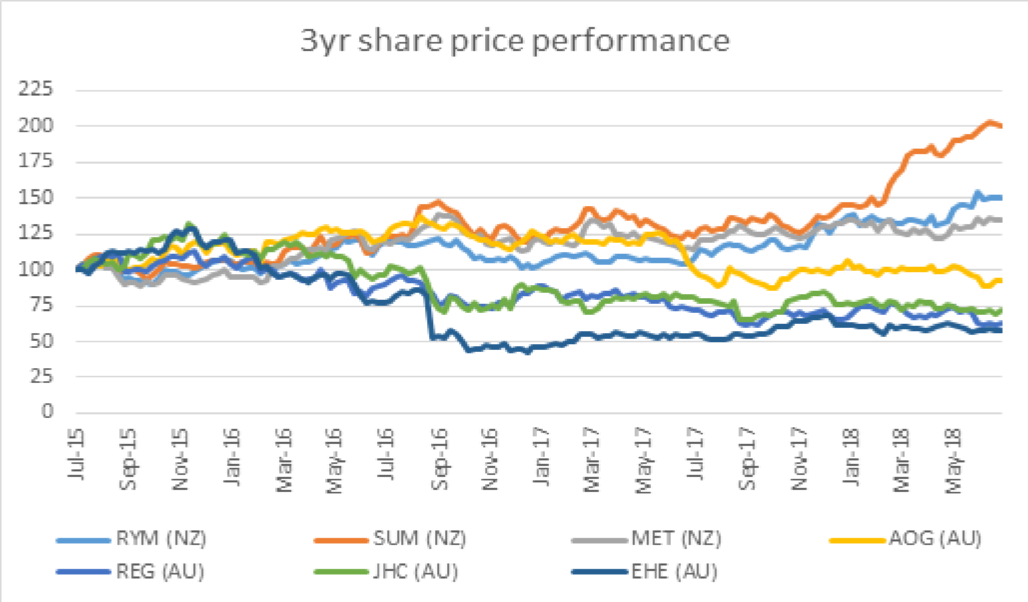
In our experience NZ produces a lot of high quality companies and management teams, and the NZ retirement sector is no exception. We have invested 'across the ditch' in the NZ retirement sector for many years in Ryman Healthcare (RYM-NZ) and Summerset Group (SUM-NZ). However we have had relatively little exposure to their listed peers in the Australian market despite them being exposed to the same demographic tailwinds.

We thought it might be informative to outline some of the reasons why we have preferred the NZ listed operators to-date:

- **Focus:** RYM and SUM only do one thing – build, own and operate integrated retirement villages. In Australia there are few dedicated listed operators with most being part of a larger diversified group.
- **Owner-operator mindset:** The origins of many Australian retirement village operators are as property developers primarily focused on development profits compared to the owner-operator mentality in NZ.
- **Continuum of care:** RYM and SUM both operate integrated retirement villages which combine independent living and residential aged care at the same facility. This continuum of care allows residents to age-in-place, which creates needs-based demand for their villages. In contrast many Australian retirement village operators have a lifestyle focus and offer little to no aged care services.
- **Simplicity and certainty:** Resident contracts in Australia are complicated, legalistic and typically loaded with a litany of different types of fees. In comparison NZ resident contracts are simple with only 3 main charges for residents being entry price, the deferred management fee (DMF) and the weekly fee.
- **Greenfield development:** This development capability has allowed RYM and SUM to grow their retirement village portfolios significantly over many years without the need to raise additional equity. This allows them to efficiently recycle capital from a completed village into building the next one, which has a powerful compounding effect over time.
- **Management and culture:** We think the management teams at RYM and SUM are best in class. Their owner-operator culture is reinforced by long-tenured management with deep industry expertise.
- **Track record:** RYM and SUM have built a strong track record of operating performance and generated significant value for shareholders over the past 3 years, whereas their Australian counterparts have been poorer performers in both a relative and absolute sense (as shown in the chart below).

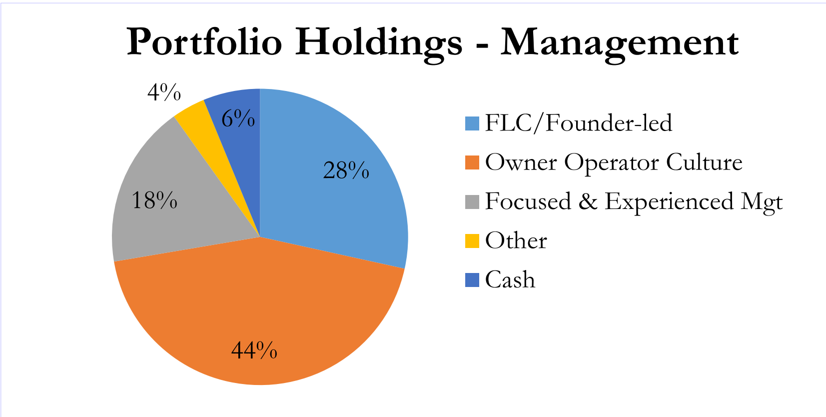
For current performance information please refer to the Monthly Performance Report.

JUNE 2018



Focused Management Behaviour

The portfolio is focused on three broad management categories:



- **Family-linked Companies (FLC) and Founder-led** – companies where we can observe a history of the behavioural qualities we seek. FLC's provide a governance framework that preserves strong cultures over longer timeframes. Founder-led firms with strong leaders can set the standard for a company's culture.
- **Owner Operator Cultures** – companies that demonstrate the behavioural qualities we seek with evidence these attributes have seeped into the company more widely than just the current management team.
- **Focused and Experienced Management** – management teams displaying high levels of experience and focus, or in particular where there has been reset or change – i.e. a "re"-focus of governance and management priorities. This still requires evidence of the behavioural qualities we seek which can come from a new management team, from changes to company structure (eg spin-offs, or government to private), or from reconnecting to old or latent culture.

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

JUNE 2018

Management deep dive – Family-linked companies ("FLCs")

For many people, FLCs are associated with either small private firms, or larger companies riddled with perceived governance issues – the view that insiders favour the family's interests over minority shareholders. Our experience is there are both good and bad FLCs, but that the good ones more than make up for the bad.

We think there are a number of reasons investors should favour FLCs over non-FLCs, both in terms of the underlying business performance, as well as the various behavioural overlays to the traded stocks.

In many instances, FLCs are much less liquid than other listed companies of comparable size, as the family tends to retain a large ownership stake. In addition, FLCs can be cautious in who they talk to and can be miserly providers of reported information, seeing this (rightly in many instances) as a competitive risk, similar to how most private companies would think. Combined with perceptions of poor governance, it's therefore not surprising that FLCs are of much less interest to both sell-side analysts and institutional investors.

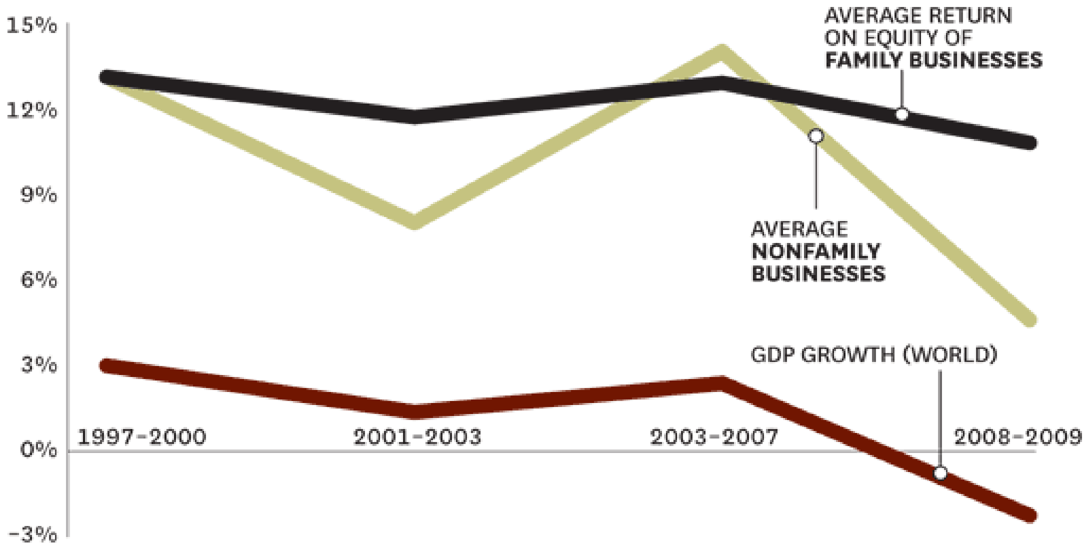
In addition to these behavioural factors, there is also evidence supporting the long-term performance of FLCs. Although research on FLCs is hard to find, one of the more comprehensive studies was undertaken by Credit Suisse[1]. They looked globally at 1,000 family-owned companies, highlighting that the group outperformed the MSCI AC world by 392bps since 2006 and that outperformance "occurred in every region, in every sector and for both small and large caps". Underlying this performance, Credit Suisse stated that FLC's "...have better revenue growth, margins, and cash flow returns than non-family-owned peers."

Another study by researchers at Boston Consulting group[2] and Ecole Polytechnique highlighted many useful insights, consistent with our own experience:

> *"To settle that question (whether FLCs outperform?), we and Sophie Mignon, an associate researcher at the Center for Management and Economic Research at École Polytechnique, compiled a list of 149 publicly traded, family-controlled businesses with revenues of more than $1 billion… We then created a comparison group of companies from the same countries and sectors, which were similar in size but not family controlled. Then we did a rigorous analysis of the ways in which those two sets of companies were managed differently and how that affected performance.*
>
> *Our results show that during good economic times, family-run companies don't earn as much money as companies with a more dispersed ownership structure. But when the economy slumps, family firms far outshine their peers. And when we looked across business cycles from 1997 to 2009, we found that the average long-term financial performance was higher for family businesses than for nonfamily businesses in every country we examined.*

[1] "Global Equity Themes, the Family Business Playbook", Credit Suisse Equity Research, 27 September 2017
[2] "What You Can Learn from Family Business" Harvard Business Review, Nicolas Kachaner, George Stalk, Alain Bloch

PERFORMANCE OF FLCs versus non-FLCs



Source: What You Can Learn from Family Busines" Harvard Business Review, Nicolas Kachaner, George Stalk, Alain Bloch

> *The simple conclusion we reached is that family businesses focus on resilience more than performance. They forgo the excess returns available during good times in order to increase their odds of survival during bad times. A CEO of a family-controlled firm may have financial incentives similar to those of chief executives of nonfamily firms, but the familial obligation he or she feels will lead to very different strategic choices. Executives of family businesses often invest with a 10- or 20-year horizon, concentrating on what they can do now to benefit the next generation. They also tend to manage their downside more than their upside, in contrast with most CEOs, who try to make their mark through outperformance."*

Our experience, on average in Australia, is consistent with these findings in US/Europe. Although as mentioned previously, the average hides a spectrum of good to bad. Our VoF process helps us tilt towards the good ones over time.

The study then also highlighted 7 key factors that differentiate FLCs, again consistent with our own experience:

1. They're frugal in good times and bad.

2: They keep the bar high for capital expenditures.

3: They carry little debt.

4: They acquire fewer (and smaller) companies.

5: Many show a surprising level of diversification.

6: They are more international.

7: They retain talent better than their competitors do.

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

JUNE 2018

We think this last point about talent retention is particularly important for long-term investors. Some further detail:

> *"The leaders of family companies extol the benefits of longer employee tenures: higher trust, familiarity with co-workers' behaviours and decision making, a stronger culture. These businesses have a lot in common with what the academics Karlene Roberts and Karl Weick call "high-reliability organizations," in which long-serving teams of specialists develop efficient team dynamics and a collective mind-set that helps them achieve goals."*

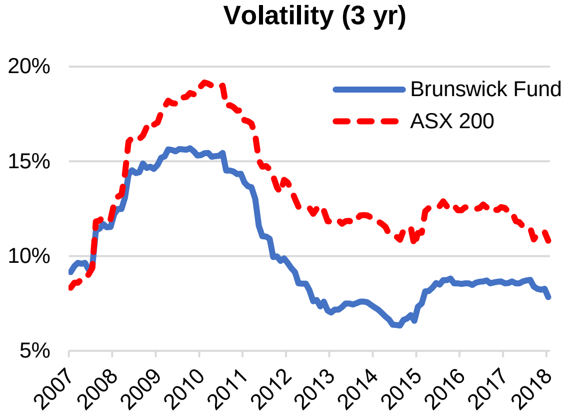
> *"Interestingly, family businesses generally don't rely on financial incentives to increase retention. Instead, they focus on creating a culture of commitment and purpose, avoiding layoffs during downturns, promoting from within, and investing in people."*

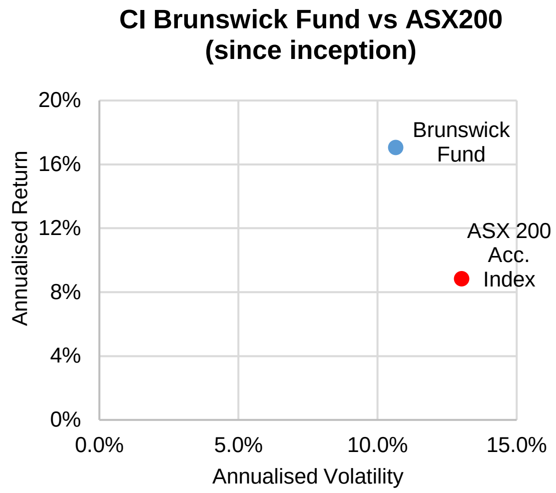
Portfolio Risk Metrics

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	+795.1%	+224.5%
Max Drawdown	-40.0%	-47.2%
Best Month	+7.4%	+8.0%
Worst Month	-10.1%	-12.6%
Positive Months	+69.0%	+63.7%
Annualised Volatility	+10.6%	+13.0%

*Cumulative (1 July 2004), before fees and expenses # S&P ASX 200 Accumulation Index Max Drawdown for the Brunswick Fund occurred December 2007 to February 2009
Max Drawdown for the ASX200 Accumulation Index occurred November 2007 to February 2009 Best Month for the Brunswick Fund was November 2004, for the ASX200 Accumulation Index March 2009 Worst Month for the Brunswick Fund was October 2008, for the ASX Accumulation Index it was also October 2008





CI BRUNSWICK FUND
QUARTERLY COMMENTARY REPORT

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

JUNE 2018