CI BRUNSWICK FUND
QUARTERLY REPORT

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

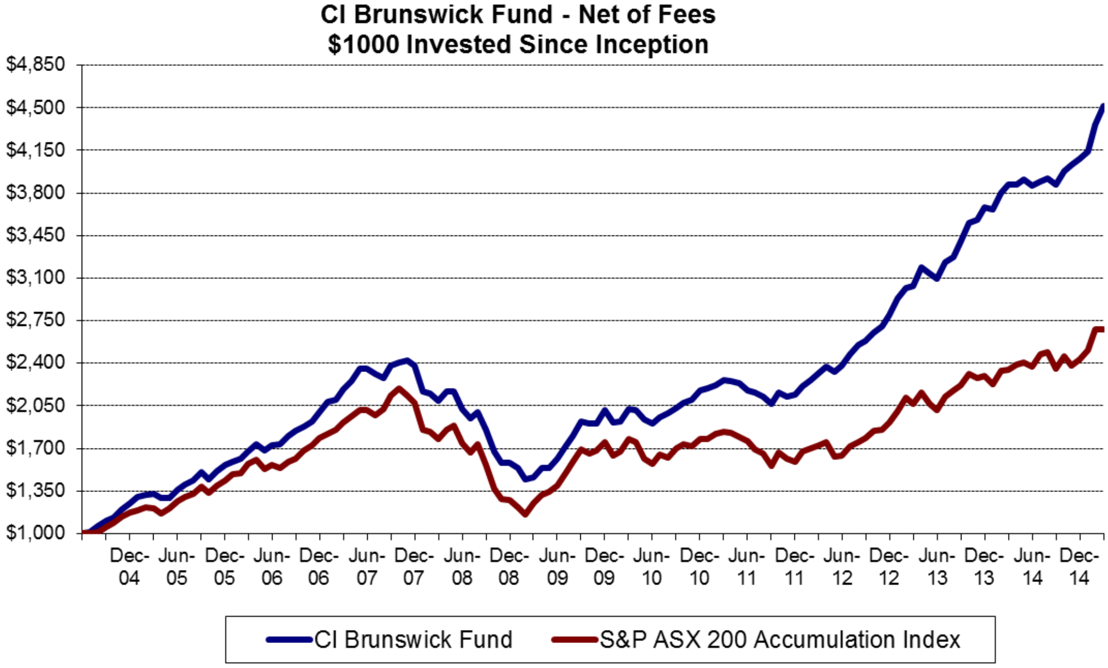
MARCH 2015

"Leadership is a potent combination of strategy and character. But if you must be without one, be without strategy." General Schweitzer.

"We don't see things as they are; we see them as we are." Anaïs Nin.

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	10.78%	10.33%	0.45%
ROLLING 1 YEAR	18.29%	14.13%	4.16%
ROLLING 3 YEAR	26.88%	15.83%	11.05%
ROLLING 5 YEAR	19.47%	8.59%	10.88%
ROLLING 7 YEAR	13.30%	6.04%	7.26%
ROLLING 10 YEAR	15.98%	8.33%	7.65%
SINCE INCEPTION*	18.60%	9.60%	9.00%
SINCE INCEPTION^	525.78%	167.84%	357.94%

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



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Market and Portfolio Performance

The Benchmark rose 10.33% over the March 2015 quarter and 14.13% over the last year. The portfolio has returned 10.78% and 18.29% over these periods respectively.

The Australian dollar stabilized over the quarter while the oil price continued its fall from over $100/bbl in June to end the quarter at circa $48. The Iron Ore price continued its downward trend and we are seeing the first potential major casualty as Atlas Iron went into trading halt (speculation is that it is having difficulty continuing operations). Stock markets continue to ignore slowing growth in China, the prospect of rising US interest rates, weakness emerging particularly in resource based geographies, falling commodity prices and rising government debt levels.

Positive contributors to portfolio performance included:

1. Australian Pharmaceuticals Industries ~ improving operational performance from Priceline;
2. TPG Telecom ~ strong result and announced a takeover offer for iiNet;
3. Lifestyle Communities ~ continue to roll out their affordable living model; and
4. Equity Trustees ~ exposure to the Australian wealth retirement industry and cost out opportunities in the recently acquired ANZ Trustees.

The worst performers over the quarter included:

1. Oil Search ~ continued weak oil prices;
2. Transpacific Industries ~ falling oil price negatively impacting their energy business;
3. Recall ~ market impatience with the Iron Mountain bid; and
4. Ryman Healthcare ~ no news flow.

The portfolio remains positioned around five pillars or stock clusters:

- **Stalwarts** (29% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions. (Recall and Telstra).
- **Bond like equities** (8%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time. (Auckland Airports, Carindale).
- **Niche growth companies** (32%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management. (Vitasoy, Summerset and TPG Telecom).
- **Asset plays** (11%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value. (Amalgamated Holdings and WH Soul Pattinson).
- **Turnarounds** (10%) – 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 10% cash and another 3% in high yielding hybrid securities such as Bendigo Preference Shares and Crown Subordinated Notes II. The portfolio has around 7% of assets invested in overseas markets. These positions are spread across UK, Singapore and Hong Kong listed companies.

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Portfolio attributes as at March 2015 are summarized below:

P/E	18.5
Beta	0.69
Yield	3.2
P/Book	2.2
ROE	11.9
Tracking error vs. ASX 200	6.00
Stock Numbers	34

Major sector exposures are:

Sector	**Portfolio Weight**
Health care and retirement	18%
Industrials	13%
Telecommunications	10%
Non Bank Financials	10%
Foreign Equities*	10%
Energy	8%
Banks	7%
Materials	7%
Consumer	5%
Utilities	2%
Cash	10%

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

Stock & Industry Observations

Mobile industry

The Australian Bureau of Statistics recently released data on mobile data consumption which showed an increase of 91% for the 3 months ended December 2014 compared with the previous corresponding period. Data consumption growth really started to take off from June 2012 and is probably explained by a number of things including the continual upgrade of mobile devices to smart phones, growth in video streaming (YouTube), proliferation of apps and better network coverage and speed. The mobile industry structure is favourable in Australia with three main players including Telstra, Optus and Vodafone. All three carriers have and continue to invest heavily to upgrade their networks. The key question is whether they will be able to monetise this data consumption growth and make a decent return on their investment. As we had noted in our previous quarterly, it appears that mobile competition has picked up slightly following a period where Telstra gained strong market share from its peers. The three players have been quite innovative with their product offerings and have included things such as music and video subscriptions and data share plans. More interestingly, the carriers are offering better value and higher data inclusions in their higher tier plans and it is perhaps part of their strategy to monetise this data consumption growth.

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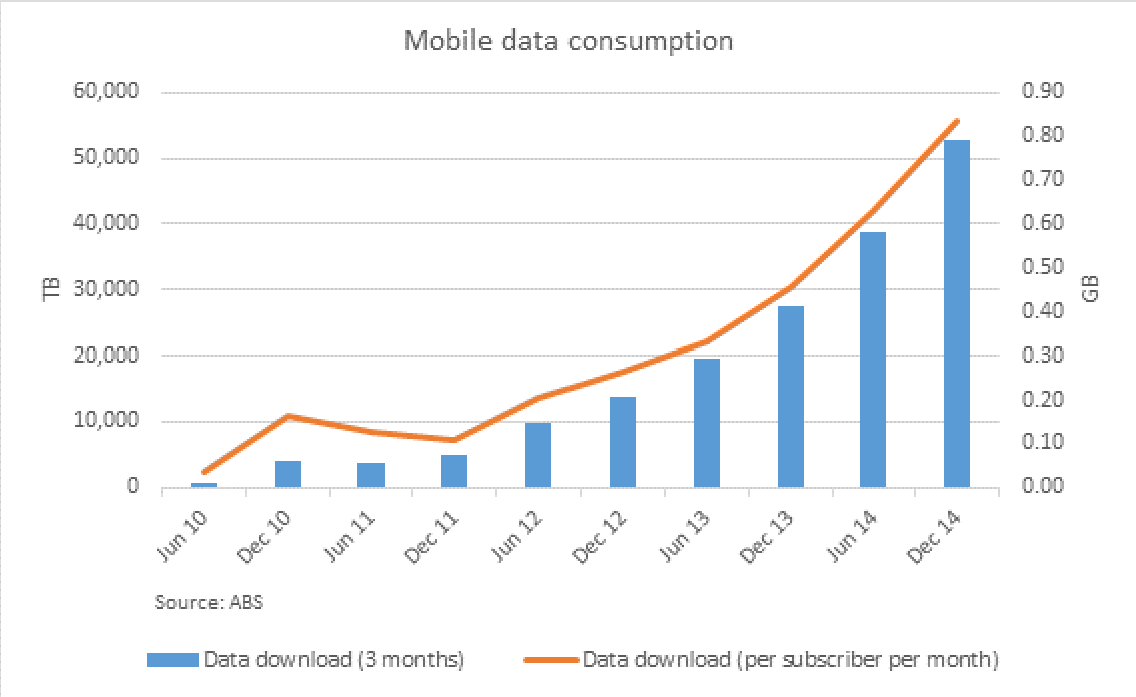

The consolidation in the telecommunications industry continues with the recent takeover offer for iiNet (IIN) by TPG Telecom (TPM). TPM made an all cash offer of $8.705 (inclusive of $0.105 dividend) for IIN which represents a 31% premium to the close of IIN's share price on 11 March 2015 and an EV/EBITDA multiple of 9.1x. Based on recent transactions and the general re-rating of the sector, we believe that the offer is fair and reasonable. If this transaction goes ahead, there will be four big players left in the fixed broadband market in Australia and TPG & IIN combined will become the second biggest player behind Telstra. This is a remarkable achievement given its humble beginnings as a small reseller of computer equipment and internet services in 1986. Led by David Teoh, the business has grown organically and has also made a number of strategic mergers and acquisitions including SP Telemedia, PIPE Networks and AAPT. We are cognisant that IIN will be TPM's largest acquisition to date and carries some risks given the difference in culture and customer offering. However, if carefully managed, we believe that TPM will be able to extract benefits from this acquisition, mainly from:

1. Better utilisation of its infrastructure assets by moving IIN customers onto its inter-city fibre network (AAPT) and its PPC-1 submarine cable for international traffic;
2. Reducing the combined company's cost base e.g. head office, call centre, billing, marketing;
3. Increasing scale in an NBN world where there is a variable data usage charge called Connectivity Virtual Circuit (CVC); and
4. Expanding TPM's corporate business exposure to SMEs where IIN has a strong presence.

Resources

We have written about the iron ore industry in the past few quarterlies. The February reporting season showed that all producers reduced costs significantly as expected. The dramatic fall in oil price due to excess capacity has reduced freight costs, and combined with the fall in foreign exchange, has helped all producers lower their all in cash costs. However, as the cost curve has shifted down, so has the iron ore price and it has fallen below $50/t. Many producers are now starting to really feel the pain. Australia's third largest producer, Fortescue Metals (FMG), is estimated to be just about cash breakeven at $50/t. FMG has a highly levered balance sheet and debt investors are becoming concerned, which led to yields on some of its issued debt spike recently to 14%. We believe that supply is generally sticky (especially in China) and we will probably need the iron ore price to stay at current low levels for a prolonged period to drive meaningful high cost supply out of the market. It is interesting to note that despite negative earnings revisions and falling commodity prices, it appears that the share prices of both BHP and RIO have stabilised.

Carindale Property Trust

Carindale Property Trust (CDP) owns a terrific property in Westfield Carindale with occupancy of over 99.5% and productivity of $11,104 per square metre, making it one of the best retail assets in Australia. Expected strong cash flow growth and minimal maintenance capex requirements in the near term underpin a dividend yield of over 5% that can comfortably grow in the low-to-mid single digit range.

As at 31 December 2014, Westfield Carindale's cap rate was 5.5% which equates to net tangible assets (NTA) per share of $7.39 (with the current share price implying a 5.8% cap rate). Based on the valuations of other comparable fortress malls there is the potential for further cap rate tightening, and we note that every 5bps of cap rate compression increases (NTA) by $0.10 per share. CDP is trading at a 7% discount to NTA, in our view the best quality REIT that is below book value. In a low interest rate environment a sustainable and growing dividend underpinned by a high quality asset is an attractive investment proposition.

Retirement sector update

The **Lifestyle Communities (LIC)** half-year update confirmed that its affordable product proposition continues to resonate strongly with its target market. This value proposition, as well as improved branding and marketing, have driven monthly sales rates well above project feasibility targets. This in turn means new communities sell down faster, allowing capital to be recycled more quickly into new projects. "Spinning the wheel faster", as management describe it, reduces development risk and accelerates growth in the all-important annuity income streams as sold-down villages generate rental income and deferred management fees.

In December LIC refinanced a $25m loan note facility with Westpac at an initial cost of less than 4.5%, which compared with around 13% it was paying previously, will save around $2 million in annual cash flows on an ongoing basis. Management also noted that LIC is likely to commence paying dividends in 2H15 subject to continued business performance.

Summerset Group (SUM) reported its 2014 full year results displaying step-up in operational performance as it opened four new villages and three new care facilities. SUM is on target to meet its build target of 300 units per annum this year and should at least meet this year's medium term development margin target of 17%. Our impression is that it is making good progress on growing its development expertise, which is critical for its self-funding business model and our investment proposition. While 2014 was a transition year for SUM, we expect that 2015 and 2016 should deliver step-changes in earnings growth as the groundwork laid over the last couple of years starts to bear fruit.

Strong demand for SUM's product is necessitating that development is brought forward, which has resulted in an increase in gearing. While SUM has no core debt, it does have working capital and development debt, which should run down over time as villages are sold and occupied. If SUM stopped development the debt would run down quite quickly, which means the debt is less problematic in a dire circumstance than debt in the average company. In addition, we gain comfort from the needs-based nature of its business, which we think will make it more resilient in the next downturn compared with a 'lifestyle' business.

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Boral

The new management team under Mike Kane (CEO) has done a great job in taking cost out in a tough market and reshaping the portfolio. Importantly for a cyclical business, the balance sheet is in good shape, which means there is optionality around capital management and/or acquisitions given the improving business performance and cash flow.

We believe that there are a number of value latencies within the business which could play out in coming years which underpin our investment proposition:

- The core Construction Materials and Cement business is well positioned to participate in the large uptick in infrastructure spending slated to start in NSW and QLD from late 2016.
- The Boral US business has significant leverage to improving US housing starts. We note that US housing starts of around 1 million per annum is 50% below the 50 year average of 1.5 million housing starts.
- The CSR-Boral bricks joint venture has the potential to improve the Building Products division's underperforming ROFE via cost synergies, better pricing and plant rationalisation. There is also a lot of very valuable land tied up in brick factories which could potentially be sold for residential conversion in coming years if production capacity is rationalised.
- The recent sale of the Western Landfill to Transpacific Industries for $165m upfront plus an inflation-linked royalty of $15m per annum for the life of the landfill indicates there is value tied up in Boral's quarry assets, and we would not be surprised to see more deals of this nature announced in the future.
- The USG-Boral joint venture has significant potential to grow earnings, particularly in terms of penetrating Asia. For example, Asian plasterboard consumption is 1sqm per capita compared with 6-8sqm per capita in more mature countries. The recent USG Corp 4Q14 results suggested that the joint venture is going very well and the business should be paying cash dividends later in the year.

Jardine Strategic

Jardine Strategic reported its 2014 results during the quarter. Whilst underlying earnings were essentially flat for the year, the second half saw underlying profit accelerate to 5% YOY. All of the group's subsidiaries saw (modest) positive earnings growth for the year with the exception of Astra in Indonesia. The weaker result at Astra reflected the negative impact of currency depreciation as well as the impact of greater competition in the automotive division. Whilst the outlook for Astra is likely to remain challenging for the rest of this year, we expect better trading conditions in the other subsidiaries. Drivers include retail format expansion, improved office rental outlook and outbound Chinese tourism. The investment outlook for Jardine, which trades at a 35% discount to its underlying Net Asset Value (using public market prices for its listed subsidiaries) which is in line with its long-term average discount continues to look attractive.

Vitasoy announced during the quarter that it had acquired land for its Wuhan plant which is expected to commence operations in 2016. Vitasoy will spend approximately RMB530m (land and plant combined) which we estimate will be comfortably funded through internal cash generation and some modest amount of borrowings. Despite overall dairy demand being relatively subdued in China, results from its peers suggest that niche segments (including plant-based beverages) are gaining traction reflecting premiumisation, the development of new categories and greater health awareness, amongst other factors. In addition, lower raw material costs should also provide some benefit this year.

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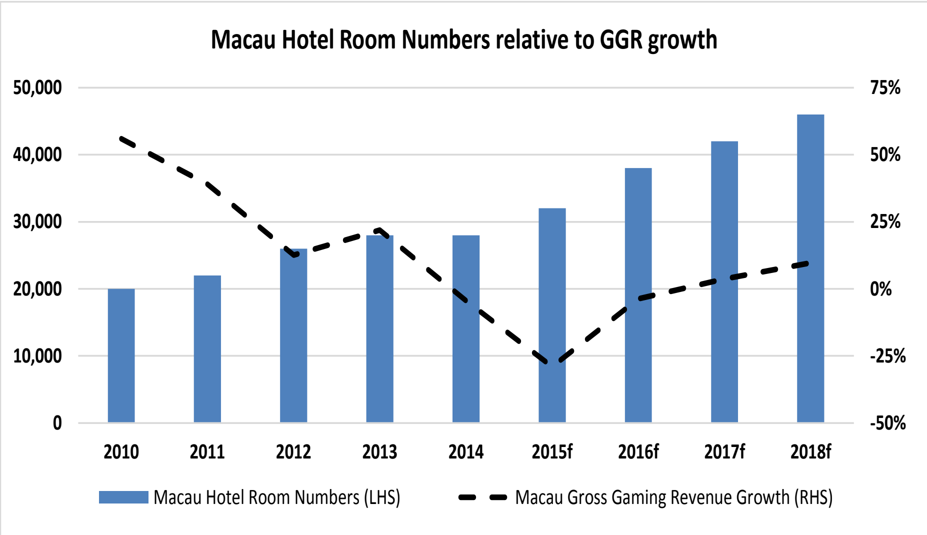
International news

Macau trip

We visited **Macau** at a very interesting inflection point for the region as reflected in March Gross Gaming Revenue (GGR) which was down 39% YOY. This decline is particularly important when considering the committed capacity expansion underway with an estimated 64% increase in rooms (+18,000 to 46,000) and a "targeted" 3,200 increase in table numbers by 2018. These capital allocation decisions were made at a time when forecasts were for GGR to be approaching US$70bn by 2020 versus current consensus predications for this figure to be closer to US$40bn.



Source: Cooper Investors Research

The key drivers of the large declines in GGR are the Chinese Government's corruption crackdown deterring VIP and Premium Mass players, combined with a slowdown in the underlying Chinese economy. While a prosperous Macau is important to Beijing, the Chinese Government is reforming its economy, with Macau being directly impacted both as the economy cools and as Chinese consumers rein in conspicuous spending.

In direct contrast to the contraction in industry revenue, casino operators have committed to large expansions (without the required approval in table allocations) that will now have to proceed. Rather than drive overall GGR, this expansion will likely increase the mass grind market without having a large an impact on the VIP segment. Our view is based on meetings which suggest that the corruption crackdown is a long term initiative and that the junket industry, which is the key source of VIP clientele, is diversifying its operations away from just Macau.

Further concerns include the likelihood that smoking bans will be introduced across all gaming floors, wage inflation as table numbers and rooms increase in a region with full employment and the threat of Beijing increasing its influence in both the monitoring of fund flows and in operational issues such as table allocations, licensing and revenue mix.

While we see a challenging time ahead for Macau casinos, regional peers (including in Australia) are seeing some benefit as VIPs travel further abroad to gamble, although flows to these areas will also come under increasing scrutiny from Beijing given it is targeting all Chinese fund flows, not just Macau. Australian operators such as Echo, Sky City Entertainment and Crown (excluding its Melco investment) are currently benefiting from the trend away from Macau. For example, in the 6 months to December 31st 2014, VIP turnover at Crown's Australian resorts was +61%, Sky City Adelaide International Business was +52%, Echo's Sydney International VIP was +87% and its Gold Coast and Brisbane International VIP was +76% relative to the previous corresponding period.

China comment

The Chinese annual NPC (National People's Congress) and CPPCC (Chinese People's Political Consultative Conference) meetings were held in March. These meetings outline the Government's objectives, work priorities and budget plan for the upcoming year. As was widely expected, the Government lowered its GDP growth target to 7% this year, with policy remaining finely balanced between reforms and restructuring, whilst preventing a drastic slow-down. A large section of the work report was dedicated to a detailed "opening up" plan for the country. Specific initiatives mentioned included:

- Sending a clear message that China wants to increase its international presence in trade and manufacturing. Whilst enduring a difficult period of reform and rebalance, China wants to encourage domestic players to invest and expand outside of the country.
- "One Belt, One Road" is China's USD40 billion outbound initiative to deepen trade and investment relationships with Europe and ASEAN regions. It starts from northern China and passes through over 60 nations in central Asia and Africa, covering population of 4.4 billion people. It is estimated that 70% of the nations on this "belt" are net importers of steel. This outbound trading program will allow China to shift some of its excess production to less developed countries in these regions, creating opportunities for Chinese manufacturers.
- To support infrastructure spending, China is in the process of forming the Asian Infrastructure Investment Bank and over 47 countries have expressed interest in becoming foundation members, including Australia.
- Along the "Yangtze economic belt" several port, railway, highway and airport projects will be granted this year. The "Yangtze economic belt" covers Eastern, Central and Western China and accounts for 40% of Chinese GDP. It will allow manufacturing capacity to move from Eastern China to the less developed central and western regions via the Yangtze River.
- Over the next 10 years the Chinese manufacturing sector is aiming to become more efficient via automation and intelligent manufacturing. China is now the biggest consumer of industrial robots, yet 80% of robots and Computer Numerical Control machines are imported. The Government is planning to invest and promote innovation in manufacturing, whilst gradually moving low quality and excess capacity out of China.

This new round of reform-led investment initiatives, together with monetary easing, appear to have had a positive impact on the performance of the A share market. Year to date the market is up 22% in local currency terms and 33% in AUD terms.

US trip

During the quarter we visited the US as part of our research program and make the following observations for stocks in our portfolio:

- **Boral / US housing**: The consensus appears to be that US housing will see a slow and steady housing recovery, with 1.5 million housing starts still viewed as the correct through-the-cycle number. The US bricks industry structure is improving slowly with a lot of capacity mothballed or shutdown, but it needs more demand to drive higher capacity utilisation, pricing and therefore returns. The decline in brick intensity may have troughed. The trend to smaller houses is moderating and house sizes are starting to increase, as well as slowing multi-family home activity and improving single-family activity. Interestingly, there are new entrants in the US bricks market with Triangle (a German company) building a new plant in Texas, and private equity activity with Bain Capital acquiring CRH's UK and US brickmaking units. These operating trends suggest ongoing improvement in Boral's US business.

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- **CSL** conducted a site tour in the US at a plasma testing laboratory in Knoxville, Tennessee, their Kankakee facility in Chicago, as well as a nearby plasma collection centre. The tour highlighted the continued focus on automation and efficiency, behaviour which appears to be deeply ingrained in the cultural DNA of the company. Immunoglobulin (IG) industry growth appears to be stable at 6%-8% per annum and nominal pricing increases will be put through during the year. CSL is also expanding capacity across its operations to meet expected future demand for its products. While there have been some concerns in recent years over industry capacity expansion, our impression was that CSL is confident about both their strategic planning and industry growth drivers. CSL is continuing to increase its plasma collection centre footprint to help feed its expanding capacity – as the CEO often remarks "you need the juice!" In terms of the R&D pipeline, management seemed quite upbeat on the outlook for its recombinant products as well as the ongoing growth of its specialty product franchise. Overall, we came away thinking that the CSL story remains very positive.
- We visited the **Transurban** operations in Virginia, which comprise the 495 Express Lanes toll road and the 95 Express Lanes toll road which opened in December. The operating momentum in Transurban's US assets appears to be improving and there are opportunities to enhance and expand the network. The dynamic tolling used on Transurban's US toll roads is fundamentally different to traditional toll roads, whereby the busier the road the higher the toll price. Under dynamic tolling the customer proposition is centred around time saving (i.e. avoiding congestion) and reliability. Management noted that they receive positive customer feedback when tolls are high because of the significant value customers derive from reliable and quick transit times. We wonder about the potential for this model to be exported to Australia in future years to help manage our congested road infrastructure. The US business should continue to move its EBITDA margin towards the Group average and we would expect improved free cash flow generation as the roads mature.
- **Macquarie's** US business is well positioned to capitalise on the challenges facing many of the US investment banks. The opportunity set in the US is massive with a lot of change being driven by regulation, which has pushed out incumbents in many businesses. Macquarie is focused on the middle markets where it can differentiate itself and be a real alternative as a service provider, and looks to act in an origination/facilitation role rather than necessarily putting its balance sheet at risk. The infrastructure opportunity set is growing significantly for both the advisory/origination and funds management businesses. Given the volatility in commodity and currency markets, the Fixed Income, Currency and Commodities business is also seeing higher levels of client activity. Capital allocation continues to receive increasing scrutiny and drives strong disciplines in terms of meeting return hurdles. This is complemented by the strong risk management culture (i.e. businesses are very focused on their pool of risk capital). The US business represents around 30% of group income and we expect it to continue being a strong contributor going forward.