CI BRUNSWICK FUND
QUARTERLY COMMENTARY REPORT

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

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

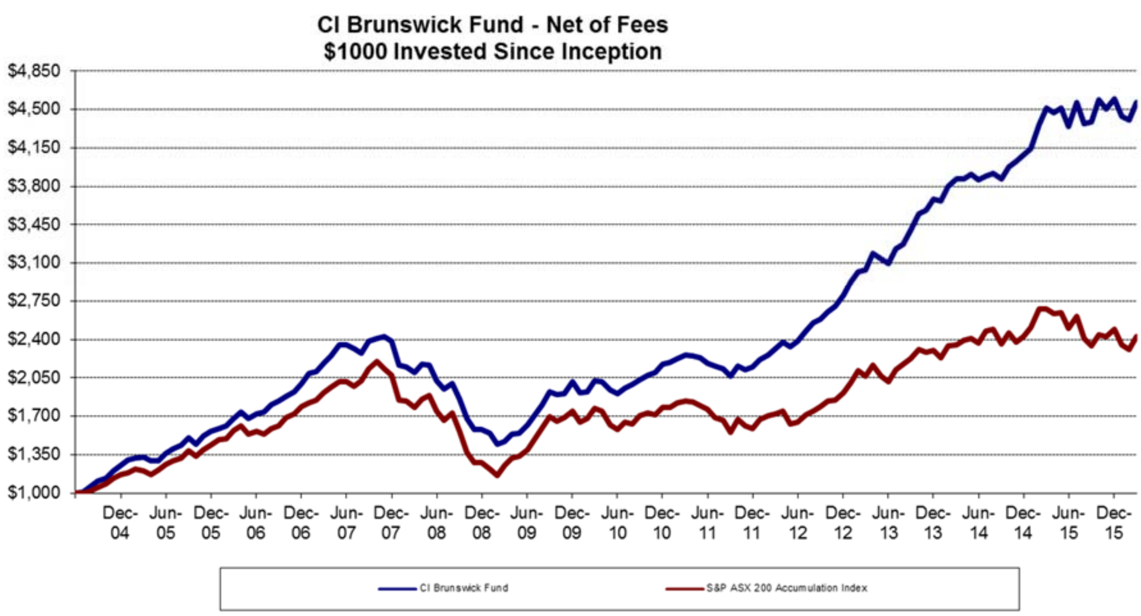
MARCH 2016

"Nothing happens until something moves." Albert Einstein

"Culture eats strategy for breakfast." Peter Drucker

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	-0.22%	-2.75%	2.53%
ROLLING 1 YEAR	3.49%	-9.59%	13.08%
ROLLING 3 YEAR	16.87%	5.39%	11.48%
ROLLING 5 YEAR	17.37%	5.70%	11.67%
ROLLING 7 YEAR	19.68%	9.88%	9.80%
ROLLING 10 YEAR	12.92%	4.43%	8.49%
SINCE INCEPTION*	17.23%	7.82%	9.41%
SINCE INCEPTION^	547.60%	142.15%	405.45%

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



MARCH 2016

Market and Portfolio Performance

The ASX200 Accumulation Index fell 5.5% in January, and then again fell 1.7% in February, only to recover 4.7% in March to leave the market down 2.7% for the quarter.

Commodities have had major bounces from their recent lows with the oil price up 46% and iron ore up 40% from their February lows. The appreciation of the AUD/USD over the quarter to a high of 76.5c has tapered enthusiasm by local producers and inbound tourism operators.

Portfolio stocks that contributed positively to the portfolio included **Auckland Airport (AIA)** (strong inbound tourism), **Sims Metal (SGM)** (steel price uplift and general perception China is dealing with overcapacity in its steel industry), **TPG Telecom (TPM)** (strong result principally driven by higher than expected iiNet synergies and growth in corporate business). Stocks that performed poorly over the quarter included **Aurizon (AZJ)** (bulk commodity exposure and write downs from poor capital allocation decisions in the bull market) our financial stocks **Equity Trustees (EQY)** (earnings downgrades on the back of falling equity markets), bank exposures **Bendigo & Adelaide Bank (BEN)** -25% and **National Australia Bank (NAB)** -10% (continuing regulatory headwinds and recognition that we are at the bottom of the bad debt cycle which will hamper earnings and dividend growth from here) and the travel insurer **Cover-More (CVO)** -29% (suffered a PE derating as a result of an earnings downgrade resulting from a problematical reinsurance contract).

The Portfolio

The portfolio remains positioned around five pillars or stock clusters:

- **Stalwarts** (22% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions. (Brambles, Wesfarmers)
- **Bond like equities** (9%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time. (ALE Property Group, Auckland Airport)
- **Niche growth companies** (31%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management. (Vitasoy, Summerset and Ryman)
- **Asset plays** (12%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value. (OHL Mexico, Jardine Strategic, Soul Pattison, Remgro)
- **Turnarounds** (13%) – sound businesses with good management in place and good balance sheets essential. We especially like spin offs and government to private turnarounds. (Clydesdale, Sims Metal)

Currently the portfolio holds around 7% cash. The portfolio has around 10% of assets invested in overseas markets with positions spread across USA, UK, Singapore, Mexico and Hong Kong listed companies.

Portfolio attributes as at March 2016 are summarized below:

P/E	17.0
Beta	0.78
Yield	3.58
P/Book	1.7
ROE	10.9
Tracking error vs. ASX 200	4.85
Stock Number	38

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OHL Mexico (OHLMEX) the Mexican infrastructure owner and operator, had a tough start to 2016 with the share price hitting MXP15.50 in early January, its lowest share price since 2012. OHLMEX is a position we initiated in July 2015 following extensive due diligence into the allegations levelled against the company around misconduct and poor governance.

Given the positive findings from the National Banking and Securities Commission (CNBV) following a long and extensive investigation and good operating trends the market will start to move its focus to the value of the underlying assets. We see significant upside from the current share price and over the March quarter we added to the position.

We increased our position in **Murray Goulburn (MGC).** During the March quarter MGC not only delivered their first profit result since listing but also made some significant progress along the strategic path set out in the Product Disclosure Statement of the IPO. The result itself was reflective of both the weak dairy commodity markets and Murray Goulburn's push to move away from these commodity markets towards more stable packaged dairy foods production, with 27% growth in dairy foods revenue for the half. As part of the interim profit release, Murray Goulburn also reduced their anticipated profit for the financial year in line with the lower than anticipated dairy commodity prices.

Dairy commodity prices remain under pressure from both weak demand, with Russian import restrictions and slower Chinese demand growth, and supply being slow to adjust to the lower dairy price environment. Although the supply adjustment in dairy markets is occurring in some regions, most notably New Zealand, it has been slowed by the removal of the quota system in Europe. This has led to a surge in production growth out of the Netherlands and Ireland, as farmers in these regions move to take share from the less productive regions of Europe. However, farm gate milk prices in Europe are now trending down and industry reports are citing that 10% of Danish dairy farmers are close to bankruptcy while 20% of British farmers are suffering significant losses. The effect of the weak milk price environment will see farmers reduce investment and a gradual curtailment in production will occur. Despite, or perhaps because of, the weak dairy price environment, Murray Goulburn has been pushing ahead with their strategic plan. During the quarter Murray Goulburn announced that they had secured the Coles cheese supply contract and nutritional supply agreements with both Kalbe Nutritionals, an Indonesian consumer health and infant nutrition company, and Mead Johnston, a global infant nutrition company. The cheese contract is worth $130m p.a. in revenue and will help underpin the expanded pack and wrap production capability of the Cobram cheese operation. The nutritional agreements will underpin the planned $260-300m investment in a new nutritionals manufacturing facility at Koroit. This investment will also support Murray Goulburn's own branded product push into the nutritional segment under the Devondale brand with "Natra Start". This product was launched with domestic retailers in March, and is expected to form a base with which to grow the product into the international markets.

Although much of the investment described above was anticipated in the PDS, the move by Murray Goulburn to sell nutritional products under their own brand is new. This has the ability to add significant earnings to the group and also highlights the potential for value latency that we see in Murray Goulburn. However, execution will be critical in what is becoming an increasingly competitive market.

We initiated a position in **Clydesdale Bank (CYB)** during the quarter. In February, NAB divested its U.K. banking business, Clydesdale Bank, which is now listed on both the London Stock Exchange and the Australian Stock Exchange. Clydesdale Bank is a turnaround story based on the revitalisation of an established franchise after a number of years of restructuring and stabilisation. A de-risked balance sheet, a strong regulatory capital position, and scalable IT systems make for a good starting point. A new management team led by CEO David Duffy, who worked to turn around Allied Irish Banks, complements this. There is significant cost-out potential as the bank's cost-to-income ratio of 75% is far higher than peers at around 55%. Management are targeting a cost-to-income ratio of less than 60% by 2020. Material value can also be realised if the regulator approves the transition from standardised to advanced accreditation for mortgage risk weightings, which could release significant amounts of capital. The stock trades on a modest 0.55X NTA.

Other than selective opportunities we maintain our cautious position on the bank sector given historically low bad debts, record high consumer debt and a regulatory back drop that has made life tough for the bank sector. Both APRA and the Basel Committee have made it clear that we are not yet at the end of the regulatory and capital imposts on banks. Although capital may not be as big a requirement/issue as we have seen in the last two years, when combined with rising levels of bad debt and likely lower growth in residential lending, it will be difficult for banks to grow earnings and dividends from here.

Over the quarter we increased our position in **Apiam Animal Health (AHX)**. The company was founded in 1998 by Dr Chris Richards (current MD) as a single veterinary practice. It has since grown under the leadership of Dr Richards and is now an integrated veterinary service business with 12 rural production and mixed animal veterinary businesses across 25 locations throughout Australia. We estimate it provides vet services to ~35% of the pig, 50% of the beef cattle feedlot and 25% of the dairy cattle industries in Australia. Since listing in December 2015 the company has been working through the integration of 6 practices it acquired with part of the IPO proceeds. While such a large scale integration carries risks and will invariably face bumps along the way, we are comfortable with the long term strategic direction Dr Richards and his team are taking in building out a national vet care and supply network that has scale to deliver advantages to stakeholders such as:

- A network of leading vets that share group wide training and “best practise” initiatives. This is important in the veterinary industry where staff are motivated by providing best care and professional development.
- The ability for AHX to leverage off its supply chain to cross sell products into their newly acquired vet clinics which are currently purchasing independently at potentially inferior rates and lower service levels.
- Remove administrative requirements for vets which should free up their time to focus on animal care.
- Larger scale should deliver better purchasing terms with suppliers.
- A network of vets built around centralised warehousing (currently 4 warehouses) should deliver efficiencies in product delivery.

While initiatives such as these will take time and will be challenging we are increasingly confident in AHX’s ability to deliver over the long term. We are particularly impressed with their focus on staff and their vet network combined with their long term strategic thinking as opposed to purely short term earnings growth.

Along with most resource stocks the portfolio’s investments into commodity sensitive stocks has been unrewarding and regrettable, albeit we have seen some recovery this quarter. One of our poorer investments over the last few years, **Lion Selection (LSX)** provided a market update on the dispute involving one of the assets in One Asia which represents 25% of LSX’s net tangible assets. LSX has a 36% interest in One Asia, which in turn has an interest in the Pani gold project tenement in Indonesia through contractual agreements with the regional co-operative, KUD Dharma Tani (KUD). In December 2013, it was reported that KUD signed a co-operation agreement with another party, a subsidiary of a publicly listed Indonesian company J Resources, which conflicts with the contractual agreement that KUD has with One Asia. There are two competing management teams at KUD, with one management team supporting and honouring the existing arrangements with One Asia. One Asia’s recent update stated that the management team in support of One Asia sued the other management team in court. The decision of the court was mostly supportive of the plaintiff, deeming that the defendants committed unlawful acts. The decision is subject to appeal but it is one step closer to advancing the Pani project.

Pani has the potential to develop into a low strip, open pit gold mine that has compelling economics at the current gold price. The Pani project had financial arrangements in place to fund the development of the project. Although risks around ownership, development and gold price among other factors remain, the Pani project has the potential to be worth a lot more than current reported asset value, which provides significant upside to the current LSX share price.

The US sleep medicine industry, a key market for **Resmed (RMD)**, continues to come under funding pressure. As of January 1 this year the remaining regional areas, collectively known as Competitive Bidding Round 3, saw a 22% reduction in Medicare reimbursement rates, with a further 22% reduction occurring from 1 July, to bring the rates into line with other regions. Additionally, the Centre for Medicare and Medicaid Services recently released the outcomes for the rebid of CB2 (Competitive Bidding Round 2) which will result in a further reduction in reimbursement rates for sleep therapy in the order of 14% as of 1 July 2016.

During our travels through the USA in March we took the opportunity to meet with a number of Durable Medical Equipment (DME) suppliers, the customers of RMD in the home therapy market. This highlighted not only the extent to which this industry's profitability is coming under pressure from the Medicare reimbursement cuts but also that private health insurance companies are, in general, following the downward trend in reimbursement rates. In addition, the threat of the bundling of sleep products into a single reimbursement rate per patient for the provision of sleep therapy remains on the horizon, which would likely further reduce the margins available to the industry. At this stage no details on the timing or processes for bundling have been released.

RMD management have done a good job of managing through the difficult funding environment, but pressures remain and it is difficult for us to get comfortable with the longer term profitability of the sleep therapy manufacturers given the challenges being faced by their key distribution channel.

RMD has also recently made a significant move into the software services market with the acquisition of Brightree for US$800m. Brightree provides cloud based software to assist in the business management of the post-acute healthcare industry. Brightree's primary market is the same DME suppliers to which RMD sell. The software provides a range of services including inventory, billing, patient, and reimbursement management. Although considered a high quality platform and the best product in the market by the DME providers we have spoken to, it is also the most expensive. We are concerned by the high price RMD paid for Brightree, the fact that it is outside RMD's core capability, as well as the significant risks that sit within the primary customer base of Brightree. The challenged profitability of the industry mentioned above has led to, and is expected to continue to see, consolidation in the DME supplier industry, with the larger more efficient suppliers getting bigger and the small and mid-sized operators being consolidated or leaving the industry. It is this latter shrinking segment that are the key customers of Brightree.

Jardine Strategic (J37.SI) announced its 2015 annual results during the quarter. The group's businesses are predominately exposed to Greater China and Southeast Asia (most notably Indonesia). 2015 was a difficult year for Jardine, reflecting weakening demand and continued cost and competitive pressures, compounded by the depreciation of its operating business currencies against the group's reporting currency, being the US dollar. The biggest contributor to earnings is HK Land which has property interests in Greater China and Singapore. Notwithstanding the inherent "lumpiness" of development earnings (underlying profits fell by 3%), HK Land has A grade assets in its "home" markets and continues to selectively increase its presence in China, as well as other Asian cities, albeit to a lesser extent. Given limited supply, and urbanisation and demographic trends, property should have good long-term prospects in Asia. On the other hand, Astra (the second biggest contributor) which is a "proxy" for Indonesia suffered a 25% decline in local currency profits (which included a 5% impact from a coal mining impairment charge) for the year. There are early signs that the automotive and finance businesses of Astra have passed the trough of the down-cycle, reflecting "easier" conditions due to lower interest rates in Indonesia, as well as a stabilisation of market share in the car segment with new model launches. That said, a significant improvement in Astra and Dairy Farm (in the midst of an operational turnaround) would be required before Jardine's profits improve dramatically. With a strong balance sheet, Jardine may continue to undertake M&A in this environment. We feel there is a lot of value latency in the share price, which trades at a c40% NAV discount, despite continuing difficult operating conditions.

Vitasoy (345.HK) is performing better than other FMCG companies in China. Its peers are suffering from competition, price deflation and changing customer preferences. Vitasoy reported a 33% increase in its Chinese sales for the six months to September 2015, which stands in sharp contrast to other beverage and dairy companies, some of whom have reported low double digit declining sales. Vitasoy has benefited from increased production capacity in China, new product launches ("tailoring" existing Hong Kong ones) and improved operating efficiencies, which resulted in profits increasing even faster. Its products appear more suited to "healthy" trends in China and are benefitting from an "upgrade" cycle (from the bagged to packaged format). Given the tremendous growth opportunity remaining in China, the company's recent announcement of the disposal of a large portion of its North American business appears a sensible one.

Wesfarmers (WES) announced the acquisition of Homebase in the UK for $700m. The company's intention is to take the Bunnings concept to the UK. Wesfarmers looks likely to spend in the order of $2B to refurbish and restock the acquired store network. Unlike the Woolworths strategy with Masters (rolling out a large number of stores early on), Wesfarmers are going to trial a small number of stores to get the concept right before rolling out the entire network.

We took the time to visit some hardware stores while in the UK. This included a couple of Homebase outlets, Wickes (owned by Travis Perkins), Travis Perkins themselves, B&Q (the leading DIY retailer, owned by Kingfisher), and more trade orientated franchises Screwfix and Toolstation.

Wesfarmers' intention is to roll out a Bunnings branded format across the Homebase store footprint. There is currently a reasonable level of competition in DIY retailing in the UK. However, what was instructive from the store tour was that there appears to be a window of opportunity that sits between the more trade orientated Wickes format, with its significant private label offering, and the retail focussed, but confused, offering from B&Q. Perhaps the most intense competition will come from the likes of Screwfix and Toolstation. Although these are trade orientated operations, their successful integration of extensive range, online ordering, delivery or in-store pickup, and efficient supply chains make them extremely attractive to the trade customer who is looking for a quick and easy way to source goods. Attracting the trade customer is important for a DIY/hardware operation, as trade significantly improves the asset utilisation throughout the week, improving asset turnover and ensuring adequate returns.

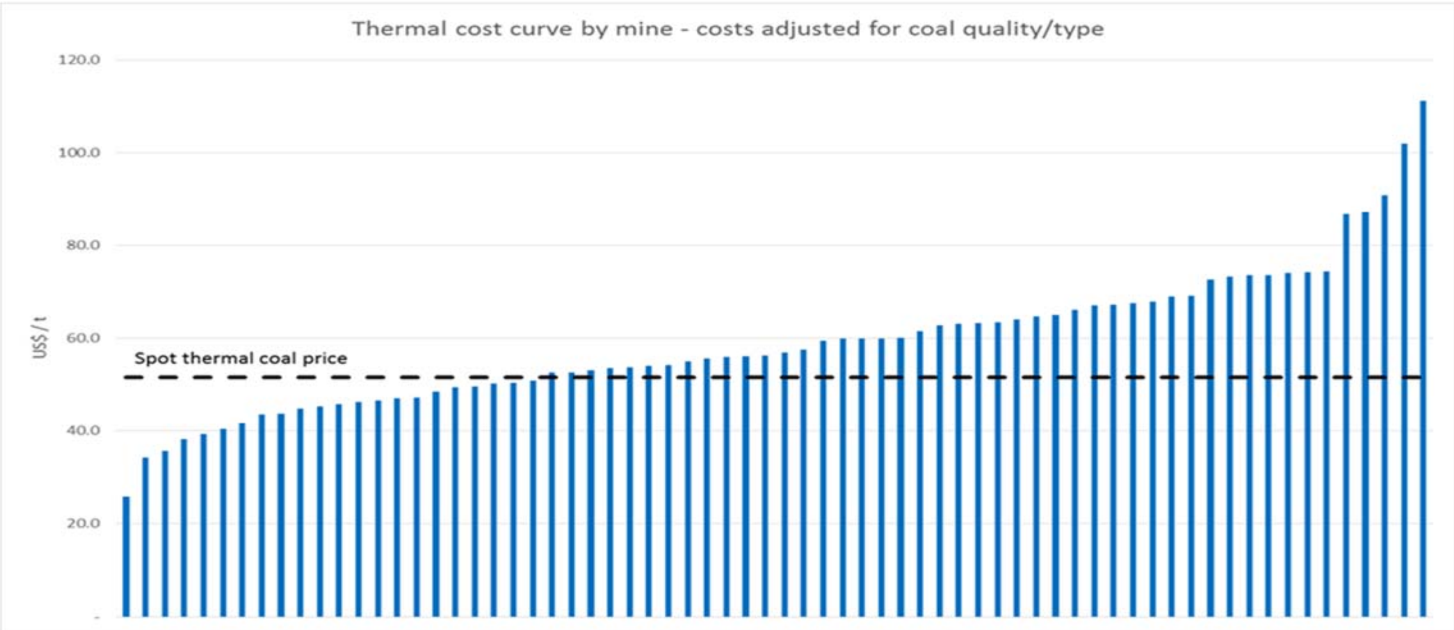
Excellent execution will be critical for Bunnings to be successful in the UK. It is going to be a challenging task to both prepare a successful Bunnings format for the UK market while at the same time disentangling Homebase's business infrastructure from the current owners, all in the first 12 months of ownership. Bunnings have put some of their best people on the task and we will be watching with interest as they move forward.

Market Observations

During the quarter we visited a range of mining and mining related companies in both Western Australia and Queensland. While conditions are undoubtedly tough for most players in the space, the mood in Queensland was somewhat bleaker than what we observed in WA. While much of this related to some relief from the recent improvement in the pricing of commodities such as iron ore and gold, there was also a sense that mining operations in WA were benefiting from the focus over the last few years on lowering costs of production.

While costs of production will remain a key focus for the miners, for the operators servicing WA mines there is an increasing trend toward their ability to improve mining productivity and quality of work, as opposed to the last few years where pricing was the primary criteria. In this context, reputable, well capitalised services companies should begin to see a steadying in work flow and over time growth in earnings. However, in Queensland with the weighting toward coal, conditions still remain tough. Although Queensland operators have pushed hard on mining contractors, it appears that the stronghold of the union is making it difficult to reduce the stickiness of high internal labour rates that have accrued since the mid-2000s. From a volume perspective, it seems that the Australian market will continue to produce at similar levels to current output but there is likely to be a shift in the mix of output. Higher cost producers are likely to exit with their volumes being replaced by the larger lower cost operators.

Our analysis has shown there are numerous mines that are not profitable and at risk of closure. (See charts below). Because of rail and port take or pay contract liabilities, those mines that may potentially close are likely to be smaller independent operators that will fall into receivership as opposed to mines operated by large groups such as BHP that will be required to honour their contractual rail and port agreements.



Source: AME

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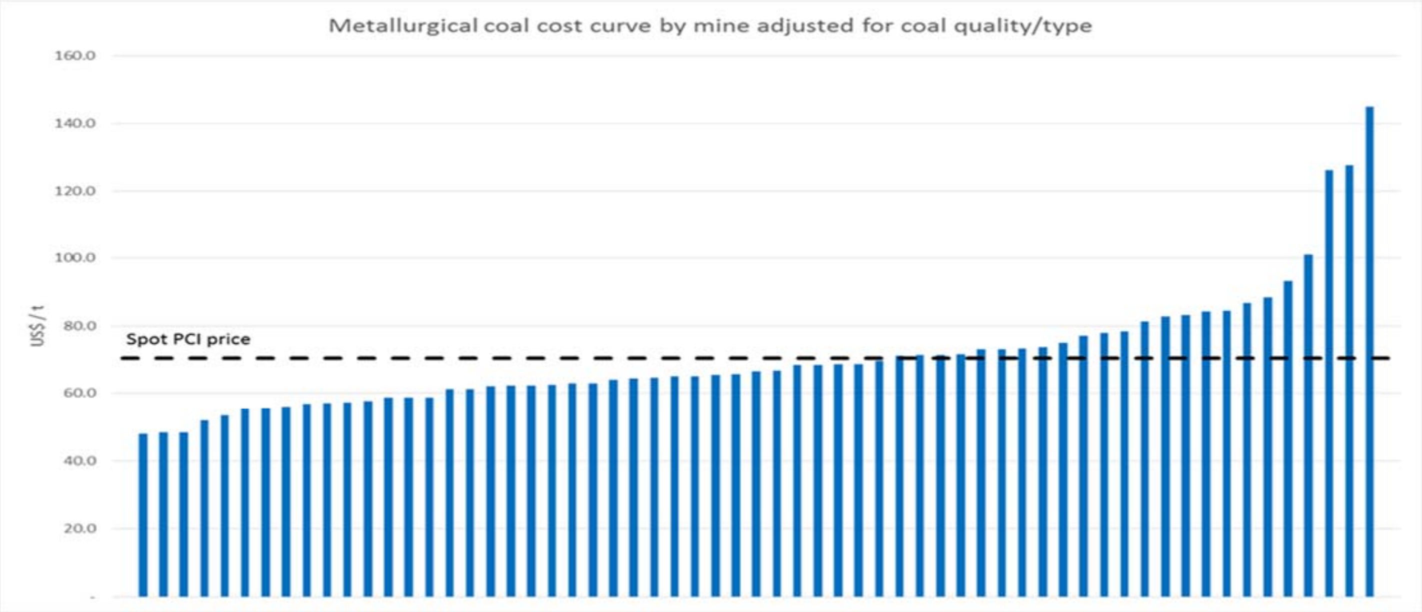

Source: AME

Despite the tough backdrop, crises can create opportunity. In this regard there are likely to be a number of asset divestments by coal miners such as RIO, Peabody and Anglo. Nimble, astute players could benefit from any such sales.