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 2017

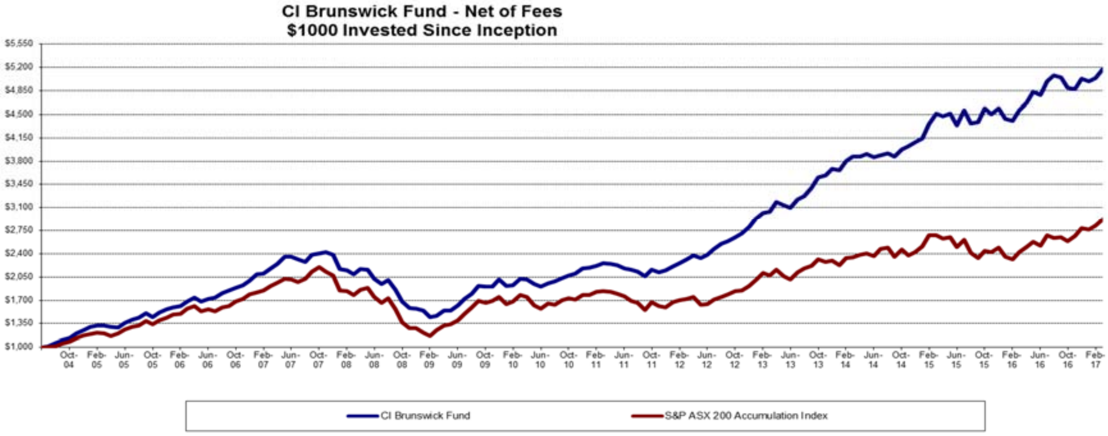
“The word “genius” isn’t applicable in football. A genius is a guy like Norman Einstein” Joe Theisman, NFL football quarterback and sports analyst

“A disordered currency is one of the greatest political evils. It undermines the virtues necessary for the support of the social system, and encourages propensities destructive to its happiness. It wars against industry, frugality, and economy, and it fosters the evil spirits of extravagance and speculation. Of all the contrivances for cheating the laboring classes of mankind, none has been more effectual than that which deludes them with paper money. This is the most effectual of inventions to fertilize the rich man’s field by the sweat of the poor man’s brow. Ordinary tyranny, oppression, excessive taxation, these bear lightly on the happiness of the mass of the community, compared with fraudulent currencies and the robberies committed by depreciated paper...." Noah Webster 1758-1843

“I do the same thing over and over, improving bit by bit. There is always a yearning to achieve more. I'll continue to climb, trying to reach the top, but no one knows where the top is.” Jiro Ono, Sushi Chef

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	3.09%	4.82%	-1.73%
ROLLING 1 YEAR	14.66%	20.49%	-5.83%
ROLLING 3 YEAR	11.96%	7.53%	4.43%
ROLLING 5 YEAR	19.36%	11.10%	8.26%
ROLLING 7 YEAR	16.35%	7.36%	8.99%
ROLLING 10 YEAR	10.82%	4.32%	6.50%
SINCE INCEPTION*	17.03%	8.76%	8.27%
SINCE INCEPTION^	642.54%	191.77%	450.77%

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



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MARCH 2017

Market and Portfolio Performance

The ASX200 Accumulation Index delivered a strong performance during the quarter (+4.8%), following an improved outlook for the global economy.

The portfolio's performance in an absolute sense was respectable (+3.1%), but was behind the index.

Key contributions to portfolio performance during the quarter include **CSL (CSL)** (good H1 17 result driven by better than expected sales growth), **Bega (BGA)** (acquisition of Vegemite and related brands from Mondelez and the sale of some of its infant formula assets to Mead Johnson) and **Washington H Soul Pattinson (SOL)** (no specific news).

Portfolio stocks that performed poorly include **Eureka Group (EGH)** (slower than expected acquisition of new villages and some operational weakness in SA), **Servcorp (SRV)** (weaker than expected occupancy in its US business, mostly in the World Trade Centre), and **Aconex (ACX**) (weaker sales guidance in the UK and Europe following recent acquisitions).

During the quarter **Eureka Group (EGH)** reported a disappointing 1H 17 result. EGH is an owner/operator of low cost rental villages for pensioners. EGH's strategy is to acquire villages at low cost with the aim of delivering ungeared pre-tax returns of 12-15%.

As sometimes happens at smaller companies EGH has been overly reliant on a number of Executive Directors. This proved difficult when managing both current operations and a series of acquisitions.

Similar to the Hotels industry, EGH's villages live and die on occupancy and cost management. Unfortunately, EGH experienced challenges during the first half of the financial year on both metrics. In addition, a number of recent acquisitions performed poorly relative to expectations and a number of non-core investments were a significant distraction to Directors.

A more recent addition to the portfolio, managed office provider **Servcorp (SRV),** delivered a weaker than expected H1 17 result mostly due to its US operations.

SRV, a pioneer in the sector and in operation for nearly 40 years, has delivered steady ongoing growth in serviced offices (around 8% p.a.):

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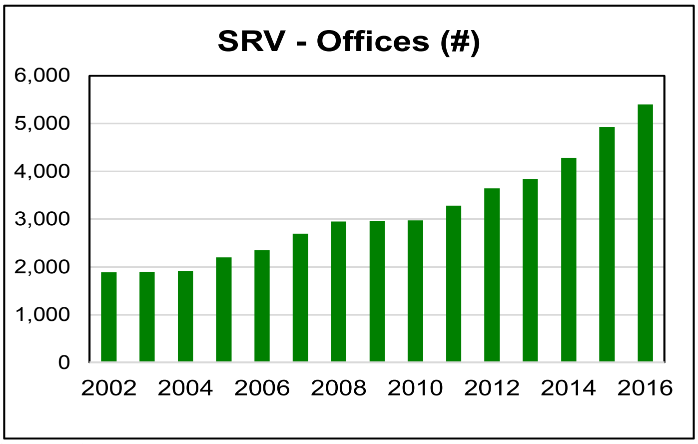
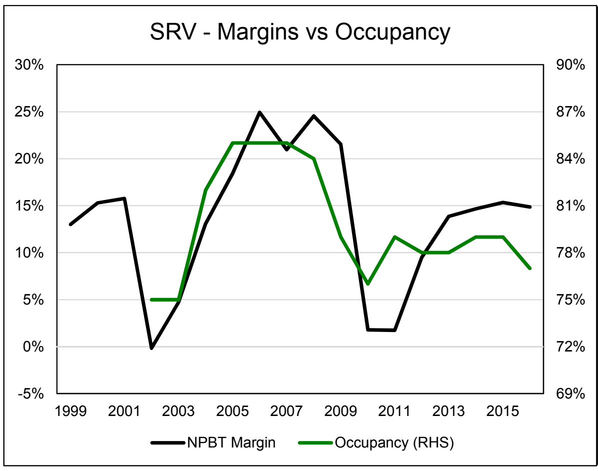
MARCH 2017

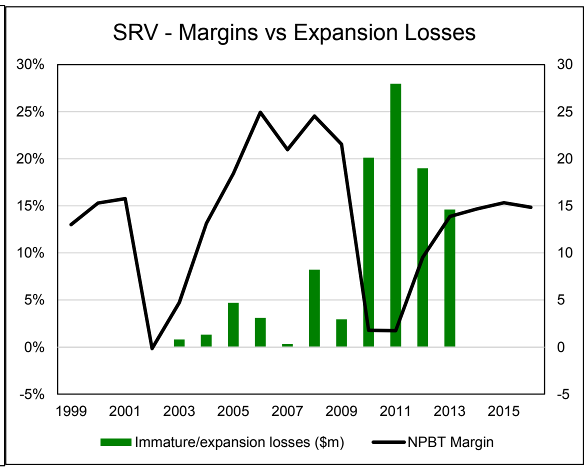


Source: Company Reports

SRV moved into the US market following the GFC when it saw a significant opportunity to expand at attractive long-term lease rates, albeit at a difficult time and not without cost (the upfront investment required in new sites in the US significantly depressed profitability during this period).

A key driver of SRV's profitability is utilisation. SRV signs long-term fixed leases and rents out space over a much shorter time frame. Utilisation rates remain relatively low following ongoing expansion since the GFC.





Source: Company Reports

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In particular the company has leased a large amount of space at the World Trade Centre in New York which has proven to be a more difficult site to fill. In addition, new competitors such as WeWork have targeted startup companies with arguably a more contemporary offering.

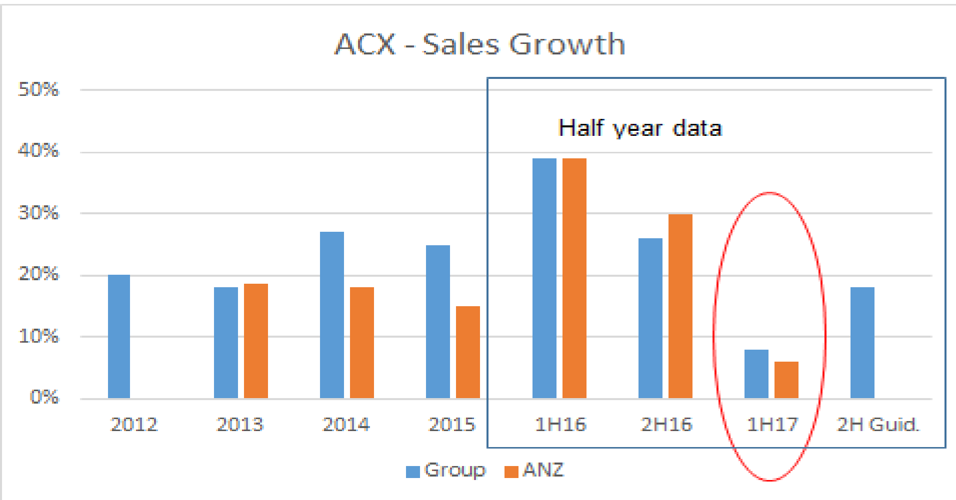
Overtime SRV has managed its occupancy risk by adding only incrementally to the portfolio and ensuring significant cash is carried on the balance sheet. Underlying this more conservative approach to management is the Moufarrige family (significant shareholders), led by Alf Moufarrige as CEO and son Marcus as COO. Marcus has recently relocated himself and his family to the US to take direct oversight of the US business.

SRV compares very favourably versus its closest peer Regus plc (recently renamed to IWG plc) on all metrics of profitability and returns, yet SRV trades at a significant valuation discount to IWG.

SRV sits in our proprietorship culture cluster. When times are tough, we prefer to be invested alongside these proprietor managers. We believe SRV are well placed to address the fall in occupancy levels and drive further growth in the US.

Late last year we initiated a small position in **Aconex (ACX)** following a large fall in the stock's share price. Unfortunately we were a little early with the stock falling significantly again in late January following a disappointing update to its FY17 guidance. ACX is one of the most shorted stocks on the ASX with concerns around its ability to generate cash flow and its long-term margin potential.

At face value H1 17 sales were disappointing given the run-rate of growth appears to have slowed:



Source: Company Reports

However, our view is this is more likely to be a temporary issue.

ACX fits into our platforms /digitisation cluster. Over 15 years the company has built deep knowledge of the construction industry, helping to assist the sector to digitise its processes (some claim this to be the biggest opportunity globally for digitisation). ACX has a leading offering in a key part of that process – the management and control of documents (some large construction projects require tens of millions of documents). Originally, ACX signed multi year contracts for specific projects only. Increasingly it is signing up large clients to enterprise wide license agreements. We expect ACX will continue to grow revenues globally and will eventually layer in other product modules to its platform.

MARCH 2017

Like other software platforms, there is significant advantage in being the first mover. ACX's cumulative spend on R&D puts them well ahead of the field. Despite this, ACX's closest peer Procore, trades on a private market value (based on its last capital raising in Dec 16) of nearly twice ACX's market cap although having less than half its sales!

In the short-term there is likely to be further volatility in the stock price; a function of the growing pains many companies face. Long-term we think there is good opportunity for ACX to create value for customers via its platform and participate in the digitisation of a large global market.

Finally, as outlined in the December quarterly, the other key detractor from performance relative to the benchmark is the portfolios's underweight position in the Big 4 Banks and in BHP/RIO.

At the time of writing, there continues to be growing concern by Regulators domestically that household debt levels are an increasing risk to the broader economy longer-term. Although Australia's big 4 Banks are highly profitable, we would expect to see more benign levels of credit growth over the next five years given Australia's household indebtedness is now world leading (household debt per capita or relative to GDP).

This high level of indebtedness mean households are exposed to rising rates, and with likely increases in other household bills like electricity, gas and NBN could see household budgets stretched, exposing Banks to rising bad debts.

On the positive side, the portfolio added **Bega (BGA)** to the portfolio (the portfolio had previously owned BGA; we repurchased at a similar level to our exit price).

In January, BGA undertook a significant pivot buying the Vegemite brand and related businesses including Peanut Butter, from Mondalez, the global business spun-off from Kraft Heinz. In an unrelated (but supporting) transaction, BGA sold its infant formula canning line and some related drying capacity to Mead Johnson, which helped fund the purchase of Vegemite.

While Trump and Brexit have been high profile reactions to globalisation, in our view there is also an observable trend relating to the "re-localisation" of brands, following years of globalisation – sometimes referred to as the 'local food movement'.

BGA sits within our proprietorship culture cluster, with Executive Chairman Barry Irvin a leading figure in the Dairy industry having deep nuanced knowledge, humility, and a counter-cyclical investing mindset.

We see significant opportunities for BGA's new suite of products. At the very least, BGA now owns two of Australia's most iconic brands. Vegemite products are expected to deliver high margins and strong reliable cash flows, and there is a large opportunity for BGA to develop the peanut butter business and other related spreads. As part of the acquisition BGA has also acquired a large marketing team that should help drive the company on its next leg of growth.

The Portfolio – Strategy, Structure and Process

Portfolio Strategy

- The portfolio targets long-term capital growth and tends to outperform in down-markets.
- The portfolio should be attractive to investors with an endowment or family office mindset.
- An unconstrained application of Cooper Investor's VOF process. No institutional constraints and completely benchmark unaware.
- Because the portfolio is significantly different to the Benchmark, performance can differ materially relative to the benchmark.

Portfolio Structure

- A concentrated, long-only, long-term equity portfolio (20-40 stocks)
- A portfolio of companies with value latencies, across 6 subsets of value, focused around a number of key "clusters" (as set out below).
- Long-term holds in "proprietorship managers" with enduring and unique cultures that display the following characteristics:
  - Humility, focused;
  - Aligned interest;
  - Deep, nuanced knowledge of business/industry;
  - Counter-cyclical and value-based capital allocation.

The portfolio remains positioned around six subsets of value:

- **Stalwarts** (14% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions. (ASX, Freightways)
- **Bond like equities** (7%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time. (ALE Property Group)
- **Growth companies** (40%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management. (Lifestyle Communities, iSelect)
- **Asset plays** (11%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value. (Soul Pattison, Remgro)
- **Low Risk Turnarounds** (14%) – 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)
- **Cyclicals** (8%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who can allocate capital prudently. (Boral, Iluka)

Currently the portfolio holds around 6% cash. The portfolio has around 13% of assets invested in overseas stocks that own businesses in Switzerland, South Africa, USA, Canada, UK and Mexico.

Portfolio attributes as at March 2017 are summarized below:

P/E	17.78
Beta	0.81
Yield	3.01
P/Book	2.08
ROE	11.73
Tracking error vs. ASX 200	5.42
Stock Number	39

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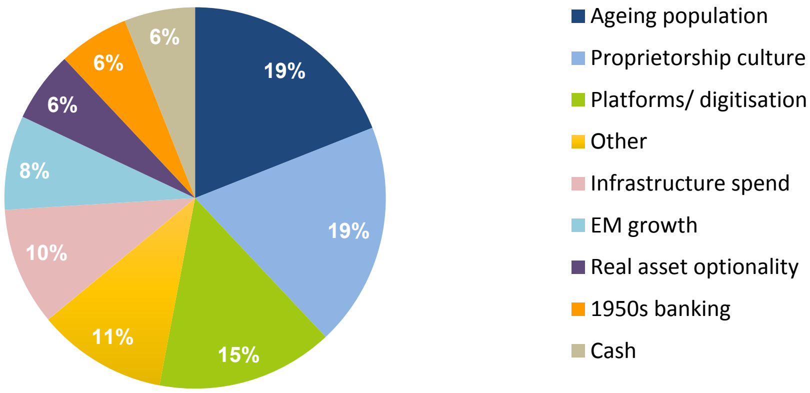
MARCH 2017

Below is a summary of the portfolio split by "Cluster" grouping:



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 or management styles. These clusters 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".

With recent additions, the portfolio is now more than 50% weighted to three core clusters. These companies have heavy exposure to the ageing population (eg Ryman, Lifestyle Villages, Regis), proprietorship cultures (eg Soul Pattinson, Reece, Bega), and platforms/ digitisation (Iress, Constellation Software, iSelect, Aconex, Steadfast).

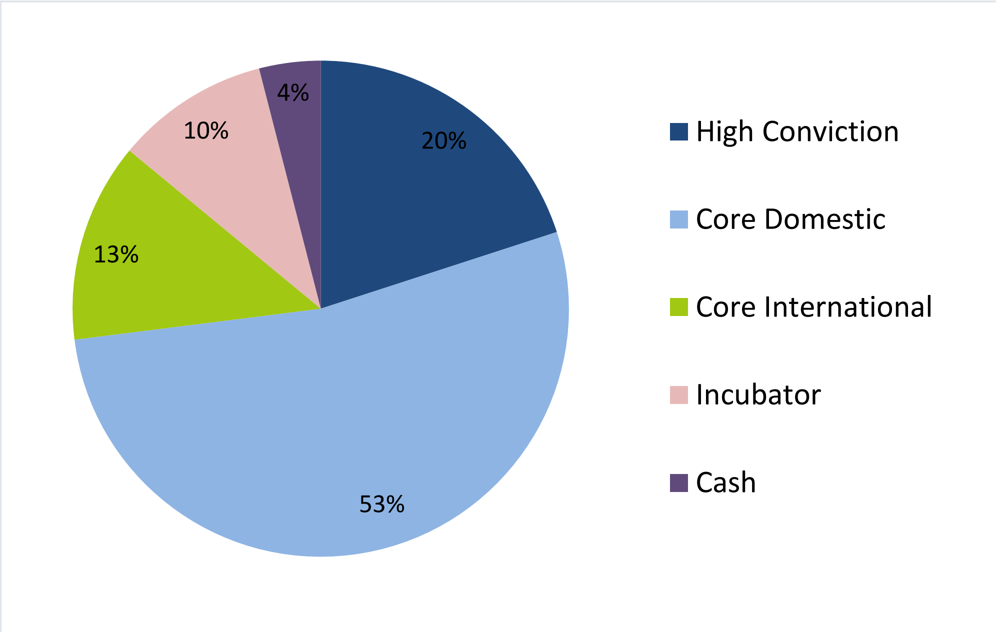
Recently some of these clusters have faced challenges. For example the Ageing Population cluster has seen the impact of regulatory pressure on the funding of Aged Care in Australia (Regis). Companies face the challenge of managing rising costs and occupancy (EGH). In addition, there is both the challenge and opportunity of delivering growth via new developments (Ryman, Lifestyle Communities).

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

MARCH 2017

Below we have split the portfolio according to our own levels of confidence:



The portfolio weightings are managed according to both our conviction levels as well as other overlays such as liquidity and risk.

The High Conviction category includes stocks where we have increased levels of confidence in the stock's value latency and in management's ability to execute and will have a higher weighting within the portfolio. The Core category includes portfolio stocks that are generally long-term holds within the portfolio.

International stocks are added by leveraging Cooper Investor's global research platform. Finally, the Incubator category are stocks that require an "up or out" decision, and are generally our smallest weightings in the portfolio. The incubator category adds optionality to the portfolio where we can add to positions as conviction levels increase or make the decision to exit.

Case Study – "Best of the Best" Focused Management Behaviour

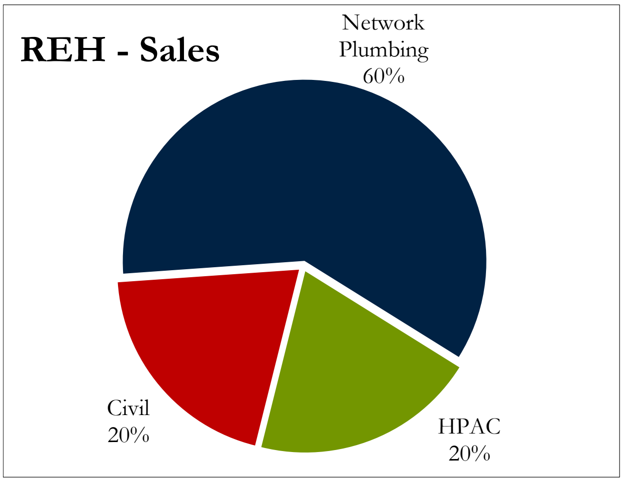
As stated in the prior Quarterly, we intend to provide some more detailed discussion of one of the portfolio companies. These companies represent the "best of the best" when it comes to focused management behaviour, the "F" in our "VoF" investment process which we think is particularly important to the portfolios' outperformance over the long-term.

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

MARCH 2017

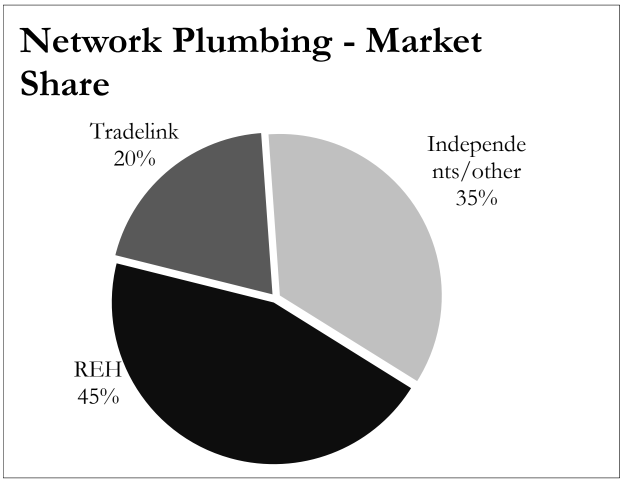
Reece (REH)

REH is the largest retailer/wholesaler of plumbing equipment and related product in Australia. REH also supplies the Civil plumbing market and the heating, piping and air conditioning (HPAC) market.



Source: REH Annual report

In Australia, the market is dominated by REH and Tradelink:



Source: Cooper Investors estimate

MARCH 2017

However, the sense of difference you get walking into a REH store versus a Tradelink store is palpable, at every level of detail.

Underpinning its success in both “back of wall” (pipes, connections etc) and “front of wall” (baths, toilets, taps etc), is the group’s outstanding customer service.

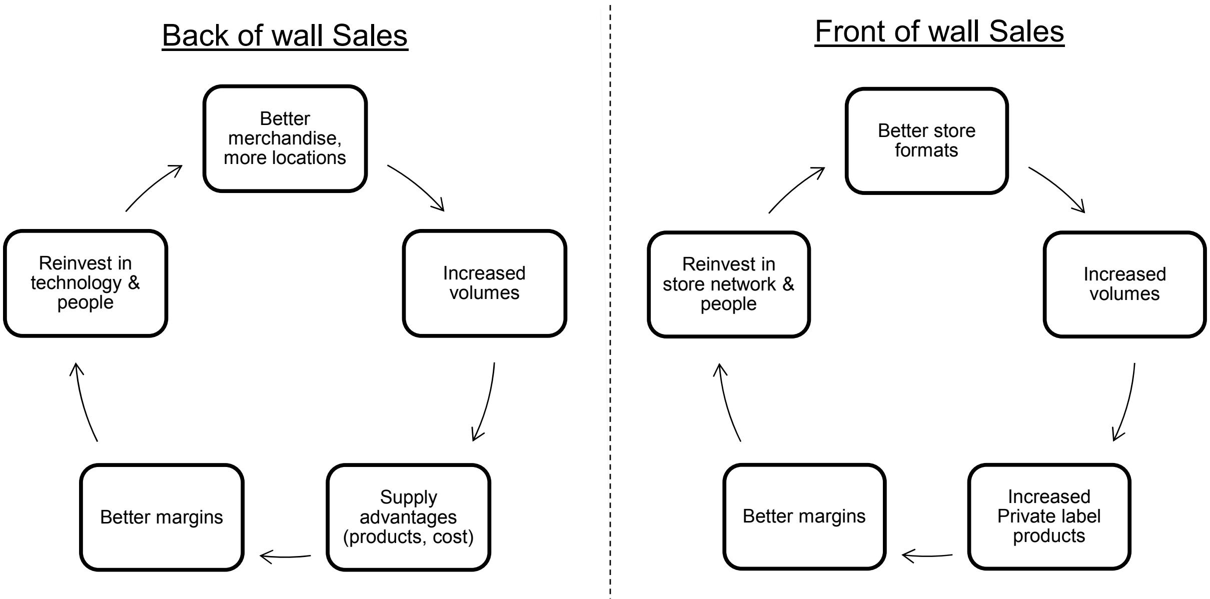
This outstanding service is built on:

(a) depth of SKUs available to plumbers via a highly efficient centralised merchandise and logistics model

(b) significant store footprint (ease of access and presence)

(c) experienced and knowledgeable staff (and staff numbers per store)

In addition, REH continues to reinvest in its relative advantage leveraging its higher volumes to sell private label products which helps support margins. It then reinvests some of this higher margin in new and better stores, better IT systems, and on training and supporting its staff.



Source: Cooper Investors

Sitting behind REH is the Wilson Family who have run the business for nearly 50 years, significantly outperforming the ASX200.

MARCH 2017

The Wilson family's management is typical of what we observe of most "family linked companies": long-term thinking, strong culture, and counter-cyclical capital allocation.

For example the group's culture is embedded in the "Reece Way":

- Customer Focus
- People Development
- Continuous Improvement
- Hard Work and Performance
- Lead by Example and Take Responsibility
- Teamwork and Respect
- Be Entrepreneurial
- Keep it Simple
- Honesty and Integrity
- Be Humble

The family's influence has helped the group's long-term outlook; it retains an exceptionally strong balance sheet to help fund ongoing store openings, land purchases, refurbishments and acquisitions.

Finally, REH also has many "behavioural" characteristics attractive to the portfolio. Liquidity is limited; REH only ever issued stock when it first listed; and management have little to do with the broking/ investment community!

Industry Observations

General Industry Observations

- The decline in market value of some "bricks and mortar" Retailers since 2006 is significant (JC Penney -83%, Sears -95%, Best Buy -45%, Macy's -46%). The growth in Amazon's market value since 2006 is remarkable +1910%.

- Higher power prices are feeding through many industries; Data Centres are an increasingly significant user of power. Most Data Centres pass at least some of the power costs directly to their customers.

- There has been significant capacity added to glasshouses used for growing tomatoes across Australia. This has helped reduce supply volatility.

- Cyber related crime remains a significant issue globally:
    - 95% of incidents are due to human error;
    - Average length of a cyber attack is 260 days;
    - Lloyds estimate the cost of cyber attacks at $400 billion p.a. globally. This is forecast to reach $2 trillion p.a. by 2019 (Juniper Research).

- Preventative Healthcare is likely to find renewed focus in both the Public and Private systems:
    - Management of chronic diseases (via GPs) is key to preventative Healthcare;
    - Half of all potentially avoidable hospital admissions in 2013/14 were attributed to chronic conditions (Department of Health);
    - Funding will be trialled via "Health care homes" (starting in July 2017).

- The “desire to see” should help underpin demand for cinema groups particularly for “blockbuster” movies. Australian cinema’s food & beverage revenue remains low relative to other markets.

- Content piracy remains very high in Australia:
    - A combination of responses in Korea (eg education, blocking websites) has significantly lowered piracy in that market.

Trip Notes

During the quarter we made a number of domestic visits to Brisbane and Sydney. In addition, we also visited a number of portfolio and other companies in New Zealand. Some observations on our NZ trip:

- There is something in the water in NZ!
    - In our view there is an over-representation of companies with very strong cultures with the ability to take this culture to global markets.
- Within the freight and logistics sector:
    - Acceptance that Amazon are coming soon; while supply chains might change, incumbents are well placed to benefit from change;
    - Ecommerce continues to drive business to consumer (b2c) freight volumes;
    - However route density on b2c is low, profitability in b2c is therefore lower;
    - Out of hours pickup is important for b2c;
    - Technology and data increasingly important. Existing players are waiting and watching rather than trying to take the lead;
    - NZ is being used as a test case market (eg for Drones!);
    - Courier costs (B2B) are much higher in Australia; this likely reflects very dense routes in NZ.

We also travelled to the U.S. with a focus on building products and construction materials given Boral’s intended acquisition of Headwaters Inc. While there was uncertainty around political risk in the U.S. under Trump, the outlook for housing and construction materials over the next few years remains very positive. Housing starts are expected to continue the gradual recovery towards the long term average of 1.5m starts per annum, with very strong activity levels down South, particularly in Texas, which is a key market for Boral. The outlook for construction materials (i.e. cement, concrete, fly ash) was also very buoyant given the recovering U.S. economy, the mooted infrastructure spending programs, and the inability to expand cement supply given stringent regulatory requirements. Overall we came away thinking that there should be strong industry tailwinds for Boral in the U.S.

In addition, we looked to gain a better understanding of the U.S. fly ash industry, which will be one of the key businesses for Boral once the Headwaters Inc transaction completes. Fly ash is used as a replacement material in ready-mix concrete and is sought after because it delivers superior concrete performance and is (on average) priced at a 30%-35% discount to ready-mix concrete. Our meetings highlighted that while the demand for fly ash is expected to be very strong, the key issue in the future will be securing enough supply of high quality fly ash to meet demand. The industry is looking to address this by investing in storage and better infrastructure as well as developing technologies to reclaim the large amounts of fly ash stranded in landfill. In summary, we think fly ash is a high quality business that is relatively capex light with low fixed costs, and should deliver high margins, returns and cash flow in coming years.

Lastly, during the quarter, we visited the UK, and some CSL manufacturing facilities on Continental Europe as well as the Bank of England (BOE), the Prudential Regulatory Authority (PRA), and Clydesdale Bank (CYB). It appears that there is no significant capital uplift to come for banks. However risk weights (used to calculate capital held against different types of loans) will change to equalise the playing field between large and small banks. The BOE has set up a small bank unit to help small banks in this regard. Challenger banks/banks on standardised risk weights will be able to convert to internal ratings based calculated risk weights - requirements to make this change will be legal (amount of data required, experience as an organisation), risk management systems and governance (board, people).

The PRA did question how many people with sufficient experience there are in the market. The timing on such changes will be 1.5 months – 2 years from the submission of the formal application to the PRA. Approximately half the smaller banks are going down this route today. Capital released from this process can be used however the relevant bank wishes, subject to meeting regulatory standards and requirements. We believe CYB will be able to complete this process given their new, experienced management team. This will release potentially up to $700m of capital. We do not believe that all of this capital will be returned to shareholders – although we have no doubt some will, we suspect that some of the capital will be used to grow the business.