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 2018

"No matter how dramatic the end result, good-to-great transformations never happen in one fell swoop. In building a great company, there is no single defining action, no grand program, no one killer innovation, no solitary lucky break, no miracle moment. Rather, the process resembles relentlessly pushing a giant, heavy flywheel, turn upon turn, building momentum until a point of breakthrough, and beyond." Jim Collins

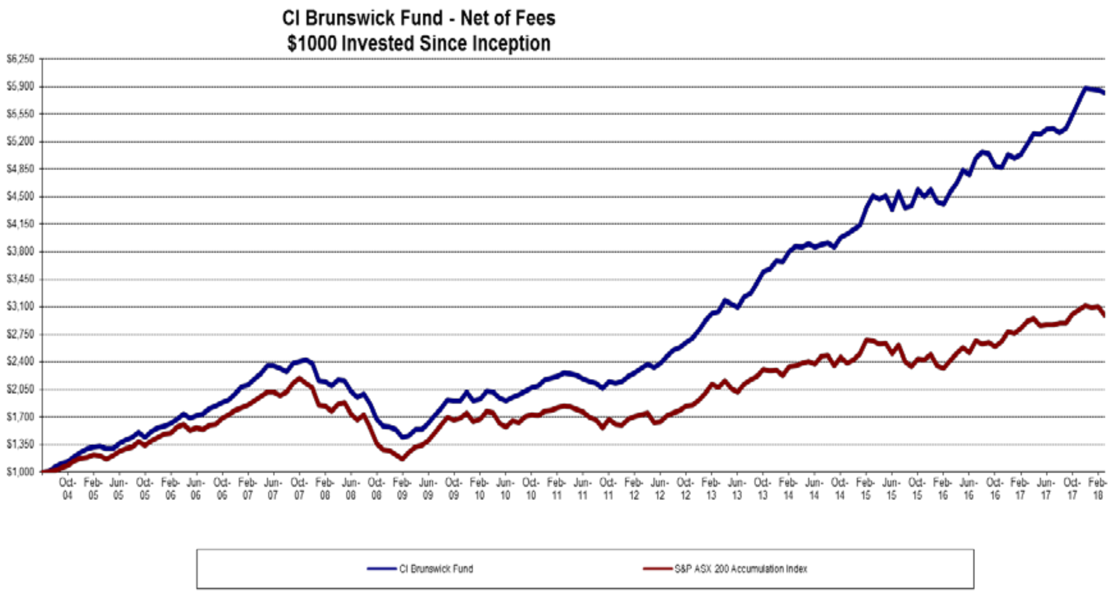
"Do not pray for tasks equal to your powers, but powers equal to your tasks." John Flynn

"Conventional wisdom leads to mediocrity." Sam Zell

"When hiring, if forced to choose between virtue and talent, choose virtue." Charles Koch

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	-0.52	-3.86	3.34
ROLLING 1 YEAR	13.93	2.54	11.39
ROLLING 3 YEAR	10.57	3.76	6.81
ROLLING 5 YEAR	15.83	7.66	8.17
ROLLING 7 YEAR	16.49	7.23	9.26
ROLLING 10 YEAR	12.47	5.35	7.12
SINCE INCEPTION*	16.80	8.30	8.50
SINCE INCEPTION^	745.95	199.19	546.76

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



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Market and Portfolio Performance

The March quarter of 2018 was difficult for both domestic and global equities markets. In response to concerns that a global trade war could erupt following US government proposals to introduce tariffs on steel and aluminium imports, the ASX 200 Accumulation Index fell 3.9%, with most of the fall occurring in the month of March.

A tit for tat escalation of tariffs remains a possibility, which could create further volatility in financial markets in the near term. The seriousness of US intentions shouldn't be underestimated given the tariffs come not long after a significant tax cut (ideally you would stimulate prior to a trade war). The key risk for equity markets is collateral damage, as stated via an old African proverb – *"when elephants fight, it is the grass that suffers"*.

There are also signs that inflation is no longer dormant. Arising both naturally from a busier economy and fuller employment, as well as via regulatory actions, some more recent observations include:

- Higher lumber costs in the US, partly as a result of tariffs imposed on Canadian imports;
- Higher transport costs in the US as a result of a shortage of driver capacity – both demographics (millennials do not want to be truck drivers) and regulation imposing stricter limits on driver welfare (limiting amount of time at the wheel, drug testing etc);
- Higher resin prices resulting from both hurricanes disrupting capacity, but also a shortage of capacity as a lack of recent new investment is now being felt as global economies growth improves;
- Increase in the effective minimum wage in the UK from £7.70 to £9.00 over the next few years;
- Wage pressures in China;
- Resource companies seeing increasing wage costs and input costs (eg Diesel, Contractors).

Although equities are generally considered an inflation hedge, large, sharp increases in inflation can be problematic for equities. An extreme example from history is illustrative – when inflation rose in the US from 3% to 12% starting 1973 (Oil prices quadrupled), the S&P500 fell 48% and many high quality stocks performed poorly (Coca-Cola -60%, Johnson & Johnson -40%, Disney -80%).

We remain of the view there will be both winners and losers should some of these 'macro' forces play out and that our best defence against market volatility is our VoF process that has proven resilient through various market cycles.

The Brunswick Fund fell 0.5% during the quarter, outperforming the index by 3.3%. This was pleasing as a key aim of the Fund is to outperform in down-markets, which the Fund has achieved historically more than 8 times out of 10. Over time, the compounding of this down-market out-performance has been significant to the overall performance of the Fund.

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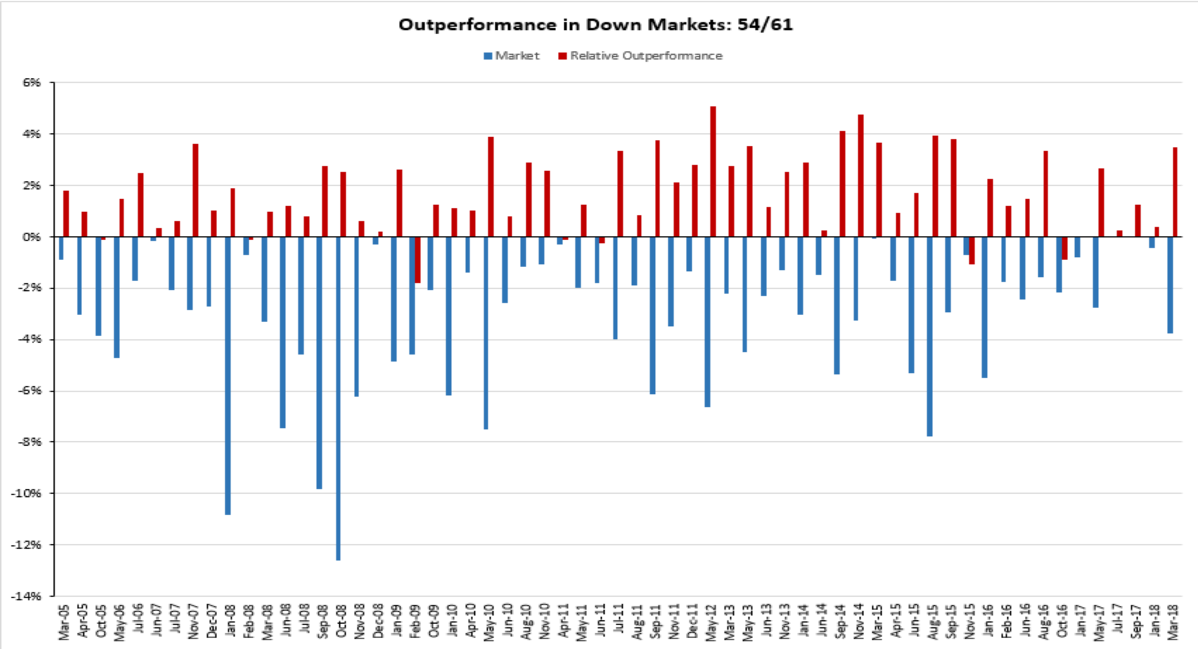

Key contributions to portfolio performance during the 3 month period include **Elmo (ELO**) (accretive acquisitions), **CSL (CSL)** (strong H1 18 result), and **Xero (XRO**) (improving momentum in the UK).

Portfolio stocks that performed poorly during the quarter include **TPI Enterprises (TPE)** (poor FY17 result), **Lifestyle Communities (LIC)** (no specific news), and **Clydesdale Bank (CYB)** (increased competition and higher deposits impacting margins).

During the quarter we rebought **Brambles (BXB)** in the portfolio, having sold the stock around 12 months ago. For context, BXB is the global leader in pallet pooling and 'moves more goods to more people in more countries than anyone else on earth'. Interestingly, despite this fact, its network (390m pallets/ crates/ containers, 60 countries, 850 service centres), which has been built over 40+ years, has not yet fully penetrated its potential markets. At the time of our selling, Tom Gorman the prior CEO of BXB had just resigned (and sold all his shares), with a series of profit downgrades to follow relating to challenges in its US business, and a reassessment of long-term return on capital targets.

Since that time, new CEO Graeme Chipchase has steadied the ship. Although we expect some near-term headwinds from rising costs (particularly in the US), our VoF proposition for BXB includes:

- ongoing revenue growth from increased penetration in pallets and reusable product crates (RPCs);
- margin uplift in the US from cost out, procurement, automation, surcharge and capex initiatives;
- improved cash flow (improvement in cycle times, loss rates, damage rates, pallet costs); and
- over the longer-term, potential benefits from both digital initiatives (track and trace sensors on pallets should reduce lost pallets and lock in customers) and optionality in China becoming a viable pooling market.

The Portfolio – Strategy, Structure and Process

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.

Structure

- Concentrated, long-only, long-term equities portfolio (20-40 stocks).
- Portfolio of companies with value latencies, across 6 subsets of value, focused around several key "clusters".
- Long-term investments 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** (13% 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** (40%) – 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** (8%) – sound businesses with good management in place and good balance sheets. We especially like spin offs and government to private turnarounds. (Clydesdale, Sims Metal)
- **Cyclicals** (18%) – stocks showing upside leverage to the cycle with experienced and contrarian managers who can allocate capital prudently and with good balance sheets. (Boral, Iluka)

Currently the portfolio holds around 8% cash. The portfolio has around 13% of assets invested in overseas stocks that own businesses in USA, Canada, UK and Mexico.

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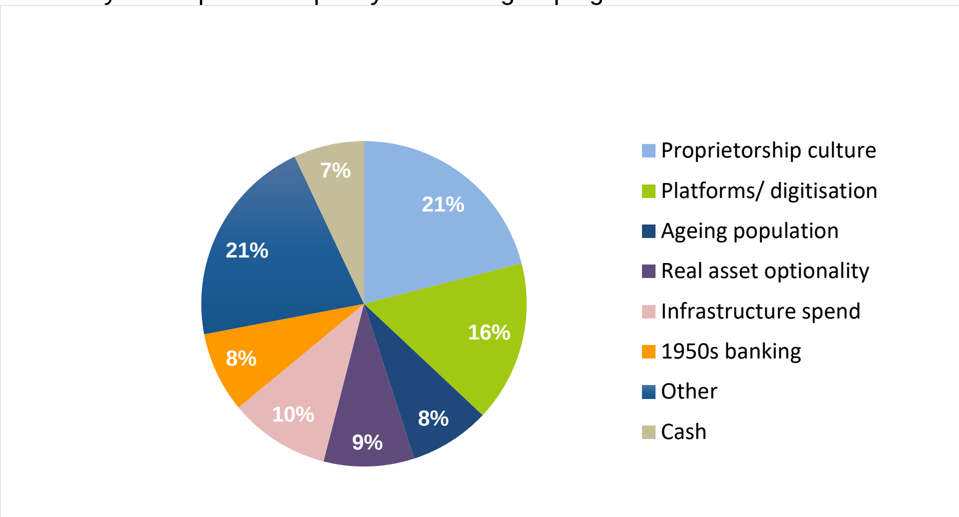
Portfolio attributes as at March 2018 are summarized below:

P/E	17.6
Beta	0.76
Yield	2.75
P/Book	2.30
ROE	13.05
Tracking error vs. ASX 200	5.06
Stock Number	39

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”.

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.

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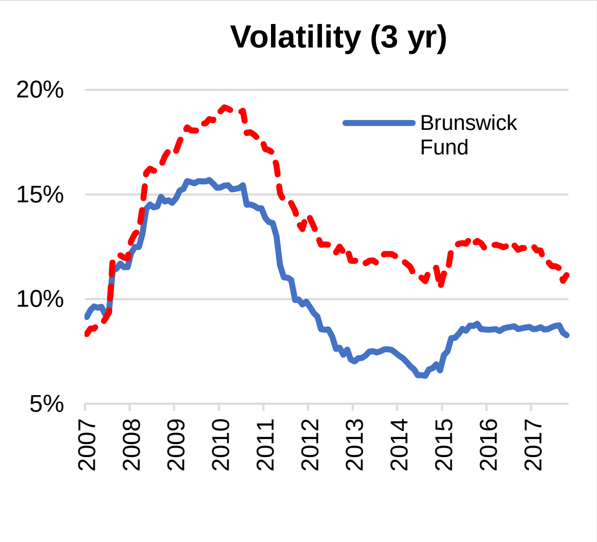
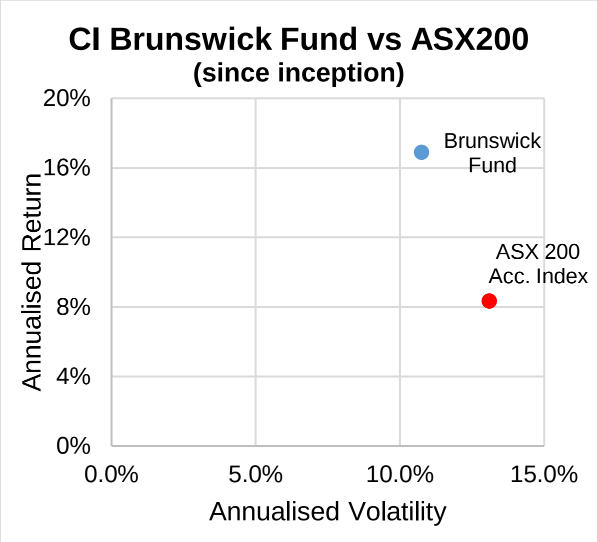
Portfolio Risk Metrics

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	+746%	+199.2%
Max Drawdown	-39.96%	-47.18%
Best Month	+7.41%	+7.98%
Worst Month	-10.07%	-12.61%
Positive Months	+68.48%	+63.03%
Annualised Volatility	+10.74%	+13.1%

*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





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Industry Observations

Trip Notes

During the quarter we travelled to New Zealand to visit a number of portfolio stocks, as well as a range of other companies in the banking, insurance and general diversified financial sectors.

Notwithstanding some uncertainty regarding the new Labor government and their new policies, the NZ economy continues to perform strongly. Immigration has been responsible for around half of the economic growth in recent years.

One of the portfolio stocks we visited in NZ was **Heartland Bank (HBL).** Our VoF proposition for HBL is:

- Above system growth with a niche focus on areas where the big banks don't compete (reverse mortgages, car finance, small end of SME lending);
- Over the longer-term growth should support expansion of ROE (when /if they want to take returns over growth);
- Strong balance sheet, with capital ratios well above peers;
- Management team still highly focused on delivering on the core strategy.

We were also fortunate to meet up with **Mainfreight (MFT)** founder Bruce Plested, along with CEO Don Braid. We spent most of the time gaining a deeper understanding of the background of MFT's culture, which is particularly important to our VoF proposition. MFT's Annual Report has a number of notable quotes that illustrate MFT's culture, at a high level:

> *"Our culture will always be our greatest competitive advantage"*
> *"We are here to make our customers' businesses better"*
> *"Responsibility sits with each of us"*
> *" 'Good Enough' is never enough"*
> *"We will always think bigger and for the long-term"*

In more detail:

> *"Our strong culture, beating any fancy strategy, was reflected in the decisions and efforts of our people: decision making "as close to our customers as possible", responsibility for our quality and service a priority for all."*

> *"Alongside a strong belief that our unique cultural values provide differentiation and benefits to our customers, we are working to intensify our network, both globally (opening up in more countries) and internally (developing new services and locations within each region). We desire to be as close to our customers as possible, to provide efficient, time-certain pick-up and delivery services."*

> *"It is our culture that we work hard at developing every day in every one of our locations around the world. Do we have that level of customer responsibility right in every branch in every one of our 21 country locations? No, we don't. We do however have a great deal of progress across our network, and ongoing customer growth is a reflection that we have good momentum for the future."*

In our view these are not just broad brush statements, but reflect deep beliefs developed initially by founder Bruce Plested and deepened further by CEO Don Braid. MFT remains a standout company culture in our "proprietorship" cluster group.

In addition to NZ, we also travelled to the UK, attending a range of meetings relating to Xero, Brambles, Clydesdale and Iress.

During the trip we gained further confidence in Xero's (XRO) UK business, which is key to near term upside for the stock. Our VoF proposition for XRO in the UK is:

- A large and growing target market (UK numbers) – 5.7m SMEs, with roughly 2.4m high value targets who are either VAT (similar to GST) registered or are employers that have payroll requirements.
- Cloud migration is likely to accelerate in coming years driven by both the benefit of Cloud Software to accountants (reduction in low value add tasks), and digitisation programmes being undertaken by the UK's tax authority, HMRC ('Making Tax Digital').
- XRO leads the UK with 250K cloud subscribers. UK peer Sage remains in a tricky competitive position being much stronger in legacy desktop software and having an operating model focused on servicing the mid-market.
- Xero's UK management team (led by Gary Turner) has a long and successful track record of success with XRO (nearly 10 years).

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Important announcement regarding a change to the internal risk guidelines of the Brunswick Fund

We would like to advise that as of Monday the 31st of May 2018 we intend to alter an internal risk guideline from:

> "Minimum of 75% of Net Asset Value will be invested in Australian and New Zealand securities"

to:

> "Minimum of 75% of Net Asset Value will be invested in Australian and New Zealand securities, **including cash**"

Please note that the internal risk guidelines which set out that the portfolio may not hold more than 25% in cash nor more than 25% in international securities will remain as they are.

Owing to the way in which the original risk guideline was drafted, we are unable to utilize both of our abilities to have a maximum of 25% of the portfolio in cash and a maximum of 25% of the portfolio in international securities as we would breach the requirement of a minimum of 75% of the portfolio to be held in Australian and New Zealand securities.

In practice we like to hold 5-10% of the portfolio in cash and under the original risk guideline we are therefore limited to holding approximately 15% in international securities which has, over time, become restrictive, as working alongside our global and Asian teams we are increasingly seeing attractive investment opportunities in international equities.

We don't expect any major changes to the portfolio as a result of the change to the internal risk guidelines but over time we expect that international securities will make up closer to 20% of the portfolio.

Since inception, the Brunswick Fund has held an average of 7.5% of the NAV in cash. In addition, cash levels have been below 10% more than 75% of the time.

If you have any questions about the change to the mandate please contact Amanda Lippner, Client Relations on alippner@cooperinvestors.com or 03 9660 2651.