CI BRUNSWICK FUND
QUARTERLY REPORT

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

SEPTEMBER 2014

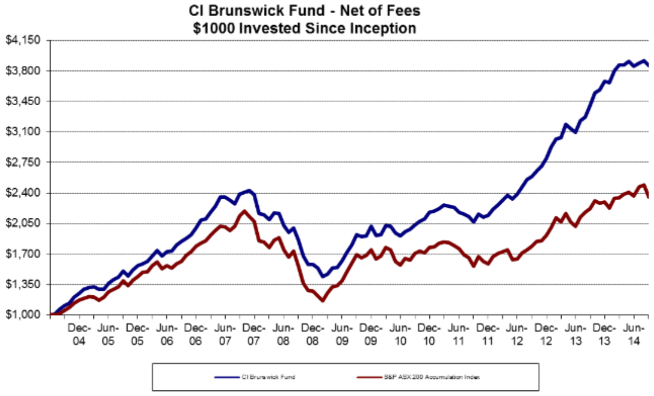
"The Intuitive mind is a sacred gift, the rational mind a faithful servant, we have created a society that honours the servant and has forgotten the gift." Albert Einstein.

"We can't solve problems by using the same kind of thinking we used when we created them." Albert Einstein.

"Strength and growth come only through continuous effort and struggle." Napoleon Hill.

"Continuous effort - not strength or intelligence - is the key to unlocking our potential." Winston Churchill

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	0.40%	-0.60%	1.00%
ROLLING 1 YEAR	15.66%	5.93%	9.73%
ROLLING 3 YEAR	25.29%	14.77%	10.52%
ROLLING 5 YEAR	16.99%	6.82%	10.17%
ROLLING 7 YEAR	8.74%	1.42%	7.32%
ROLLING 10 YEAR	16.66%	8.40%	8.26%
SINCE INCEPTION*	17.70%	8.71%	8.99%
SINCE INCEPTION^	431.43%	135.45%	295.98%



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

Market and Portfolio Performance

Over the quarter and 12 months the portfolio has returned 0.40% and 15.66% compared with the Benchmark Index which returned -0.60% and 5.93% respectively. The health, telecommunication, insurance and property trust sectors generated positive returns whilst metals and mining, energy, media and banks experienced capital losses over the quarter.

Portfolio stocks that out-performed the broader markets over the quarter included CSL, TPG, Recall, Lifestyle Communities, Carindale Property Trust and Brambles. Under-performers included Transpacific, Melbourne IT, Equity Trustees, Rubik, Summerset, Auckland Airports and Village Roadshow.

Whilst the portfolio has benefited from not holding BHP or Rio Tinto, we have sustained negative returns from stocks with resource exposure. Two of our asset play stocks - Washington Soul Patterson (SOL) and Lion Selection (LSG) - are trading at significant discounts to their market based assessed values. For LSG the issue has been delays in project sanctioning (land holding dispute in Indonesia) and for SOL the substantial investment into New Hope coal has run into a coal market downturn. With 33% of coal miners making cash losses we think that we are at the bottom of the cycle but we do not expect a recovery until excess supply is absorbed. This is likely to take 18 months for steaming coal and longer for metallurgical coal.

We retain our position in both SOL and LSG as they are cheap; have debt free balance sheets and are managed by competent, experienced management with oversight by boards who have material skin in the game.

The Portfolio

Cash levels have increased to around 11% due to the sale of a number of portfolio holdings, including OzForex, Nib, Melbourne IT, Pulse Health, TFS and Tribune Media.

The portfolio is structured around different categories with the objective of delivering a diversity of attributes that we hope will achieve solid out-performance of the Benchmark Index over the cycle and particularly in down markets. The category descriptors are:

- **Stalwarts** (31% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions. (Telstra)
- **Bond like equities** (8%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time. (Carindale Property Trust)
- **Niche growth companies** (30%) – companies growing market share or creating new markets that have clear identifiable value propositions and are run by focused, passionate, prudent and experienced management. (Ryman)
- **Asset plays** (11%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value. (Washington H Soul Pattinson)
- **Turnarounds** (9%) – sound businesses with good management in place and good balance sheets essential. We especially like government to private turnarounds, spin-offs and companies undergoing self-help by refocusing on core competencies. (Transpacific Industries)

The portfolio has around 9% of assets invested in overseas markets excluding NZ stocks or 15% including NZ stocks. The non NZ stocks are spread across US, UK, Singapore and Hong Kong listed companies.

Portfolio attributes as at September 2014 are summarized below:

P/E	16.0
Beta	0.70
Yield	3.7%
P/Book	2.0x
ROE	12.6%
Tracking error vs. ASX 200	5.25%
Stock Numbers	35

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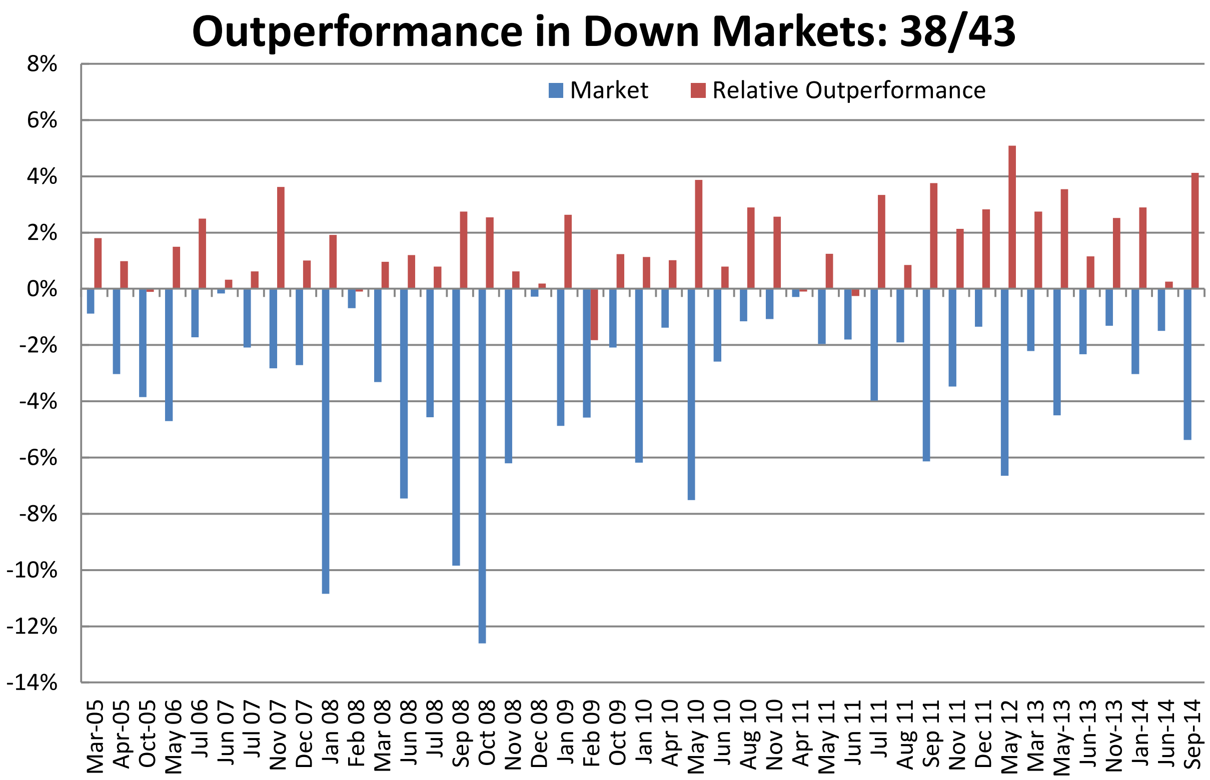
Major sector exposures are:

Sector	Portfolio Weight
Financials	28%
Industrials	15%
Consumer Discretionary	6%
Consumer Staples	3%
Telecommunications	10%
Energy	8%
Healthcare	3%
Materials	5%
International Equities*	9%
Cash	11%
Utilities	2%

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

The portfolio continues to display strong relative return attributes in negative return months. Since inception there has been 43 months where the ASX has fallen in value. In 38 of those months the portfolio has out-performed the market in relative terms - this represents an 88% hit rate.



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Stock News

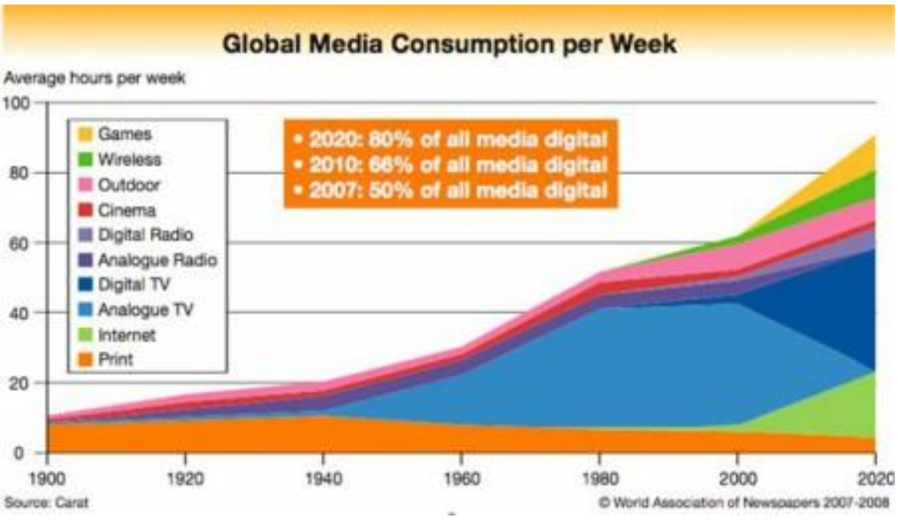
"Not everything which can be measured counts and not everything which counts can be measured." Albert Einstein.

We recently visited the US where we met with a wide range of global media companies whose operations spanned the entire media spectrum from content providers to distributors to marketing groups. The clear message remains that "content is king" and we are in a "golden age" for content providers. This is being driven by the proliferation of media distribution with **Over The Top (OTT)**" opening up new ways for viewers to consume media. With developed economies consuming more content and emerging economies seeing an explosion in demand for media, globally positioned content providers such as **21st Century Fox (FOX)** are very well positioned.

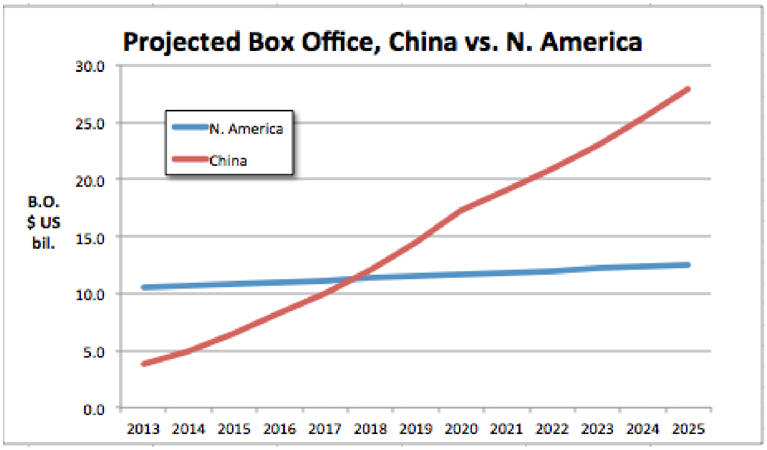
The trip was timely given FOX's recent proposal to acquire Time Warner (which was subsequently rejected). We saw the deal as a long term strategic positive that would have created a global power house – the world's biggest content producer with greater leverage relative to the consolidation currently underway in the cable systems industry. As value for FOX shareholders is dependent on price paid, we applaud the board's decision to discontinue further discussions with Time Warner given the latter's high expectations.

21st Century Fox

- FOX has spent recent years building itself into a global media content provider delivering product with global appeal (i.e. The Simpsons, Modern Family, Fox Sports, Star Sports, Fox News and movies such as Avatar and X Men). This has put it in a strong strategic position at a time when content distribution has proliferated (i.e. OTT) increasing demand for quality content. With new technology releases such as larger, improved smart phones, increased internet connectivity across the globe and rising income levels in emerging economies this growth in content demand should continue and underpins what is referred to as a "golden age" for content providers.



- This global reach was a contributor to the +40% increase in Fox's filmed entertainment revenue at a time when the US box office declined. From an industry perspective, international box office now represents 70% of total box office sales (local and Hollywood consumption) with projections for China's box office growth highlighting demand for media content from emerging economies.



Source: China Film Biz

- FOX's cable network programming revenue grew 13% in the 12 months to June 2014. This was despite the early stages of the development of its new cable networks (Fox Sports 1, STAR SPORTS and FXX). As these networks mature, this should provide a strong growth tailwind with all three networks nearing profitability. Although network development takes time, as Fox News has shown, the development of a strong branded channel can create an earnings powerhouse.
- Management believes it should be able to achieve mid-teens percentage growth in group affiliate fees over the medium term. It has good transparency around this with 75% of affiliate fees already booked for FY16 (this implies 33% of group revenues are already committed). With improving ratings within the new networks, management appears confident in achieving at least the same growth for the remaining 25% of affiliate fees not yet booked. This is a result of the quality of their content and their 9 year lock up of sports rights including the NFL, Major League Baseball and NASCAR.
- FOX has a strong balance sheet supported by excellent free cash flow and the recent divestment of Sky Italia and Sky Deutschland (net proceeds of $7.2bn). This provides potential in terms of either further capital management (in addition to the current $6bn buy-back) or acquisitions.
- There is latent value upside in the potential for FOX to add to its current buy back with a further $6B in 2016. This would be highly accretive to earnings per share and valuation if undertaken.

Lifestyle Communities

Lifestyle Communities (LIC) delivered a pleasing FY14 result with NPAT up 76% to $12.3m. Operating trends are improving with $9.5 million of operating cash flows compared with a slight outflow last year, and the strong growth in net sales commitments will underpin FY15 settlements. The balance sheet is in good shape with gearing (ND / D+E) of 23% and interest cover of 5.4 times. Given the improving operating trends and cash flows we expect LIC will start paying a dividend in FY15.

One of the key takeaways from the result was that LIC's business model appears to have been confirmed by the success of the Chelsea Heights and Hastings communities. 25% of sales are now coming via referral and LIC is taking presales up to 10 months before the first resident moves into a new community, which is not only good from a project risk management perspective but is also a strong endorsement of their brand. The business is now in a position to focus on increasing the rate that it recycles capital in order to accelerate the build-up of future annuity cash flow streams (i.e. spinning the wheel faster).

After a period of heavy development we expect LIC's cash flow profile will reach an inflection point over the next couple of years as sold and occupied communities start to generate an attractive stream of annuity cash flows which will provide the basis for future dividends. The growing annuity cash flow profile will de-risk the investment proposition as the rental income streams are predictable, low risk and inflation hedged, with rents set to grow at the maximum of inflation or 3.5% per annum. In addition, in May 2016 management have the option to redeem $25m of loan notes which could be refinanced at market rates and save around $1.5m in pre-tax interest costs, which could be another significant driver of earnings and cash flow.

The outlook for LIC is promising given it has come to the market with the right product in the right place at the right time. LIC only operates in five out of 10 core growth corridors in Victoria and, with the potential for two to four villages in each corridor, we think the opportunity set in front of LIC is large and exciting.

Sims Metal

Sims has had a volatile past with previous management expanding the business but seemingly not having the right operating structure in place to manage its global asset base. We observed potential latent value following our meetings with the new CEO, Galdino Claro and his no nonsense approach to bringing systems and structure into a company that had wavered in its ability to best optimise its operational capability. In addition to the upside from rationalising its asset base, we were very interested in the potential to introduce IT systems and a management overlay that would assist the group in maximising transparency and, in turn, the profitability of its day to day buying and selling of scrap.

We are comfortable that Galdino's strategy is being received and acted on across the group. Our observation is that the company will benefit from better use of systems and processes while its capital structure and financial metrics will also improve as its asset base is rationalised. This should best position the company to maximise returns to shareholders with any improvement in the cycle offering further upside.

Summerset

Summerset (and the New Zealand retirement sector) has had a poor period of performance with concerns about the falling New Zealand dollar, housing prices, oversupply and a number of listings coming to the market in both New Zealand and Australia. Recent visits to New Zealand did not provide any evidence of oversupply, indeed the companies and sales representative we talked to confirmed strong presales and, in the case of some villages, development had been brought forward to meet client demand.

Summerset has been impacted by increasing costs as it scales up its business for the next phase of growth. The cost burden arises from choosing to bring forward the building of the communal and aged care facilities in the development process, as well as start-up costs associated with new care facilities that typically take 12-18 months to reach full occupancy. This appears consistent with management's strategy to create a scalable platform before demand accelerates over the next few years as we are hit by the grey tsunami.

Industry Trends and Commentary

"The difference between genius and stupidity is that genius has its limits." Albert Einstein.

Resources- Trends

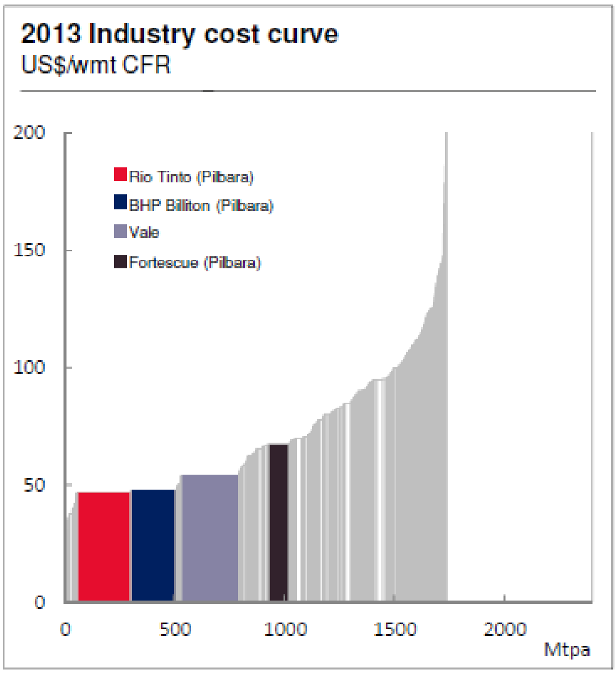
The resource downturn continued its flow of bad news with downgrades to service providers such as ALQ (technical testing services). The negative trends are happening at both the sales and margin level. Whilst there are emerging opportunities amongst service companies due to price falls the sector looks unattractive at the moment due to a shrinking profit pool and the internal competition coming from resource owners in-sourcing and negotiating power swinging to the producers. ALS joins the long list of companies that have been caught by aggressive acquisition strategies at the wrong time in the cycle. Generally speaking, the resource sector managements and boards have under-appreciated the importance of capital decisions and cycle timing on value i.e. cycles move in both directions.

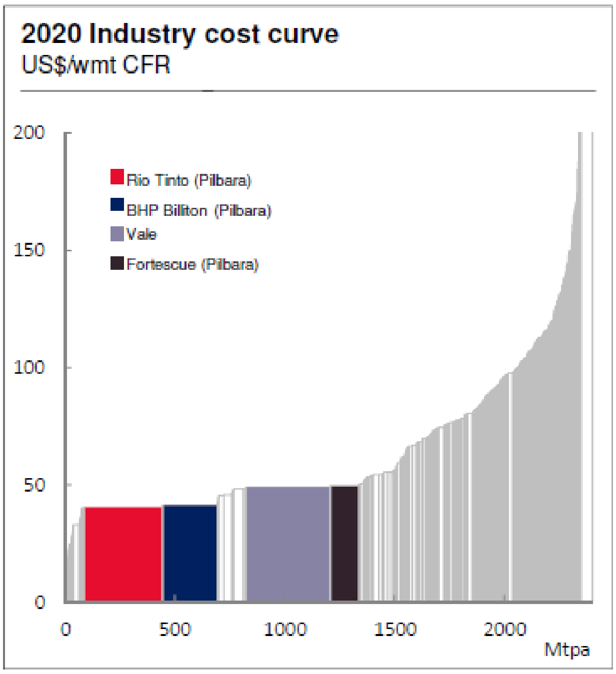
It is also worth noting that the oil and gas sector in Australia and globally has generally held up better than the mining contractors due to the longer duration and bigger development pipelines of yet to be completed work. In Australia the oil and gas capex cycle is expected to peak around 2016-2018, with the completion of major projects on the east and west coast.

The iron ore price continued its decline from the previous two quarters, falling to $US77/t, the lowest level since 2009 and down from its peak of $170/t. Over the September quarter, the junior iron ore miners' share prices fared the worst (BC Iron -49.5%, Mount Gibson -21.0%, Atlas Iron -33.3%) while Fortescue Metal was down 20.0%, BHP was down 5.7% and Rio Tinto managed to produce a positive return of 0.5%.

The slowdown in China's residential sector continued which has led to weakening in steel demand, of which iron ore is a key ingredient. China appears to be focused on long-term reform and it is unlikely there will be stimulus to provide short-term relief. China's continued prosperity and urbanisation is very important for the miners, as China represents 50% of global steel production and 67% of seaborne imports. The large miners still hold the view that steel demand in China will exceed 1bn tonnes p.a. over the long-term (~780m tonnes in 2013) and currently have large iron ore expansion projects in place to capture this expected increase demand. It also appears that they have their eyes on displacing high cost producers and ensuring that there are limited new players over the next few years. The current iron price is helping and should see capital exit this once lucrative market. However, we are yet to witness any significant mine closures which we think is the next stage of the process.

Cash costs are expected to continue declining, and in addition to a lower AUD, will serve to delay mine closures. Both RIO and BHP still make handsome profits at current spot prices as their cash costs are estimated to be $US45/t and falling.





Source: Rio Tinto, Wood Mackenzie
Note: Includes shipping and sustaining capital expenditure and is adjusted for inflation and FX

In a world where LNG costs 3 times more than coal for the same unit of energy and emerging populations are seeking higher standards of living, coal is expected to remain an important part of the energy mix. There are reports that Japan is going to restart the new build of coal fired power stations.

Other resource sector observations

- After 10 years of growth the resource sector is now returning back to normal prices that demand a back to basics approach.
- The 344 page 2014 BHP Annual Report sets out the company's objective of looking to unlock value through simplification and a focus on their existing core operating businesses (coal, copper, iron ore, petroleum and potash). Management believes in simplification and focus – a strategy which is a common mantra being heralded across many companies, including their

biggest competitor Rio Tinto. BHP's capex peaked in 2013 at $22b and it is expected to fall below $14b. Asset divestments and spin offs are a feature of the strategy and should represent key value opportunities for both the head company and the spin-off entity.

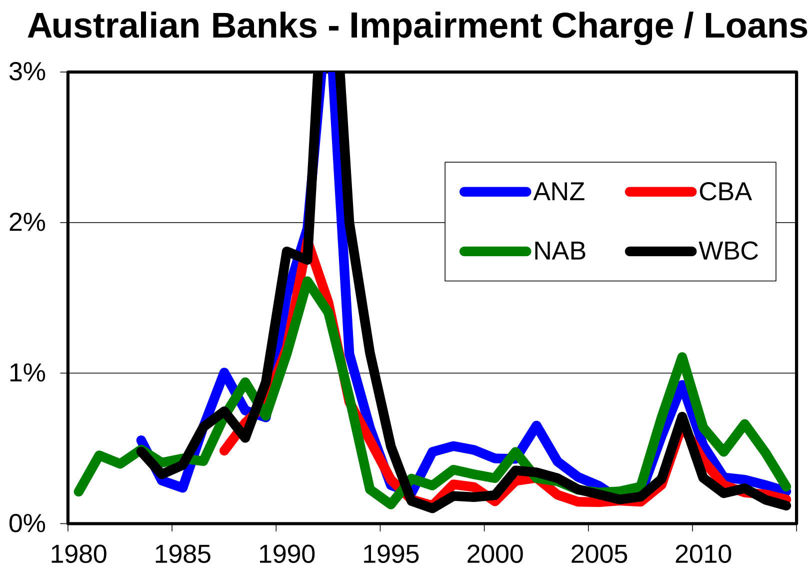
- The lowest risk opportunities can be found with companies like BHP that have big expandable commodity positions underpinned by reserves (in BHP and RIO's case 20-100 year resource cover). One example lies in the iron ore industry where the incumbents can expand production by spending as little as $50 per annual tonne which compares with current project expansions of $130-$200/t.
- Commodity prices on average are getting to their "normal levels" ~ oil, iron ore and copper a bit above and coal, shale gas, a bit under.
- The coal market has been hit by China's import restrictions. China has initiated this policy for 2 reasons:
    1. China's coal industry is undergoing a cycle of closures and consolidation. Whilst the big domestic miners are world class, the smaller village mines (33% of production) produce most of the pollution, poor work practices; and are huge employers. With 70% of domestic suppliers not making a profit and 15% not able to pay wages, it has now become a political issue given the sensitivity of closures on employment. The consequence of this action will be to increase local prices.
    2. Environment and pollution quality – an attempt to clean up the pollution being generated by coal fired power stations. This is a similar path to that the Japanese took in the 1970's i.e. better enforcement and quality control. On this point Australia should be a beneficiary given its generally lower sulphur coal. Indonesia will be the most affected because of their high sulphur and low energy value coal. The biggest issue for Australia is not the relatively small export quantities (50m tonnes p.a.) to China but the impact on seaborne prices resulting from China's import restrictions designed to favour domestic producers.
- China now is entering into an export phase with growing fabricated product exports along with raw steel exports.
- SOE reform in China seems to be taboo at present; the government is focused on shadow banking and anti-corruption.
- Baosteel's recent support for the 40m tonnes p.a. Aquila development appears to be driven by their desire to replace high cost Chinese suppliers and diversify away from BHP, RIO and Vale. Many commentators believe Aquila is a sub economic project.
- The US is approving LNG export terminals and there does not appear to be a gas reserving policy.

Banks – VoF Trends

The Financial System Inquiry released its interim report in July and it certainly had plenty of observations that may affect the major Australian banks. The main points raised in the interim report and in subsequent briefings are that Australian banks' capital ratios are only around the middle of the range of international banks, that the current risk weighting methodology favours lending to housing rather than small business and that the banks concentrated exposure to mortgages has become a significant source of systemic risk. Subsequently the RBA and APRA have raised questions around the level of capital held by banks and around the modelling behind the major banks' risk weighting methodology.

Bank regulatory capital is a complex issue and no one has a strong feel for where the minimum capital ratio will end up, what the impact of changes to the risk weighting methodology will be, or how long banks will have to meet higher requirements. We believe that it is likely that banks will have to raise a lot of extra capital and that will reduce their return on equity and lower the growth in earnings per share and dividends per share. Three of the major banks report full year results at the end of October and capital ratios will be the most important topic at the results briefings.

The banks do have options to mitigate the effects of higher capital requirements, these include trying to increase their net interest margins, lowering lending growth, cutting costs further and divesting businesses. The bank with the most options is NAB and the most challenged will probably be CBA and WBC.



Source: Diogenes

China – My Thoughts by Carol Fang (Analyst, CI Asian Tiger Fund)

I thought I'd share my experience as a Chinese consumer.

As a Chinese consumer who used to buy rice according to amount allocated by the government, the past 30 years have been an incredible ride. After almost 100 years of turmoil, China opened its doors to the world in early 80's. Products like "Milo", "Colgate" or "Maybelline" which were common to westerners were simply not available in China until the 90's and a Chinese consumer had a lot of catch up spending to do. To facilitate today's more frequent and mobile transactions, excellent payment infrastructure has been rolled out in 1st tier cities – for example, in Beijing you can pre-pay your meals or movie tickets using Ali Pay to avoid disputing who should shout dinner.

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Motivations of consumption for Chinese mostly come from the desire to conform. China runs on a unique Confucian value system where individual expression is something to be frowned upon. Whilst a westerner might ask: "how can I differentiate myself?" Chinese tend to ask: "why am I different?", yet people crave for positive social acknowledgement as it is the essence of "winning" in Chinese culture. It is therefore important to find a middle ground between "being accepted by the mass" and "display social status".

Across the nation we observed young consumers opting for fashionable but mass market labels; people relentlessly compare price and value of every product before they open their wallet and an ever increasing national saving ratio of more than 50%. However, "living a green life" and "have rich experiences" have become signs of social status among mid-high income earners. Regular visits to beauty salons, reduced car usage, or taking a trip to Australia beat owning more designer goods. Shares of travel, education, personal care and recreational activities as a percentage of household budgets have been increasing faster than basic necessities like food and clothes. Even as the Chinese economy slows down and offline retail becomes muted, online information consumption still grew 20%, there are more than 10 new movie screens being put in place across the nation every day and newspapers are filled with multiple pages of ads from travel agents.

One exception that beats all lifestyle or experiences however, is to own multiple properties. It is hard to ignore Chinese passion for owning, upgrading and decorating their homes. Whilst most people are still working towards buying their first home in urban areas, many 1st tier city dwellers have moved on to buy their second property or overseas holiday house which are newer, bigger and better. Property is not a simple store of wealth to the Chinese but a carrier of family traditions to be passed down for generations.

By comparison with what's been observed in China, the neighbouring ASEAN countries are a few steps behind. Lack of infrastructure and transportation systems still limit consumers' mobility and their desire to spend. No doubt as ASEAN consumers become more sophisticated, we will observe a more vibrant service industry servicing domestic consumers rather than foreign companies.

We believe that Chinese consumers' spending power has not been fully unlocked. As the country slowly establishes a better social security system for its people, more disposable income will be available to drive further development in the service industries such as education, aged care and health care. The mass majority will experience this consumption upgrade as wage level increases across the board, albeit from a lower base. We therefore expect to see more complicated consumer behaviours which will translate to new investment opportunities in the consumer space.