CI BRUNSWICK FUND
QUARTERLY REPORT

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

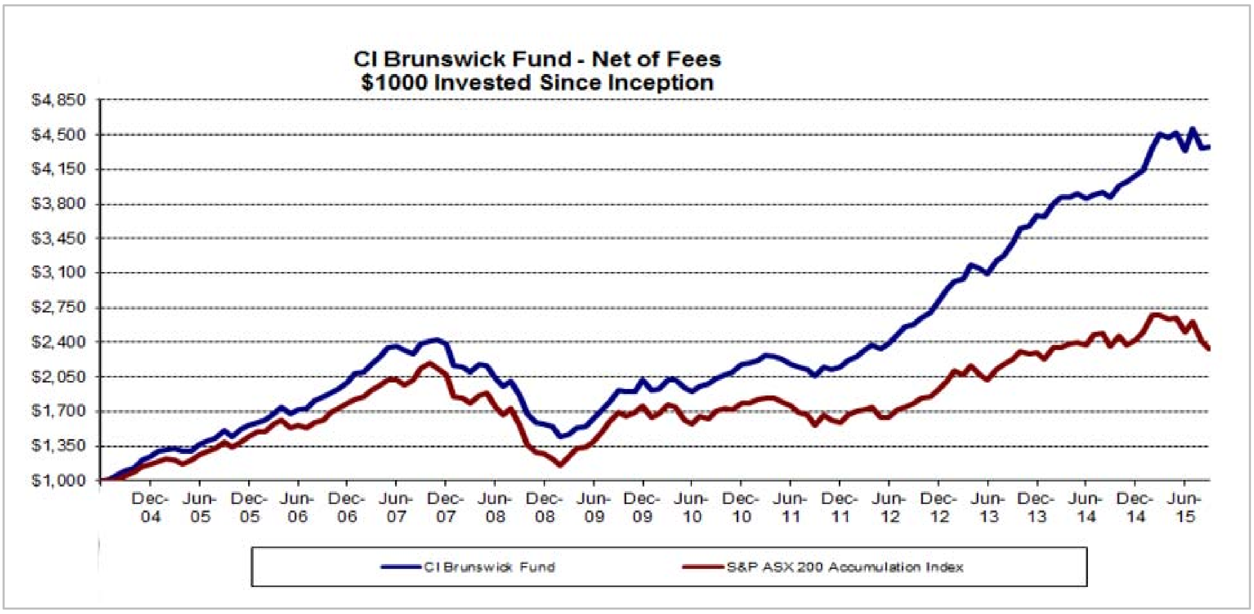
SEPTEMBER 2015

"The limits of tyrants are prescribed by the endurance of those whom they oppress" Frederick Douglass.

"Life is a series of natural and spontaneous changes. Don't resist them - that only creates sorrow. Let reality be reality. Let things flow naturally forward in whatever way they like" Lao Tzu.

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	2.06%	-6.58%	8.64%
ROLLING 1 YEAR	16.19%	-0.68%	16.87%
ROLLING 3 YEAR	21.51%	9.36%	12.15%
ROLLING 5 YEAR	18.91%	6.55%	12.36%
ROLLING 7 YEAR	14.95%	5.93%	9.02%
ROLLING 10 YEAR	13.95%	5.34%	8.61%
SINCE INCEPTION*	17.56%	7.84%	9.72%
SINCE INCEPTION^	517.46%	133.84%	383.62%

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



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Market and Portfolio Performance

The market correction that began in the June quarter continued into the September quarter, with the benchmark down 6.58% for the quarter. The annual return for the market now sits in negative territory, at -0.68%.

The Australian stock market followed other global markets lower with August delivering the worst monthly performance for the Australian market since 2008, when financial markets were in the grip of the financial crisis. In the US, the S&P 500 Index declined 6.9% for the quarter, and the MSCI World index lost 8.2%.

The equity market weakness was sparked by concerns surrounding global growth, and in particular slowing economic growth in China. This was exacerbated in part by the surprise move by Chinese authorities to modestly devalue their currency and the significant falls seen in the Chinese equity market.

In Australia the equity market weakness was led by materials stocks, with the resources sector falling 16% for the quarter. Slowing global demand, particularly continued softness in the economic data coming out of China, is seeing market concerns focus on the on-going over supply in some commodity markets. We have remained cautious on these sectors and hold an underweight exposure to resources.

Banks were also in focus and were a significant drag on the market, with the Bank sector returning -11.35% for the quarter. The focus was on the need for banks to raise capital.

The Australian equity market has provided superior returns to most countries over the last 115 years with a 7.3% p.a. real return and an 11.1% p.a. nominal return. The last 5 years, however, have fallen below trend.

Countries	Annualised real return (% per year) Period		
	2000 – 2014	1990 – 1999	1900 – 2014
Australia	5.0%	9.0%	7.3%
Canada	4.2%	8.3%	5.8%
Germany	1.5%	9.8%	3.2%
Italy	-2.9%	6.4%	1.9%
Japan	0.1%	-5.2%	4.1%
South Africa	9.6%	4.6%	7.4%
Switzerland	3.2%	14.0%	4.5%
United Kingdom	1.0%	11.2%	5.3%
United States	2.4%	14.2%	6.5%
World (USD)	1.8%	7.8%	5.2%

Source: Credit Suisse Global Investment Returns Sourcebook 2015

Today the ASX200 is a highly concentrated market with 40% of the total market capitalisation comprised of the financial sector including 30% in bank stocks. Many investors' portfolios hold in excess of 40% in the bank and financial stocks. The banks have delivered superior capital, dividend and franking returns over the last 20 years driven by regulatory support, increased borrower leverage, falling mortgage capital requirements (until recently), above GDP credit growth, operating efficiency improvement and falling bad debts. In the future it is less likely that these particular factors will be the driver of superior banking sector returns. To this extent the bull run in banks "could be over" and we would tend toward lower rather than higher weightings in bank stocks, especially given the high correlation of bank stocks to each other in light of sensible diversification.

Positive contributors to the portfolio included TPG Telecom (they delivered a good operating result and signed a fibre network deal with Vodafone); Soul Pattison (a safe haven, family controlled company in these volatile times); Village Roadshow (improving tourism visitation); Lifestyle Communities (continuing to improve their operating model and growth platform); CSL (delivered a solid operating result); Carindale (one of the best shopping centres in Australia); and Oil Search (received a bid from Woodside). Underperformers included Bendigo (sector capital concerns); Boral (challenging housing market outlook); Twenty-First Century Fox (concerns over cord cutting and management changes); and CBA (capital raising).

The Portfolio

The portfolio remains positioned around five pillars or stock clusters:

- **Stalwarts** (16% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions. (Brambles and Telstra)
- **Bond like equities** (13%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time. (ALE Property Group, Auckland Airport, Carindale)
- **Niche growth companies** (28%) – 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. (Amalgamated Holdings and Remgro)
- **Turnarounds** (13%) – sound businesses with good management in place and good balance sheets essential. We especially like government to private turnarounds. (Sims Metal)

Currently the portfolio holds around 10% cash. The portfolio has around 11% of assets invested in overseas markets with positions spread across USA, UK, Singapore, Mexico and Hong Kong listed companies.

Portfolio attributes as at September 2015 are summarized below:

P/E	16.6
Beta	0.75
Yield	3.5
P/Book	1.9
ROE	11.7
Tracking error vs. ASX 200	5.27
Stock Numbers	40

Major sector exposures are:

Sector	Portfolio Weight
Healthcare & retirement	16%
Industrials	12%
Telecommunication	7%
Non-Bank Financials	14%
Foreign Equities*	9%
Energy	8%
Banks	7%
Materials	6%
Consumer	9%
Utilities	2%
Cash	11%

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

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Stock News

Recall (REC) ~ Good idea wrong price

Since being divested from Brambles in 2013 Recall (REC.ASX) has made good progress in increasing its earnings while developing a platform for future sustainable growth. This includes reinvesting into its sales and support teams generating 2 year average annual organic carton growth of 2%, while also divesting poor performing assets such as SDS Germany. We believe this organic carton growth is sustainable over the medium term as our analysis indicates that although paper usage in developed economies has been falling, paper storage is increasing at modest rates thanks largely to increased legal and compliance requirements. In developing economies it is estimated that paper usage is actually increasing, fuelling solid single digit storage growth rates.

REC has also increased its scale with strategic acquisitions that have both built out the company's network and driven 2 year average annual total net carton growth of 8%. Management has achieved this while simultaneously improving constant currency margins from 24.2% in FY14 to 25.2% in FY15 as it tracks toward its medium term goal of 30%.

In December 2014 Iron Mountain (IRM.US) proposed to acquire REC in a bid valuing REC at the time at A$7.00 per share (comprised of A$5.73 in IRM shares and A$1.27 cash). This was rejected by the REC board. In June 2015 a revised bid comprising 0.1722 IRM shares and US$0.50 per share cash (currently valuing REC at A$8.31) was agreed to by both boards, subject to shareholder and regulatory approval. Combining the IRM and REC businesses represents an excellent value creating opportunity for both sets of shareholders. It is particularly favourable to IRM shareholders for the following reasons:

1. At the low end of the net synergy target of US$155m (when fully synergised) IRM estimates the deal will be **26% accretive to its EPSadj (prior to US GAAP purchase price adjustments). We estimate this accretion to increase to 40% when applying REC's stated $248m synergy target.** Given the high duplication of some assets and REC's current corporate structure being established in preparation for larger scale we believe the higher end synergy benefits are achievable.
2. The deal will **significantly de-lever IRM**. Based on the mid-point of IRM's 2015 OIBDA forecast and its debt as of 2Q15 it is trading on net debt/OIBDA of 5x relative to REC's FY15 net debt/EBITDA of 2.5x.
3. **IRM trades on a higher earnings multiple**, commanding 12x CY15 EV/OIBDA relative to REC's FY16 EV/EBITDA multiple of 10x.
4. REC is **one of the last major acquisitions** in the document storage space available for IRM to acquire, given IRM and REC are the clear number one and two players globally.
5. REC provides **a beachhead for further growth into Asia** both with regard to REC's site network and its management expertise. Asia has a good long term outlook given the developing status of a number of its economies. REC has been expanding its presence in this region which now represents 9% of revenue (up from 7% in the pcp).
6. Material cost out (US$155 – US$248m) opportunities related to personnel, real estate and transportation as well as tax savings upon REC converting into IRM's REIT structure.
7. Where IRM is focussed on the larger Enterprise client segment, REC is more weighted to the less price sensitive SME space.
8. REC will potentially increase IRM's "non-REIT" earnings which should improve IRM's capital management optionality – its ability to organically fund dividend growth and acquisitions.
9. IRM has had challenges around a deterioration in its services gross margins and heightened SG&A costs. REC's management IP and added scale can assist in addressing these issues.

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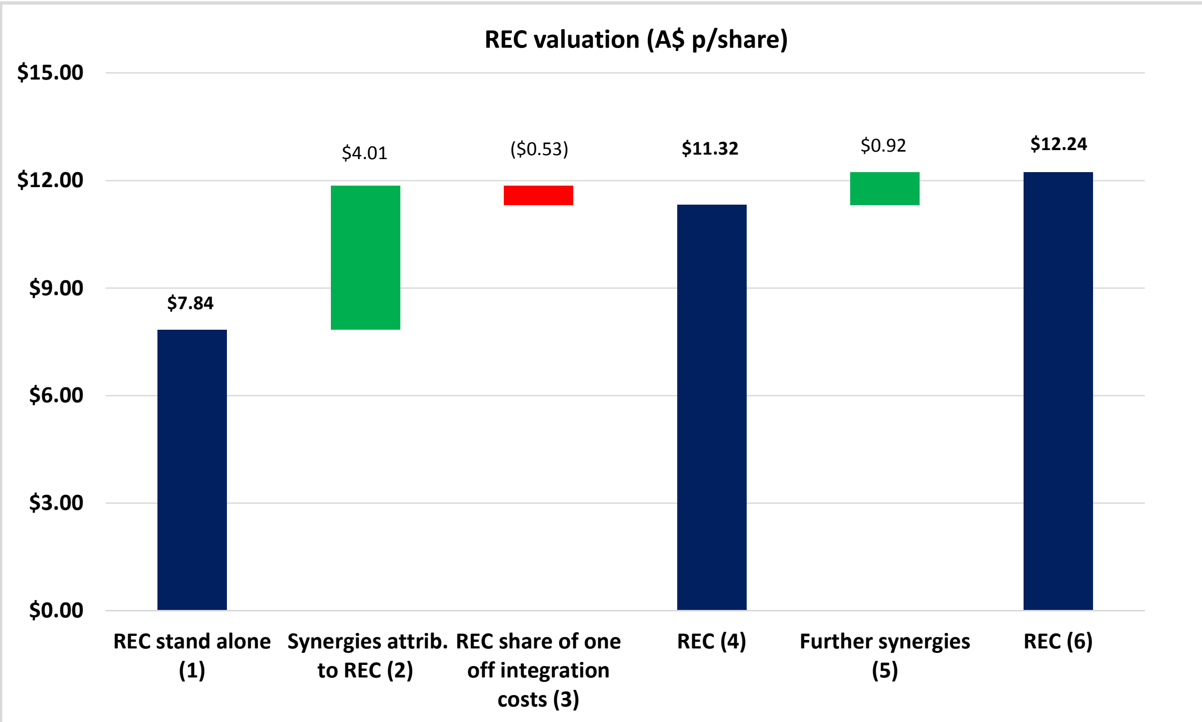
Iron Mountain's bid at current prices is worth A$8.31 to Recall shareholders. We believe the **bid will FAIL** because the current offer does not represent our view of fair value of A$11.32 to $12.24 per Recall share as detailed below:



(1) Cooper Investors standalone valuation is based on a discounted cash flow basis. Notably, at this valuation the ev/ebitda multiple of Recall is 10.2x and still much less than the current 12x ev/oibda multiple for Iron Mountain
(2) We have applied 50% share of US$202m in annual synergy benefits to REC, discounted the number back to a present A$ per share value and applied a multiple of 11x. This synergy figure is based on the mid-point of IRM and REC's publicly stated numbers (US$155m-US$248m)
(3) Applying 50% share of one-off costs (based on IRM's publicly stated US$300m figure) to REC which has been discounted back to a present A$ per share value.
(4) Valuation of REC when adding the per share uplift in point 2 less the decline in point 3
(5) We have applied 50% share of the incremental uplift if applying REC's publicly stated annual synergy target of US$248m less our US$202m used in point 2. We have discounted this US$46m number back to a present A$ per share value and applied a multiple of 11x.
(6) Valuation of REC when adding the further incremental uplift in point 5 to the valuation in point 4

REC as a stand-alone entity has an excellent asset network, management team and operating initiatives underway which present a clear roadmap to delivering long term value. We continue to believe in the underlying recurring nature of the document storage business which is complemented by current management's track record in generating solid synergies as it acquires assets across the globe. Therefore, we view the current offer price as far too low as it doesn't fairly share the synergy benefits. Given the existing services and cost challenges within IRM we believe there is **better optionality in remaining with the REC stand-alone entity**.

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Consolidation in the telecommunications sector continued with the announced merger of Vocus (VOC) and M2 Telecommunications (MTU) which will form the 4th largest telco player in the ASX, providing services to both retail and corporate customers. The other notable announcement was **TPG Telecom (TPM)** agreeing with Vodafone to extend its network to provide dark fibre services to Vodafone mobile cell sites and migrating its current mobile reseller arrangement from Optus to Vodafone.

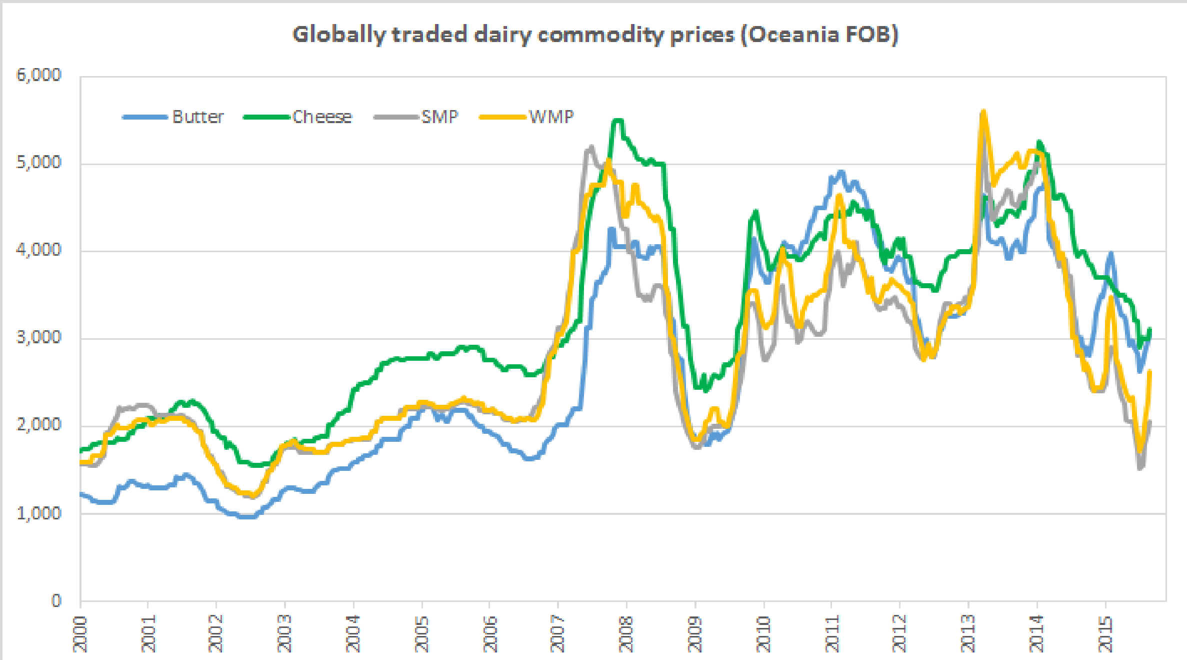
TPM reported a good full year result. Strong momentum in its consumer business continued, which saw the company grow its subscriber base organically and expand its margins. The pleasant surprise was in the corporate business, where management has shown its ability to extract efficiencies and expand margins in the AAPT business it acquired in late 2013. The agreement with Vodafone (noted above) will expand the company's network, which should put it in a good position to gain market share in the corporate sector. We believe there is good momentum in the business over the next couple of years as management integrate the iiNet (IIN) acquisition by leveraging its existing infrastructure and reducing costs.

Woodside Petroleum (WPL) approached **Oil Search (OSH)** with a proposed takeover offer. The approach was a non-binding indicative proposal that offered 1 WPL share for every 4 OSH shares, effectively valuing OSH at around $11.6 billion or just over $7.60 a share. Prior to the approach OSH was trading at $6.73.

WPL's approach was rejected by the Board of OSH, with the Board concluding that the approach by WPL was "opportunistic and grossly undervalues the Company". OSH has two globally competitive LNG projects in front of it; the train 3 expansion of PNG LNG and the development of the Elk/Antelope fields as Papua LNG. These projects have the ability to add significant value to OSH shareholders over the next 5-6 years. WPL on the other hand has limited viable growth projects at current oil prices. Although we do see some strategic merit in the combination of WPL and OSH, as with any stock based transaction it needs to take into account the relative value of both OSH and WPL's asset bases. It remains to be seen if WPL come back with an offer at a level that more fully reflects the value of OSH's assets.

MG Unit Trust (MGC) provides economic exposure to Murray Goulbourn, an unlisted public company that through its co-operative structure has the primary business of the sourcing and processing of milk into a range of dairy products. Growth in global demand for dairy products is underpinned by increasing per capita consumption trends in emerging markets. Murray Goulbourn's Milk supply is mostly sourced from Victoria, a low cost and relatively stable region, near the key growth market of Asia, and supplied by more than 2,500 supplier-owners. Current management have been in place since 2012, when the current strategy began to be implemented. They have a clear and deliverable strategy. The strategy is to focus on cost leadership and increase value added component of dairy products produced, at the expense of more purely commodity products.

The chart below shows that global dairy commodity prices have fallen significantly over the last 2 years. This is a function of over supply due to the supply response from previously elevated product prices and Russia implementing an import ban from some of the major dairy producing regions. Prices are now near cyclical lows and with farmers in some of the prime milk producing regions likely to be loss making at recent price levels, a supply response is likely to gradually move the market back into balance over the coming years. This should see dairy commodity prices stabilise and gradually improve over the medium term. Although MGC has a strategy of reducing their exposure to commodity products, they still represent 37% of revenue and are likely to continue to be a meaningful amount of production for some time.



Source: United States Department of Agriculture

A similar company to Caltex (CTX), and a clear example of a company sticking to their core competencies, is **Z Energy (ZEL)**. Z Energy operates in the same industry segment as CTX, albeit in New Zealand. In June, Z Energy moved to acquire Chevron's New Zealand downstream transport fuels business, one of their three major competitors, for NZ$785m. While the transaction still requires clearance from the New Zealand Commerce Commission, the acquired business clearly sits within Z Energy's core capabilities and strengthens their market positon in New Zealand fuel distribution. The transaction is being undertaken at an attractive price for Z Energy shareholders and is expected to be at least 34% accretive before synergies. Z Energy management have exhibited a high degree of capital discipline and operational expertise which they will be able to bring to bear to make this a successful value adding acquisition.

DUET Group (DUE) entered into a scheme of arrangement with **Energy Development (ENE)** under which DUE would acquire all of the shares of ENE for $8.00 cash. This is an attractive price relative to our valuation of ENE and as such we will be voting in favour of the scheme. The transaction is expected to be completed in October.

Observations ~ International trips

USA Trip

We recently travelled to the United States where we visited with the management teams of various listed and unlisted companies. On a sectoral level the primary focus was on furthering our knowledge of Iron Mountain (IRM) / Recall (REC), Brambles (BXB) and Sims Metal management (SGM). Some key takeaways from the trip were:

Brambles hosted an investor event which showcased a range of the company's senior executives in a forum that was open and interactive. The event provided useful information on where BXB's $1.5bn growth capex (planned over the next four years) is being allocated and the expected returns it should generate. It also provided somewhat of a roadmap to how the company intends to reach its group level 20% ROIC target by 2019.

While we acknowledge the need for improvement in the US economy in order to meet these long term targets and believe management overestimated the quality of their existing US pallet pool, we see opportunity for BXB to materially grow earnings at pleasing rates of return as it deploys its capital over the next four years. The business retains a highly valuable asset network which is very well managed in the context of maintaining absolute market leadership and, at current levels, the share price does not reflect the publicly stated objectives of the company.

When in the US we met with a number of operators in the scrap metal market. On a macro level the messaging was loud and clear that scrap market conditions are incredibly tough with no expectations for a recovery in the near term. Contributing factors to this are the slow-down in global demand for steel at the same time as Chinese steel exports are on the rise. While this very tough dynamic is a severe headwind for SGM, we remain very impressed with SGM's strategy of turning the company from somewhat of an ad-hoc scrap metal trader to a well-managed scrap metal and e-recycling logistics business with a highly valuable and globally integrated asset network.

The company has high competitive advantages in terms of its waterside assets and international land bank. This assists in product sourcing and shipping costs relative to its smaller competitors while also enabling its US product to be predominantly sold offshore rather than within the country. With a large net cash balance sheet we look to SGM to maximise this severe downturn by potentially buying distressed competitors in deals that are highly accretive to returns while also strategically important in rationalising the industry.

China trip

During the quarter, we spent two weeks in China, visiting Beijing, Tangshan, Jinan, Chengdu and Shanghai. The major theme of the trip was resources related, but this was balanced with visits to companies in other sectors including health, technology, media and agriculture. We came away feeling that businesses in the heavy industries will remain under pressure for some time. These industries expanded at a rapid pace during China's economic development and now there are overcapacity issues that need to be addressed given the slowdown in demand. A lot of the companies we visited in the steel and aluminium industries are unprofitable and are hoping that demand will pick up and/or their input costs will fall. There is also hope they can export some of this overcapacity via "One Belt One Road" (OBOR); an initiative to build out infrastructure in emerging economies neighbouring China. The other cost that needs to be addressed is pollution, which was particularly evident in the Beijing skyline. There is no doubt there has been misallocation of capital in China but it can also be argued that there have been substantial benefits from the build out, such as first class infrastructure (highways, high speed trains). Overall, it is difficult to get enthusiastic on the commodity demand outlook, especially given the government's aim to transition the economy from investment to consumption.

General observations

- Overcapacity in steel and aluminium: demand for steel is weak and domestic consumption is down ~4% in the 1H vs. the last year. Demand growth in aluminium is being exceeded by supply growth. The sentiment was negative in the majority of these meetings.
- A lot of talk about exporting overcapacity via OBOR and there has been a pickup in steel and aluminium exports this year. The policy banks we met (China Development Bank, Export-Import Bank) have been directed by the state to lend to domestic companies that go abroad and lend to developing economies to support the build out of their infrastructure.
- Too many people employed in heavy industries and it is very difficult to retrench people. The general view is that the government is not doing enough to retrain workers. As an example, a state-owned mining company we met is considering demerging its unprofitable iron ore division which employs 10,000 people because it has been too difficult to close the operation.
- A lot of locals dismiss the view that there is a debt problem in China and think the central government will provide the back stop. It appears a lot of the debt is held at the local government level directly and indirectly through local government finance vehicles. We got varying estimates of debt to GDP in our discussions. One thing for sure is that leverage has increased significantly post-GFC.

- Non-performing loans (NPLs) are trending higher. Reported NPLs is ~1.3% but actual is probably above 3%. The usual suspects with high NPLs are the steel, mining, cement and property companies.
- People want to live in tier 1 and 2 cities. Even though housing is very expensive already in Beijing and Shanghai, the general view is that prices will continue to rise. A property developer we met said that land in Shanghai is being acquired at a similar price to an equivalent established building, so they are essentially speculating prices will increase when they start to presell. In tier 3 and 4 cities, there is an oversupply issue (inventory level of ~3 years) and this is where the majority of property construction is taking place.
- It was hard to gauge the exact level of home ownership in China but it is high relative to other countries around the world.
- Chinese people have a general view that property is a good store of wealth and is passed down to future generations. Other options include depositing at the bank where interest rates are low and investing in the stock market which is still in its early development phase.
- Property demand in developed economies such as Australia, US and Canada is likely to continue. Prices in Beijing and Shanghai are more expensive than Sydney and Melbourne. Other reasons include health, education, property rights, diversification etc.
- Coal accounts for two-thirds of the country's energy mix. There is a strong push for alternative options such as solar, wind, nuclear and hydro.
- Wage inflation is an issue and is increasing at high single digits.
- Strong trends in consumer spending: there is still strong demand for luxury/aspirational brands from the upper and middle class. China's share of total world luxury spend is now ~29%.
- Strong internet thematic: we learned a new acronym "BAT" which stands for Baidu, Alibaba and Tencent; the leading internet companies in China. We visited Zhaopin (Seek is a substantial shareholder) and Autohome (Telstra is a substantial shareholder) and we were impressed by their business models and industry trends.
- There is strong interest from Chinese investors in the agricultural and dairy sectors in Australia. The dairy industry outlook is positive where volumes are expected to grow at mid to high single digits to 2020. Exports from Australia should increase due to the Free Trade Agreement.
- There was a lot of chatter about the stock market. It appears that the central government has this idea that a strong share market will allow SOE and private companies to recapitalise their balance sheets via IPOs / capital raisings.

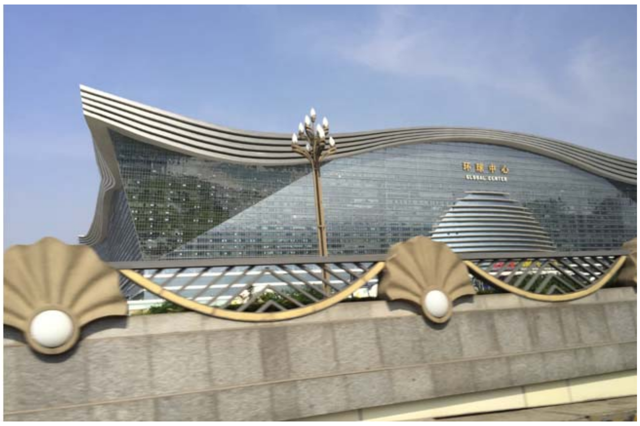
Some photos we took along the way:

A steel mill we visited in Chengdu.

Beijing's skyline on a normal day.

These pictures were taken on our high speed train ride from Beijing to Tangshan, and show the mammoth build out of residential apartments.

Our preferred mode of transport.



Global Trade Centre in Chengdu, probably bigger than the MCG!

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Note: During the quarter the Transaction Costs applicable to Applications and Redemptions in the Fund were reduced from 0.5% to 0.3%.