CI BRUNSWICK FUND
QUARTERLY REPORT

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

SEPTEMBER 2013

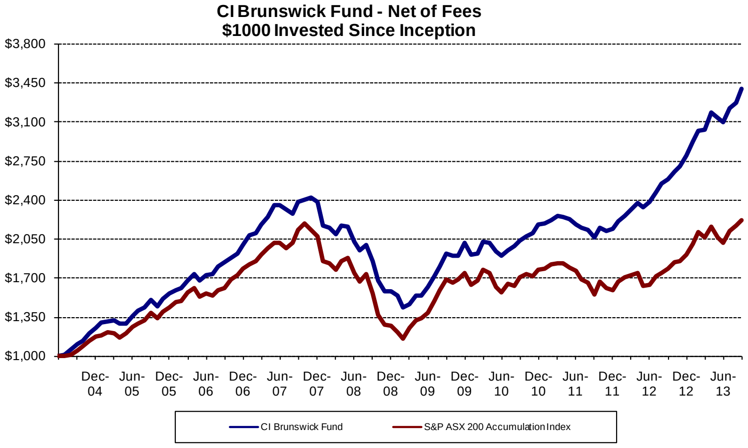
"In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself." James Madison.

"There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else." Sam Walton.

"In investing, what is comfortable is rarely profitable." Robert Arnott.

	****PORTFOLIO**	**BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	10.06%	10.20%	-0.14%
ROLLING 1 YEAR	33.46%	24.29%	9.17%
ROLLING 2 YEAR	30.38%	19.45%	10.93%
ROLLING 3 YEAR	20.94%	9.28%	11.66%
ROLLING 5 YEAR	14.55%	7.30%	7.25%
ROLLING 7 YEAR	11.40%	4.70%	6.70%
SINCE INCEPTION*	17.92%	9.02%	8.90%
SINCE INCEPTION^	359.47%	122.27%	237.20%

* Annualised
^ Cumulative (1 July 2004)
** Before fees and expenses



Market and Portfolio Performance

The S&P/ASX200 Accumulation Index rose strongly over the quarter and year to 30 September 2013 by 10.20% and 24.29% respectively. Global stock market performance was also solid. Over the quarter, in comparison with Australia, the S&P 500 rose 5.71%, UK FTSE 100 rose 4.91% while the China A Shares Index rose 19.17%, on the back of stronger Chinese economic data.

Full year earnings results were broadly in-line with market expectations ~ FY13 earnings were flat on last year, but up around 7% excluding the resources sector. Increased dividends were a constant theme across the industrial and financial sectors. There was little sign of sales growth in the domestic economy and companies continued to focus relentlessly on costs to drive the bottom line. Looking forward, low double-digit consensus earnings expectations suggest a recovery in demand and top line growth is anticipated over the next 12-18 months.

The portfolio returned 10.06% and 33.46% over the quarter and year. Over the quarter, portfolio out-performers included TPG Telecom, Bega Cheese, Lifestyle Communities and Alchemia. Under-performers were Tatts Group, Brambles and Jardine Strategic. The resources sector performed strongly +17.32% on the back of an improving Chinese economy and stronger iron ore prices, whilst the industrial sector under-performed the market but still delivered a positive return of +8.47%.

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The Portfolio

"I think you have to learn that there's a company behind every stock, and that there's only one real reason why stocks go up. Companies go from doing poorly to doing well or small companies grow to large companies." Peter Lynch.

Over the quarter the portfolio established new positions in Summerset, Auckland International Airport and Equity Trustees, whilst selling down positions in APA Group, Transurban, News Corp and Australand Notes. The portfolio also participated in the Z Energy IPO.

The portfolio remains positioned around five pillars or stock clusters:

- **Stalwarts** (36% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (Brambles, Telstra, Village Roadshow).
- **Bond like equities** (9%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Tatts Group, Auckland International Airport).
- **Niche growth companies** (23%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (TPG Telecom, Summerset, Macquarie Telecom, Equity Trustees).
- **Asset plays** (13%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (WH Soul Pattinson, Jardine Strategic).
- **Turnarounds** (15%) – sound businesses with good management in place and good balance sheets essential. We especially like government to private turnarounds (Transpacific Industries, Z Energy, Aurizon).

Currently the portfolio holds around 4% cash and another 2% in high yielding hybrid securities such as Transpacific Preference Shares. The portfolio has around 8% of assets invested in overseas markets (excluding NZ stocks) or 23% (including NZ stocks). These positions are spread across the UK, Singapore and Hong Kong listed companies.

Portfolio attributes as at 30 September 2013 are summarized below:

P/E	16.3
Beta	0.79
Yield	3.2%
P/Book	1.9x
ROE	11.5%
Tracking error vs. ASX 200	5.24%
Stock Numbers	35

Major sector exposures are:

Sector	**Portfolio Weight**
Financials	26%
Industrials	14%
Consumer Discretionary	13%
Consumer Staples	8%
Telecommunications	10%
Energy	8%
Healthcare	4%
Materials	5%
International Equities*	8%
Cash	4%

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

Stock News

"Sometimes when you innovate, you make mistakes. It is best to admit them quickly, and get on with improving your other innovations." Steve Jobs.

Equity Trustees (EQT) ~ during the quarter we purchased Equity Trustees. Equity Trustees is a niche financial services business with good market positions across trustee, wealth management and asset administration services. The company has a longstanding track record in the industry and has stood the test of multiple investment and regulatory cycles over its 100+ year history.

The business is undertaking 2 large-scale, internally focused initiatives that we think in aggregate can deliver a return to 30% operating margins and potentially double EBIT from the Private Wealth Services (PWS) business over the next 3-4 years including:

1. Cost-out (Project Foundation) ~ in mid-2012 Equity Trustees embarked on a 2-year operational improvement program aimed at simplifying its structure, consolidating systems/processes and enabling cross-sell opportunities. This involved a period of heavy investment with benefits expected to flow from FY14 and beyond.

2. Revenue growth ~ as part of the FY13 result, management announced a major initiative to sharpen the focus and drive growth within the PWS business. We await further granularity on the strategy, but we expect it will focus on reinvigorating growth in the will bank through advisor referral agreements, increased investment in aged care related services and improving product distribution.

The trustee industry is in the midst of consolidation with The Trust Company (TRU) under competing takeover offers from Perpetual, IOOF and Equity Trustees. Whilst the outcome of Equity Trustees' bid remains uncertain, we believe the company is well placed to participate in further industry consolidation as either an acquiror or acquiree over time.

Z Energy (ZNZ) ~ during the quarter we participated in the Z Energy IPO. Z Energy is the former Shell NZ fuel distribution business that was purchased by Infratil and the NZ Superannuation Fund in early 2010. We are attracted to Z Energy for the following reasons:

- **Quasi public to private turnaround** - Generally, we are very attracted to public to private turnaround stories – we find that the operations tend to have significant latency and there is a large energy release. Z Energy has many similar attributes to such a situation given the downstream Shell NZ assets would have been a speck in the ocean relative to Shell's global opportunity set resulting in them being neglected and under-invested. Z is now a nimble locally owned company competing against slow moving global multi-national oil companies.

- **Attractive market structure** -The 4 incumbent operators essentially own the entire downstream infrastructure (e.g. terminals, pipelines, coastal ships etc.) in NZ (with the exception of Gull who own 1 terminal at Mt Maunganui). New entrant economics are not attractive given that it is very difficult to get the required scale in most regions due to the dispersed population and remote geographies. This enables the incumbents to ensure that the fuel margin is captured at the primary distribution level rather than the secondary distribution / retail level.

- **Quality management team** - Z has a high quality executive team who have considerable industry experience.

- **Incremental organic growth opportunities** - While several initiatives have been implemented over the past couple of years (e.g. the store re-branding and reinvigorated retail offer) there remain several other organic opportunities over the coming years such as opening new retail sites, improving product procurement and refinery / coastal shipping optimisation.

- **Industry consolidation** - There is a strong possibility for a game changing acquisition of one of the other incumbent operators in NZ – there would be significant synergies from such a transaction both from an operating cost perspective and a working capital perspective.

- **Un-demanding valuation** - At the IPO price of NZ$3.50, Z was on an EV/EBITDA of ~8x, PE of 13x and cash dividend yield of ~6%. These metrics are attractive for a business with a very favourable market structure, infrastructure type characteristics and a runway of growth opportunities (both organic and acquisitive).

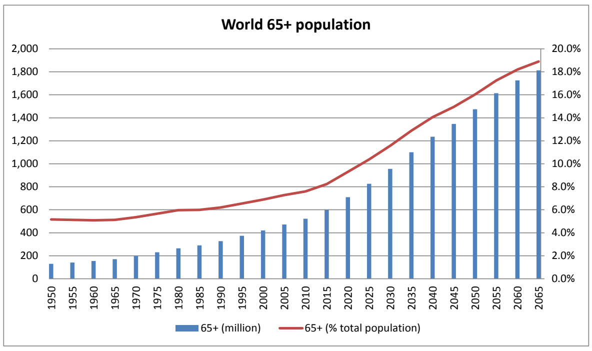
TPG Telecom (TPM) reported FY13 results in September. While the financial results were solid and highlighted the strong operational momentum within its consumer broadband business, which added 76k subscribers, the most exciting aspect of the announcement was the unveiling of the Fibre-to-the-Building (FTTB) initiative. Under its FTTB strategy TPG plans to roll-out high speed (100Mbps), unlimited and low cost ($69/month) broadband to high rise buildings in major metro markets utilising its existing fibre infrastructure (a legacy of its Pipe Networks acquisition made in 2010). The target roll-out aims to pass 500k customer premises, of which around 10% are existing TPG customers. In a nutshell, the benefits of FTTB include more customers, lower cost to serve by bypassing the $16 ULL access charge and further entrenchment of TPG's infrastructure competitive advantage. The key risks around the initiative include the logistical challenges associated with a large scale roll-out and potential left-field regulatory issues, which may require negotiation along the way. Nonetheless we think TPG is well placed to manage through these challenges.

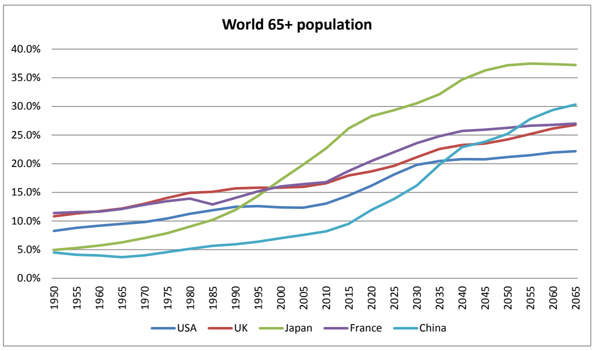
In early September, **Bega Cheese (BGA)** made an offer for Warrnambool Cheese & Butter (WCB). The offer was for 1.2 Bega shares and $2.00 cash which represent $6.26 value at the time of writing, compared with the share price of $4.51 on the day before the offer. We believe that this offer represents compelling value to WCB shareholders given the significant premium offered and WCB's history of chronic under-performance. It is highly likely that the quality Bega management team can add significant value to the WCB assets over time and can reduce the volatility of its earnings. While the WCB Board has rejected the initial offer, we believe that BGA is ultimately the natural owner of the assets and that it can create a high-quality Australian dairy company of significant scale.

The portfolio also established a new position in **Auckland International Airport (AIA)**. While there was no specific news around AIA, recent results have confirmed the underlying positive trends of the business. We are particularly attracted to AIA's long duration asset, relatively benign regulatory environment and diversified revenue mix ~ aeronautical (44%), retail (28%), commercial (13%) and other sources (15%). AIA also provides low risk exposure to the Asian consumer story through increased Chinese visitation, a theme we explored in detail in the Brunswick Fund June 2013 Quarterly Report.

Market Observations- The Ageing Population

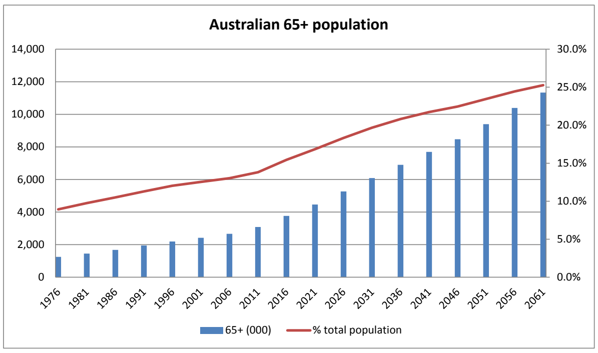
The ageing population megatrend is a well understood dynamic that has been in-train across the developed world for decades and it is expected to continue. The UN projects that the proportion of the population aged 60+ will increase in nearly every country in the world over the next 50 years as a result of declining fertility rates, increasing longevity and, to a lesser extent, the more recent impact of an ageing 'baby boomer' generation. The social and economic implications of an ageing population have been well documented, particularly in Japan where its policy makers are faced with the monumental task of dealing with Japan's older population increasing from 23% to around 40% of the total population by 2055. Now that is old!

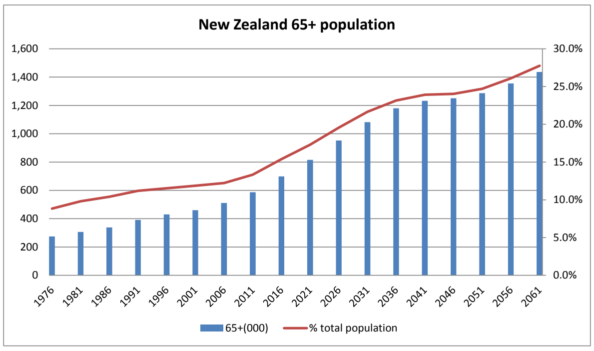




Source: United Nations, DESA

Given this backdrop it's no surprise that Australia and New Zealand have experienced similar trends. We note the demographics in Australia and across the ditch are approaching a tipping point that will lead to a rapid increase in the ageing profile over the next 20 years as a result of the 'baby boom' generation born between 1946-1964 moving into retirement phase. This will mean a near doubling of their respective older populations over the next 2 decades.





Source: ABS, Statistics NZ

A clear investment implication of a rapidly ageing population is the increase in demand for retirement village accommodation and aged care services. We are particularly attracted to companies that provide investors with exposure to this strong industry tailwind through recurring, annuity style cashflow streams as opposed to development profit led business models that have in general failed to deliver the goods for Australian investors over the last decade. During the quarter we took the opportunity to add **Summerset (SUM)** to our existing exposure in this space.

Summerset builds, owns and operates retirement villages in New Zealand. It is the third largest operator and second largest developer in the sector. The business was established in 1994 and listed on the New Zealand stock exchange in November 2011. We are attracted to Summerset for the following reasons:

- Strong demographic and industry trends that should support a long period of growth.
- Fragmented industry structure with a long tail of small, sub-scale participants should mean that the supply of new retirement villages will not keep up with emerging demand.
- Significant barriers to entry for new competitors including funding constraints, long development timelines and the operational and regulatory complexity that comes with providing aged care.
- Summerset is increasing the focus on aged care in its retirement villages, which we view as a critical competitive advantage. The "continuum of care" model, which refers to the integration of aged care facilities into retirement villages, makes the product offering 'needs-based' and therefore very resilient.
- A self-funding business model whereby the sale of retirement units covers the development costs for the entire village (i.e. retirement units, aged care facility and the main building / communal facility). Construction costs are funded via debt which is repaid from the initial retirement unit sales, and once sold down a village should be debt free. As such the return on incremental capex is excellent and recycled capital can be used to fund development of the next village.
- Management are in the process of internalising development and project management functions, which is expected to drive an increase in development margins from 12% in FY12 to 17% by FY15. We note that the targeted 17% development margin excludes any upside from procurement savings, which could be material.
- In FY12 management delivered 160 new retirement units and increased the targeted medium-term build rate from 250 units per annum to 300 units per annum by FY15. This will drive significant growth in the size of Summerset's earnings and village portfolio for the next three to five years. Execution risk on the ramp up in build rate is a key risk to our investment proposition as we assume Summerset can build and sell down villages at a much higher rate than it has in the past. We believe that Summerset is well placed to manage these risks given its 14 year development track record, diversity across 10 different sites and current pre-sales trends.

International Visits - Observations from CI's investment team

During the quarter CI's investment team travelled to Indonesia and the Philippines, visiting companies across a range of industries, including Indonesian listed **Astra.**

Astra is 50.1% owned by Jardine Cycle & Carriage, which in turn is 72% owned by portfolio holding **Jardine Strategic (JS)**. The company was established in 1957 as a garage-based trading company in Jakarta and has grown to become one of the largest and most respected national companies. Astra has interests in the consumer (automotive and financial services), mining, agriculture and increasingly infrastructure sectors, either through wholly or partially owned entities.

The strength of Astra's management, market position and governance standards was acknowledged by all its peers, irrespective of sector (be it automotive distribution/components, heavy equipment or financial services, to name a few). Indeed a number of ex-Astra management alumni now run sizeable competitors, which are in turn also well respected.

Earnings headwinds including slowing revenue growth, increased competition, lower commodity prices and higher funding costs are likely to persist for the next 6-12 months. That said, we think that these are well-understood by the market.

The group continues to successfully diversify away from the consumer sector and over time we expect a greater contribution from the non-automotive and financial services sectors. Given Astra's conservative balance sheet, and prudent management of capex, we do not foreshadow any change to the current 45% dividend payout ratio.

The "portfolio approach" which Astra represents is, in our view, a conservative way of getting exposure to Indonesia's long-term prospects, which we regard as favourable, notwithstanding the current (well-flagged) challenges.