

# CI GLOBAL EQUITIES 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.

## DECEMBER 2015

***"Freedom is the right to tell people what they do not want to hear." George Orwell***

***"He who buys what he doesn't need steals from himself." Swedish Proverb***

***"Those who do not learn from the past are condemned to repeat it." George Santayana***

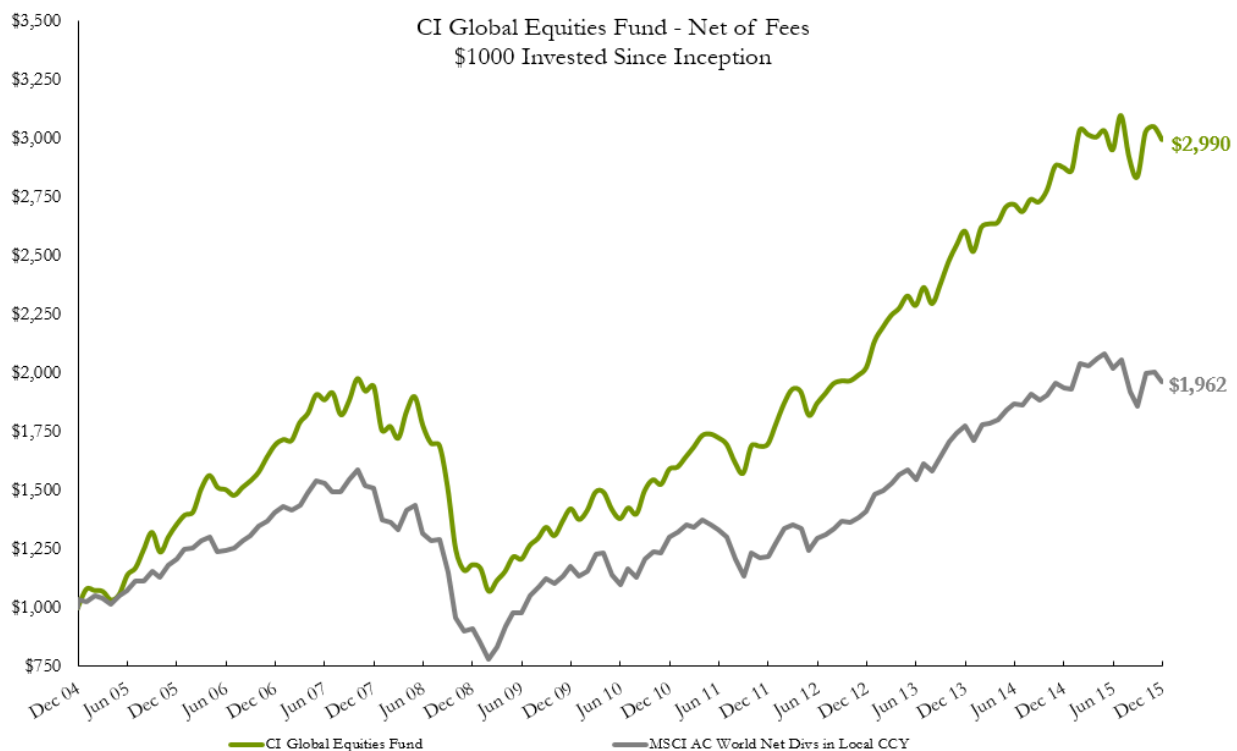
	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	5.94%	5.76%	0.18%
ROLLING 1 YEAR	5.95%	1.27%	4.68%
ROLLING 3 YEAR	15.27%	11.60%	3.67%
ROLLING 5 YEAR	14.43%	8.54%	5.89%
ROLLING 7 YEAR	15.36%	11.57%	3.79%
ROLLING 10 YEAR	9.42%	4.97%	4.45%
SINCE INCEPTION*	11.47%	6.27%	5.20%
SINCE INCEPTION^	233.31%	96.17%	137.14%

\*Annualised

^Cumulative (1 December 2004). Initially, the Fund invested predominately in Australian equities. However since May 2006, the Fund has been invested in a broad range of global equities.

\*\*Before fees and expenses

# MSCI AC World Net Divs in Local Currency



# CI GLOBAL EQUITIES 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.

## DECEMBER 2015

### Market and Portfolio Performance

Another year has drawn to a close and after all the excitement of a volatile 2015, key global benchmarks closed slightly down in price terms in local currency. Thanks to dividends S&P 500 ended the year up 0.7%, its worst performance since 2008 while the MSCI All Country World Index rose just 1.3%. Below the index surface lie large variations across countries, as shown in the table below:

DEVELOPED MARKETS 1Y Price Change				EMERGING MARKETS 1Y Price Change			
Country (Index)	AUD	USD	Local Ccy	Country (Index)	AUD	USD	Local Ccy
Denmark (OMX Copenhagen)	30%	16%	29%	Russia (MICEX)	49%	33%	61%
Japan (TOPIX)	23%	10%	10%	China (CSI 300)	13%	1%	6%
US Tech (NASDAQ)	19%	6%	6%	Korea (KOSPI)	8%	-4%	2%
Italy (FTSE MIB)	14%	1%	13%	Philippines (PSE)	3%	-9%	-4%
US (S&P 500)	12%	-1%	-1%	India (SENSEX)	2%	-9%	-5%
Germany (DAX)	11%	-2%	10%	Taiwan (TAIEX)	-3%	-14%	-10%
Switzerland (SMI)	10%	-3%	-2%	Mexico (IPC)	-4%	-15%	0%
France (CAC 40)	10%	-3%	9%	Chile (IPSA)	-8%	-18%	-4%
Netherlands (AEX)	5%	-7%	4%	Indonesia (JCI)	-11%	-21%	-12%
Hong Kong (Hang Seng)	4%	-7%	-7%	Thailand (SET)	-12%	-21%	-14%
Sweden (OMX Stockholm)	3%	-8%	-1%	Malaysia (Bursa KLCI)	-12%	-22%	-4%
UK (FTSE 100)	1%	-10%	-5%	South Africa (JSE)	-14%	-24%	2%
Australia (ASX 200)	-2%	-13%	-2%	Egypt (EGX30)	-19%	-28%	-22%
Spain (IBEX)	-6%	-17%	-7%	Turkey (ISE 100)	-25%	-33%	-16%
Canada (TSX Composite)	-17%	-26%	-11%	Brazil (Bovespa)	-34%	-42%	-13%

Source: Factset

An overarching theme to market returns in 2015 has been the strong U.S. Dollar. Thus in USD terms very few markets achieved a positive total return.

Denmark takes the chocolates as the best performing developed market though it should be noted that this is largely due to the 20% index weighting in a single stock; Novo Nordisk which returned 56% this year. Japan also had a good year as investors continue to give Abenomics the benefit of the doubt. While the U.S. market was more or less flat, returns were dispersed with energy and industrial companies underperforming badly and large tech companies like Facebook, Amazon, Netflix and Google (the so-called 'FANG's') continuing to outperform. Thus the NASDAQ was up 6% in USD terms for the year.

Most developed European indices had a respectable 2015, boosted by the QE program launched earlier in the year and a number of EU states returning to economic growth after drawn out recessions. An exception was the UK which for the second year running is down in local currency terms. Like the ASX200, the UK FTSE index is heavily biased toward energy and mining stocks, and the weakness in the commodity complex has been another key feature of 2015 with commodity exporting countries such as Canada, Brazil and South Africa all having a wretched year. After nearly halving in 2014, the price of a barrel of crude oil fell another 30% in 2015 to close the year at \$37 (WTI), the lowest level since December 2008.

# CI GLOBAL EQUITIES 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.

## DECEMBER 2015

Regarding the portfolio, performance for the year in 2015 was driven by stalwarts like NTT DoCoMo, Danaher and Reckitt Benckiser, or Niche Growth stocks like Google and Novo Nordisk. In terms of detractors for the year, whilst the portfolio continues to be underweight emerging markets, performance was still impacted by a few holdings, particularly in countries which saw combined equity market and currency weakness such as Latin America and South Africa.

Moving to the 4<sup>th</sup> quarter and after the sharp declines seen in August and September global equity markets bounced strongly as investors prepared for the end of the zero-interest-rate era. The MSCI AC World rose almost 8% in October, its strongest monthly gain in 4 years.

On 17<sup>th</sup> December the U.S. Federal Reserve increased its Target Rate range to 0.25% to 0.50%, the first time that the 'World's central bank' has raised rates since June 2004. Far from sending shockwaves through global markets (as the Chinese did with the renminbi devaluation in August) this was surely the most widely expected policy rate hike in history, with commentators having become obsessed to the point of analysing FOMC meeting notes word-for-word, and excitedly discussing the 'dot-plot' which suggests a further four interest rate rises in 2016.

A consistent message from our meetings with corporates across the globe is that they are generally positive about long term prospects but would prefer more near-term certainty before investing and spending their precious cash. It is to be hoped that this move higher in the price of money and the signalling it creates around the strength of the world's largest economy may encourage more capital allocators to pull the trigger in 2016.

While we continue to believe in the power of a diversified portfolio, with a focus on strong businesses that can steadily grow earnings and cash flows through a variety of conditions, the propensity of the market to move from one fad to another has been displayed yet again in 2015. First, with the failure of so-called 'yieldco's - ostensibly vehicles to hold spun-off energy projects and distribute all their cash flows to public equity investors - and more recently with the blow-ups seen in high yield credit.

Wall Street is nothing if not innovative, and its ability to 'create yield' in the recent low-rate environment has been matched only by yield-starved investor's willingness to buy these products. The failure of US high yield bond manager Third Avenue this month is eerily reminiscent of the June 2007 collapse of the Bear Stearns 'High Grade Structured Credit Strategies Fund', one of the first shoes to drop in the GFC.

The AUD staged a late rally in the fourth quarter, gaining 4% against the USD, 6% versus the GBP and EUR, and 4% against the JPY. It closes 2015 at 73 cents against the USD down around 11% for the year.

The biggest contributors to performance for the quarter in terms of total shareholder return included:

1. **NTT DoCoMo** – Gained 25% in the quarter driven by relief around a benign regulatory outcome. The Japanese telco sector had fallen sharply in September after surprise negative comments by Prime Minister Abe that mobile bills were too high. In early December the MIC, Japan's telecom regulator presented its findings having reviewed the industry, and its recommendations are far less onerous than had been initially feared, with nothing that should hamper industry profitability.
2. **Alphabet (Google)** – Continued positive underlying trends and management execution.
3. **Agilent** – Rose as the market's concern over its exposure to chemicals and energy proved to be overblown as Agilent reported 6% organic revenue growth in the last quarter.

# CI GLOBAL EQUITIES 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.

## DECEMBER 2015

The worst performers for the quarter in terms of total shareholder return included:

1. **OHL Mexico** – The stock drifted down over the quarter despite reporting solid earnings with strong traffic growth on its major concessions, as the market continues to focus on the outcome of the CNBV accounting treatment investigation into the company.
2. **Shoprite** – South African stocks and the Rand fell sharply after President Jacob Zuma fired two finance ministers and hired a third across a four day period.
3. **Close Bros** – Small UK banks had a weak quarter as the government announced macroprudential measures to cool the housing market such as higher stamp duty on buy-to-let mortgages and second homes. Close Bros' management guided for slower loan growth next year, a natural outcome of maintaining disciplined lending standards in the face of more aggressive competition.

## The Portfolio

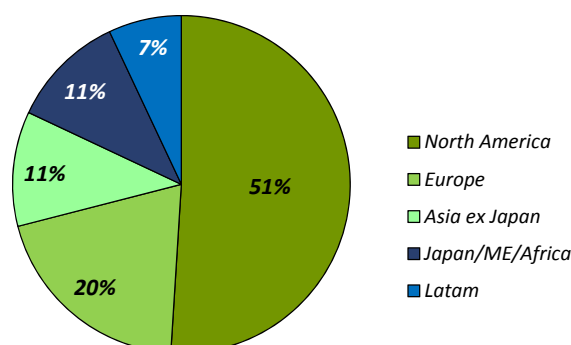
The portfolio is positioned around subsets of value:

- **Stalwarts** (40% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (Reckitt Benckiser).
- **Niche growth companies** (33%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Costco).
- **Bond like equities** (4%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Unibail-Rodamco).
- **Asset plays** (6%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (Remgro).
- **Low risk turnarounds** (13%) – sound businesses with good management and balance sheets. (Towers Watson).

The portfolio is also diversified by country and sector:

<b>No. of Stocks</b>	<b>42</b>
<b>Region Weights</b>	<b>US 50%</b>
	<b>Europe 34%</b>
	<b>Asia inc. Japan 5%</b>
<b>Most OW Sectors</b>	<b>Industrials, Cons. Staples</b>
<b>Most UW Sectors</b>	<b>Energy, IT</b>
<b>Cash</b>	<b>4%</b>

**Geographical Exposure by Source of Revenues<sup>#</sup>**



<sup>#</sup>Derived on a look-through basis using underlying revenue exposure of individual Fund stocks

# CI GLOBAL EQUITIES 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.

## DECEMBER 2015

### Buys

As is common with new positions we had been following **McGraw Hill Financial** (Mcap US\$26bn) for several years on our watchlist, regularly meeting the company and industry contacts to build conviction. McGraw Hill is a portfolio of four high quality businesses – S&P Ratings, S&P Indices, Platts and SNL CapIQ. This collection of assets sits at the privileged intersection of “financialisation and digitisation” of the global economy.

There have been two key hangovers for the stock which we believe has created an attractive buying opportunity. First, the regulatory concerns and in particular the large Department of Justice case against S&P Ratings dating back to activities during the financial crisis which was resolved earlier in 2015. More recently it was the US\$2.2bn acquisition of SNL Kagan which disappointed the market. While McGraw Hill paid a full multiple for SNL the acquisition does have potential to create significant value over the medium term. The early word is that the acquisition is looking very positive. Further, the management team has made significant progress in rationalising the portfolio and improving underlying operations with several opportunities ahead. At current levels investors are provided with a margin of safety around this continued execution.

Early in the quarter we initiated a position in **Halma Plc** (Mcap US\$5bn); a mid-cap British engineering firm. Halma is a group of around forty technology companies, each with strong niche positions across a range of growing end markets such as infrastructure safety, healthcare and environmental regulation. Its companies have leading market shares in products as diverse as smoke alarms, gas leak detectors, elevator door sensors and instruments for ophthalmic surgery. Halma has one of the best track records we've seen in deploying its free cash flow into M&A at returns on capital in excess of its cost of capital.

The company focuses on buying companies that make process-critical components with a high degree of recurring revenue which are complementary to its existing technologies. It runs a conservative balance sheet and has increased its dividend by more than 5% p.a. for the last 35 consecutive years. We put Halma alongside Danaher in our cluster of 'Capital Allocator Champions', and consider their management and shareholder-focused strategy to be among the best-in-class of global industrials.

The portfolio also initiated small positions in **IMS Health Holdings** (Mcap \$8bn) and **AMETEK** (Mcap \$13bn).

### Sells

**Wells Fargo** was sold having been in the portfolio for over 6 years. The stock generated large absolute and relative performance for the fund. The position was not sold on any news or major valuation concerns, rather the recovery and gains from the depths of the global financial crisis have largely played out. While WFC is a superbly run bank it is a bank with a US\$280bn market cap with non-performing loans at historic lows, making it hard to see big gains moving forward.

**Oracle** is another long term holding we have sold. The company has generated disappointing results while management continues to overpromise. The tipping point was the latest remuneration report in which the two joint CEOs and the chairman each received over US\$50mn in annual compensation, despite missing internal and external expectations.

The portfolio also exited its position in **Prosegur Seguridad**, the Spanish-listed security company that has been in the portfolio for over 5 years. Management has largely done a good job expanding the business and making opportunistic acquisitions through a challenging environment, but even they are powerless in the face of sustained and severe currency weakness. While the European business looks to be stabilising, the economic outlook for Brazil and Argentina continues to get worse. As the business generates the bulk of its earnings from Latin America in local currency, the enduring weakness of the Brazilian Real combined with the recent devaluation of the Argentine Peso means the company faces an uphill struggle to grow reported earnings in the medium term.



# CI GLOBAL EQUITIES 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.

## DECEMBER 2015

**Grainger** was sold post its quarterly update which saw the beginning of declines in its core US business. Grainger is a fantastic company that has a great customer proposition and management team but the end market headwinds of lower energy prices and higher USD are affecting demand. More so Grainger has a large fixed cost base which means the operating leverage on declining sales has a bigger impact on earnings. Grainger will continue to be monitored as part of our watchlist.

## Stock News

During the quarter **Towers Watson** received shareholder approval for its merger of equals with Willis Group. The approval process was delayed a few weeks as Towers Watson shareholders jostled for a better deal in the form of a larger one-time cash dividend. Ultimately each Board of Directors at both Towers Watson and Willis agreed to appease the Towers Watson shareholders and increase the dividend from \$4.87 per share to \$10 share. We discussed the merits of the merger in the September quarterly and are pleased with the eventual outcome.

In November we attended the Liberty Investor Day, which involved presentations from Liberty companies and investments including portfolio holding **Liberty Media** as well as SiriusXM, Live Nation, Charter Communications and QVC Group. Whilst we gained a lot of insights relating to various portfolio holdings and watchlist stocks, the direct impact for Liberty Media will be its recapitalisation into three tracking stocks – one tracking the ~60% SiriusXM investment, one tracking the Atlanta Braves baseball team ownership and one tracking the remaining assets including the ~34% Live Nation stake. Management see the recapitalisation as a potential catalyst for closing the mid-teens discount at which Liberty trades to its Net Asset Value. Having met with senior management of SiriusXM (which accounts for ~85% of the Liberty Media NAV) earlier in the quarter, we continue to be very excited about our Liberty Media investment.

## Trip News

We rounded out the travel programme for 2015 visiting France, Sweden, Germany, the Netherlands and the UK. We also returned to North America, visiting companies in the Midwest and East Coast of the U.S., as well as Toronto.

Spending a week in Paris we found a city still reeling from the terrorist attacks of November 13<sup>th</sup>. The mood was defiant but subdued, with retailers expecting the seasonal period to be somewhat impacted from tourist cancellations. We visited over 20 corporates across the portfolio and Watchlist, along with a number of new ideas. The Fund's only material equity exposure to France is through shopping centre property trust **Unibail-Rodamco** where we met senior management as part of our visitation program.

Balance sheet discipline has been a hallmark of the company – with the current cost of debt of 2.3% at all-time lows, a portfolio loan to value of 37% and an average debt tenure of 6.4 years the capital structure looks in good shape. The prime mall market has been remarkably resilient throughout the recession in Europe, and in France the government support of the labour market has kept stores busy, particularly among the mass affluent. The growing dividend (currently yielding 4%) remains appealing to us, particularly versus French 5 Year bonds which currently yield 0.03%.

Double-digit growth in tenant sales is now being observed in both Spanish and Italian malls, suggesting an ongoing recovery in Southern Europe, while Unibail has just delivered the Mall of Scandinavia in Stockholm, a most impressive asset that we visited the following week and which showcases many of their latest retail concepts, such as app-assisted car parking.

# CI GLOBAL EQUITIES 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.

## DECEMBER 2015

Transatlantic demand for European property assets continues to be healthy – Canadian Pension Plan Investment Board (“CPPIB”) recently took a 40% stake as a silent JV partner in Unibail’s German expansion whilst also acquiring a 15% stake in Orpea, one of the largest European owners of premium nursing homes whom we also visited while in Paris.

We spent five days in Stockholm, a beautiful and vibrant place that is currently the fastest growing city in Europe. Sweden is one of our favourite markets in Europe, with a stable government, open economy, independent currency and an array of world class businesses to choose from. A defining feature of corporate Sweden is the large ownership of companies amongst a small cadre of influential, often family-linked investment holding companies such as Investor AB, Industrivarden and Lundberg, many of which we have now spoken to.

While this concentration of power (a.k.a “the Spheres”) does pose governance questions, by and large the very long term nature of these families has helped Swedish companies to weather economic cycles, expand overseas, impose discipline on management and flourish over many decades. We think it is no coincidence that Sweden has the best performing equity market in Europe over the last 100 years.

With the central bank’s rigid adherence to inflation targeting at 2%, an interest rate of *minus* 35bps has served to weaken the Swedish Krona by nearly 25% versus the USD over the last two years, boosting the outlook for Sweden’s high quality industrial exporters such as portfolio holding **Assa Abloy**.

The world’s biggest lock maker, Assa continues to have a great opportunity both from the transition from mechanical to electro-mechanical locks, and in the growth of connected devices, a.k.a the ‘Internet of Things’. The company is working with Google-owned Nest Labs to create smart-locks linked to mobile devices, introducing new functionality and security for homeowners, hoteliers and commercial offices.

Whilst in Stockholm we met senior management at portfolio holding **Svenska Handelsbanken** who provided fascinating insights into the decentralised culture that sets the bank apart from its peers. One example was the bank’s approach to online banking, in which each customer’s smartphone app is individually tailored to their local branch, with direct phone and email contact with their local branch manager. This is how management have connected the unique ‘church spire’ principle with the broader trend of digitisation in financial services.

Far from closing branches and moving to call centres Handelsbanken continue to invest in branches, particularly in the UK where market share of only 0.4% gives the bank has a significant opportunity to grow. The focus is on making branches more efficient. For example they have now removed cash handling facilities at most branches, something made easier by the fact the Sweden is among the most cash-less societies in the world – bills and coin represent only 2% of the economy versus 8% in the U.S and 10% in the Eurozone.

Over to the U.S. we spent a week visiting a range of industrial companies in the Midwest which confirmed three key trends for us. First, those companies exposed directly or indirectly to energy markets are expecting to see soft end market demand in 2016, with little confidence of a recovery in 2017 without a rebound in the oil price (Colfax, Grainger). This will have broader implications for industrial companies generally, which leads us to our second take-away – in a low growth environment companies we speak with are becoming ever more reliant on efficiency programs (Praxair, Ecolab) or acquisitions (Ball, Stericycle) to generate earnings growth. Finally, those industrials with strong customer propositions and a niche focus continue to fare well in spite of the above (Graco, Middleby). The portfolio has minimal exposure to general US industrials and is waiting patiently should any opportunities present themselves from this last group.

# CI GLOBAL EQUITIES 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.

## DECEMBER 2015

While many of our investment observations occur on our extensive international travels, sometimes we don't have to travel too far. In November we visited the new **Costco** store opening in Moorabbin, Victoria because we knew CEO Craig Jelinek would be there – he attends every Costco store opening personally.

This is no ribbon cutting event for Craig - he mostly spent his time stacking shelves and packing bags at the register. It was pleasing to see a full car park as well as the long line to sign up for memberships - Costco makes 2/3<sup>rd</sup>s of its profits from the high margin membership fees in return for providing its customers cheap discounted goods. As you can see from the photos below there were some bargains on offer too.



CEO Craig Jelinek in his blue Costco shirt at the counter packing bags



Membership line at 9:30am (the store doesn't open till 10am)



# CI GLOBAL EQUITIES 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.

## DECEMBER 2015



A customer who likes his Maltesers

### Terms and Conditions

#### Information contained in this publication

The opinions, advice, recommendations and other information contained in this publication, whether express or implied, are published or made by Cooper Investors Pty Limited (ABN 26 100 409 890), Australian Financial Services Licence (221794), and by its officers and employees (collectively "Cooper Investors") in good faith in relation to the facts known to it at the time of preparation. Cooper Investors has prepared this publication without consideration of the investment objectives, financial situation or particular needs of any individual investor, and you should not rely on the opinions, advice, recommendations and other information contained in this publication alone. This publication contains general financial product advice only.

#### To whom this information is provided

This publication is only made available to persons who are wholesale clients within the meaning of section 761G of the Corporations Act 2001. This publication is supplied on the condition that it is not passed on to any person who is a retail client within the meaning of section 761G of the Corporations Act 2001.

#### Disclaimer and limitation of liability

To the maximum extent permitted by law, Cooper Investors will not be liable in any way for any loss or damage suffered by you through use or reliance on this information. Cooper Investors' liability for negligence, breach of contract or contravention of any law, which cannot be lawfully excluded, is limited, at Cooper Investors' option and to the maximum extent permitted by law, to resupplying this information or any part of it to you, or to paying for the resupply of this information or any part of it to you.

#### Copyright

Copyright in this publication is owned by Cooper Investors. You may use the information in this publication for your own personal use, but you must not (without Cooper Investors' consent) alter, reproduce or distribute any part of this publication, transmit it to any other person or incorporate the information into any other document.