CI GLOBAL EQUITIES FUND
QUARTERLY REPORT

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

MARCH 2015

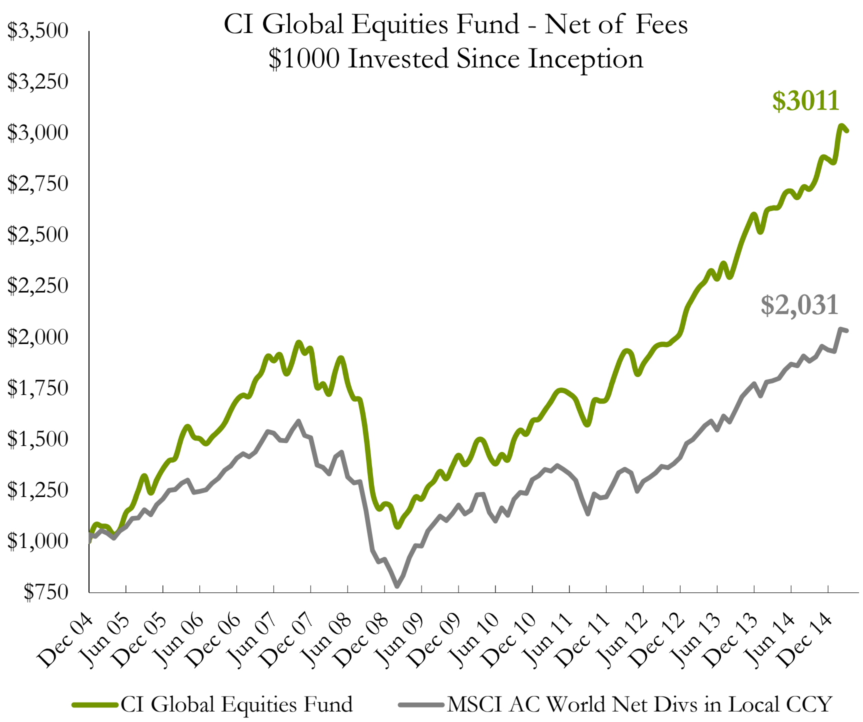
"I always tried to be correct, not politically correct." Lee Kuan Yew, 1923-2015.

"Whenever you find yourself on the side of the majority, it's time to pause and reflect." Mark Twain.

"I have not failed. I've just found 10,000 ways that don't work." Thomas Edison.

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	5.21%	4.87%	0.34%
ROLLING 1 YEAR	15.92%	13.66%	2.26%
ROLLING 3 YEAR	16.90%	14.49%	2.41%
ROLLING 5 YEAR	15.80%	10.59%	5.21%
ROLLING 7 YEAR	9.57%	6.24%	3.33%
ROLLING 10 YEAR	11.95%	6.93%	5.02%
SINCE INCEPTION*	12.28%	7.10%	5.18%
SINCE INCEPTION^	230.98%	103.14%	127.84%

*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



MARCH 2015

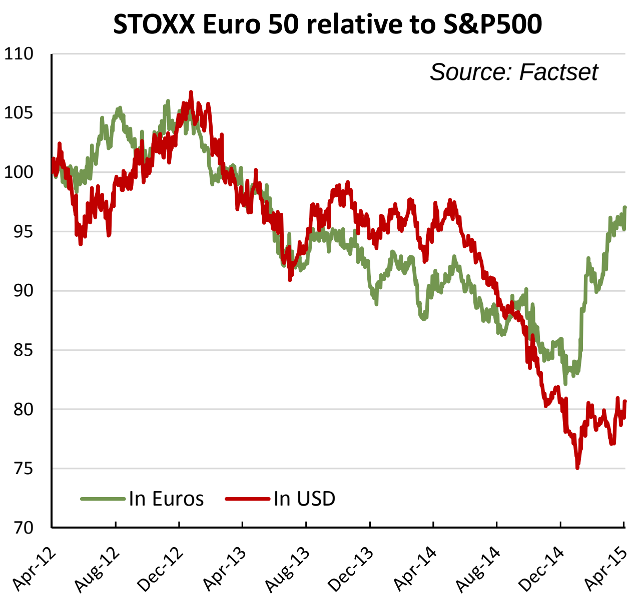
Market and Portfolio Performance

After a long period in which US equities markets have led the world higher, the first quarter of 2015 saw this trend completely flip. The long awaited introduction of 'Quantitative Easing' in Europe has driven a rapid rotation into European equities and out of US equities. According to the *Bank of International Settlements,* "During the four weeks following the announcement, European equity funds registered a cumulative inflow of almost $19 billion, the highest amount ever recorded for a similar period".

Japan has had a similarly strong start to the year. The STOXX Europe 50 and Nikkei indices are up 14% and 10% respectively for the three months to March while the S&P500 is unchanged year to date.

It should be noted that these moves are in local currency - the Euro has seen continued weakness in 2015, and has now fallen almost 30% against the US dollar over the last 12 months. Thus, in US dollar terms the STOXX Europe 50 is up just 2% this year.

Currency volatility often causes spill-over effects back into stock markets. We saw this in Japan during 2013 when Prime Minister Abe engineered a de facto devaluation of the Yen and the local equity markets rocketed up 80% in 6 months (in JPY terms).



From a bottom up perspective there is a genuine impact from such a significant move, both in driving positive earnings upgrades for European multinationals from the simple translational effect, but also in terms of boosting the demand outlook as Euro-denominated exporters suddenly find themselves much more competitive against global peers.

Given the precedent set by Japan it would not be enormously surprising to see European markets rally further in the coming months as people chase the 'weak-Euro' trade.

January 15th also saw 'Franc-ogeddon' - the abolition of the Swiss Franc-Euro peg by the Swiss National Bank. This decision caught both markets and central bankers totally by surprise, driving the Swiss franc up 15% in a matter of minutes and slamming the stock prices of Swiss exporters with the country's SMI index down 10% on the day. We note at the time of writing that the Swiss index has already recovered all of its losses. Nestlé for example hit new all-time-highs roughly 6 weeks later – being bearish on Swiss exporters has historically been a tough game to win.

The Portfolio

The portfolio returned 5.21% during the quarter vs the Benchmark return of 4.87%.

The three biggest outperformers this quarter in terms of total shareholder return were **Novo Nordisk, Domino Printing Sciences** and **Assa Abloy.** The main underperformers by total shareholder return were **American Express, UPS** and **RBS.**

Novo Nordisk returned 45% after releasing a series of positive announcements around its insulin portfolio. Domino Printing Sciences gained 45% after a takeover approach from Japanese printing firm Brother Industries, while Assa Abloy returned 24% after reporting strong earnings.

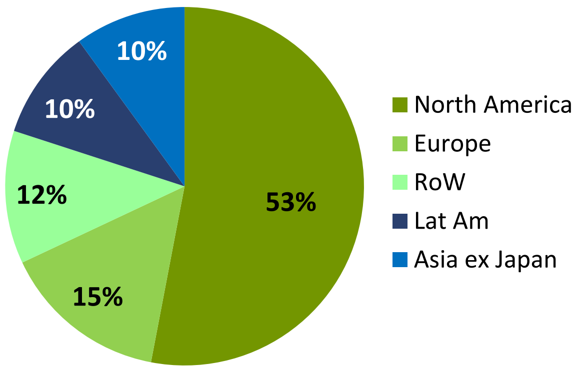
MARCH 2015

Amex fell 16% in the quarter on the announcement of the termination of its exclusive relationship with Costco while RBS fell 14% after reporting higher restructuring and conduct costs than the market had expected in their final quarter. UPS was down 12% in the quarter on the back of a disappointing fourth quarter result.

The portfolio is diversified by both country and sector. In order to more appropriately represent from which countries the portfolio generates earnings, we derive the following pie chart from company accounts and disclosures.

No. of Stocks	**40**
Region Weights	**U.S. 56%** **Europe 34%** **Asia ex-Japan 2%**
Most OW Sectors	**Industrials, Financials**
Most UW Sectors	**Energy, IT**
Cash	**5%**

Geographical Exposure by Source of Revenues#



#Derived on a look-through basis using underlying revenue exposure of individual portfolio stocks

Portfolio Changes

We exited entirely from **Diageo** during the quarter**.** Having followed Diageo for a number of years we initiated a small position in late 2013 with the view that here was a brand-driven stalwart trading on attractive multiples of earnings and cash-flows, with some ‘spot-fires’ in a few of its regional markets that could be resolved over time.

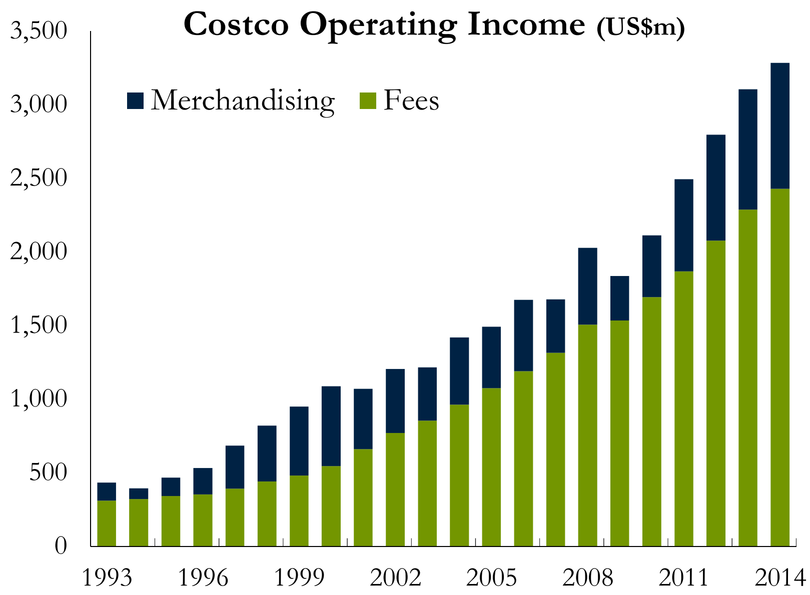
During our period of ownership we became increasingly concerned at the lack of transparency from the company around its distribution strategy and what remedial actions were being taken in certain ‘trouble’ geographies such as the US vodka market and the Chinese brown spirits market. Our own channel checks with distributors in emerging markets revealed worrying evidence of channel-stuffing – the act of Diageo forcing as much inventory as possible into wholesalers (‘sell-in’) with little regard for the implications of how their distributors will be able to shift this stock to the consumer (‘sell-out’).

Although this was a known issue with regards to Chinese white spirits (Diageo wrote off the goodwill in acquired baijiu brand Shui Jing Fang in July) our research suggests it may be a more widespread practice than the company lets on. One source noted, ‘I have never seen Diageo as desperate to hit their numbers as they are right now; 2015 may look ok, but 2016 will be a horror-show’. It is our observation that management may have promised too much to the market after a series of disappointing quarters and are eschewing the long term health of their channels to hit short term targets.

Separately, we were also alarmed at the accounting irregularities discovered as part of the integration of United Spirits in India. While these are not directly Diageo’s fault, it does raise questions around the rigour of due diligence that is conducted on potential targets – a rather unpleasant theme that is developing for Diageo acquisitions. We have little tolerance for these kind of issues and combined with concerns noted above we decided to fully exit the position.

MARCH 2015

We initiated a position in **Costco Wholesale Corp** ("Costco", Mcap$67bn) post a trip to its Seattle headquarters and multiple store visits. Costco has an amazing model whereby 75% of its profit comes from its membership fees. In the US Costco charges individuals and businesses $55 to be a member (in Australia it is AUD$60). By running a gross profit margin of 10.5% Costco is offering its members everyday goods at discounted prices (and some not-so-everyday goods too, such as coffins and hearing aids). Ever on the lookout for a bargain, all four members of the global team have recently become card carrying members. The 90% renewal rates on membership fees gives Costco a unique and reliable financial profile within the dynamic consumer space. With only 660 warehouses and 100 of these in California alone, Costco has a large store rollout opportunity that we believe is not reflected in the current price.



Source: Company Reports

Stock News

In early March, Brother Industries of Japan and UK-listed **Domino Printing Sciences ("DNO")** announced a recommended offer whereby Brother would buy 100% of DNO for £9.15 per share. This represented a premium of ~40% to the 6 month average weighted price and ~26% to the closing price the day before the announcement.

DNO has been in the portfolio for just over 3 years and inclusive of the takeover premium (plus the 2014 final dividend of 15 pence per share) has generated a total shareholder return of 95% versus the FTSE 100 index which returned 36% over the equivalent holding period.

We have always believed that there was a decent probability that DNO would be taken over, being the last pure-play variable printing firm in a consolidated industry dominated by large conglomerates. The profit-warning in mid-2014 suggested increased competitive intensity in ink pricing, particularly in Asia, and on reading the (excellent and transparent) offer documents we concur with management that being part of a larger group with more balance sheet firepower is probably the most appropriate long term strategic move for DNO at this point in its development.

We are pleased to learn that the existing brand, management team and operations in Cambridge will all remain in place and that DNO will continue to operate as an autonomous entity with the full support of its larger and more globalised Japanese parent. Assuming the deal progresses as planned (notwithstanding

Chinese anti-trust approvals) we wish both parties well.

In late March **Novo Nordisk** announced positive cardiovascular ("CV") outcome study results that would facilitate an earlier than expected FDA-submission for Tresiba, their next generation basal insulin. Tresiba is already approved in a number of countries where it has proven very popular with patients and physicians, and has rapidly gained market share. It is widely considered the new 'gold standard' of novel insulins with leading efficacy in glycaemic control versus its peers. The US launch of Tresiba had been delayed in 2013 after the FDA requested additional CV trial data, but it now appears these results are favourable which should allow Novo to resubmit Tresiba with the hope of a full commercial launch before the end of 2015.

Novo has also enjoyed positive news flow from other pipeline drugs of late. Its anti-obesity drug ("Saxenda") was approved in the US this year while its Fixed-Rate-Combination treatment "Xultophy" has now been approved and launched in Europe. Xultophy, which blends basal insulin Tresiba with GLP-1 agonist Victoza (for a combined benefit of blood sugar control and weight loss) is the first ever combination drug approved and we believe should build a strong presence in the premium segment of the market. Novo continues to be a core holding in the portfolio as we appreciate its highly effective and focused management, the long term growth opportunities of its diabetes portfolio and the optionality and defensiveness of its net cash balance sheet.

It was a difficult quarter for **American Express** ("AmEx") as the company announced the termination of its partnership with Costco. The partnership with Costco was unique as AmEx was the exclusive payment network provider at Costco stores as well as the typical co-branding credit card services. The end of the Costco relationship will bring minimal EPS growth, if any for 2015.

We, and the market, were surprised by the size of the Costco partnership. AmEx had disclosed in its annual reports that the relationship was one of the two largest co-brand partnerships but didn't provide any figures until now. Even though 70% of spending from these customers occurs outside of Costco stores, it is somewhat concerning that these cardholders make up 20% of AmEx's loan book and 8% of billed business. While one year of little earnings growth isn't a sign of a dead business model, it does raise questions about the sustainability of AmEx's partnerships amid increasing levels of industry competitiveness. Since the termination of the Costco relationship, AmEx has announced deals with Charles Schwab, AT&T and Macy's.

We first bought AmEx back in early 2012 after our travels around the US revealed high quality multinationals trading on 20 year valuation lows. Historically buying AmEx on share price dips has been a smart move. We are now asking ourselves the question, 'is this time different'?

UPS announced a sub-standard 2014 full year result. As expected, revenues are recovering with a stronger economy bringing 5% growth in 2014. However, UPS is struggling to manage its cost base as it transitions from a business-to-business to a business-to-consumer model given the growth in e-commerce. The extra costs incurred to provide high quality door-to-door service is resulting in minimal profit growth. We expect UPS to fix this trend within a matter of quarters and to see profits growing in line or faster than revenues.

Trip News

This quarter we again visited the **United States**, in addition to **Switzerland, Belgium, The Netherlands, Denmark,** and **Germany.**

In the US we spent two weeks on the West Coast as well as a few days in Denver and Vancouver. The main purpose of the trip was to follow up on new names in the portfolio, namely **Liberty Media** and **Agilent**.

MARCH 2015

As discussed in the prior quarterly, Liberty Media is an investment holding company which is part of John Malone's empire. Liberty Media has two key investments; Sirius XM radio and Live Nation entertainment. It also owns small stakes in other listed equities as well as legacy ownership of the Atlanta Braves baseball team. We met with a broad range of companies and individuals to further understand the underlying value of Liberty Media's net asset value, as well as the opportunities that lie ahead. We believe that there is upside to the asset value and that the Liberty Media discount is not justified.

We were positively surprised by some of the other Malone/Liberty companies and we will be doing further work on some potential new investment areas. It is typical for a "Malone company" to have a strong business and operating cash flows but minimal accounting profits due to the convoluted structures used mainly to minimise tax payments. We find these stocks are poorly covered as EPS is meaningless and they fit well into our investment criteria.

After having previously invested in life science companies Thermo Fisher and Waters Corp, we invested in Agilent in 2014. It's been a busy six months for Agilent as it spun off Keysight Technologies and announced the CEO transition to Mike McMullen, previously COO. We sold Keysight soon after the spin - having been a cash cow as part of Agilent, Keysight ticks most of the boxes we look for in a spin however we can't get comfortable with the cyclicality of the business and unpredictability of revenues.

Whilst Agilent was always the main focus in the larger organisation, becoming a slimmed down version without Keysight will be beneficial, and we are seeing this play out already. New CEO Mike McMullen has been very quick to put his stamp on the company by focusing on the core business. Agilent has already announced it is exiting and selling businesses that are not profitable or lack scale as well as a cost out program to re-align the cost base with the new slimmed down structure. We gained confidence that Agilent will do the right things by shareholders with the US$500m of net cash on the balance sheet and the US$600m of annual free cash flow generation.

Spending a week in cities like Denver, Seattle and Portland made it clear that the economic recovery is starting to spread its wings out of the booming centres of New York and San Francisco. Whether it's for jobs, housing affordability or lifestyle, people are moving to these parts of the United States. Seattle is becoming a new tech hub and almost a second Silicon Valley with modern day technology leaders like Amazon, Expedia and Zillow adding to the existing Microsoft skyscrapers.

For anyone trying to find a decent latte in the US, a trip to the new premium Starbucks Reserve facility in Seattle is a must.

In Europe we met 40 companies across a range of industries but with a focus on food and healthcare given several portfolio positions in that thematic.

Perhaps it was the impact of a big market rally, the intoxicating scent of quantitative easing or merely spring in the air, but it struck us that the mood in Europe is far brighter now than it was a year ago. There seems to be a general consensus that, of the formerly troubled 'PIIGS', Spain and Ireland have taken their medicine and are beginning on the road to recovery while Portugal, Italy and Greece are less healthy but are almost irrelevant. Not one company we met was concerned about a 'Grexit' (Greece leaving the Euro).

The UK, Germany and Scandinavia continue to muddle along with low growth, low unemployment and zero inflation and while Russia and Ukraine make plenty of headlines, the consumer facing companies we spoke to continue to be positive about those end markets, albeit with some near-term challenges.

Once again France continues to be the butt of most jokes, described variously as a 'disaster' or 'uninvestable'. One of the best anecdotes we heard was regarding grocers who have, like most European food retailers today, been battling the big branded food companies to get better pricing in an environment of food price deflation and competitive pressure from the likes of Aldi and Lidl. One French supermarket has simply taken to discontinuing lines where negotiations have fallen flat, leaving a symbolic empty shelf space marked with a sign that reads: '*We apologise that we can no longer offer this product due to the manufacturer's refusal to discount in your favour*."

We spent time meeting several companies in the healthcare centres of Basel and Frankfurt. In Frankfurt we were fortunate enough to get a tour of Sanofi's insulin manufacturing facility in the Hoechst industrial area just south of the city. This enormous chemical park is in a geographical sweet spot, with direct access to the Rhine, the autobahn, rail links and Frankfurt international airport just 5 minutes away. Insulin has been produced at this site for almost 100 years since the first animal insulins were extracted from the pancreas of pigs in the 1920's.

Today the site is a far cry from the slaughterhouses of old - we saw a highly efficient, sterile and largely automated production line pumping out insulin pens at a world-leading rate of 1 million per day. This is large scale manufacturing in a highly regulated industry done to exacting Germanic standards. Safety is paramount in drug making - one defect could result in death - and it was impressive to behold the passion and focus on display from the line workers.

Also noteworthy was the amount of locally produced hardware integrated into the facility - Krones bottling lines fed into Kuka robotics, all German-made. People often talk about the advantage of supplier density benefitting the German auto makers in and around Bavaria, but our observation after touring several German manufacturing facilities is that these Mittelstand suppliers give a massive advantage to all German industry. As the Sanofi production manager put it, 'If something goes wrong we just call the guys who are an hour up the road to come and take a look'.

We also spent 4 days in Copenhagen and would add Denmark to the list of awesome 'World Focus Zones'. Denmark is home to a great collection of niche dominators – quiet but brilliantly run companies who are major players and innovation leaders in their fields, a number of which are on our watchlist and for which the research work continues.

We appreciate the high quality of corporate governance and a conservative and debt-averse culture often driven by the large family or charity-linked foundations that can be found on their boards. Danish exporters have been big beneficiaries of the weak Euro – the Kroner has been pegged to a major currency for the last 30 years (today the Euro but before that the Deutschemark) and thus the DKK has fallen almost 30% against the dollar over one year.

We came away from the trip with a handful of compelling ideas whose names will go undisclosed whilst they remain work-in-progress.

MARCH 2015