CI GLOBAL EQUITIES FUND (UNHEDGED)
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 2016

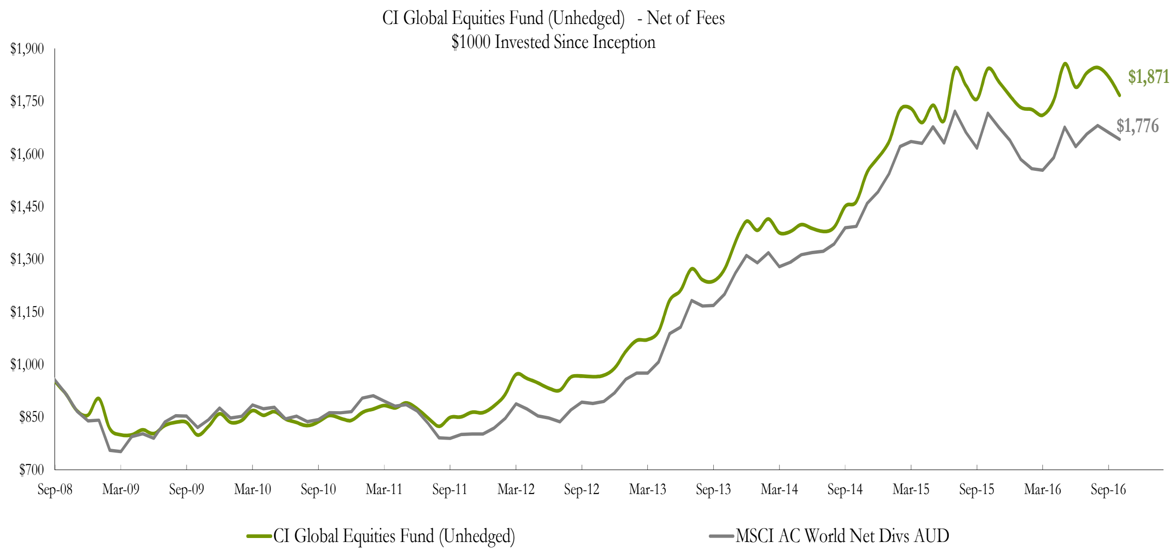
"I know the forces up against me. They may not let me live. They may ruin me because their loot of 70 years is in trouble. But I am prepared." ***Indian Prime Minister Narendra Modi***

"Brexit means Brexit." ***British Prime Minister Theresa May***

"I alone can fix it." ***U.S. President-elect Donald Trump***

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	3.10%	6.94%	-3.84%
ROLLING 1 YEAR	7.44%	8.38%	-0.94%
ROLLING 3 YEAR	11.36%	10.66%	0.70%
ROLLING 5 YEAR	18.29%	17.23%	1.06%
ROLLING 7 YEAR	13.02%	10.63%	2.39%
SINCE INCEPTION*	8.97%	7.14%	1.83%
SINCE INCEPTION^	104.64%	77.62%	27.02%

*Annualised
^Cumulative (1 September 2008).
**Before fees and expenses
MSCI AC World Net Divs in AUD



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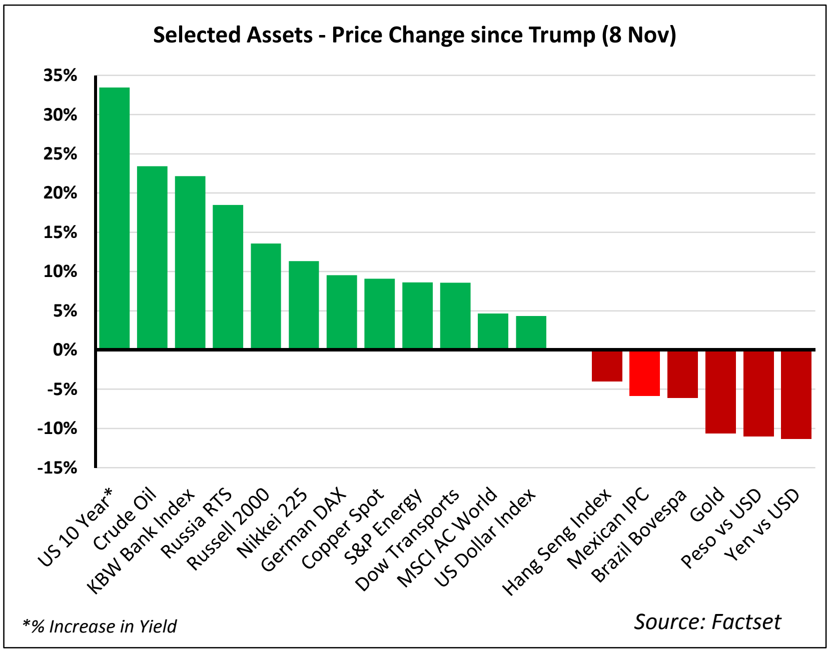
Market and Portfolio Performance

2016 ended with the election of Donald Trump as President of the U.S.A.

His victory at the ballot box has had an immediate and dramatic effect on global capital markets as words like 'Trumpflation' and 'Trumponomics' enter the global lexicon.

The U.S. Dollar soared and Latin American currencies fell. Developed equity markets rallied hard while emerging market equities gave up most of their year to date gains. Precious metals fell while base metals surged. Many of these moves have been violent and standard deviations away from regular market volatility.



Perhaps the most significant move of all has been the sell-off in bond markets. Yields had been rising for 3 months pre-Trump as markets began pricing Fed rate hikes from December-onward. His election and subsequent expansionary comments have acted as an accelerant. In the last 6 months the yield on US 10 Year Treasuries has almost doubled, from a low of 1.35% in early June to 2.6% in mid-December.

There have been several sharp rises in bond yields that turned out to be false dawns in recent years. This latest spike has led many to believe the bull market in bonds is now over and the 30-year-long downtrend in U.S. bond yields is at an inflection point.

The consequence for equity markets has been to drive a rapid sectoral rotation. As the market starts to price in higher rates and rising inflation, stocks considered to be defensive and 'low volatility' have sold off and cyclical sectors have rallied sharply.

Overall the MSCI AC World has risen nearly 10% in the last six months (in local currency). For the three months to 31 December the portfolio underperformed by 3.84% which made for a disappointing quarter and finish to the year. This was the first calendar year of underperformance since 2010 (when the portfolio underperformed by 5bps).

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First, a reminder. The portfolio seeks **stock specific** risk. Two statistics that bear this out:

1. Over the last 5 years the portfolio's 'Active Share' (the degree to which the portfolio differs from the benchmark) has averaged ~90%.
2. Over the last 5 years the vast majority (on average ~75%) of the portfolio's tracking error has come from stock specific risk, rather than other forms of risk such as country, industry or currency.

In other words, the portfolio is not a benchmark hugger. If certain sectors of the benchmark move in a sharp and correlated fashion within a period then relative performance will tend to differ (for better or worse) from the benchmark. This is what has happened recently – attribution from a sectoral perspective suggests roughly two thirds of the underperformance in the quarter came from underweight positioning in financials, energy and materials.

Secondly, relative performance should be put in the context of the rapidity of the market move

Over the last 5 years (in local currency) the portfolio has recorded **upside capture** of ~110%. This means that across all up months since inception the portfolio has tended to do a little bit better than the market – if the market goes up $1 then *on average* the portfolio goes up $1.10.

However in violent up moves (months where the benchmark rises 2% or more as happened in November and December) this upside capture falls dramatically to around 80%. When markets move up sharply the portfolio tends to lag.

A similar pattern is seen in down-markets. In all down months over the last 5 years the **downside capture** (in local currency) has been 83% - if the market falls $1 the portfolio falls only $0.83 *on average*. In more rapid down months the capture drops below 80%; the portfolio suffers less the deeper the sell-off.

At the portfolio level the main drivers of underperformance came from Stalwarts, previously a large source of outperformance but in the last quarter this reversed somewhat with a number of Stalwarts generating a negative absolute return in a rising market. There were also a few stocks in the Growth and Turnaround categories that fell for more specific reasons, we comment on the larger impacting names below.

With the appointment of Donald Trump as U.S. President it is worth reflecting on the portfolio's US positioning given it makes up 55% of the portfolio weight. The S&P 500 was up 5% over the 8-week period following the election but the discrepancy amongst stocks and industries has been large.

Our investment framework of "Observation not Prediction" meant that we did not take a contrarian stance leading into the election. This can be seen in the underweight positions in energy and banks. On the contrary, the portfolio was (and continues to be) constructed with a view towards diversification and stock specific opportunities (more on this below). This was especially important in a world where significant portions of the market appeared expensive even under the assumption of the status quo continuing – namely low growth and low interest rates.

Our U.S. investments in companies such as Comcast, Heico, First Republic, UPS, CME and Time Warner have seen large gains with the shift in sentiment and potential policy. On the other hand previous winners that had been bid up like Danaher, General Mills and S&P Global suffered from the rotation out of safety and stability.

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Trump's policy agenda remains a moveable feast but we remain comfortable with the current portfolio positioning. Our U.S. stocks have very little in the way of exporters (who would likely suffer in a 'trade war') and is comprised of both domestic companies (Liberty SiriusXM, First Republic, CME Group) and multi-nationals (Agilent, Danaher, Ametek). Multinationals make up a greater share of the positioning and while they don't appear to benefit as much from positive policy changes they do have a more cyclical and growth bent versus our domestic investments which are more consumer/subscription based or financials-focused.

Over the quarter the AUD fell 5% vs USD, gained 9% against the JPY and was flat vs the EUR and GBP.

The biggest contributors to performance in terms of total shareholder return in AUD included:

1. **First Republic Bank** – The 'Trump rally' saw US bank stocks run hard, as seen by KBW bank index up ~20% since election night.
2. **Time Warner Inc -** Received takeover offer from AT&T (see Stock News).
3. **Comcast** – Trump victory brings expectations of looser regulation and potential tax cuts.

The biggest detractors to performance in terms of total shareholder return in AUD included:

1. **OHL Mexico** – Experienced a volatile quarter around the election of Trump, which drove a sell-off in Mexican stocks and the Mexican peso.
2. **Halma** – Had rallied to all-time-highs post-Brexit as a weak-GBP beneficiary and has since fallen back from those levels.
3. **S&P Global** – Concerns over issuance levels with higher rates and potential tax policy changes as well as investor rotation from financial services to financial institutions.

The Portfolio

The portfolio is positioned around subsets of value:

- **Growth companies** (39%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Danaher).
- **Stalwarts** (32% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (AON).
- **Low risk turnarounds** (10%) – sound businesses with good management and balance sheets. (Brinks).
- **Asset plays** (7%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (Remgro).
- **Bond like equities** (5%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Unibail-Rodamco).
- **Cyclicals** (2%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who allocate capital prudently. (Ametek)

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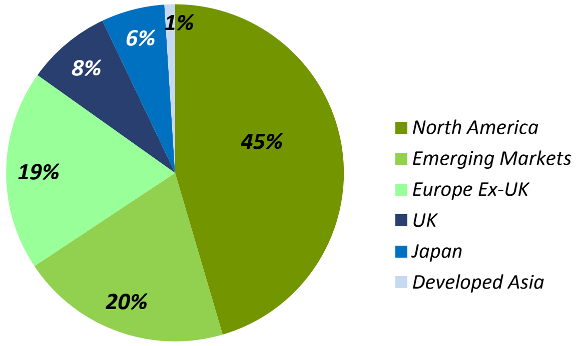
The portfolio is also diversified by country and sector:

No. of Stocks	**42**
Region Weights	**US 55%** **Europe 27%** **Asia inc. Japan 6%**
Most OW Sectors	**Industrials, Financials**
Most UW Sectors	**Energy, Materials**
Cash	**5%**

Geographical Exposure by Source of Revenues#



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

This was a busy quarter for the portfolio post a rather quiet period.

Buys

- The portfolio initiated an investment in **The Brink's Company,** a leading cash handling business. Brink's has been chronically mismanaged for the best part of a decade resulting in growth rates and profitability well below peers despite scale and product mix advantages. We were initially attracted to the Brink's story following the appointment of Doug Pertz as CEO in mid-2016. We knew Doug from his time at Recall, a successful low-risk turnaround investment for the CI Australian Equities and CI Brunswick Funds. As an underperforming, global, route-based business services company Brinks presents an almost identical opportunity to that of Recall.

  Our framework for low-risk turnarounds dictates that we must be able to identify a clear and measureable operational self-help opportunity. BCO's US business accounts for a quarter of the company's revenues yet operates at close to breakeven. Our research indicates that correct investment in technology and best practice processes will go a long way to closing the profitability gap to similar sized U.S. peer Loomis, which generates double digit margins.

  This is not just a cost-out story - the pursuit of high value growth opportunities represents a further key source of value latency. Previous management teams pulled sales resources so as to hit short term profit targets. Our discussions across the industry confirm the high returning growth opportunities in Cash Management Services with both bank and retail customers.

  It is worth highlighting that despite the advent of electronic and card based payment methods, cash in circulation across developed markets continues to grow. In emerging markets such as Latin America (~60% of BCO's earnings) the cash economy is growing at upwards of 10%. We are not predicting the return of cash as the sole method of payment, however it will remain an important and growing medium of exchange for the foreseeable future.

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- During the quarter the portfolio took advantage of stock market volatility to initiate a position in **RELX NV**, a UK and Dutch-listed global information solutions provider. We are always on the lookout for Stalwarts with more growth than the market appreciates. We believe RELX is one of these - a cash compounder but with a broad opportunity set for growth which fits into our 'Digitised Industrials' cluster. In its former life as Reed Elsevier the company was a leading physical publisher of heavy tomes of legal textbooks and medical journals. These days the business has digitised and is moving its precious content, indispensable to the scientific and medical communities, into the Cloud. This has transformed the economics of the business model and opened avenues of innovation for the company to upsell data analytics and efficiency tools.

  After following and admiring the company on our Watchlist for a number of years, the stock got caught up in market volatility in October with the Dutch listing trading as low as 15x forward earnings. This represented a compelling entry point that coincided with an insightful meeting with senior management in London.

- During the quarter we established a position in **Priceline Group**, the largest global Online Travel Agency (OTA). Priceline's main platform is Booking.com which has over one million properties providing unrivalled breadth of customer choice whilst connecting independent hotels with travellers from across the globe. The company's scale allows it to invest significantly more than peers helping to drive increased traffic and improve conversion, creating a virtuous cycle.

  In the ~US$1.5trn global travel industry, the OTAs account for ~15% of total bookings and there remains a strong secular tailwind to growth as bookings continue to migrate online. We think Priceline will grow its bookings at ~20% this year. On a Free Cash Flow basis Priceline trades broadly in line with the market. We think the stock presents compelling investment in a growth company with a net cash balance sheet and high returning business model.

- The portfolio initiated a small position in **NAVER Corp**, a South Korean internet company. NAVER has a large share of Korean online advertising, and rising usage of mobile, e-commerce and video products should result in an acceleration of earnings growth. It is also the majority shareholder in LINE, the leading messaging platform in Japan, Taiwan and Thailand, which are at an early stage of development. Scale and the network effect are formidable competitive advantages for both and local management is regarded as "best in class" with a history of turning out successful alumni.

- Late in the quarter the portfolio invested in **Orkla ASA**, a Norwegian holding company. Orkla is nearing the final stages of a multi-decade corporate simplification story where non-core assets have been disposed to allow management to focus on their dominant position in Nordic branded consumer goods. Current management, led by major shareholder Stein Erik Hagen and experienced retail CEO Peter Rusicka have a great opportunity to deliver significant operating margin expansion over the next 5 years by streamlining the manufacturing footprint (bloated from years of unintegrated M&A) and introducing industry best practice into both supply chain and product development. Further latency can come via cash proceeds from the expected 2017 IPO of their last major non-core asset, a global-scale aluminium extrusion business.

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Sells

- The portfolio exited its position in **Indus Holding**. The stock rallied 50% from early Feb to mid-October and had increased above our estimate of fair value, despite evidence of a deteriorating balance sheet. The decision was made to take profits and redeploy capital elsewhere.

- Having made money from **SGS** in the past this position was opportunistically rebuilt in early 2015 during a period of weakness. However the stock has since re-rated materially from its lows and the portfolio has thus taken profits to invest elsewhere. The outlook for TIC (Testing, Inspection and Certification) companies is deteriorating as the political rhetoric turns against the globalisation trend from which these businesses have been a major beneficiaries.

- The portfolio also sold **International Paper**. We bought this position as a turnaround with management on a path to breaking up the conglomerate structure. We believe this breakup has largely been completed and the low hanging fruit been picked.

- Finally, the portfolio exited **Nestle** entirely during the quarter. The investment represented a core Stalwart in the portfolio for many years, but in recent times conviction has been waning. We think going forward Nestle will struggle to grow profitably at historic rates - recent marginal returns on invested capital have been dilutive to the group average at ~6%. The company faces a number of headwinds whilst simultaneously going through a generational change in leadership and strategy.

Stock News

During the quarter AT&T announced the intended acquisition of **Time Warner Inc**. This is the second bid received in two and a half years after Fox's bid was turned down in 2014.

We have always thought that strategically Time Warner management had done a good job, namely dismantling the conglomerate structure while also returning cash to shareholders and cutting costs. However we thought there was still an opportunity to lift the operating performance of the company. For example HBO should be growing faster than 4% p.a. given its market presence, and Warner Bros as the world's largest studio should be making more than a 10% margin. Our patience was starting to get tested as time marched on.

We believe the acquisition by AT&T is therefore a positive outcome for shareholders. With a cash and shares offer, based on where AT&T shares are trading today the Time Warner shares still offer just under 20% upside including dividends should the deal go through.

Continuing on the M&A front, **Roper Technologies** made its largest acquisition ever with the purchase of Deltek, the leading provider of project management software for $2.8bn. This follows the ConstructConnect acquisition for $632m only a month earlier.

Roper is what we call a Capital Allocator Champion, a company that has exhibited superior performance in deploying its cash flows into value-creating M&A. Over the last 15 years Roper has transitioned its business from valves and pumps to software by buying up great businesses at fair prices and running them for the long term with its unique governance framework. The busy M&A period means the balance sheet has been largely utilised for the near term. The multiples paid (12-14x EBITDA) for these deals means the returns will start off a low base. It puts a greater emphasis on delivering decent organic growth and margin expansion to generate an attractive return, an area we will thus be following closely.

Trip News

This quarter the Global team visited the US, Mexico, Spain, France, Sweden, Finland and Norway.

In San Francisco we attended the inaugural **First Republic Bank** investor day. Like all things First Republic the event was unconventional, with two days of presentations on culture, philosophy, customer service and the team. We are excited by the opportunity set for First Republic to keep growing its loan book from US$50bn today.

First Republic's market share of high net worth individuals is 4% across the US. While market share is 12% in its home market of San Francisco, in New York it is only 1.5%, a market that has as many high net worth individuals as China. With its service focus and relationship banking model First Republic is a great alternative to the major banks – which other bank bakes cookies in the branch for clients? As CEO and founder Jim Herbert always says, "We are a service company that happens to be a bank".

While the focus on the client and service is clear to see, the most remarkable aspect of First Republic is the bank's credit philosophy and credit quality. The bank has originated loans of over US$162bn in its 20 years of operations and over this entire period cumulative net losses have amount to a total of 0.2%. The bank has done so by limiting the type of loan products, limiting geographies and having a stable set of bankers, credit approvers and clients, indeed 90% of all loans ever lent are by bankers still at the bank.

First Republic has set up an operating model whereby it all starts with happy and motivated employees to service the clients. By getting this equation and credit quality right, shareholders win handsomely. Too many banks work the other way which results in poor service and unhappy employees hurting financial performance. With further penetration in key markets like New York and LA, wealth management and the philanthropy and not-for-profit sector, the growth period looks very large and long. But with the stock rising 40% this year to $92 it is now starting to be reflected in the price.

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In Mexico the priority was to visit **OHL Mexico** in addition to several companies in the infrastructure space. It is clear that there is a large and long term need for infrastructure investment in the country, something that was highlighted no better than our outward journey across the city to the airport, which took 2 hours to traverse 25kms. Given congestion and lack of investment in mass transit the forecast for traffic growth on OHL Mexico's urban toll roads remains compelling, as does the outlook for its concession at Toluca airport.

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While asset quality has never been in doubt the story at OHL Mexico and the resultant discount to fair value has centred on governance. We continue to see significant value in the company, and believe that over the next 6 months there is a clear pathway for the discount to fair value to narrow, as the company concludes remaining accounting investigations with the local regulator and appoints a new CFO.

The recent sale of 24% of CONMEX (OHL Mexico's largest concession) to IFM was positive from the aspect of reinforcing the valuation of the underlying asset while also increasing engagement levels with a highly respected strategic global investor – IFM now own 49% of the CONMEX concession. A concern however remains on how the proceeds from the sale will be allocated. This is a topic we have discussed at length with management both in Mexico City and subsequently in Madrid with the parent company, OHL. Our view is the proceeds should be used to de-gear the balance sheet, fund new concessions inside Mexico, or be paid out as a special dividend, rather than any scheme that results in cash being routed via related party transactions to the Spanish parent.

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In Paris we visited **Eurotunnel** and found management positive on the outlook despite a tough 2016 with Brexit-driven currency volatility and negative headlines from the now-cleared Calais immigrant camp. The fixed-link remains the best way for high value items to be transported quickly and safely between the UK and Continental Europe. The route is increasingly used by high end manufacturers who operate 'Just-In-Time' production - truck traffic consistently growing double digits year-on-year is testament to this.

As the Channel crossing is a competitive market and thus unregulated (the tunnel competes with ferries) management is in the enviable position of having the freedom to increase prices while having a markedly superior product and customer proposition. On a multi-year view we believe that the impact on Eurotunnel's operations from Brexit will turn out to be a barely noticeable blip in traffic growth numbers, and therefore the current valuation represents compelling long term value.