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.

JUNE 2016

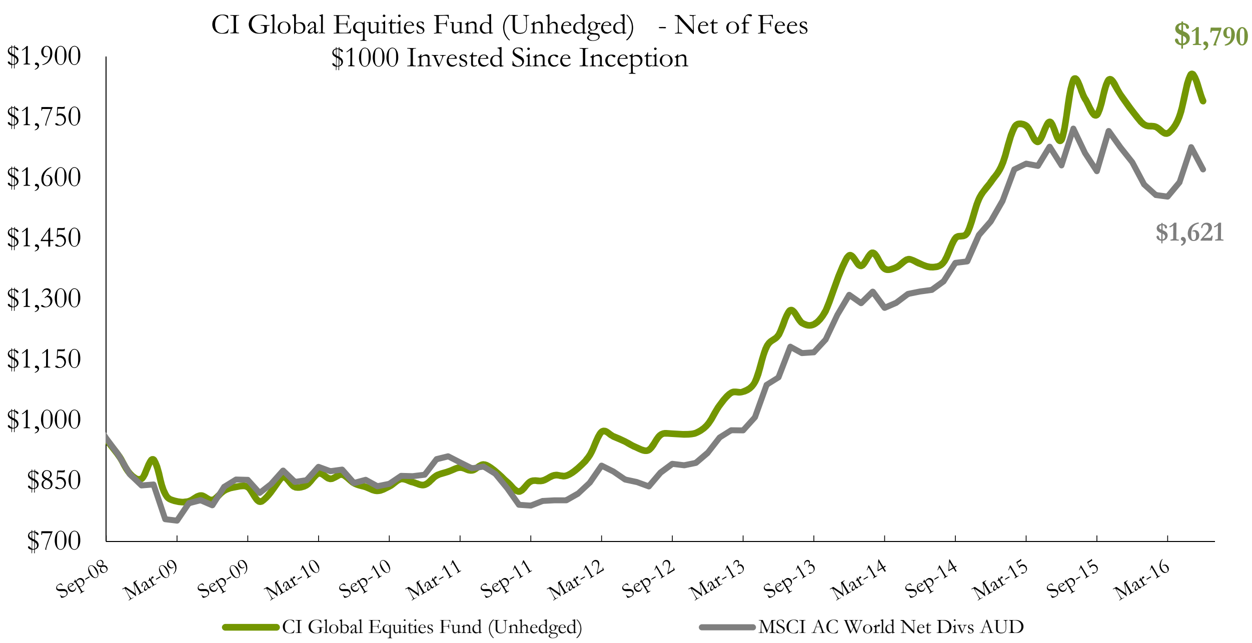
"Pride gets no pleasure out of having something, only out of having more of it than the next man." ***C.S. Lewis***

"Criticise in generality, praise in specificity". ***Warren Buffett***

"I learned long ago, never to wrestle with a pig. You get dirty, and besides, the pig likes it." ***George Bernard Shaw***

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	5.11%	4.33%	0.78%
ROLLING 1 YEAR	7.03%	-0.62%	7.65%
ROLLING 3 YEAR	15.43%	13.58%	1.85%
ROLLING 5 YEAR	16.84%	13.31%	3.53%
ROLLING 7 YEAR	13.44%	10.81%	2.63%
SINCE INCEPTION*	8.88%	6.36%	2.52%
SINCE INCEPTION^	94.65%	62.11%	32.54%

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



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Market and Portfolio Performance

This quarter has been marked by a significant rise in political risk.

During research visits to Europe over recent years we became increasingly aware of the groundswell of unrest building across the Continent. In our December 2014 newsletter we wrote:

"The brutal truth is that the single currency bloc continues to be highly dysfunctional. The ongoing symptoms of distress are high unemployment, consumer price deflation and more recently a rise in anti- Eurozone politics. We are seeing more and more 'non-mainstream' parties gaining power. These groups – mostly though not exclusively right-wing and Eurosceptic – are beginning to win votes and seats in their respective parliaments and some, including Syriza in Greece and the National Front in France, are actually topping national opinion polls. How this plays out is unclear, but the trend is clearly a risk to the stability of the Eurozone in the coming years."

Fast forward to 2016 and the UK has just shocked the world by voting in a democratic referendum to leave the European Union. To quote Marine Le Pen's op-ed from the New York Times:

> "*Brexit may not have been the first cry of hope, but it may be the people's first real victory. The British have presented the union with a dilemma it will have a hard time getting out of."*

Clearly Brexit is not going to be the end of political uncertainty. Scottish independence is potentially back on the negotiating table while alternative parties in several other European nations are calling for referendums of their own. The rise of Donald Trump, while temporarily off the front pages, will no doubt return to the headlines as we move closer to November 8th.

In times of volatility we look closely at the portfolio for areas of risk, scour our watchlist for opportunities and more often than not find comfort in the resilience of companies we already own.

The kind of high quality businesses to which we are naturally attracted have generally been around a long time, have been through numerous economic crises and political cycles, and have survived to tell the tale. **Halma PLC**, one of our capital allocator champions, noted that genuinely good companies should survive and thrive no matter what the political or regulatory environment throws at them. Indeed they reported remarkably strong year-end earnings displaying growth in both China and Europe, regions where many other industrial companies have struggled of late. Stress tests like this last year can be fascinating and insightful periods to see which companies demonstrate the persistence to keep moving forward, and which hold their hands up and "blame the macro".

Currently close to half our portfolio is in Stalwarts, companies we would expect to go well whatever the weather. We also believe the bulk of our Growth companies (~32% of the portfolio) should be relatively immune to the current political impasse. Niche areas within healthcare such as the growth in drug volumes or health and safety regulation are structural trends that are unlikely to change. We expect the unbeatable customer proposition of companies like Costco or Google to endure no matter who is in control in Capitol Hill, Westminster or the Bundestag.

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Where the rubber of political risk does hit the road is in regulated sectors like utilities and banks. This can be observed in the reaction to Brexit in UK financial stocks, where banks have fallen 40-50% and there has been contagion into insurers, asset managers and property trusts where share prices have also fallen 20-30%.

We had materially reduced our bank exposure over the last 12 months – today the fund has just 6% exposure to banks having sold Wells Fargo, US Bancorp and RBS over the period. While we remain technically overweight financials versus the index, most of this allocation is in 'toll-like' businesses (such as AON and CME Group) or in REITS or non-banking conglomerates.

Like everybody else we watch with interest to see how Brexit plays out, but in the meantime we cannot get too upset as prices of some wonderful and highly coveted companies on our Watchlist get cheaper.

The portfolio returned 5.11% in the quarter vs the benchmark return of 4.33%. For the financial year to 30th June 2016 the portfolio is up 7.03%, outperforming the benchmark which fell 0.62%.

Recent performance divergence across markets has been huge. For example the S&P500 and FTSE100 are up in local currency but Financials as a sector is down over 15% in the US and over 30% in Europe.

Amidst the market uncertainty defensive stocks have continued to perform well – our Stalwarts have been the clear winners while growth stocks and turnaround stories have been under pressure. Extreme currency volatility has been a factor this quarter too. Year to date the GBP has fallen by 14% against the Aussie dollar and the Yen has strengthened by the same amount (it's now 32% more expensive for a Londoner to visit Tokyo than a year ago). Thus while portfolio stocks in those countries have performed satisfactorily our overweight UK and underweight Japan positioning has detracted some performance due to currency moves.

Over the quarter alone the AUD fell 3% against the USD and 12% versus the JPY, and was relatively flat versus the EUR whilst gaining 4% versus the GBP.

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

1. **Johnson & Johnson –** Company ticking along nicely and benefitting from a strong balance sheet
2. **NTT DoCoMo** – Continued earnings delivery but the bulk of performance this quarter came from the Yen rising 12% versus the AUD.
3. **Comcast -** Rose on no news other than continued positive trends

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

1. **OHL Mexico** – Retraced part of the sharp Q1 price appreciation in spite of strong underlying results
2. **Close Brothers** – Fell along with other UK financial stocks in the aftermath of the UK Brexit referendum result
3. **Roper Technologies** – Came under pressure during the quarter post publication of a short sell report

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The Portfolio

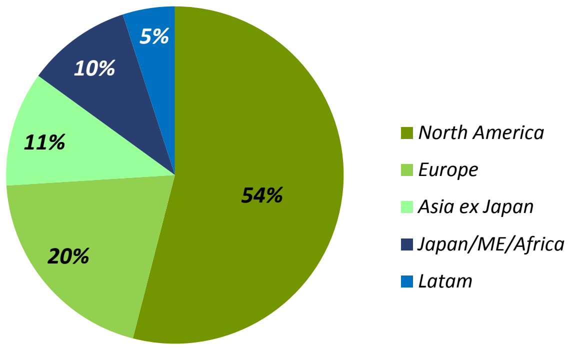
The portfolio is positioned around subsets of value:

- **Stalwarts** (45% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (AON).
- **Niche growth companies** (32%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Costco).
- **Bond like equities** (5%) – 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** (7%) – sound businesses with good management and balance sheets. (Willis Towers Watson).

The portfolio is also diversified by country and sector:

No. of Stocks	**41**
Region Weights	**US 53%** **Europe 30%** **Asia inc. Japan 5%**
Most OW Sectors	**Industrials, Financials**
Most UW Sectors	**Energy, IT**
Cash	**4%**

Geographical Exposure by Source of Revenues#



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

<u>**Buys**</u>

- At the back end of last quarter we began building a small position in **DiaSorin**, an Italian healthcare company. Over the journey we have built up a solid knowledge base and network within the diagnostics space, feeding off historical positions such as Waters and Thermo Fisher, along with current positions Danaher and Agilent. DiaSorin is a company we have followed for several years and is one of the last pure-play reagent manufacturers in a consolidating industry. They make instruments and testing kits for in-vitro immunodiagnostics and have strong partnerships with leading global players such as Roche.

The company is majority owned by a wealthy Italian family and benefits from a highly focused CEO, a trained biochemist who has a material amount of his own wealth tied up in the business. Top line growth tends to be in the high-single digit range, and margins and returns on capital are amongst the highest we have seen for a company in this sector, with the added benefits of the razorblade model driving high recurrence of earnings. They generate a lot of cash and have typically carried net cash on the balance sheet, although they recently spent this on the acquisition of a division from Quest which meets the strategic objective of adding scale and distribution in the US.

- The portfolio completed building its position in **HEICO Corp** ("HEI") which was initiated at end of Q1. HEI is the largest independent manufacturer of aftermarket aircraft replacement parts, known as PMA (Parts Manufacturer Approval). These parts require strict Federal Aviation Administration ("FAA") approval but are sold to airlines at ~30% discounts to the original equipment pricing. PMA accounts for less than 5% of the aircraft maintenance market, hence HEI has a long runway of growth ahead underpinned by internal product development and acquisitions. We also like exposure to the long term secular trend of growing demand for air travel. The company is controlled and run by the Mendelson family who have grown the business ~15% per annum over 20 years. They run a conservative balance sheet and have a cash flow focus.

- During the quarter we established a position in **CME Group** ("CME"), the world's largest derivatives exchange. CME is a diversified business within derivatives, offering contracts across Interest Rates, Equities, Energy, FX, Agricultural Commodities and Metals markets. CME's business model is particularly attractive – the pure-play derivative focus is simpler to manage and understand (by both regulators and management) and competition is essentially monopolistic. It is difficult, if not impossible, to displace the central liquidity of a benchmark contract from its incumbent exchange.

  Following a period of mergers in the mid-2000s (CBOT, NYMEX) CME is now focused on doing one thing and doing it well – operating and growing the exchange. The derivatives exchange business is benefitting from the regulatory pressure directed at the major banks which has lead to continued migration of volumes away from Over-the-Counter trading to centrally cleared exchanges. We have been following and visiting the company and its peers regularly for a number of years now, allowing us to build conviction around the role the exchange plays in its industry and the role the stock plays in the portfolio. The CME investment provides the portfolio with a defensive and growing income stream, which is especially valuable in the current low growth/search for yield macroeconomic environment. *De minimis* capital requirements mean that the cash flows are returned to shareholders in a generous 5%+ dividend yield, a figure well above the other high quality Stalwarts on our watchlist.

- Late in the quarter we initiated a small position in Spanish-listed **Amadeus IT Holding** ("AMS"), the world's largest distributor of airline seat inventory. Although the distribution part of the business is growing steadily and represents a strong and predictable source of cash flows, the more exciting opportunity is the software solutions business that serves airlines, airports and travel agents. AMS have a dominant position in hosting most of the world's large global airline reservation systems, a business which is sticky, highly profitable and which grows in line with global travel. Roughly half the addressable market is still using legacy or insourced systems, providing a long term growth opportunity for AMS to penetrate.

The strong management team has overseen the company's transition from a co-operative between airlines to private equity ownership and now to a public company with a strong track record of execution. Recently the stock has de-rated from ~25x earnings a year ago to sub 20x today, a good opportunity to buy a Stalwart in 'B2B' software that benefits from the digitisation of air travel.

Sells

- Early in the quarter the portfolio exited **Assa Abloy** in its entirety. A solid outperformer over the holding period, the Swedish lock-maker was sold on a combination of valuation concerns – it had re-rated substantially from our buy-in price and was above our estimate of fair value – and deteriorating operating trends. Both organic and acquisitive growth is decelerating from the very strong levels exhibited over the last 5 years.

- **US Bancorp** had been a core holding since we first purchased it in June of 2013. The rationale for selling is very similar to that which we wrote about Wells Fargo in the Q4 2015 quarterly report. Namely it is an extremely well run bank but the gains out of the financial crisis have largely been had and the industry headwinds are not falling away as we had hoped. As discussed earlier the portfolio has greatly reduced its exposure to the banking sector as industry headwinds and historically low NPLs make other areas of our watchlist more attractive investments.

- After a protracted approval process, the Federal Communications Commission and other related regulatory bodies finally gave the all clear for Charter Communications' acquisition of **Time Warner Cable** ("TWC"). As TWC shareholders we received consideration of $219 per share ($115 in cash + 0.46 Charter shares). We subsequently sold our Charter shares as the integration risk combined with a full balance sheet keeps us on the sidelines – we like US Cable assets and at this stage our preferred investment in the space is Comcast.

- Prior to the Brexit vote the portfolio sold its small position in **RBS**. This was partly risk mitigation with the portfolio already containing UK bank exposure through Close Brothers, however it was also an acknowledgement that RBS is a turnaround that hasn't turned. While the 'go-forward' parts of RBS have performed admirably and the management team are doing the best job they can under very difficult circumstances, our conclusion is that this turnaround may have missed its window. Bank turnarounds need industry tailwinds and the UK government managed to get Lloyds away in a particularly favourable environment, however, this period looks to be over. RBS has 'failed to launch' and with the uncertainty of the impending EU referendum vote we liquidated our position and recycled capital elsewhere.

- Post the Brexit fallout we sold **eBay** and used the proceeds to invest in portfolio holdings that had unfairly declined. eBay was first bought with the expectation of a spinoff of PayPal which occurred in Q3 last year.

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Stock News

In its first quarter results **IMS Health** announced the merger agreement with Quintiles Transnational Holdings to form “Quintiles-IMS”. This announcement caught many investors (including us) by surprise. IMS Health a technology and data provider is merging with the leading pharmaceutical contract research organisation, effectively an outsourced provider of clinical trials. After speaking with both companies the crux of the deal appears to be the use of IMS Health’s unique data sets to improve Quintiles’ ability to conduct clinical trials, an industry and service that is largely the same as it was 20 years ago.

The deal is structured in such a way that IMS Health management will run the combined company without having to pay a premium for Quintiles and its stronger balance sheet. The combined entity should generate ~$1bn of free cash flow per annum with revenues growing at least mid-single digits. If the integration works well and the benefits of a combined entity can be realised then Quintiles-IMS can be a healthcare services powerhouse to the pharmaceutical industry.

During the quarter, **Liberty Media** completed 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. Following the split, we sold our positions in the Liberty Braves and Live Nation trackers and invested the proceeds into the newly created Liberty SiriusXM.

We continue to be attracted to the SiriusXM investment proposition and the new tracking stock structure at Liberty provides Liberty management with more targeted levers to reduce the discount to the listed SiriusXM equity, which today sits at ~15%.

During the quarter **Henkel** announced the US$3bn acquisition of Sun Products (“Sun”) in the US. Sun is a portfolio of leading laundry care brands including both detergents and fabric softeners such as ‘All’, ‘Surf’, ‘Snuggle’ and ‘Wisk’. Positioning varies across the premium, value and heavy duty segments and with this deal Henkel will leapfrog Church & Dwight into 2nd spot in the North American laundry market. The deal is consistent with Henkel’s strategy to buy brands that add more scale or segments to existing categories. The successful launch of Persil last year saw Henkel taking share from Proctor & Gamble who dominate the US market and this deal now provides a platform to consolidate the share gains and grow further.

Trip News

This quarter the Global team travelled to Japan and the U.S.

In North America we spent 2 weeks meeting with 40 companies across the Midwest and Toronto. We were stunned to realise the pressure companies are receiving to act and do something with shareholder’s capital. Of the non-financial companies we met with, only 1 had a net cash balance sheet. Our investment philosophy values balance sheet latency and only 1 out of 40 companies seemed like a low proportion compared with previous trips. Upon undertaking further research we found that 6 of the 40 companies have gone from a net cash position to now carrying debt, all in the last 24 months. Unfortunately it appears that New York activist investors have got their hands wrapped around the conservative, long term Midwest companies.

The increase in debt is for one of two reasons - transformational M&A or pre-empting the activist shareholder pressure by returning cash to shareholders. Of the 6 companies mentioned above 2 have blown the balance sheet via transformational M&A. One company in particular has seen its balance sheet go from net cash to 5x net debt/EBITDA by borrowing ~$20bn to fund an M&A spree.

The other 4 companies have used share buybacks to slightly gear up the balance sheet – usually to around 1-1.5x net debt/EBITDA to ward off predator funds. This appears to be the safety zone where management and boards believe they can ward off activists while not borrowing too much. One successful $100bn organisation told us they felt they had to take on the additional debt to protect the good work and history in the organisation. While this level of debt is not concerning it does mean the lever has been pulled for a short term sugar hit.

We have been amazed at how large and successful organisations have become targets for activists looking for quick gains. We think it's important to understand why a particular company has returned cash to shareholders and more important than ever to place value on those with a strong balance sheet and a track record of using it wisely.

A key trend which arose in our meetings was how much the relationship between corporate and consumer has changed. Expectations of the consumer experience have gone up exponentially over the years, as has the expectation of value for money – this is dubbed the 'Netflix or Amazon effect'.

This phenomenon has now moved from technology sectors into general industry. Some examples include airlines where they must provide modern pristine lounges, 21st century mobile apps and customer service at check-in to compete and get ahead of peers (though we did point out to the US airlines they still have some catching up to do). So too, the pharmacy chains are now in the process of shrinking store sizes, improving the assortment, lighting, fixtures and service to provide a good store experience when the same customer has likely shopped at an Apple or Costco down the road. Even banking is getting caught up in this phenomenon where large banks are getting shunned for poor service and experience. As the Hyatt group said to us "Millennials are anti-brand". This all leads to the cost of doing business for consumer facing companies going up.

In Japan we spent time visiting our existing holdings and a number of watchlist stocks in addition to researching new ideas. The tone was more subdued than our previous visit. A year on from our last trip and the stock market has fallen around 25% in local currency whereas the Yen has strengthened 17% against the US Dollar. After hitting nearly 125 to the dollar in mid-2015 it is close to 100 today.

International investors have again moved to reduce their exposure to Japan, having sold roughly half of what they bought post Abe's election in 2012. Around 65% of daily flow is from foreigners so when they go cold on Japan as they have over the last 12 months, the market can drop sharply. For many, Japan is back in the 'too hard basket' and was of interest only as a weak Yen play during the Abe-driven bull market.

Indeed we would agree that large swathes of the market are unattractive – around 2/3rds of the companies in the headline indices are 'Japan Inc.' conglomerates and banks. These companies continue to retain many of the negative characteristics cited when discussing Japanese equities such as poor governance and poor capital allocation. The best example we heard on this trip was of a large listed gas utility launching a home improvements arm on the basis that their engineers are already in the customer's home checking the meter, and may as well suggest a bit of remodelling whilst there.

However, we continue to find wonderful companies in Japan and added several to our watchlist after the trip. These are companies that are global champions in an attractive niche, disrupting an industry or solving an issue of entrenched inefficiency. We find the better propositions still have a founder or owner involved in some way, something rare in Japan but an important distinction that is consistent across many other CI investments.

During the trip we visited Kyoto for the first time. Amongst the Shinto temples and Chinese tourists we got a strong flavour of a focused industrial area similar to those we have experienced in Northern Italy or the Rhine-Ruhr in Germany. There is a deeply engrained culture of engineering excellence and focus in Kyoto companies that resonated with us and we will continue to monitor and research some of the businesses we met here.

Our largest holding in Japan continues to be mobile telco NTT DoCoMo. Our meeting with the company confirmed our view that DoCoMo remains in a sweet spot of government-mandated benign competition and parent-mandated simplicity. The decline in competitive intensity over high-churn customers and subsequent rise in ARPUs has benefitted all of Japan's 'Big 3' telephony companies but while DoCoMo's peers are distracted on non-core activities (SoftBank turning around Sprint in the US and KDDI on providing electricity or its JV in Myanmar) DoCoMo can focus on operational improvement and cash generation.

Parent company Nippon Telegraph and Telecom also needs the cash that DoCoMo generates to pursue its own endeavours. One final positive from the meeting was that management believe only incremental capex will be required on the existing LTE network to move up to 5G, hence fears of an impending capex jump in the near future are receding.

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Finally, in May 2016 a member of our Global team attended the Berkshire Hathaway Annual General Meeting in Omaha, also known as "Woodstock for Capitalists" to glean wisdom from Warren Buffett and Charlie Munger. Below are three lessons from the weekend that we hope to emulate:

1. **Create an Environment for Long Term Capital Appreciation**
   A significant number of attendees were over 65 and whilst mingling over complimentary bowls of See's Peanut Brittle we discovered many had been invested in Berkshire Hathaway for decades.

   During this investment journey Mr Buffett has delivered a consistent message in a humble, jargon free manner. This approach has given investors the confidence to stay invested in Berkshire through the cycle. By not exiting at the bottom and entering back at the top investors have materially increased their realised returns.

2. **Intellectual Humility**
   Both Warren Buffett and Charlie Munger possess a rare intelligence that allows them to recognise and not hide from their limits. This is a rarity in Finance and Economics where participants often compete to appear the smartest person in the room.

This was demonstrated a number of times when the two responded to complex questions. It has allowed both to focus on their areas of competence and not fall into traps of accepting risks they are not aware exist or don't understand.

3. **Keep Unnecessary Movements to a Minimum**
   Incredibly, for a company with a market capitalisation of US$350 billion Berkshire's head office is made up of only 25 staff. Their ability to "fight bureaucracy" has reduced the number of managerial and administrative tasks required of Mr Buffett and Mr Munger, thus allowing them to spend the majority of their time on investments.