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.

MARCH 2016

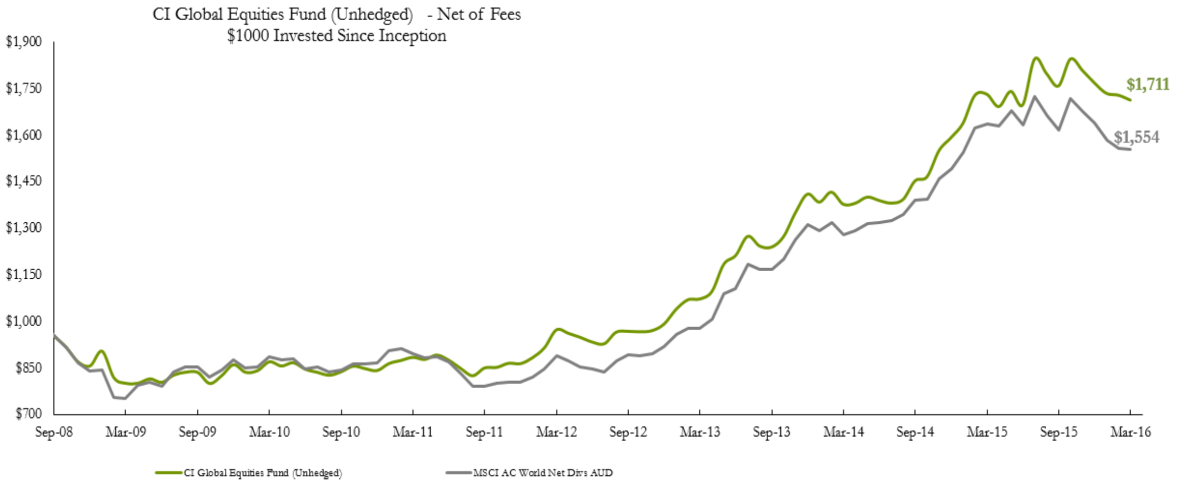
"Opportunities multiply as they are seized." ***Sun Tzu***

"Tomorrow belongs to those who can hear it coming." ***David Bowie***

"A good bank needs no capital; no amount of capital is enough for a bad bank". ***Walter Bagehot***

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTHS	-2.77%	-5.20%	2.43%
ROLLING 1 YEAR	0.26%	-5.00%	5.26%
ROLLING 3 YEAR	18.38%	16.79%	1.59%
ROLLING 5 YEAR	15.45%	11.63%	3.82%
ROLLING 7 YEAR	12.71%	10.93%	1.78%
SINCE INCEPTION*	8.47%	5.98%	2.49%
SINCE INCEPTION^	85.19%	55.38%	29.81%

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



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Market and Portfolio Performance

Global equity markets experienced a wild ride in the first quarter of 2016, with a precipitous fall in January followed by an enormous rally in March. To illustrate how rare volatility on this scale is, the S&P 500 managed to end the quarter in positive territory having been down more than 10% at one point – the last time this occurred was in 1933.

European markets did not enjoy quite the same bounce as the US – the STOXX Europe 50 fell as much as 18% early in the quarter and remained down 11% year to date at quarter end.

In both regions banks and pharmaceuticals suffered the worst of the selling - banks have been aggressively avoided by investors since the Federal Reserve raised interest rates on the 17th December - since that date the S&P500 Banks Index is down 13% while the STOXX Europe 600 Banks index is down 22%. Bank stocks are supposed to do well when rates rise so recent price action suggests investors are not convinced this is the beginning of a tightening cycle that would accompany a typical economic recovery. This view is understandable with central banks in Japan and Europe continuing to push their policy rates further into negative territory.

In the pharmaceutical sector there continues to be concern over pricing pressure in the US and the likely outcome for big drug companies if Hilary Clinton, an outspoken advocate of lower drug prices, becomes President later this year. The negative headlines around the sector were stoked further by the boardroom shenanigans and debt issues at Valeant, which fell 52% during one day in March. The S&P500 Pharma index remains down 5% while the STOXX Europe Pharma index is down 14%, with the latter hurt by dollar weakness (the USD has fallen 5% against the Euro year to date and the majority of pharmaceutical profits are dollar-dominated).

After a year of misery in 2015 emerging market investors have at least had a quarter to smile about with most emerging indices outperforming the broader market so far in 2016 – the MSCI Emerging Markets index is up 5% year to date. Crude oil has also arrested its decline with Brent closing the quarter at $39/bbl, up over 40% from the January 20th low of $27.88/bbl. The portfolio's emerging market positions performed well in the quarter, while the portfolio remains underweight in energy. Our research suggests that $40/bbl oil is still a major problem for the oil industry with many zombie oil developments currently not economically viable but being kept alive by project managers praying for $60+ crude.

The AUD continued its rally from late last year, gaining 6% against the USD and 8% versus the GBP whilst remaining relatively flat versus the EUR and JPY.

The portfolio returned -2.77% in the quarter vs the benchmark return of -5.20%. On a rolling one year basis the portfolio is up 0.26%, outperforming the benchmark which fell -5.00%.

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

1. **OHL Mexico** (OHLMEX.MX) – Gained 52% in the quarter after several positive events, see Stock News below for details.
2. **AON** (AON.US) – Rose on no specific news other than good Q4 results and ongoing growth in free cash flow.
3. **Comcast** (CMCSA.US) – No news other than continued solid underlying trends in the business.

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

1. **Novo Nordisk** (NOVO.B.DK) – Declined 9% in the context of large European pharma stocks falling 10-20%.
2. **RBS** (RBS.GB) – Euro banks sold off in Q1; the STOXX Europe 600 Banks index fell 20%. RBS announced the Williams & Glyn carve out is taking longer than expected, delaying capital return to mid-2017.
3. **East Japan Railway** (9020.JP) **–** Despite decent results the stock declined more or less in line with the Japanese market which fell 13% in the quarter.

The Portfolio

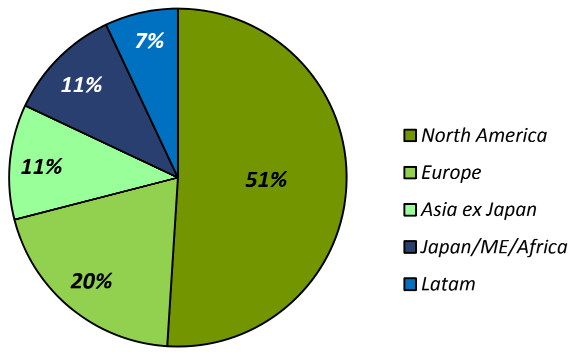
The portfolio is positioned around subsets of value:

- **Stalwarts** (43% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (AON).
- **Niche growth companies** (30%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Costco).
- **Bond like equities** (6%) – 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** (11%) – sound businesses with good management and balance sheets. (Willis Towers Watson).

The portfolio is also diversified by country and sector:

No. of Stocks	**44**
Region Weights	**US 51%**
	Europe 34%
	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

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Buys

During the quarter we initiated a position in **Groupe Eurotunnel** (GET.FR)**.** The performance of high quality infrastructure assets is relatively predictable over the long term but they are nonetheless prone to short term shocks – airline collapses and engineering problems to name a couple. Notwithstanding the long term predictability the market can become overly sensitive to short term issues, particularly for infrastructure assets that are yet to pay material dividends. These episodes can present wonderful opportunities to invest in high quality long term assets at discounted prices. We believe GET, a company we have followed for several years, fits into this category.

GET has three 55km tunnels that connect the UK to Continental Europe (France) providing a shuttle service for cars and trucks, and for passengers via the Eurostar connection. Like many of Australia's privately financed tunnels GET has proved an engineering success but a catastrophe for early stage investors, undergoing two financial restructures due to high construction costs and low traffic. But following the last restructure in 2007 GET is now well-capitalised and pays a growing dividend.

The share price has fallen by around 30% over the past year on concerns around: a) Ferry competition; b) Paris and Brussels terror attacks; and c) "Brexit". Whilst we don't underplay the potential for these issues to effect short term traffic we believe the tunnel is one of the most important infrastructure assets to the United Kingdom. We expect GET to benefit from significant traffic and revenue growth during the remaining 70 years of its concession, from which investors should enjoy strong dividend growth with a low risk profile.

The Fund is also in the process of building positions in two niche growth companies; one US industrial and the other a European healthcare business.

Sells

The fund exited **Sanofi** (SAN.FR) entirely during the quarter. The original thesis focused on the structural growth in a diversified healthcare company that was moving away from pharmaceuticals and growing its exposure to under-appreciated and entrenched oligopolistic positions such as vaccines and consumer healthcare. However the investment story has been complicated by management change, a corporate restructure and now an apparent shift in strategy. It is clear that new CEO Oliver Brandicourt will pivot the company back towards pharmaceuticals with an increased commitment to spend cash on R&D while selling oligopoly assets such as animal health business Merial. The launch periods of key pipeline drugs *Toujeo* and *Praluent* have also been underwhelming and so the position was sold to fund new ideas.

Stock News

OHL Mexico (OHLMEX.MX) the Mexican infrastructure owner and operator, had a tough start to 2016 with the share price hitting MXP15.50 in early January, its lowest share price since 2012. OHLMEX is a position we initiated in July 2015 following extensive due diligence into the allegations levelled against the company around misconduct and poor governance. We concluded the reduction in equity value (around 50% at the time) overstated these risks and the quality of the underlying assets would eventually be recognised in the share price.

Since we initiated the position the assets have performed well and we have found the actions of the company in responding to these challenges as positive. However, following the sell-off in January we re-evaluated the investment thesis by reviewing our analysis, conducting follow up meetings with senior management and engaging with the board through written correspondence. Following on from this process we concluded the investment proposition remained strong and increased our position.

The stock has since rallied over 80% from the January lows, driven largely by:

1. Strong full year results, including revenue growth of 26%;
2. The announcement of an inaugural dividend of MX$0.40 per share (~2% yield); and
3. The conclusion of the CNBV (National Banking and Securities Commission) investigation, importantly finding no evidence of fraud or misconduct.

Given the strong findings from the CNBV following a long and extensive investigation we believe the market will start to move its focus to the value of the underlying assets and we continue to see significant upside from the current share price.

Over the quarter, the deal spread between Charter Communications (CHTR.US) and **Time Warner Cable** (TWC.US) tightened from over 800bps in December 2015 to close to 200bps as the market began pricing in a deal approval. We expect the Federal Communications Commission to circulate a draft order recommending approval of CHTR's acquisition of TWC and Bright House Networks imminently. The final hurdle remains approval from the Californian Utility regulator which is expected in May.

Trip News

This quarter the Global team completed another extensive visitation program with trips to both Europe and North America. Over the last 12 months the team has clocked over 600,000kms of travel in our ongoing research effort.

In Europe we visited 13 cities across the UK, Italy, Switzerland, Germany and Denmark. In a macro sense we came away from Europe with two broad impressions. On the one hand the economic environment continues to stabilise, with growth across the continent nudging along from a low base. The UK, Ireland and Sweden continue to lead the way with GDP expected to grow in excess of 2% in 2016. Spain is rebounding from a low base and should also grow more than 2% while Germany, France and Italy should eke out ~1.5% growth. Last year's bonus from a weak Euro looks like reversing somewhat this year but at least the region is going in the right direction growth-wise.

On the other hand the political and social mood is the darkest we can recall. Fears of disorderly breakups, whether it be 'Brexit', 'Grexit' or indeed the currency union as a whole are extending the torpor around the capital cycle. The geopolitical situation with immigrants and the increasingly frequent terrorist attacks across large cities is certainly not helping confidence in the region recover. This combined with the deflationary commodity market and negative interest rate environment is discouraging risk taking.

At the corporate level the companies we met seemed positive in their outlook. They have been operating in this difficult environment now for a long time and the better run businesses (where our sample set is naturally biased) have for the most part adapted and are getting on with things – 'life goes on'.

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As we have noted in the past, Europe needs to be viewed at the sub-regional level as the story often changes more intra-country than interstate.

Italy for example has a huge contrast between the wealthy and productive North, and the poor and corrupt South. Spending two days in the Northern states of Emilia-Romagna, Piedmont and Lombardy (Bologna, Turin and Milan) we met a number of high quality multi-national businesses on our watchlist that we would consider champions in their own fields. Unemployment in these regions is low, and incomes, home ownership and savings rates are high.

Contrast this with Berlin, where unemployment levels are materially higher than the national average and yet most immigrants into Europe would guess at better job prospects in Germany than in Italy. Our time in Berlin was spent assessing the burgeoning internet and 'fintech' sectors in the city and whether the German capital has a realistic shot of becoming the 'Silicon Valley' of Europe versus say London or Stockholm. While we met some fascinating businesses, the cultural and clustering effect that has spawned Silicon Valley probably cannot be replicated– we're not holding our breath for Europe to produce the next Apple or Facebook.

While the focus of visits was split between existing holdings, revisiting watchlist stocks and exploring new ideas, it's always good when the highlights are stocks already owned in the portfolio - this time meetings with management at AON and Reckitt Benckiser were standouts.

At **AON** (AON.US) a discussion around the business model and areas of future growth reaffirmed to us why the company remains one of our high conviction positions. Under CEO Greg Case the company has grown profitably with operating margins more than doubling from 10% to over 20% over the last ten years.

The build-out of its pricing engine (aka "GRIP") over recent years has further strengthened its position as the world's largest insurance broker, with access to more data on risk, retirement and health benefits than anyone else on the planet. The brokerage business is one of the most reliable we've seen – at 95% recurring revenue rates with flat pricing the model of 'extracting economic rent from insurers' creates a significant and stable stream of cash flows.

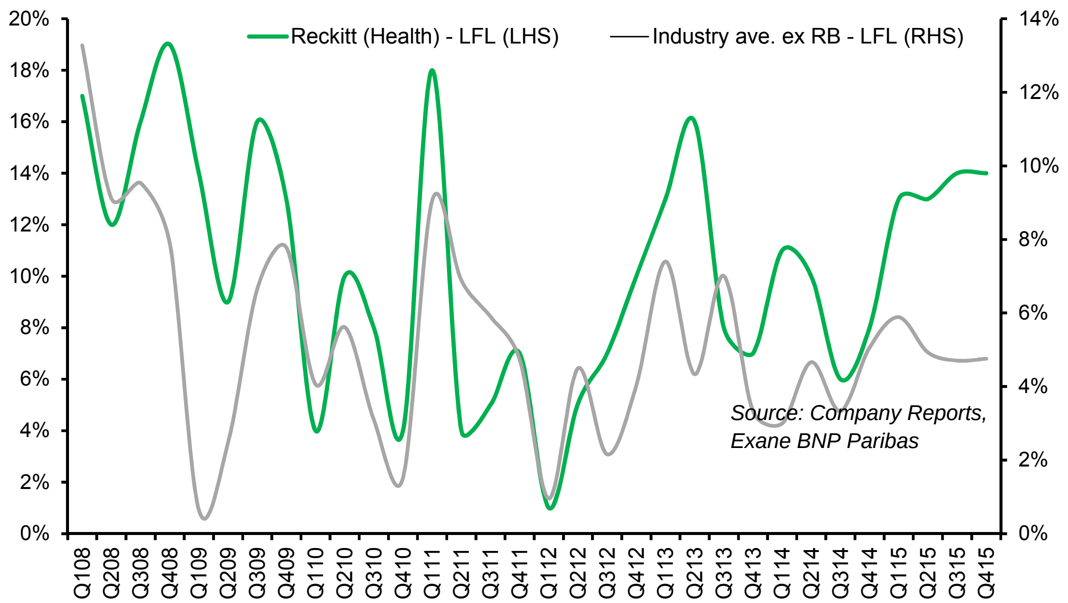
AON has adjacent opportunities to grow in the retirements and benefits space, particularly in consulting and administration. Significant changes in pension regulations are occurring across the developed world creating growth for players that already have entrenched positions with benefits managers, corporates and large pension funds. AON noted they have grown their assets under administration on behalf of clients from zero to US$70bn within 5 years.

Reckitt Benckiser (RB.GB) is one of the portfolio's longest holdings having been owned for almost a decade and a lively discussion on culture confirmed to us why the company continues to outperform its peers (see chart below). The tone of the meeting contrasted sharply with Unilever who we had met earlier in the day - for two companies that ostensibly do the same thing and are often compared, the internal reality is very different.

RB's relentless focus on cost and driving value from innovating around their existing consumer healthcare 'Powerbrands' has produced sector-leading organic growth and margin expansion for several years. In addition the inorganic opportunity set is still vast - the global consumer health market is highly fragmented and most of the largest assets remain buried inside big pharma companies where they tend to stagnate, lacking both focus and innovation.

RB believe consumer insight is more important when building brands than technical skill, and this is where they excel with a great track record of prising brands away from inappropriate owners and giving them a new lease of life.

Reckitt Benckiser Like-for-Like Sales Growth Vs Peers



Over to the US where we spent the first 2 weeks of February visiting companies in California, Washington, Georgia, Florida, New York and Connecticut.

It was a fitting time to be visiting companies as the S&P 500 had dropped 10% in the first 6 weeks of 2016. Given full year earnings had just been announced and results were largely in line with expectations, most companies were surprised and perplexed by the dramatic falls in their share prices. Companies with full or excessive balance sheets, FX exposures from international earnings and those with energy related sales were severely punished. The second half of February and March saw a reversal in exchange rates with a weakening USD and a rebound in the oil price lifting markets and these stocks in particular. Meanwhile stalwarts with strong balance sheets, predictable earnings and dividends sailed through the market storm and rebound relatively unaffected.

While we weren't expecting a softening in the US dollar it did become clear that dollar strength could only go so much further. While companies were cautious about the softer end markets and slowing global growth, their biggest concerns had moved to FX, the impact of which had grown far more significant.

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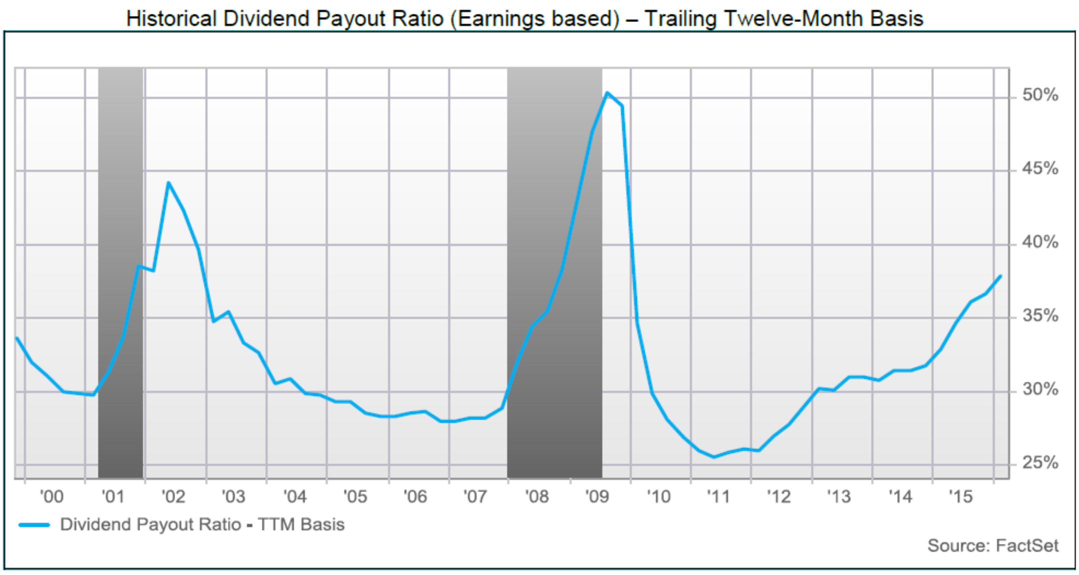
Multinational companies in the portfolio like **McGraw Hill Financial** (MHFI.US), **UPS** (UPS.US) and **IMS Health** (IMS.US) suffered negative FX impacts to 2015 revenues of between 2% and 9% depending on the level of international exposures, particularly to emerging markets.

Back in February the FX impact on 2016 revenues looked to be similarly onerous as 2015, suggesting minimal profit growth for US multinationals. Given the severity of FX moves the mindset of corporates has been forced to change from one where FX moves were previously seen as “one-offs” and largely ignored to now a real cost to business. It feels unlikely that the US will stand idly by for the long term while a large part of the western world operates with negative interest rates and deflates their currencies at the expense of US corporate profits.

With companies pressured by investors (activists in particular) to increase dividends and buybacks over the last few years payout ratios are approaching previous highs as FX impacts have offset underlying business growth. Including buybacks (which are now larger than dividends) the total levels of cash being returned to shareholders looks close to maximum levels (see charts below).



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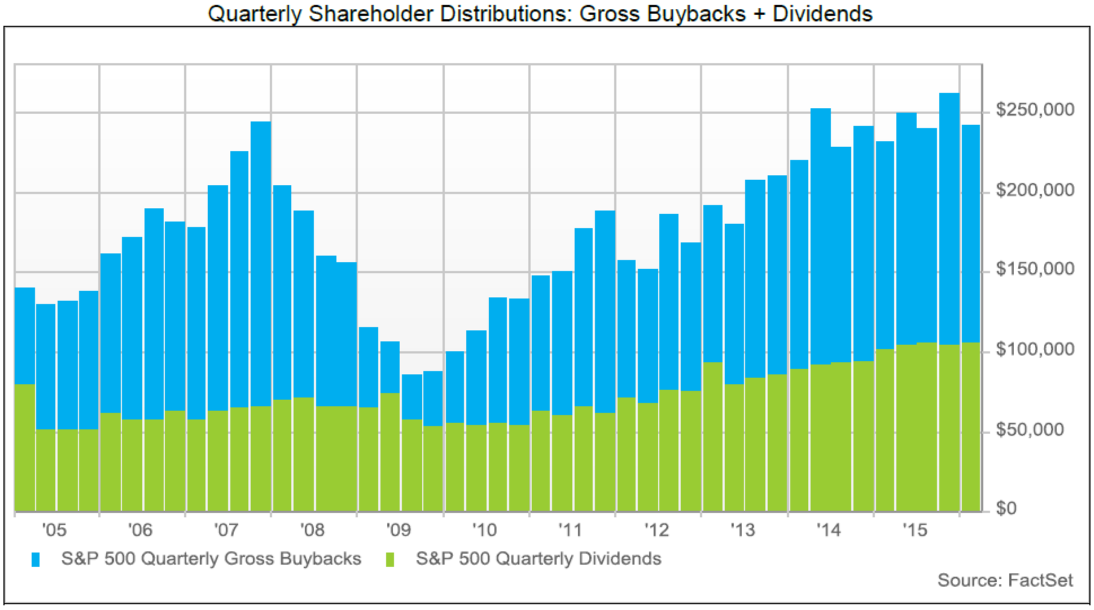
Quarterly Shareholder Distributions: Gross Buybacks + Dividends



As Australians travelling often to the US, it has started to feel expensive below the 70c exchange rate range. Having lived in the US for 3 months in the second half of 2015 in order to visit companies, one could feel the cost of goods and services move from being extremely cheap at $1.10 to more on the expensive side compared to Australia at 70c. A cup of coffee all of a sudden would cost AUD$6, clothes became cheaper in Australia versus America and a 90 minute flight from New York to Richmond Virginia cost just shy of AUD$1000. With the USD down in the first quarter 5% to the Euro, 7% to Japanese Yen and 10% to Brazilian Real, US multinationals will get some much needed breathing space which they've not had for a number of years.