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 2017

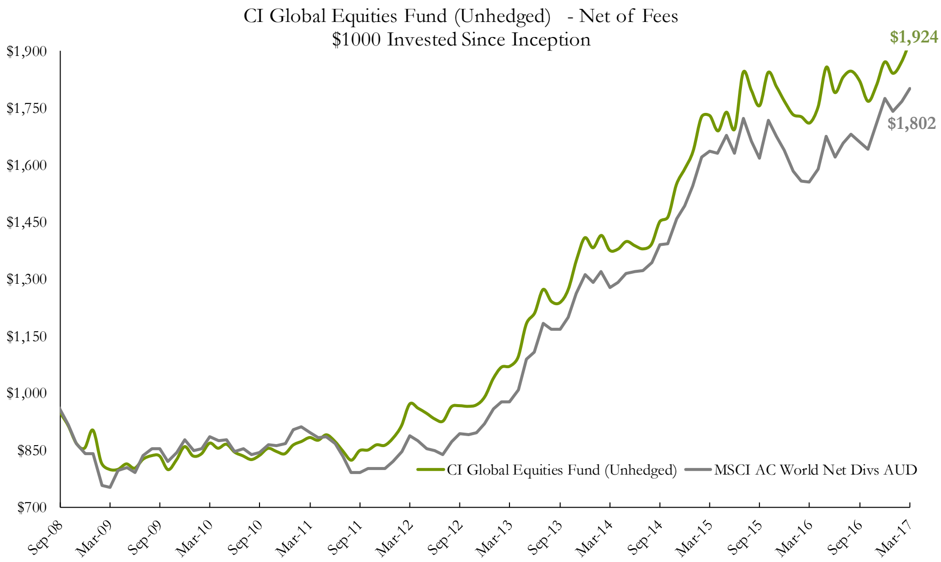
*"The inherent irony of the efficient market theory is that the more people believe in it and shun active management the more inefficient the market is likely to become." **Seth Klarman, Baupost***

*"He who is not contented with what he has, would not be contented with what he would like to have." **Socrates***

*"Our profitability is not our customer's problem. We're not going to make customers pay for any of our inefficiencies." **Jeff Bezos, Amazon CEO***

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTHS	3.13%	1.48%	1.65%
ROLLING 1 YEAR	13.96%	16.01%	-2.05%
ROLLING 3 YEAR	13.29%	12.12%	1.17%
ROLLING 5 YEAR	16.13%	15.22%	0.91%
ROLLING 7 YEAR	13.31%	10.70%	2.61%
SINCE INCEPTION*	9.10%	7.11%	1.99%
SINCE INCEPTION^	111.05%	80.25%	30.80%

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



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Market and Portfolio Performance

After the wild Trump-driven volatility of Q4 2016 the first quarter of 2017 was relatively quiet in comparison, characterised by a slow and steady grind higher by most equity markets. Volatility subsided to remarkably low levels – in January the "VIX" (an index measuring the implied volatility of options on the S&P) dropped to the lowest point for over 10 years, suggesting a degree of complacency creeping into the market.

The S&P 500 consolidated the gains from November and December by rising a further 4% in the quarter, while the Euro STOXX rose 3%.

Emerging Markets led, seeing a strong recovery after selling off late last year – the MSCI Emerging Market index gained 7% for the quarter, with Indian (SENSEX +12%) and Chinese/Hong Kong stocks (Hang Seng +10%) seeing strong gains. Latin American markets also rose 5-10%.

In a macro sense the outperformance of Emerging Markets has been driven by the tempering of the 'reflation trade', as seen by the stabilisation of both the US Dollar and US Treasuries. The DXY trade-weighted dollar index fell 2% in the quarter while the 10 Year Treasury yield closed at 2.3%, off its March high of 2.6% and more or less the same level as mid-November, post-election.

The new President remains a lightning rod for the media yet still there is little of substance to comment on regarding policymaking. In late March one of Trump's key election promises, the 'repeal and replace' of Obamacare failed to pass the House of Representatives in Congress, and our sense is that the initial froth of euphoria around Trump's reflationary rhetoric is beginning to dissipate.

Further observations of this sentiment shift can be seen in the market via Japan (the Yen and Nikkei -5% in the quarter) and a correction in commodity markets, both oil (S&P 500 Energy -8%) and base metals (S&P500 Metals & Mining -5%). The key focus now should turn to tax reform, which will have a far more meaningful impact on corporate America and gets discussed in almost all conversations we have with both US companies and non-US companies that operate there.

Turning to Europe and the headlines have been dominated by Dutch and French elections, along with the UK's trigger of Article 50 to begin the process of leaving the EU. After the doom and gloom immediately following the referendum the outlook appears to have improved somewhat on the UK's prospects. The economy has not nose-dived as some expected and the OECD recently revised up their 2017 GDP expectations. As a "Brexit" barometer the Pound Sterling to U.S. Dollar and Euro FX rates have stabilised over the last 6 months, while our conversations with London-centric REITs suggest the mood is cautious but not despondent.

The portfolio remains highly diversified. A benefit of this is to avoid as far as possible correlated risks and hidden 'fault-lines' that become exposed by sudden macro shocks. Warren Buffett famously observed that politics are 'an expensive distraction' so while we stay informed and aware of what is going on in the world, our focus is on what we own and what the management of our companies is saying and doing.

Over the last 12 months we have spoken to 100% of portfolio holdings and a large proportion of our Watchlist, as we aim to do every year.

What is consistent and encouraging is the refusal by top management to attribute poor performance to macro or geopolitics, remaining focused on their own opportunity set and the levers they have to create shareholder value. We consider this a strong indicator of authenticity and intentionality, two cultural traits we value highly.

For the three months to 31st March the portfolio returned 3.13% versus the benchmark which returned 1.48%. The outperformance was largely driven by stock specific contributions, particularly from our low risk Turnarounds. With market valuations looking fairly full, we are finding opportunities to generate outperformance through transformation stories, with several recent purchases in this bucket.

Over the quarter the AUD gained 4% vs the USD, 3% vs the EUR and GBP and fell 1% against the JPY.

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

1. **OHL Mexico** – Last quarter's biggest loser was this quarter's largest winner, driven partly by M&A speculation while Mexican stocks and the peso recovered their post-Trump decline.
2. **Brinks -** The shares rose on the back of a strong Q4 and full year earnings announcement with the early momentum of the turnaround looking positive.
3. **S&P Global** – Similarly to OHL Mexico, the stock more than recovered from the prior quarter's share price fall.

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

1. **UPS** – After a strong 2016 where UPS shares returned 20% including dividends, the stock fell 7% in the quarter following the full year result announcement. Expectations of margin leverage were missed with ongoing pressure due to a business mix shift from B2B to B2C.
2. **Remgro** – South African shares sold off in the last few weeks of the quarter on the back of South African President Zuma sacking the finance minister.
3. **Novo Nordisk** – Management widened 2017 guidance range in Q1, albeit only by one percentage point but amid ongoing poor sentiment around Diabetes and Pharmaceutical stocks in general.

The Portfolio

The portfolio is positioned around subsets of value:

- **Growth companies** (41%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Danaher).
- **Stalwarts** (27% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (AON).
- **Low risk turnarounds** (14%) – 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** (4%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (Unibail-Rodamco).
- **Cyclicals** (3%) – stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who allocate capital prudently. (Ametek)

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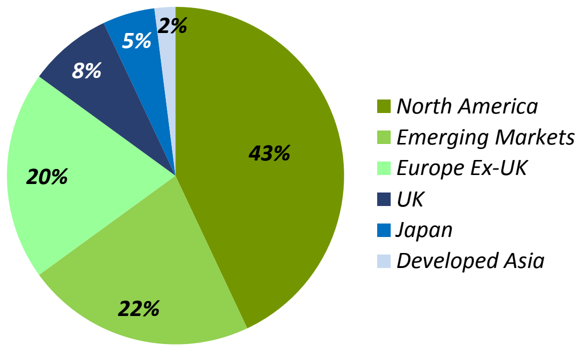
The portfolio is also diversified by country and sector:

No. of Stocks	**43**
Region Weights	**US 51%**
(by listing)	**Europe 30%**
	Asia inc. Japan 7%
Most OW Sectors	**Industrials, Financials**
Most UW Sectors	**Energy, Materials**
Cash	**4%**

Geographical Exposure by Source of Revenues#



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

Buys

- **TE Connectivity** ("TE") was added to the portfolio this quarter. Since its spin from Tyco 10 years ago TE's leadership team has made fair if not spectacular progress in repositioning the company into more attractive end markets. In the last 12 months a new management team has been put in place who we believe can accelerate this self-improvement story as well as instil greater financial discipline. We have previously invested in peer Amphenol and have tracked the performance of new CFO Heath Mitts in his previous role at IDEX Corporation. We have a firm idea as to the earnings power of this business over time.

- The portfolio initiated a small position in Asian insurer **AIA Group** after the shares had traded down to the lowest multiple in several years. This was an opportunistic purchase as we believe concerns over the outlook for the Hong Kong and China business have become overly negative.

- Whilst Japanese companies are no longer dominant in consumer electronic goods they continue to dominate the niche electronic components that enable these devices. **Hirose Electric** is a Japanese "Hidden Champion" focusing on the electronic connector market, products crucial for smartphones and increasingly automobiles. Through niche focus, high R&D investments and strong customer relationships Hirose is the most profitable company in the industry (and indeed one of the most profitable companies in Japan).

  However, its growth has recently slowed as their key end market (smartphones) has matured. Management are now re-positioning the firm into more dynamic end markets (automotive and connected devices) but given their preference for organic growth this takes time as they build leading products and new customer relationships. The balance sheet is very strong with cash representing around 35% of the current market capitalisation and they hold 13% of shares as treasury shares. On an unlevered basis Hirose trades on around 16.5x post-tax earnings, a discount to less profitable international peers. We believe there is material upside from management delivering on growth ambitions and deploying some of the excess capital into new growth opportunities.

- Following a trip to Stockholm we initiated a position in **Sandvik**, an investment classified as a "Low Risk Turnaround" in a cyclical company. Sandvik has leading global positions in manufacturing cutting tools for mining and industrial applications.

Sandvik has historically been considered one of the premier Nordic capital goods companies. However, this position was impaired by a management team that reversed the highly decentralised culture to a centralised one. The strategy, advised by "consultant types" resulted in an explosion of administration costs, a reduction in accountability and when combined with a cyclical downturn in end markets - persistent underperformance.

Since our previous meeting 18 months ago there has been a complete leadership refresh with two of the Sweden's best executives in the position of Chairman (Johan Molin) and Chief Executive (Bjorn Rosengren). The Chairman is very familiar to us as he is the CEO of Assa Abloy, a former portfolio holding. Together they will return the management structure to its decentralised, entrepreneurial and accountable heritage. We could feel the wave of energy this transformation has injected into the company during our meeting.

Whilst the stock has performed strongly over the past 12 months (as have all cyclicals) we believe there is material upside remaining from the execution of their strategy that will continually push the business into higher value and faster growing markets.

Sells

- The portfolio exited its position in **Reckitt Benckiser** during the quarter**.** The stock has been in the portfolio for over a decade and has been a rewarding investment over a long period of time. However the proposition today has materially deteriorated across all three aspects of the VoF framework, and thus we are redeploying capital into new opportunities. See 'Stock News' for further commentary.

- **Johnson & Johnson** has paid a large multiple (~30x PE) to buy Actelion, based in Switzerland. While EPS numbers edge up, the company has taken its net cash balance sheet into debt. While the level of debt is not a concern relative to JNJ's size and earnings power, it has utilised the latency that was on offer, and subsequently the position was sold.

- The portfolio exited its position in **East Japan Rail Company** ("JRE"), owner of the Tokyo subway and Shinkansen (bullet train) as well as a portfolio of real estate adjacent to the stations. The investment thesis was premised on the growing value of the real estate portfolio through rental increases and additional developments. Unfortunately, we did not anticipate the level of maintenance investment required in the rail portion of the business which is offsetting these gains. Given the upcoming Tokyo Olympics we believe this trend will continue as the incentives for management to "gold plate" the rail network will be strong. Therefore, we think there are better opportunities for our capital in the medium term.

Stock News

During the quarter we attended the investor day of **The Brink's Company** ("Brinks") in New York where new CEO Doug Pertz outlined a set of 3 year financial targets. Our impressions from the day were two-fold – firstly the targets were backed up by detailed evidence, and secondly there is significant slack built into the numbers.

The portfolio initiated its position in Brinks in October 2016. As a turnaround we saw the company as a perennial underperformer in need of a new management team with the ability to execute against a clearly articulated set of strategic initiatives. If successful this would restore earnings power as well as credibility with the market. The investor day was an important step in this process and provided detail which confirmed our original thinking.

In the lead-up to the Investor Day the company's operating results had already started to improve and the market had begun pricing in the self-help opportunities for the business. Hence whilst we view the $3.50

2019 EPS target as highly achievable, large upside from here will need to come through either operational outperformance or balance sheet deployment into attractive consolidation opportunities.

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During the quarter **Reckitt Benckiser** (“RB”) announced the intended acquisition of Mead Johnson for US$19bn.

We have become increasingly concerned about companies gearing up to do large M&A at high prices over the last few years. There seems to be a rising frequency of significant transactions which use cheap debt to do deals that are short term EPS accretive but long term ROIC dilutive, under strategic rationale that does not stand up to close scrutiny. Having been happy owners of RB for more than 10 years it is disappointing to see such a disciplined operator go down this route.

The Mead deal represents a ‘double step-out’ – a new vertical (infant nutrition) in what for RB (at this scale at least) is effectively a new geography – China. Management at companies who we recognise as the best in the business when it comes to M&A warn strongly about the dangers of ‘double step-outs’.

The Chinese infant nutrition market has been in focus in Australia for some time, with our colleagues in the Australian Equities team following the successes and (in some cases) struggles of various local dairy champions such as Bega Cheese, a2 Milk Company, Bellamy’s, Fonterra and Murray Goulburn. Our Asian Equities team also follow domestic Chinese players like China Mengnui and Biostime, while we have had Mead Johnson on our Watchlist for several years. In summary, we are acutely aware of the medium and long term challenges Mead Johnson faces in this market.

While Rakesh Kapoor, the RB CEO, has proved himself a smart acquirer and excellent operator, the scale of this acquisition and the risks it introduces to the group are unprecedented in RB’s history. It changes not only the reputational risk profile of the company but detrimentally impacts return on capital while gearing up the balance sheet. It will also be an enormous management distraction over the next few years, at a time when organic growth in the key Health division has slowed from double digits in late 2015 to almost zero. With no significant synergy opportunity we struggle to see how this deal will create sufficient shareholder value to compensate for the risk.

This is all in the context of valuations which are at record highs on an EV/EBITDA basis when taking into account the debt RB will take on to fund the deal. We will continue to monitor the business and integration of Mead Johnson with interest, but the change in the RB proposition today has driven the sale of the position.

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In a pleasing outcome for shareholders and for South African business, the negotiations of asset swaps between **Shoprite** and Steinhoff were called off. The stock is up 10% since the deal ended, having sold off post the initial tie-up announcement. The minority shareholders were heard loud and clear as the proposal looked to be dilutive despite no numbers being announced. We did not like the proposal but continued to own the shares as our discussions had demonstrated strong corporate governance being present at the company.

However, the governance of the South African government continues to shock and awe. At the end of the quarter President Zuma sacked the very capable Finance Minister Pravin Gordhan as well as 19 other ministers in a bid to protect his own interests. The South African Rand fell 7% in a matter of days since. It is disappointing that the government continues to get in the way of well-run South African companies, and we hope the situation is approaching something like we saw in Brazil – so bad that it causes widespread change.

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Trip News

This quarter the Global team visited the US, UK, Sweden, Denmark, Germany, Italy and Switzerland.

Our US trip took us to the North West and East Coasts, as well as a week down south in Florida and Georgia. Having also been to Texas late last year there is a vibrancy to these “Capitals of the South” that is in contrast to the North East. A city like Atlanta is seeing high rise apartments go up all across the skyline and a downtown that was once a no-go zone is now in vogue. With house prices in the range of US$300-400k in a middle class suburb and a favourable corporate tax environment, the Georgia state population and economy is growing nicely.

While many executives do not approve of or like President Trump, they are warming up to him with the expectation of a big tax cut and potentially higher growth rates. Most companies see the positives of tax reform and infrastructure spending outweighing the potential headwinds proposed, such as interest deductibility or border adjustment tax. There was an almost unanimous view that he wouldn’t implement any policy that would hurt “their company”. We suspect some companies will get a nasty surprise once all is finalised.

On the other hand valuations are clearly starting to look and feel stretched as a general comment. But more so balance sheets are feeling full - while the level of debt is not the major concern, we worry more about the lack of optionality and latency that a strong balance sheet with capable management provides. A number of management teams are even describing their shareholder proposition as a “deleveraging story” which is something we are not fond of.

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The Europe trip was an important opportunity to get updates from management at a number of our holdings and Watchlist stocks in the region. Highlights included meeting senior executives at AON in London and DiaSorin in Italy, two companies that do very different things but both having what we consider to be highly focused management.

AON is a stock we have owned since early 2013 and continues to be one of the portfolio’s largest positions. Under the stewardship of CEO Greg Case it is a great example of a Turnaround that has matured into a Stalwart. AON is really the ideal Stalwart as it has a highly defensible and sticky business model that is resilient in down turns (during the GFC AON’s commission revenue remained rock solid) with management that don’t rest on their laurels but continue to be focused on maximising shareholder return through margin expansion and outperforming their peers in top-line growth.

Much of the discussion centred on the sale of their benefits outsourcing business to Blackstone for $3bn. This division was acquired by AON Hewitt in 2006 and has little synergies with the rest of the group while having lower margins and higher capital intensity.

We applaud the decision to carve this out - while we see other corporates doing big deals which dilute returns AON’s primary incentive here was maximising ROIC by selling a lower returning and slower growing business to free up capital for more attractive purposes. Use of proceeds will include increasing the buyback and investing in higher returning, higher growth opportunities.

An exciting example here is Cyber insurance. In a world where there is seemingly a new data breach or security hack in the news every other day, AON observe that the insurance industry has done a terrible job of covering cyber losses. Indeed only a tiny fraction of reported economic loss is being covered – AON estimate of US$400bn of losses from the US alone, only $2bn of premium is being written today. AON acquired Stroz Friedberg late in 2016, a leading cyber-security specialist that will strengthen their understanding, presence and customer proposition in this important growth area.

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Despite well-publicised failings in the banking sector and political theatre, there remain many excellent companies in Italy. The more interesting ones have strong niche positions in growing industries, perhaps founder or family-linked cornerstone shareholders, and some have great track records of capital discipline and stewardship.

Finding all of these together in Italy is incredibly rare, and thus **DiaSorin** is one of a very small number of Italian companies that we have identified as investable.

This was our third visit to DiaSorin at their bioscience compound in the picturesque foothills of the Italian Alps in Piedmont. Since investing just over a year ago the company has continued to grow its top line strongly via the ongoing roll-out of its 'LIAISON XL' in-vitro diagnostics instrument.

They now have a large installed base of these instruments in clinical diagnostic labs worldwide. Each incremental machine sold, whether to a newly built Chinese hospital or replacing a slower-throughput machine in an American mega-lab, provides a new stream of high margin annuity income in the form of the company's core product, testing reagents.

A portable bench-top version ("LIAISON XS") is launching over the next 2 years which will provide another boost to the installed base, appealing to smaller family clinics and physician labs. Management estimates there are 50,000 of these across just the US and China; merely converting 10% of these would almost double the installed-base of the company.

We see DiaSorin as one of the last great reagent plays yet to be consolidated by the big industry giants. The most recent deal in this space took place when German Merck paid 20x EBITDA for Sigma-Aldrich in 2015. In this context, for high single digit growth, no debt and one of the best razor-blade business models we've come across, DiaSorin on 13x next year's EBITDA still represents a compelling proposition.