CI GLOBAL EQUITIES FUND (UNHEDGED)
QUARTERLY REPORT

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

SEPTEMBER 2014

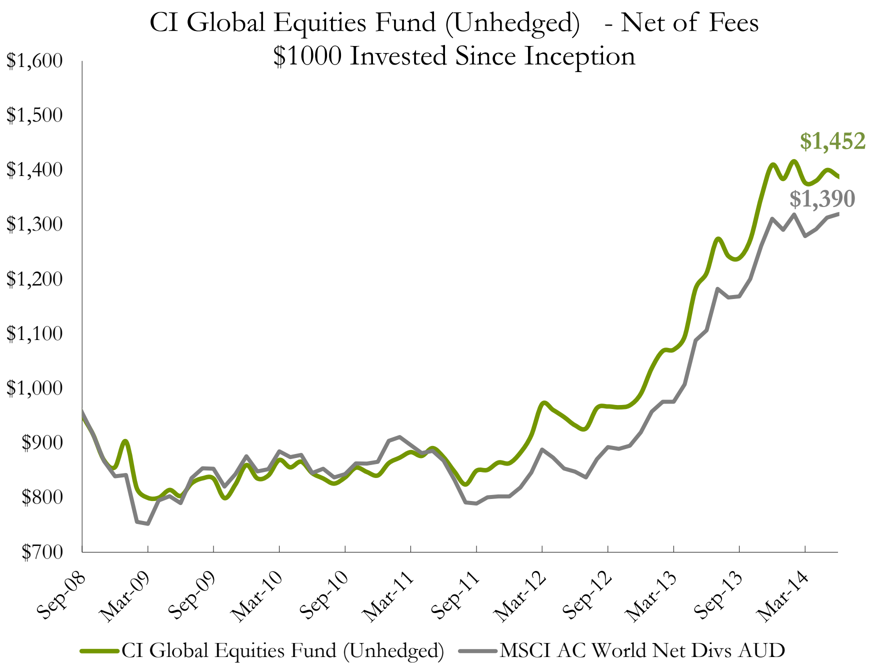
"I will prepare and someday my chance will come." ***Abraham Lincoln.***

"Disruption is the art of identifying which parts of the past are no longer relevant to the future and exploiting the delta." ***Aaron Levie, CEO of Box Inc.***

"Great investments tend to be multi-year stories and consume very little time after a period of intense activity." ***Bill Ackman.***

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTHS	4.88%	5.37%	-0.49%
ROLLING 1 YEAR	18.82%	18.95%	-0.13%
ROLLING 2 YEAR	24.11%	24.82%	-0.71%
ROLLING 3 YEAR	21.21%	20.76%	0.45%
ROLLING 5 YEAR	12.99%	10.26%	2.73%
SINCE INCEPTION*	7.39%	5.56%	1.83%
SINCE INCEPTION^	54.26%	38.99%	15.27%

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

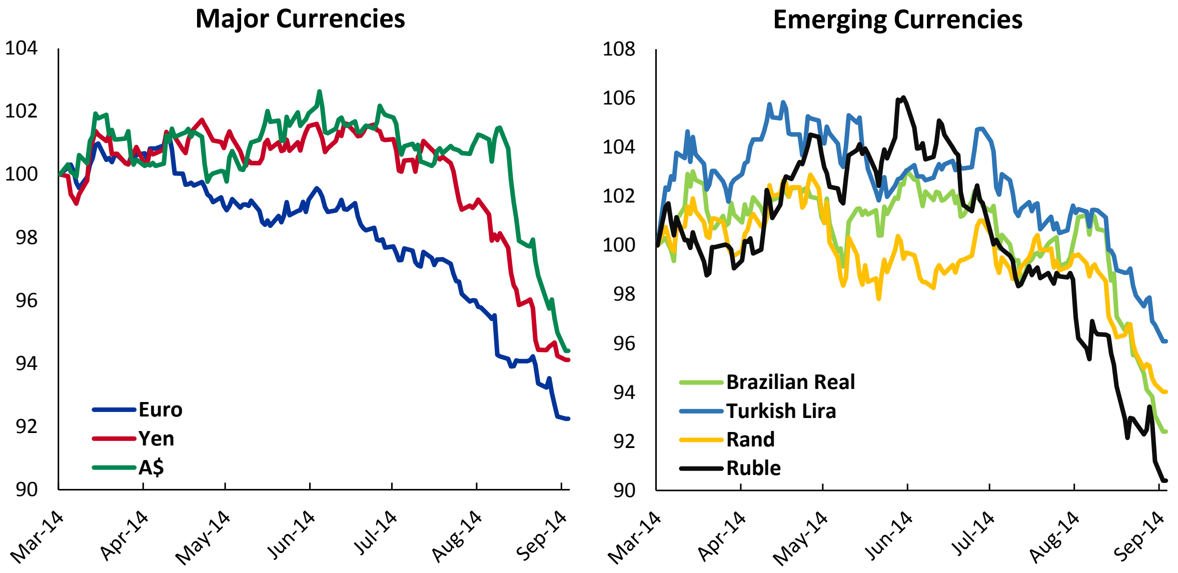


Market and Portfolio Performance

Most major indices (S&P500, MSCI World, MSCI Asia ex-Japan) closed the quarter flat, though we saw larger moves in some emerging markets - the China CSI 300 rose 13% while the Russian RTS index fell 18%. We also observed big swings in FX markets.

Currency is not normally a topic we would write about, but this quarter the moves have been significant and noteworthy. In summary, the trade-weighted U.S. Dollar is now the strongest its been since mid-2010, and has recently moved very sharply against most of its currency pairs.

Selected Floating Currencies vs the US Dollar over 6 months (rebased)



Source: Factset

Of note to our clients will be the Australian dollar, which fell 7% versus the U.S. Dollar in just three months to close near 87 cents.

We could speculate as to the macro under-currents driving these moves, but our take on it is that the U.S. is probably getting stronger, is probably closer to raising rates than it was a year ago, and therefore has an appropriately stronger currency.

Of more concern to us is the impact on our portfolio companies; of our holdings we identify 40% as being ‘multi-national’, i.e. greater than 50% of revenues come from outside the stock’s place of domicile. Many of the European-listed companies in this group have suffered earnings headwinds from strong domestic currencies over the past few years. Companies like Diageo, Reckitt Benckiser, Novo Nordisk, Nestlé, Prosegur and Makita can now all look forward to a period where they should benefit from weak domestic currencies relative to the U.S. Dollar.

Gratifyingly, most of our U.S. based holdings are actually domestically focussed. Wells Fargo, U.S. Bancorp, Comcast and Verizon should all do better if the U.S. economy improves, and need not worry about a strong U.S. Dollar. Even companies like International Paper, General Mills and UPS make >75%

of revenues at home. In fact we estimate ~80% of portfolio holdings by weight will either benefit or at least *not suffer* from a period of prolonged U.S. Dollar strength.

The Portfolio

The portfolio returned 4.88% during the quarter vs the benchmark which returned 5.37%.

The AUD fell 7% against the USD in the quarter, 2% against the GBP and remained flat versus the JPY and EUR.

The three biggest out-performers this quarter in terms of total shareholder return were **eBay Inc**, **Novo Nordisk** and **Close Brothers.** The main under-performers by total shareholder return were **Christian Dior, United Technologies** and **Shoprite.**

EBay was up 13% for the quarter driven by the announcement of its plans to spin-off PayPal into a separate listed company (discussed further in Stock News section below).

Novo Nordisk also gained 13% after a string of positive news – within its 2nd half results the company announced that clinical trials for its long-acting insulin Tresiba appear to be running ahead of schedule, while late in the quarter it was reported that the U.S. Food and Drug Administration ("FDA") had given their backing to Novo's anti-obesity drug *Saxenda*.

Close Brothers rose 12% in the quarter, reporting a solid full year of results with loan growth of 14%, reduced loan losses, growth in EPS of 25% and an increase in the dividend of 10%.

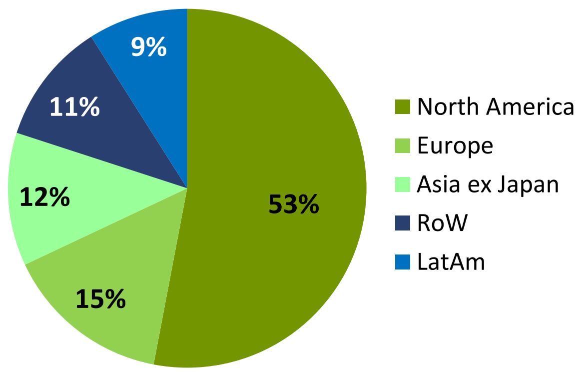
Christian Dior fell 8% in line with the whole luxury sector as the market is currently focussed on a slow-down in Chinese demand, largely due to anti-extravagance measures and a crackdown on corruption and gifting.

United Technologies was also down 8% on a number of short term concerns – these are mainly aerospace related after the shooting down of Malaysia Airlines MH17 over Ukraine and the spread of the Ebola virus hit the sector. Shoprite was down 8% after reporting softer than expected results.

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

No. of Stocks	**41**
Region Weights	**U.S. 57%**
	Europe 27%
	Asia ex-Japan 2%
Most OW Sectors	**Financials, Industrials**
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

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We added 2 new positions this quarter: **NTT DoCoMo,** (MCap $75bn) and **Sanofi** (MCap $149bn).

NTT DoCoMo ("DoCoMo") is the dominant mobile phone carrier in Japan. We initiated a position early in the quarter having met them on our most recent trip to Japan. It was notable from our time at DoCoMo's offices in central Tokyo how dynamic the company felt compared with many of the other Japanese companies we visited.

The reception area was buzzing with people deep in conversation, taking phone calls and meeting and greeting various visitors. The walls were a blaze of colour, many adorned with posters or large video screens showing current ad campaigns for the company's products. This was in contrast to the bleak, grey, empty and quiet spaces we often found elsewhere. Our young contact noted that many Japanese rising stars are keen to join DoCoMo as graduates are 'encouraged to speak openly to supervisors', an atmosphere we believe to be rare in corporate Japan.

DoCoMo has experienced difficult trading conditions in recent years amidst a period of competitive destruction that impaired returns for the entire Japanese mobile sector. We believe this period has now ended, with DoCoMo set to benefit from:

- Competitors moving away from price-based competition;
- Increasing Average Revenue Per User ("ARPU") due to higher smartphone penetration and higher data usage; and
- Increased focus on shareholder returns.

The portfolio currently has investments in Verizon and Telefonica Brazil, and has previously invested in Vodafone, while our Australian equities colleagues own Telstra and TPG Telecom. Given the knowledge base built across CI teams we are acutely aware of the importance of local market structure in determining telco returns. The Japanese mobile phone market is broadly comparable to the Australian market with three players, and has one of the highest average ARPU rates globally.

1. NTT DoCoMo: DoCoMo enjoyed a market share of around 55% in 2007 which has been reduced to around 45% today, mainly due to an improved customer proposition from Softbank. DoCoMo historically has suffered shrinking revenues via two sources: 1) lower market share; and 2) lower ARPU as the growth in data usage is yet to compensate for the reduction in voice charges;

2. KDDI: enjoys around a 30% market share and is the only player to offer a "triple-play", although this is changing. Given this unique attribute KDDI's market share has been more stable than DoCoMo's in recent years; and

3. Softbank (formerly Vodafone Japan): has gone from a market share of around 15% to around 25% in six years thanks largely to the marketing genius of founder and CEO Masayoshi Son who was able to secure exclusive access to the iPhone (which has since expired) and invested heavily in their network to bring the quality up to a comparable standard with the other two carriers.

With few players, high ARPU and well-established networks (note that Japanese telcos do not have to pay for spectrum as it gets allocated by the regulator), the Japanese market should be among the most profitable telco sectors globally. This has not been the case previously due to competition, and competitive intensity reached its zenith during the spring of 2013 as carriers began using cash-back promotions to win new customers. These actions did little other than churn through the least profitable and disloyal customers and led to a reduction in industry-wide returns.

Talking to each of the carriers since it is clear they now appreciate the mutual destruction of profits that occurred during this episode and are moving towards pricing plans that reward loyalty and encourage greater data usage. This has been demonstrated most recently with the release of new pricing plans from each of the carriers which are targeted toward family bundling.

Mobile phone penetration is virtually 100% in Japan, however, smartphone penetration is below global peers at around 50% compared with around 70% as seen in the US and Australia. The large difference is attributed to the high-end 'feature phones' which are prevalent in Japan and common with older users. These phones, often made by the local consumer electronics giants like Sharp, Panasonic and Hitachi, are essentially high-end flip phones that run off older operating systems and are capable of running 3G but not 4G.

We understand that when a user migrates from a feature phone to a smart phone, data usage increases *ten-fold*, so this transition will be one of the key drivers of medium term ARPU growth.

DoCoMo was spun out of the national carrier Nippon Telegraph and Telephone (NTT) in 1992. NTT maintains a 67% interest in DoCoMo and in turn the Japanese government maintains a 37% stake in NTT. Unlike KDDI and Softbank, DoCoMo is a pure mobile phone carrier. We believe this feature will be maintained because of NTT's ownership (as they perform broader telecommunications services at the NTT level). Further, we see an increasing focus on returns and capital efficiency at the NTT level as being a positive for DoCoMo. As DoCoMo represents 65% of NTT's operating income, we believe the company will be a positive influence particularly around capital deployment and shareholder returns.

Another positive outcome of the NTT ownership is the high quality balance sheet. DoCoMo has a net cash balance sheet, with debt being held at the NTT level.

A final, and perhaps under-appreciated aspect of DoCoMo is its '*dmarket'* ecosystem, a platform that offers Japanese media content (including music and video) as well as e-commerce. Users have apps preloaded onto their smartphones with charges directly billed to their accounts, and we see latency in their 63 million subscriber base increasing their usage of these services.

We think DoCoMo represents good value on 5x forward EV/EBITDA relative to local and global peers, with a stable and growing dividend that currently yields 3% and further cash return from share repurchases – DoCoMo currently has a ¥500bn buy-back program in place, of which it recently completed ¥307bn at a price of ¥1,695, well below our assessment of inherent value.

Late in the quarter the portfolio initiated a position in **Sanofi**.

Sanofi is a diversified French-listed pharmaceuticals company that has been on our watchlist for some time. We became more interested in the investment case after visiting them in Paris last year. At the time a few questions marks remained over management execution, however these questions have now been answered.

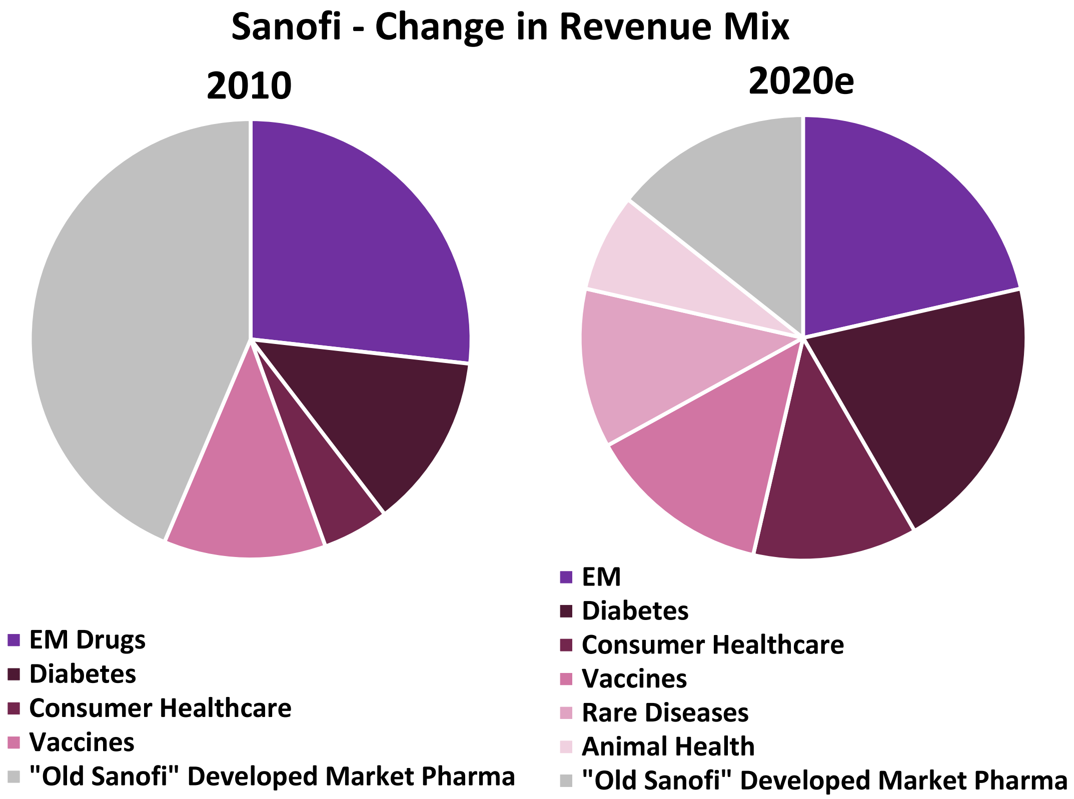
The proposition for Sanofi is largely a changing mix story – to explain, we see two major risks for pure pharma companies:

1) Patent risk – the risk that your key drug goes generic and you rapidly lose market share; and
2) Reimbursement risk - the risk that governments don't pay appropriate prices for your drugs.

Sanofi endured a painful patent cliff in the mid 2000's which resulted in earnings and cash flows stagnating for a number of years. During that period the company changed its CEO and made a number of strategic moves to achieve critical mass in what it calls the 'Growth Platforms'. These are Emerging Markets, Diabetes Care, Vaccines, Animal Health, Rare Diseases and Consumer.

Where Sanofi sits today is exciting because of its mix of businesses. It has built up dominant positions in several oligopolistic sub-sectors that will give the group as a whole a more stalwart-like earnings profile. Actions taken by Sanofi's management over the last few years have significantly mitigated the above two key risks for this business.

Today Sanofi has the leading long-acting insulin on sale in the US in Lantus (with the updated version due to launch imminently), it is the fastest growing consumer healthcare company in emerging markets with a top 3 position globally, and it has top 3 positions in vaccines and animal healthcare. These are all sectors we know and understand since the peer groups consist of stocks we either already own (Novo Nordisk, Nestlé, Johnson & Johnson, Reckitt Benckiser) or have followed for a number of years (Roche, GlaxoSmithKline, Novartis, Eli Lilly, Zoetis).



Source: Company reports, CI Estimates

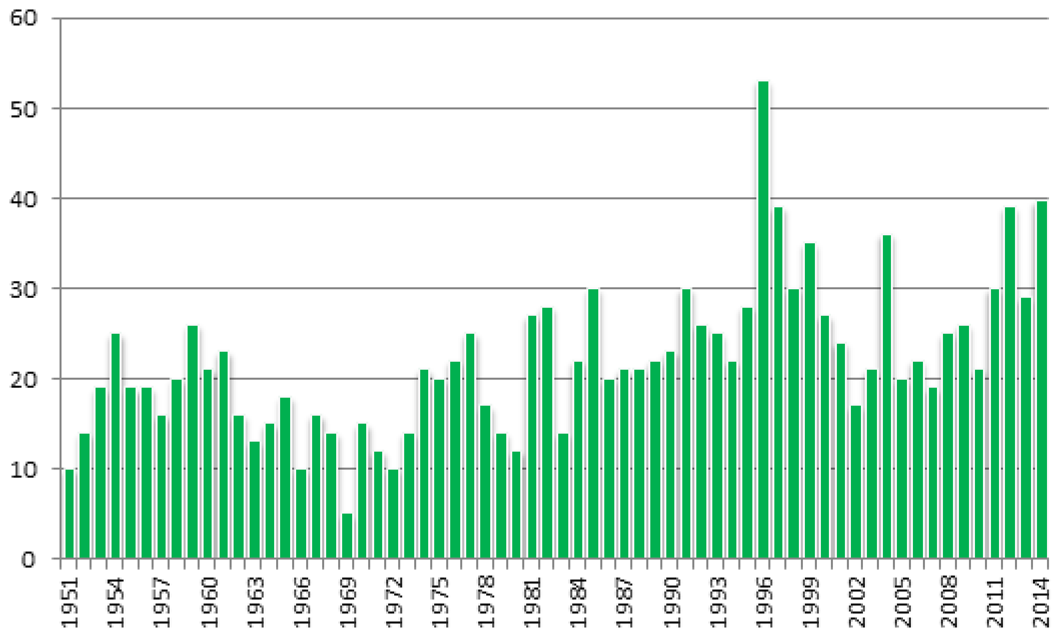
In emerging markets, Sanofi has a particularly strong proposition – it has local language websites selling locally branded consumer healthcare products in 100 countries. This is a historical quirk – Sanofi was born out of French energy company Total's chemicals division, and Total has had a local presence in many of those countries for decades.

We like this aspect because it reduces the 'Reimbursement risk'; in the West we see indebted government healthcare systems fighting to cut pharma industry profit margins. However in emerging markets most healthcare systems remain relatively undeveloped, which means it is often down to the patient to pay. Our research suggests that, if given the choice, emerging market consumers will voluntarily pay for Western branded products over local copies.

By 2020 less than 15% of Sanofi's earnings will come from its aging generic pharma franchise. We think Sanofi is close to an inflection point where the market will stop thinking of it as a 'pharma company' and more as a diversified health-care play. Sanofi has traditionally traded at a discount to the pharma peer group, but if the thesis above plays out we would expect to see the multiple re-rate to a higher, more staples-like level.

That being said, Sanofi's pharma and R&D position isn't looking too shabby either. The company is approaching a rich period of pipeline launches, with at least 6 drugs due to launch in the next 18 months including a vaccine for dengue fever, and a promising biologic for heart disease (*alirocumab*), both of which have blockbuster potential. Indeed we see an attractive period ahead for the entire industry – there could be a wave of innovation coming as the FDA looks to offset the headwinds of Obamacare by encouraging more innovation and new molecules to market with a more efficient drug review process (see chart).

FDA new molecular entity approvals (2014 annualised)



Source: FDA

We think today's valuation of Sanofi represents a conservative estimate of future cash flows from the current mix of businesses, with zero pipeline potential in the price. We think paying around 15x forward earnings for high single digit EPS growth, plus a 3% dividend yield and opportunistic buybacks from an under-geared balance sheet makes sense given a number of latency options on the table.

We exited entirely from three portfolio stocks in the quarter; **Ross Stores, HSBC** and **BSkyB.**

After selling down the position over the previous 18 months, the remaining stake in off-price retailer **Ross Stores** was sold. We bought Ross Stores back in 2010 at an initial price of $27 with the view that the U.S.

penny pinching consumer would flock to Ross' deep value offerings. The shares have done well since as Ross has grown same store sales by at least 5% every year over the last 4 years. The top line success has seen operating margins shoot up above 13%, well above the previous decade's average margin of 8%.

We find it difficult to see Ross continuing this success in the coming years as competition heats up, while Ross' lack of online presence poses some longer term concerns. An additional risk is the change in management with both CEO Michael Balmouth and CFO John Call stepping back after leading the company for almost two decades together. A great company but not the right time for us to own it.

HSBC was sold after being in the portfolio for just over a year. During that time management has continued to do a good job executing their strategy of simplifying the bank, cleaning up the balance sheet and stabilising the ship, but externally the operating environment and regulatory burden for big internationally diversified banks has gotten significantly worse. After recent meetings with the bank it is clear that a great proportion of key decision maker's time is spent on managing regulatory issues, navigating ever more ambiguous capital rules, dealing with fines and conduct costs from the US and Europe, and generally trying to avoid landmines.

With businesses in most countries, HSBC is a target for everyone and is involved in the majority of current conduct issues – from U.S. mortgage practices and money laundering breaches, to the UK Bank Levy and PPI refunds, plus all currency market or interest rate shenanigans in between.

New regulations in the UK are afoot that will actually hold bank directors personally liable for some bank losses in the form of 'bonus claw-back'. This may not be a bad thing long term in reducing 'moral hazard', but for now the natives are revolting - several high profile HSBC UK board directors have already resigned in protest at these rules.

Overall it seems to us that these costs are no longer 'one-offs' but must be considered as essentially a permanent tax on the bottom line for big international banks, representing another hit to already structurally lower ROE. In a low-growth environment, any gains HSBC makes from doing its day job properly, will likely flow to the regulators rather than the shareholders, and we have thus sold the position to reinvest capital elsewhere. In this environment of 'bash the banks' in Europe we would prefer to own the simpler more focused players that fly below the radar like Handelsbanken or Close Brothers.

During the quarter **BSkyB** moved to acquire Sky Italia and Sky Deutschland (to form 'Sky Europe'). The new company, while ostensibly being 'Europe's biggest Pay TV platform' will have a substantially higher risk profile with a lower quality mix of assets than BSkyB as a standalone entity. Sky Deutschland is barely breakeven, and is completely reliant on its exclusive Bundesliga rights (Germans are notoriously reticent to pay for TV with license payer-funded free-to-air programming of a very high standard), while Sky Italia is a more stable business, but with a negative growth outlook in a recessionary market with irrational competitors (Berlusconi-controlled Mediaset).

BSkyB was attractive as an undervalued, capital-light, cash subscription Pay TV business with a dominant position in a stable market and balance sheet latency to continuing buying back shares and paying dividends for a number of years. Post the transaction the buy-back will cease as the balance sheet is geared to 3x net debt to EBITDA, while the deal will be dilutive to EPS for at least two years. We are sceptical of the company's claims around content cost synergies, given CI's internal knowledge base around how content deals are struck. For example, why would HBO offer 'Sky Europe' a discounted pan-European price for the next *Game of Thrones* when it can make more selling to each country individually? With the investment proposition having changed, we therefore made the decision to sell.

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Stock News

Telefonica Brazil shares increased 8% this quarter on the announced acquisition of GVT, the Brazilian broadband business owned by Vivendi. We like the US$9.5bn acquisition despite the hefty price tag of 11x EV/EBITDA. Telefonica believes the net present value of synergies could be up to 63% of the purchase price. On our conservative estimates cost synergies can bring the purchase price down to 7x which is reasonable given the fast growing broadband market.

The GVT next generation broadband network already passes 10m Brazilian homes and is growing this number at a double digit rate every year. Despite having the fastest speeds GVT has only 2.5m subs giving it 25% penetration through the existing footprint, well below 40% seen in mature markets like the US for high speed broadband players.

What we don't like is the method of funding with Telefonica Brazil raising equity to fund the whole acquisition. Given Telefonica Brazil has a strong balance sheet with net debt/EBITDA of 0.3x it was an opportune time to flex its muscles (or at least partially) to maximise this game changing acquisition. Since the company is majority owned and controlled by the larger Spanish Telefonica SA Group we are not surprised by this as the additional debt would have to be consolidated into the parent who is trying to reduce its own balance sheet. Our numbers show sizeable upside with the GVT deal, somewhat reduced due to the equity funding as opposed to some use of debt. The positive aspect is that Telefonica Brazil will continue to have a rock solid balance sheet with the ability to invest as fast as it wants to strengthen its market position further, while some of its peers are suffering under a heavy debt burden.

In July news broke that Twenty-First Century Fox ("Fox") had made an $85/share offer for **Time Warner Inc**. The bid was rejected but, surprisingly, that was the end of it with very little comment by either company following the event.

We agree that an $85 bid is not sufficient but we are disappointed that it appears Time Warner would not engage with Fox to try and maximise shareholder value. At a further premium Time Warner shareholders would have owned nearly 40% of the combined company, a goliath of U.S media. In particular we liked the idea of Fox management monetising the Time Warner assets globally. While a takeover never eventuated, what has been positive is that the bid has put pressure on Time Warner to outline its growth opportunities and perform.

In September, it was announced that **Louis Vuitton Moet Hennessey ("LVMH")** would be distributing its 23% stake in French luxury bag maker Hermes to shareholders. As the major shareholder of LVMH, **Christian Dior** will therefore receive a chunk of these shares which it will also pass through to its shareholders and thus in mid-December the portfolio will receive Hermes shares.

This marks the end of a long and ugly dispute between LVMH Chairman Bernard Arnault and Hermes Chairman Axel Dumas. Dumas had earlier accused Arnault of a 'stealth takeover' after LVMH amassed a large position in Hermes using equity swaps, and spent a long period pursuing LVMH in a protracted court process. Hermes shares today trade at roughly 30x earnings, and LVMH will book a significant capital gain on the stake. We believe that it makes sense for Arnault to end this skirmish cleanly and focus on other things, and we applaud the decision to realise the value by distributing the stake to shareholders.

Finally, on the last day of September **eBay Inc** rose nearly 8% on the announcement of its intention to spin off PayPal into a separate listed company in 2015. While it is early days and the majority of details are unknown (especially the arm's length transactions between the two companies moving forward) we are pleased with this announcement. We bought eBay at the beginning of 2014 with the view that activist pressure would force positive change. PayPal is a great asset that had become poorly managed and has seen its innovative culture dwindle away under a larger conglomerate. A separation into its own listed entity (with a new CEO) gives PayPal the best chance of maximising its leadership in the online and mobile payments space.

Trip News

This quarter we travelled back to the U.S., spending time on both coasts. After four trips Stateside in 2014 across the various CI teams, the U.S. is beginning to feel like a second home and we are happy to report that a good many Australian coffee shops are beginning to spring up in the hip neighbourhoods of New York.

Given events in the media space we visited the **Time Warner Inc.** headquarters to follow up with management, while our colleagues in the CI Australian Equities team went to meet Fox.

The industry is in a sweet spot with affiliate fees all but locked in for the next 5 years. Time Warner will see Turner Broadcasting (which includes networks like CNN, TNT and Cartoon Network) average double digit affiliate fee increases annually over the next 5 years. This is almost double the previous 5 years as digital rights start to get monetised. The other key asset at Time Warner is HBO. HBO has done an amazing job in developing content, but a poor job in sales. With less than 30% of US households paying for HBO there is still a large customer base domestically to tap, let alone the potential from international markets.

The portfolio continues with Time Warner Inc. as a core holding. Profits from the bid were taken at $86 a share with the initial investment remaining. Our CI colleagues report that “Fox may come back with a revised bid, albeit not in the near term and this will likely be when the current Time Warner management and board agree to terms”. The failed bid has resulted in a clearer picture of the long term growth opportunity at Time Warner with further M&A upside not accounted for.

Continuing the merger theme, we had a number of meetings surrounding the **Comcast/Time Warner Cable** acquisition. The companies involved are extremely confident the deal will go through. Pointing to the power held by content producers and networks, one large cable company we met has seen its programming costs-per-subscriber increase by 55% over the last 5 years, while ARPU is up only 14%.

However, there is a lot of noise as the rest of the industry opposes the takeover and is lobbying hard, making the deal anything but a certainty. We like the Time Warner Cable deal and hope it goes through - it will give Comcast a 30% market share of the US broadband market. Even if it doesn’t eventuate, Comcast continues to offer a great investment opportunity.

Globally we have seen top tier broadband assets trade at premium valuations (as discussed earlier with Telefonica Brazil buying GVT). Domestically, TPG and iiNET have taken part in this re-rating with TPG in particular trading on 13x EBITDA. Comcast on the other hand trades on 7x EBITDA and 15x free cash flow – notwithstanding a 20% increase in stock price over the last 12 months. Given that Comcast includes NBCU, a media business whose peers (Time Warner Inc., Fox and Disney) trade on high teen price-to-earnings ratios, the quality broadband assets are trading at a significant discount to inherent value as well as global and US peers.

Last quarter we discussed the big opportunity for healthcare exchanges in our investment case for Towers Watson, and on this trip headed up to Washington D.C. to attend the company’s analyst day. We spent an hour one-on-one with CEO John Haley and CFO Roger Millay, and listened to four hours of presentations. Our key takeaways from the day were threefold:

1) Healthcare exchanges as an industry is somewhat inevitable given the savings on healthcare costs which can range from 5-25%, but the timing of people switching over to exchanges is highly uncertain. While exchanges are a massive opportunity with a potential market of 50m people in the US according to Accenture, the industry will not develop overnight.

2) Towers Watson has strengthened its position in exchanges and we believe it is best placed for the inflection in people switching to exchanges. Towers Watson is the leader with over 800,000 individuals already on its exchanges in a market of approximately 2m people.

3) Having successfully merged Towers Perrin and Watson Wyatt in addition to investing in healthcare exchanges, the company is looking to invest for its next phase of growth. With US$600m in net cash, the Towers Watson board is more welcoming to M&A opportunities given the successful history that acquisitions have played in the growth of the company. Importantly this always came with the remark that Towers Watson will not lower its hurdle targets.

Given we were only one of about four fund managers present at the analyst day, it was clear the market has forgotten about this company and opportunity. Subsequently the shares have been soft and are trading on less than 16x earnings ex-cash on balance sheet, with the healthcare exchange opportunity all upside from here.