CI PENSIONS FUND
QUARTERLY COMMENTARY REPORT

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

For current performance information please refer to the Monthly Performance Report.

DECEMBER 2015

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	5.41%	6.80%	-1.39%
ROLLING 6 MONTH	4.88%	0.36%	4.52%
ROLLING 1 YEAR	10.14%	4.21%	5.93%
SINCE INCEPTION*	11.33%	5.08%	6.25%
SINCE INCEPTION^	21.72%	9.51%	12.21%

*Annualised
^Cumulative (3 March 2014)
**Before fees and expenses and adjusted for franking credits
#S&P ASX200 Accumulation Index – adjusted for franking credits

The purpose of the CI Pensions Fund is to provide a conservative equities portfolio that may be suitable for investors who are in the pensions/decumulation phase. The portfolio may also be suitable for charities, foundations and others who are looking for a conservative equities exposure.

Whilst return is important the portfolio also aims to perform much better in down markets and to exhibit lower than market volatility.

Market and Portfolio Performance

The ASX 200 Accumulation Index (including franking credits) staged a late rally to be up by 6.80% for the December quarter. Coming after two consecutive quarters of negative returns, the stronger finish to the year was just enough to lift the total return index for the calendar year into positive territory at 4.21%.

Overseas stock markets were generally flat to down in local currency terms however when measured in Australian dollars the overseas markets did better than the Australian market.

The Australian dollar was mixed over the quarter, weakening against the New Zealand dollar but rising against the US dollar and the Great Britain pound. There was a more significant move over the year with the Australian dollar falling significantly against the US dollar and generally falling modestly against other major currencies.

Ten year bond yields in Australia rose by 0.2% over the quarter to end at 2.85% while over the year they hardly moved.

Within the Australian market it was another tough quarter and year for the resources sector in general, and it is the fifth consecutive year that both BHP and RIO have underperformed the broader market. Energy stocks also suffered with the oil price sliding to pre GFC and ten year lows and pressure on Australian energy stocks was exacerbated by the long anticipated multi-billion dollar equity raisings by both Origin and Santos. The healthcare and financials sectors were among the stronger sectors over the quarter.

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Over the quarter there was a wide dispersion of returns with better performing portfolio stocks including Brambles, Caltex, CSL and Summerset whilst poorer performing stocks included Equity Trustees, Recall, TPG as well as the three resource stocks in the portfolio.

At the end of the quarter the portfolio had 39 securities, 4 of the securities are US and UK listed and they make up 8.6% of the portfolio, there is 5.5% held in cash.

The quarterly performance of the portfolio and the market is set out below.

Quarter Ended	CI Pensions Funds	ASX 200 Accum	Relative Performance
Mar-14	0.96%	0.52%	0.44%
Jun-14	1.35%	1.19%	0.16%
Sep-14	0.63%	-0.09%	0.72%
Dec-14	7.33%	3.40%	3.93%
Mar-15	10.41%	10.83%	-0.42%
Jun-15	-4.88%	-6.31%	1.43%
Sep-15	-0.50%	-6.03%	5.53%
Dec-15	5.41%	6.80%	-1.39%

Note: Before fees and expenses and adjusted for franking credits

The portfolio has continued to perform better than the market on down days and has done better than the market on around 86% of down days. The portfolio's volatility continues to run at around 71% of the market's volatility as measured on a daily basis.

Since our Pensions strategy commenced on 3 March 2014 the market has been up on 53% of days and down on 47% of days. On the days where the market has risen, the portfolio has "captured" 72% of this upside. On the days when the market has fallen, the portfolio has captured 66% of the downside. The sum of these two occurrences is that the portfolio has outperformed the market since inception and has been much less volatile than the market.

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The Portfolio

Over the quarter we bought Link, Ramsay Healthcare, and Costco, we sold Aurizon and also took up our rights in issues by Westpac and Transurban. Additionally the purchase of Energy Developments by Duet Group for $8 cash per share was completed.

The **Link Administration Holdings** listing on the Australian Stock Exchange was priced at $6.37 per share with a $2.3 billion market capitalisation. Link is the largest provider of fund administration services to Australia's superannuation industry, as well as a leading provider of share registry and shareholder analytics services. We applied for shares as part of the initial public offer as we were attracted to the high quality of the business and the recurring and sticky nature of its revenue. The integration of Superpartners over the next few years could unlock significant value via cost-out, as well as de-risking the investment proposition as project milestones are delivered. Importantly the CEO and CFO have been at Link since 2002 and we felt they have a demonstrated strong track record of acquiring and integrating businesses.

Ramsay Health Care is one of the world's largest private hospital groups with hospitals and day care surgery facilities across Australia, the United Kingdom, France, Indonesia and Malaysia. The

proposition for owning Ramsay is that it has a first class track record in operating and developing hospitals, originally in Australia and then in the countries mentioned above and it has long term industry volume tail winds, albeit pricing will continue to be under pressure. As you would expect for a high quality company the share price is not cheap however we feel the price is around fair value with potential benefits to flow from large brownfield development opportunities and some latency inherent in the balance sheet.

Costco is a US listed company that operates an international chain of membership warehouses that carry brand name merchandise at prices that are generally cheaper than conventional retailers. Costco has around 700 warehouses including 8 locations in Australia and around 81 million cardholders. Costco has a proven high returning business model that has been operated by the same senior people and running since the mid 1980's. We believe they can continue to deploy capital at high rates of return in domestic and international warehouse rollouts. We rate management highly as demonstrated by their impressive track record and the focussed nature of the business. Costco has no balance sheet debt and owns the majority of its warehouse sites which means its share price should be resilient in periods when equity markets are weak.

With regard to our sale of **Aurizon** we were concerned that Aurizon may be more exposed to the pressure in the resource sector than the market was anticipating and decided to sell, fortunately before they announced an earnings downgrade.

Stock News

During the quarter **Transurban Group** reached agreement to acquire the AirportLink in Brisbane for $1.87B. In order to maintain its gearing ratio and to allow some future operating flexibility the company raised $1.025B in equity to help fund the deal. The AirportLink is a logical extension of Transurban's Queensland road network and will allow the company to drive efficiencies into the acquired business via integration into its current operations in Brisbane. Later in the quarter Transurban announced that it was in exclusive negotiations with the Victorian government on the

$5.5B Western Distributor project. This would further extend the list of projects in which Transurban is engaged – and perhaps most importantly may result in an extension of its Citilink concession time.

National Australia Bank finalised the sale of 80% of MLC to Nippon Life, and confirmed the spin-off of Clydesdale Bank in early 2016. Both actions continue management's efforts to clean up the company's balance sheet and revert to its traditional strengths in Australia and New Zealand. These asset divestments, coming after the resolution of the commercial real estate problems in the UK, will lift the bank's ROE towards the mid teens. From here the heavy lifting needs to be done by the core operations of the bank, in particular its business banking division which is slowly recovering from having lost its way over the last few years.

Westpac undertook a 1 for 23 rights issue at a price of $25.50. Westpac was the last of the four major banks to undertake capital raisings during the year.

As usual, **CSL Limited** held its Research and Development day in early December. For the most part it was a positive update – from outside the company it is generally difficult to look deeply into or value the project pipeline, but over the years it has added a lot of value to the company. The new recombinant hemophiliac products it has been working on for some years are now not far from coming onto the market, and a number of other interesting new products (cancer, heart attack) are working their way through the clinical trial phases. Although we would not ascribe a lot of value to the earlier stage projects there are one or two that could be very large if successful.

Recall delayed until March 2016 the meeting at which its shareholders are due to vote on the merger with Iron Mountain Inc (IRM.US) to hopefully allow regulatory approvals to be finalised.

During December Woodside Petroleum announced that they were no longer pursuing their proposed merger with **Oil Search**. The Oil Search share price promptly retraced towards its previous lows, reflective of the weak oil price environment. It would appear that Woodside could not reach agreement with key stake holders, particularly the Papua New Guinea government, on the appropriate price and/or cash consideration component of the transaction. The attempt by Woodside to acquire Oil Search confirms that Oil Search has high quality assets.

The **Summerset** share price moved up after they announced they expected higher earnings following strong sales of occupational rights for retirement units. The Summerset business model appears to be developing nicely in accordance with our expectations.

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