CI PENSIONS FUND
QUARTERLY REPORT

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

JUNE 2015

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	-4.88%	-6.31%	1.43%
ROLLING 6 MONTH	5.01%	3.84%	1.17%
ROLLING 1 YEAR	13.43%	7.28%	6.15%
SINCE INCEPTION*	11.87%	6.79%	5.08%
SINCE INCEPTION^	16.06%	9.12%	6.94%

*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 Pension 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 and foundations 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

After a very strong three years to March this year, the stock market suffered a fairly severe drop during the June quarter. The Benchmark was down 6.31% for the quarter and the annual return fell back to 7.28%. The June 2015 quarter posted the worst quarterly return since the September quarter in 2011.

The Australian stock market was down significantly more than many other major world markets. The MSCI world index was only down by 0.3% over the quarter which suggests that, despite concerns around rising interest rates and Euro problems, the drop in Australia was more about stock specific issues.

The banking sector led the market down with the major banks dropping by around 10%, mainly in response to concerns about how much equity they would have to raise to meet expected higher regulatory capital targets. The other main drag on the market were Woolworths and Wesfarmers, whose prices fell by 8.5% and 10.3% respectively, as operational problems and increasing competition emerged.

The main macro issues were the quite substantial increase in bond yields around the world and problems in the Greek economy. Fixed interest markets have been in a twenty year bull market, which possibly peaked earlier this year. Falling bond yields have been a strong support for rising stock prices generally, and if yields are indeed heading up that would have large implications for all sectors of the stock market.

The portfolio returned -4.88% over the quarter and 13.43% over the year whilst the benchmark returned -6.31% and 7.28% respectively.

Within the portfolio Macquarie was the standout rising by 9%, followed by Summerset, Aurizon and BWP Trust. The majority of stocks were down, with bank stocks, Regis Healthcare and Fletcher Building falling by more than 10%. Cash and hybrid securities cushioned the portfolio’s return somewhat this quarter.

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

Month	CI Pensions Fund	ASX 200 Accum	Relative Performance
Mar-14	0.96%	0.52%	0.44%
Apr-14	1.07%	1.78%	-0.71%
May-14	1.07%	0.93%	0.15%
Jun-14	-0.79%	-1.49%	0.70%
Jul-14	2.00%	4.40%	-2.41%
Aug-14	0.85%	0.94%	-0.09%
Sep-14	-2.17%	-5.19%	3.02%
Oct-14	4.06%	4.43%	-0.38%
Nov-14	-0.16%	-3.00%	2.84%
Dec-14	3.32%	2.07%	1.25%
Jan-15	2.60%	3.28%	-0.68%
Feb-15	6.35%	7.15%	-0.81%
Mar-15	1.18%	0.15%	1.03%
Apr-15	-1.58%	-1.70%	0.12%
May-15	0.68%	0.64%	0.04%
Jun-15	-4.01%	-5.30%	1.29%

Note: Before fees and expenses and adjusted for franking credits

The portfolio has continued to perform better than the market on down days. It has done better than the market on around 88% of down days, and if we look at days when the market has fallen by more than 0.5%, the portfolio has done better than the market on around 95% of those days. As a matter of interest, the stock market has fallen by 0.5% or more on 77 days since the portfolio's inception date of 3 March 2014.

The portfolio's volatility continues to run at around 70% of the market's volatility as measured on a daily basis.

The Portfolio

We participated in the $5.5b capital raising by NAB in May. The capital raising was conducted through a 2 for 25 rights issue at $28.50. The rights issue increased the portfolio's weighting in NAB by around 8%. The raising was not a major surprise and was generally well received by the market as it indicated NAB is aggressively executing on its plan to exit low returning businesses and increase the emphasis on the core Australian and New Zealand banking businesses.

The portfolio received **South 32** shares when it was demerged from **BHP** in May. BHP shareholders received one South 32 share for each BHP share. The South 32 shares were sold as the stock does not have a track record or world class assets.

We participated in the issue of **Crown Subordinated Notes 2 (CWNHB**). This is a subordinated debt issue which pays quarterly interest at a rate of 4% above the bank bill rate. The initial yield to maturity was estimated at around 6.3%, which we felt was attractive given the security of Crown's income streams. The price of CWNHB has slipped a little since issue, so the estimated yield to maturity is now around 6.7%. This security forms part of the portfolio's grouping of hybrid/ fixed interest securities and it provides a fairly high yield with limited downside risk.

The portfolio purchased a position in **Templeton Global Growth Fund (TGG)** in June. TGG is an investment company that invests in international equities and is managed by Franklin Templeton

Investments Australia Ltd. TGG listed on the ASX in 1987. We purchased the TGG shares at $1.31 which was a discount to NTA of around 15%. TGG provides the portfolio with exposure to international equities markets, managed with a strong value based philosophy.

We sold out of **Cromwell** during the quarter. We felt that Cromwell had been increasing its complexity and debt levels through a number of transactions it had made and that the risk reward equation had deteriorated somewhat.

We also sold **Fletcher Building** during the quarter. After a lot of debate we concluded that the company was unlikely to deliver the results we had expected.

Stock News

GPT announced the resignation of CEO Michael Cameron in April. It is expected he will leave GPT after its full year results in August to take on the role of CEO of Suncorp. Michael had a particularly successful period as CEO of GPT, including winning back the reputation of GPT as one of the country's leading property owners. We feel that there are a number of sound internal CEO candidates within GPT and we do not expect any significant change in its strategy.

Recall (REC) has entered into a Scheme Implementation deed which will see the company acquired by US listed competitor **Iron Mountain (IRM).** While the takeover presents significant top and cost line synergies, it is a predominantly scrip based deal (0.1722 IRM shares per REC share plus US$0.50 per share cash) meaning REC investors must be comfortable with the IRM shares they will receive. The transaction is contingent on certain shareholder and regulatory approvals and it is expected to close early in 2016. IRM will establish a secondary listing on the ASX which means the stock can continue to be held in Australian portfolios.

Banks are having to increase their levels of common equity capital. ANZ, NAB and Westpac reported their half year results in April and they took differing approaches to the capital question.

As discussed above, NAB undertook a $5.5b rights issue and also announced plans to demerge its Clydesdale Bank to existing shareholders and reduce its exposure to life insurance. Westpac underwrote its dividend reinvestment plan to $2b and also subsequently sold over $400m of its holding in BT Investment Management. ANZ included a 1.5% discount on shares issued under its dividend reinvestment plan that should result in a 20% participation in the plan and therefore build its capital position.

We expect that banks will continue to increase their capital ratios and amounts of common equity held. CBA report their full year results in August and will probably undertake a large capital raising then.

Sydney Airport (SYD) announced it has concluded negotiations with the Board of Airline Representatives Australia over the provisioning and pricing of airport services to member airlines for five years from 1 July 2015. The new agreement includes a price path ahead of many analyst expectations with the proviso that SYD will have stronger service obligations than in the past. The share price of SYD responded positively to this agreement, albeit the share price was particularly weak in June.

Macquarie Group reported a strong full year 2015 result in May with income up by 14%, profit up 27%, earnings per share up 31% and dividends up 27% on the previous year. Positive momentum was evident across all of Macquarie's operating groups and this momentum is continuing into the 2016 financial year. Macquarie is loosely indicating that 2016 results should be slightly up on the 2015 result. Whilst it is early in the year (and there are many moving parts), metrics we follow to try to get a feel for how Macquarie is tracking indicate a better year ahead.

Macquarie has a very distinctive culture that clearly leads to success. This can be seen in many ways, including how it reports its results. Unlike most Australian companies, Macquarie does not put unwelcome negative outcomes into the non-recurring, below the line basket when it presents its numbers. Macquarie also tends to under promise and over deliver, another trait common to successful companies.

Amcom shareholders successfully voted for the acquisition by **Vocus,** despite **TPG Telecom** acquiring a 19.99% stake in AMM and voting against the merger. As an Amcom shareholder, we have received 0.4614 new Vocus shares for every Amcom share held. The combined group will have a significant national fibre footprint in Australia and put it in a stronger position to compete in the SME market. We expect cost savings through the integration of the networks and general reduction in overheads. As a nimble and efficient operator, we expect the combined group to continue to grow their market share in the SME market.

International Stocks

As stated earlier in this report the purpose of the CI Pensions Fund is to provide a conservative equities portfolio, whose performance will be judged by its return against the Australian stock market, but also against its performance against the stock market in down periods and its volatility compared with the market.

Whilst we use a number of methods to try to achieve these varying aims, the most important thing we think about is to try to construct a well-diversified portfolio of stocks. We aim to diversify in as many ways as possible, including by geography, sector, industry, size and stock characteristics.

The Australian stock market is not well diversified, given its concentration in sectors such as banking and resources, and a limited number of very large stocks. Therefore our first objective is to be more diversified than the Australian market as represented by the S&P ASX 200 index.

One of the ways we increase diversification is by owning stocks listed in international markets. The portfolio guidelines allow the portfolio to own up to 20% of the net asset value of the portfolio in international stocks (New Zealand stocks are not included in the 20% limit).

The inclusion of international stocks can increase portfolio diversification because we can buy stocks that:

- Operate in industries that are not listed on the Australian market;
- Give exposure to economies other than Australian and New Zealand;
- Give exposure to different management teams and approaches;
- Give exposure to stock markets whose returns are not highly correlated to the Australian market; and
- Add foreign currency exposure that, up to a point, can add to the diversification of a portfolio.

Since commencement of the Fund, the portfolio has held international stocks, however the exposure has been relatively low at around 6%. Even that modest exposure has added a lot of diversification insofar as the international stocks have performed better that the Australian market and the exposure to the US$ has helped as the A$ has fallen significantly.

We use the CI Global Equities Fund and CI Asian Tiger Fund investment teams' research into international stocks to assist in selecting stocks to include in the portfolio. The CI Pensions Fund's investment team works closely with the nine investors in our Global and Asian teams, who spend a significant portion of their time travelling the world researching stocks and industries. Final stock selection and portfolio construction decisions are taken by the Pensions Fund team. We use the same stock selection criteria for international stocks as we do for Australian and New Zealand stocks.

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