CI PENSIONS FUND
QUARTERLY COMMENTARY REPORT

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

MARCH 2017

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	4.10%	5.26%	-1.16%
ROLLING 1 YEAR	12.98%	22.18%	-9.20%
ROLLING 2 YEAR	5.31%	5.94%	-0.63%
SINCE INCEPTION*	10.32%	9.09%	1.23%
SINCE INCEPTION^	35.33%	30.73%	4.60%

*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

After the Trump-driven volatility of late last year 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 model pensions portfolio returned 4.10% and 12.98% for the quarter and year respectively.

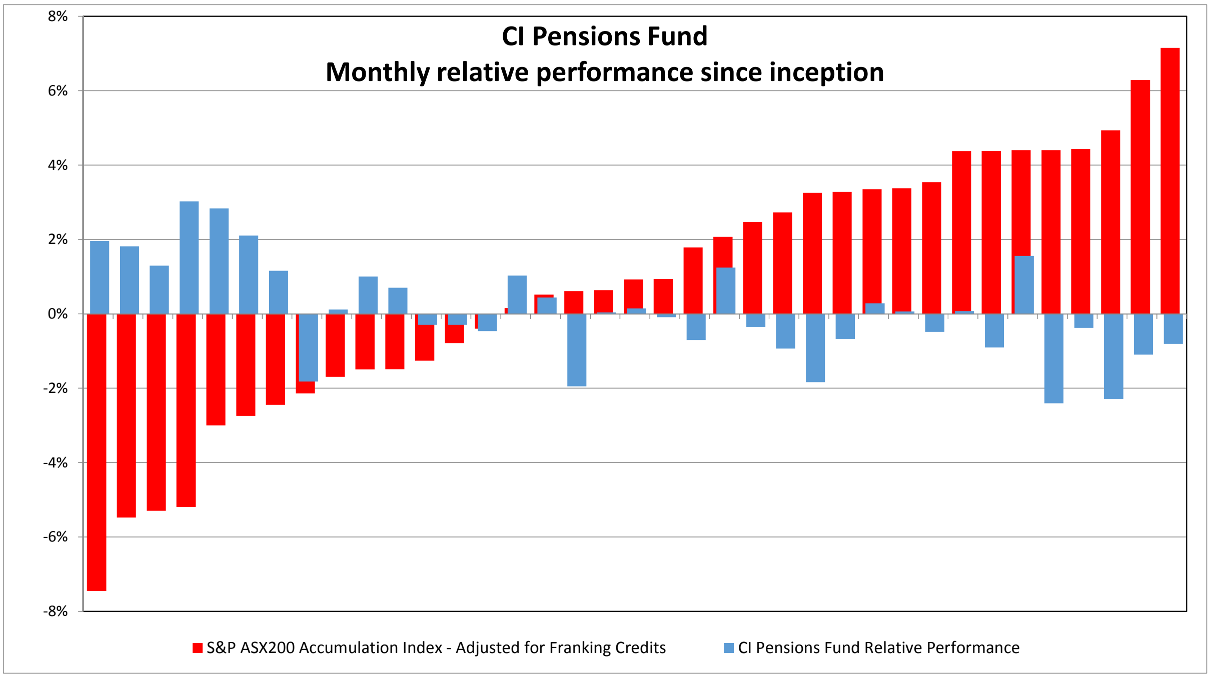
Better performing stocks included CSL, Brinks, Soul Pattinson, Transurban, Sydney Airport and Summerset which all rose by more than 10% whilst the detractors included Brambles, Telstra, BHP and Caltex.

Over the quarter the A$ rose by 4% or more against the USD, GBP and NZD which reduced returns from the international stocks in the portfolio. Despite the currency headwind this quarter, the international stocks provided a positive return for the portfolio.

Bond yields stabilised during the quarter which provided support for property and infrastructure stocks that had fallen during the December quarter.

The volatility of the portfolio over the quarter was well below the market's volatility.

The chart below shows the CI Pensions Fund's monthly relative returns. The red bars show each month's market return sorted from the worst to best month and the blue bars show the portfolio's return relative to the market for each month.



Since inception the market has shown a monthly negative return 14 times and the model portfolio has performed better than the market 10 times. When assessed using monthly data the portfolio has captured 67% of the market's downside and 85% of the market's upside.

The Portfolio

During the quarter we added Alumina, Brinks and Henkel to the portfolio and sold out of Reckitt Benckiser.

Alumina (AWC) is a single purpose company that owns a 40% stake in the Alcoa Worldwide Alumina and Chemicals ("AWAC") joint venture with Alcoa. AWAC has the rights to world class bauxite resources which are then processed through its refineries into alumina, a key input in the production of aluminium.

The primary attractions of Alumina include the world class bauxite resource and its low position on the alumina cost curve. Both AWAC and Alumina have virtually no debt and now that they have limited capital expenditure plans all of Alumina's free cash flow can be paid out to shareholders as fully franked dividends.

At current alumina and aluminium prices Alumina generates a sizeable dividend which should be protected to a reasonable degree by its very low production costs and strong balance sheet.

Brinks (BCO) is a global cash handling, logistics and security company based in the US. Customers include financial institutions, retailers, mints, jewellers and other commercial operations.

The company has a strong #1 or #2 market position in key markets with the only other large competitors being Loomis and Prosegur. At its core, cash handling is a stable business with high customer retention and high barriers to entry around scale, route density and branding.

Brinks had not been performing as well as its competitors and there is an opportunity for it to improve its operating performance significantly. Last year there was a change of senior management with Doug Pertz taking over as CEO. Doug was previously CEO of Recall which was taken over by Iron Mountain last year. The portfolio previously held Recall and under Doug's stewardship the company delivered very good results for shareholders.

During the quarter we attended the Brinks investor day in New York where the CEO outlined a set of 3 year financial targets. Our impressions from the day were two-fold – these targets were backed up by detailed evidence, and there is significant slack built into the numbers. If successful the company 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 that Brinks offered a good value opportunity.

Henkel (HEN) is a large German family-controlled consumer and industrials conglomerate. Founded by Fritz Henkel in 1857, the company is mostly known for its home laundry products – Henkel invented Persil in 1908, the world's first commercially available detergent. However these days the business contains a growing, global-leading adhesives business that is exposed to growth in consumer packaging, electronics, automotive and general industry. An example growth area is car bodies – today's demand for energy efficiency requires lightness which is leading to more cars with carbon fibre parts. These cannot be attached with traditional fasteners (screws and bolts) but require high tech adhesives where Henkel has a leading market share.

The company's balance sheet is strong and the family is regarded as disciplined and astute asset allocators. Management are long term in their behaviours but also excellent operators with a track record of finding avenues for consistent margin expansion.

At its recent AGM Henkel increased the dividend per share by 10%, and with a payout ratio of only 30% there is significant scope for this to keep growing. The portfolio has purchased a position in the voting share class, which trades at a 14% discount to the non-voting.

In February **Reckitt Benckiser** (RB) announced the intended acquisition of Mead Johnson for US$19bn.

The Mead deal represents a 'double step-out' – a new vertical (infant nutrition) in what for Reckitt (at this scale) 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'.

While Rakesh Kapoor, the Reckitt 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 Reckitt'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.

In February the portfolio's Australian Foundation Convertible Notes converted into Australian Foundation ordinary shares.

The portfolio currently owns 39 securities including six US and European stocks that make up 13% of the portfolio. The cash weighting is around 4%.

Stock News

Brambles' (BXB) recent share price performance has been very poor following a series of unsettling announcements from the company over the past year, including management change, the CEO selling of shares and the lowering of guidance.

Although we are extremely disappointed in how the board and management have handled the CEO and CFO transition, and we are frustrated at the performance of US pallets, we do not believe the issues in this division are structural.

We anticipate the new CEO will install a focussed, disciplined and energetic team in the US to address the performance of the division. Our view is the stock is cheap however they need to deliver some tangible results.

The proposed merger of **Tatts** (TTS) and Tabcorp is continuing to run its course with the ACCC and the Australian Competition Tribunal appearing unlikely to stop the merger. The Macquarie Bank led consortium which submitted a competing offer to the Tatts board has been silent for some time now, it is possible they might increase or adjust their bid once the regulators have delivered their verdict.

If the Tabcorp bid is successful Tatts shareholders will end up with a holding in Tabcorp. If the Macquarie consortium is successful Tatts shareholders will no longer have exposure to the lotteries business and may end up with a small wagering business plus cash.

There were no other major surprises for portfolio stocks in the February half year results with most companies reporting results within expectations.

or incorporate the information into any other document.