CI PENSIONS FUND
QUARTERLY COMMENTARY REPORT

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

MARCH 2018

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	-1.25%	-3.43%	2.18%
ROLLING 1 YEAR	9.36%	4.04%	5.32%
ROLLING 2 YEAR	11.16%	12.75%	-1.59%
ROLLING 3 YEAR	6.64%	5.31%	1.33%
SINCE INCEPTION*	10.09%	7.83%	2.26%
SINCE INCEPTION^	47.99%	36.01%	11.98%

*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 Australian stock market weakened over the March quarter, in particular banks and interest rate sensitive sectors such as property and infrastructure led the market lower. International stock markets fell moderately in their home currencies, however in Australian dollars they were little changed.

The March quarter was the third worst quarter for the Australian market since the pension fund strategy commenced four years ago. It was pleasing that the portfolio fell far less than the market over the quarter.

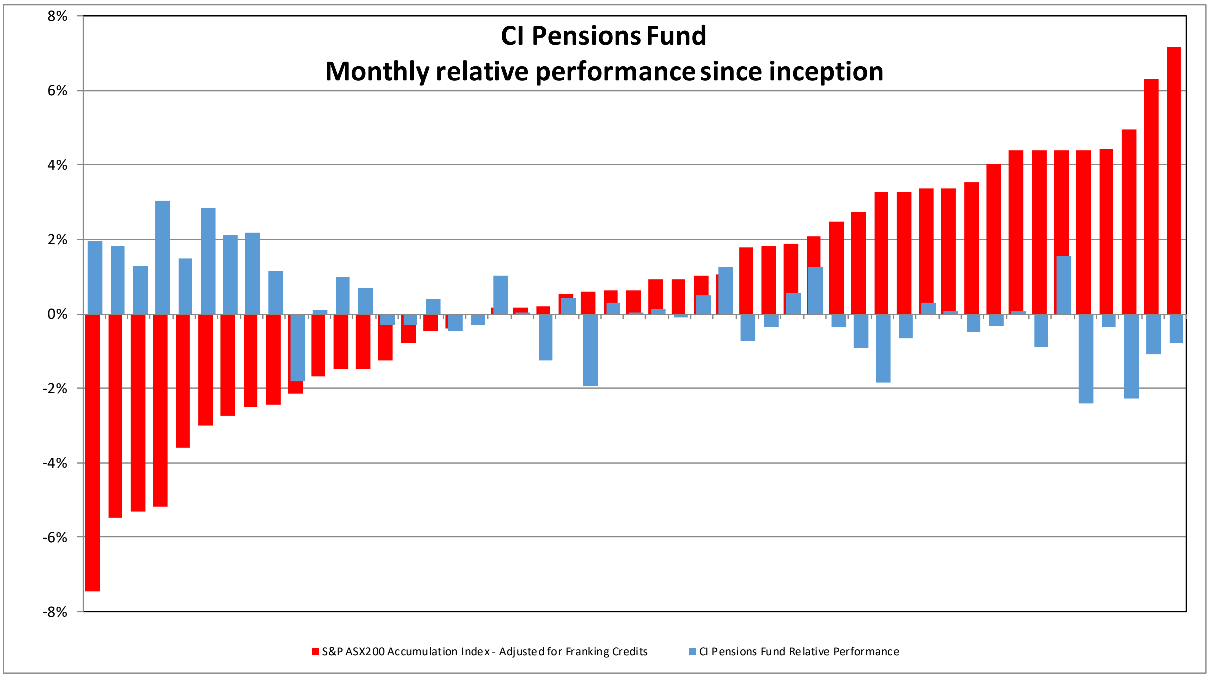
Australian longer term bond yields were steady over the quarter however short term yields rose sharply with the 90 day bank bill yield rising from 1.77% to 2.03%. Bond yields in Australia have been quite volatile however they have not moved from where they were three years ago and the cash rate has not changed since July 2016.

The Australian dollar fell sharply against the Japanese Yen (-7.2%), European currencies (-4%) and the New Zealand dollar (-3.6%). The Australian dollar fell 1.6% against the US dollar. The portfolio has around 20% in overseas stocks (including New Zealand) and the fall in the Australian dollar benefitted the portfolio as these currency exposures are unhedged.

Over the March quarter international stocks in the portfolio added significantly to the return of the portfolio as individual stock prices rose and the Australian dollar fell against most currencies. The best performing stocks included **Booking Holdings (BKNG.US)**, **Kao Corp (4452.JP)**, **CSL (CSL)**, **Danaher (DHR.US)** and **TE Connectivity (TEL.US)**. Stocks that performed poorly included **Tabcorp (TAH), Qube (QUB), Lifestyle Communities (LIC), Ramsay Healthcare (RHC)** and **Westpac (WBC)**.

The portfolio owns forty stocks including seven global and three New Zealand stocks. The cash weighting is 5.3%.

The table below shows the portfolio's monthly performance relative to the ASX 200 Accumulation Index. 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.



The table shows that the portfolio generally performs better than the market in down markets and lags in strongly rising up markets.

Since inception, when assessed using monthly data the portfolio has captured 64% of the market's downside and 88% of the market's upside. During the March quarter the portfolio exhibited downside capture of 42%.

The volatility of the portfolio was 81% of the market's volatility over the quarter, this is consistent with the historical volatility of the portfolio.

The Portfolio

During the quarter we added **Lend Lease (LLC)** and **Chorus (CNU)**, sold **Telstra (TLS)** and reduced **Novo Nordisk**.

LLC is a vertically integrated property and infrastructure group with operations in Australia, Asia, Europe and the Americas. LLC's business segments span Development, Construction and Investments covering a diverse range of businesses including apartments, house and land development, commercial property, retirement living, and US military housing amongst others.

We like LLC's exposure to global trends such as urbanisation, infrastructure and construction spending, funds management, and the ageing population. These trends underpin a global pipeline of projects that provide LLC with good earnings visibility in coming years. The current development pipeline of $57b, including over $40b of urbanisation projects, supports almost a decade of work which management believe have been originated at strong embedded margins.

LLC also has a significant opportunity over the medium term to grow its funds management platform from the current $28b of FUM. There is approximately $4b of secured additional FUM from development projects currently in delivery, £1.5b (A$2.8b) of committed UK build-to-rent product, and a further targeted US$5b (A$6.5b) from US telco infrastructure assets. This provides a clear pathway to over $40b of FUM, and this doesn't include any additional FUM from the secured development pipeline that is yet to enter delivery.

Importantly, for a cyclical business, the balance sheet is strong with 3.8% gearing and total available liquidity of $3.9b, which provides LLC with optionality. The stock is trading on a PER of 13.3x which is not expensive, and is delivering a 13.8% ROE and 3.8% dividend yield. We think the management team under CEO Steve McCann have demonstrated a strong focus on capital allocation and have positioned LLC well for the future. LLC also adds to diversification as the portfolio did not have direct exposure to developers or construction.

Chorus (CNU) is a provider of telecommunications infrastructure in New Zealand. CNU was spun out of Spark New Zealand (previously Telecom New Zealand) in 2011 and its main asset was the copper wire telecommunication network.

In 2011 the Government mandated CNU to build the majority of an Ultra-Fast Broadband fibre network across New Zealand, the objective is the fibre network will cover 87% of the population by the end of the rollout in 2022.

CNU has already built around two thirds of the network. Capital expenditure is expected to peak in 2018 and it will decline steadily over the ensuing years. Once the build is complete we expect CNU to generate high levels of free cash flow which should be delivered back to shareholders by much higher dividends.

There are some concerns around whether delivery of data by fixed wireless technology could take some of the demand for the new broadband fibre network but we think at this stage wireless is not a major risk for Chorus.

It appears that the New Zealand approach to providing a broadband fibre network is far superior to the Australian approach with the NBN.

The current dividend yield is around 5.5%. We think the dividend will grow slowly over the next few years but as the capital expenditure drops away in the early 2020's we expect the dividend to increase significantly which should result in a higher rating for the stock.

We trimmed the holding in Novo Nordisk back to 2% of the portfolio following a strong performance over the past year and sold the relatively small position in Telstra.

Stock News

Priceline Group (PCLN) changed its name to **Booking Holdings (BKNG**). This reflects the fact that today the vast majority of revenues are derived from its Booking.com platform. Booking was the fund's top performing stock for the quarter, increasing 22% in A$ terms.

Booking's stock had a tough back half of 2017. Top line growth and bookings revenue remained in the mid-teens range however margin pressure persisted driven by weakening effectiveness of its advertising. Booking announced measures to alter how they spend their advertising dollars including taking money away from meta search platforms (Trivago, TripAdvisor) and directing this towards internal brand development (TV advertising). We thought the move made sense at the time although it was probably poorly communicated to investors. As Booking reported its Q4 results in February the market reacted positively to early signs the new strategy is working.

Wesfarmers' (WES) new CEO Rob Scott has embarked on a transformational transaction with the de-merger of the Coles supermarket business. The de-merger of Coles will be the culmination of a period of significant change for Wesfarmers. Rob Scott officially began in the role in November 2017, along with a new CFO, and the previous year saw new heads of both the Bunnings and Industrials divisions, as well as a new head of Business Development. On top of this WES has successfully sold the Curragh coal mine, with a 40% stake in Bengalla their only remaining coal asset.

This last period has not been without its difficulties. In particular the still relatively recent move into the UK hardware retailing market has been poorly executed, and resulted in the business being substantially written off after losing $165m EBIT in the first half of FY2018. This is a major disappointment and remains a significant issue for the new executive team to resolve.

Post the de-merger of Coles (and the sale of their coal assets), Wesfarmers will be in a position of financial strength, with a strong balance sheet, good cash flow and a reinvigorated management team. The business will also be more focussed on Bunnings Australia (approx. 50% of EBIT), a business with a strong franchise that continues to have options to extend and expand their offering.

We see substantial latency existing in the Wesfarmers business that is not reflected in the current market price for the company. It is encouraging that new management are of a more active bent than that which we saw previously. Combined with effective execution, we would anticipate this delivers stronger returns for investors.

During March we travelled to the UK to attend the Brambles investor day. For context, BXB is the global leader in pallet pooling and 'moves more goods to more people in more countries than anyone else on earth'. Interestingly, despite this fact, its network (390m pallets/ crates/ containers, 60 countries, 850 service centres), which has been built over 40+ years, has not yet fully penetrated its potential markets. In 2016 and 2017 Brambles disappointed with a series of profit downgrades relating to challenges in its US business, and a reassessment of long-term return on capital targets.

Since that time, new CEO Graeme Chipchase and new CFO Nessa O'Sulliavn have steadied the ship. Although we expect some near-term headwinds from rising costs (particularly in the US), we can see some longer term opportunities for Brambles, these include:

- ongoing revenue growth from increased penetration in pallets and reusable plastic crates (RPCs);
- margin uplift in the US from cost out, procurement initiatives, automation, surcharge and capex initiatives;
- improved cash flow (improvement in cycle times, loss rates, damage rates, pallet costs); and
- over the longer-term, both potential benefits from digital initiatives (track and trace sensors on pallets should reduce lost pallets and lock in customers) and optionality in China becoming a viable pooling market.

In March Transurban (TCL) announced that it had agreed to acquire the A25 toll road and bridge in Montreal (Canada) for CAD $858m, which equates to an implied EV/EBITDA multiple of 26x. The A25 was acquired from Macquarie Infrastructure Partners, an unlisted 10-year closed-end fund that is in the process of liquidating assets, in what we understand was a competitive bidding process. The transaction will be funded from existing balance sheet capacity and management expect the acquisition will be immediately accretive to TCL's distribution per security. Financial close is targeted for Q4FY18 and is dependent on Investment Canada Act approval.

The acquisition marks the entry into a new market that TCL views as attractive given Montreal is a heavily congested urban area with strong demographics. TCL had previously identified Montreal as a North American market with network potential so the acquisition is consistent with strategy. While the headline transaction multiple of 26x appears full, particularly in light of the remaining 25 year concession life, we assume future network potential featured into TCL's assessment of the deal. As usual, we expect TCL will drive further value from a combination of optimising operations, debt refinancing, road expansions, and proposing new network enhancements.