CI BRUNSWICK 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.

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"Science advances one funeral at a time." Max Planck

"In the field of common stocks, a little bit of a great many can never be more than a poor substitute for a few of the outstanding" Phil Fisher

"The only real mistake is the one from which we learn nothing." Henry Ford

"The secret of success is to be ready when your opportunity comes." Benjamin Disraeli

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
LAST 3 MONTHS	-9.43%	-8.24%	-1.19%
FY 2019 YTD	-7.82%	-6.83%	-0.99%
FY 2018	16.0%	13.0%	3.0%
FY 2017	13.4%	14.1%	-0.7%
FY 2016	12.5%	0.6%	11.9%
FY 2015	14.3%	5.7%	8.6%
FY 2014	26.8%	17.4%	9.4%
FY 2013	32.0%	22.8%	9.2%
FY 2012	12.4%	-6.7%	19.1%
FY 2011	16.1%	11.7%	4.3%
FY 2010	18.7%	13.1%	5.6%
FY 2009	-19.4%	-20.1%	0.8%
FY 2008	-12.9%	-13.4%	0.5%
FY 2007	45.7%	28.7%	17.1%
FY 2006	35.3%	23.9%	11.4%
FY 2005	47.6%	26.4%	21.2%
SINCE INCEPTION*	15.66%	7.93%	7.73%
SINCE INCEPTION^	725.02%	202.37%	522.65%

*Annualised ^Cumulative (1 July 2004) **Before fees and expenses # S&P ASX 200 Accumulation Index

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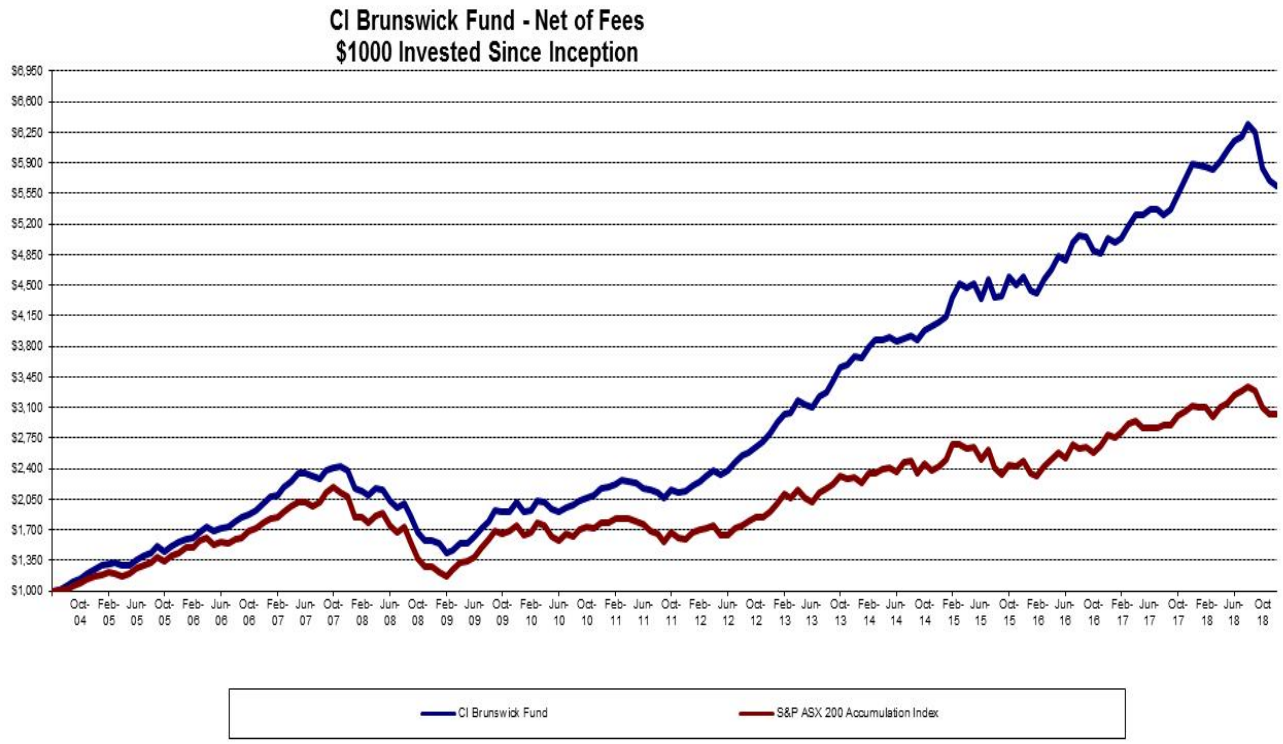

Market and Portfolio Performance

The December 2018 quarter was challenging for equities markets and the portfolio. The ASX200 Accumulation Index fell -8.24% and disappointingly, the Brunswick Fund fell -9.43%.

The market correction followed a series of 'macro' events including the US-China trade war, rising inflation expectations, reduced monetary stimulus and early signs that some of these factors have impacted global growth with demand slowing in some cyclical sectors (housing, autos, consumer discretionary and related sectors).

The size of the correction has been material across most global markets. Up until a relief rally late in December, the S&P 500 in the US was headed for a "top 20" worst quarterly performance on record. Interestingly, history suggests that on average these poor quarters are followed by good absolute performance over one, three and five years (the main exception was during the Great Depression):

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S&P 500 Since 1926		Forward Performance		
Quarter Ending	**Quarterly Performance**	**One Year**	**Three Years**	**Five Years**
June 1932	-37.7%	162.9%	170.5%	344.8%
Sept 1931	-33.6%	-9.6%	13.1%	118.2%
Dec 1929	-27.8%	-24.9%	-60.9%	-40.7%
Sept 1974	-25.2%	38.1%	72.7%	117.5%
Dec 1987	-22.6%	16.8%	48.8%	109.0%
Dec 2008	-21.9%	26.5%	48.6%	128.2%
Dec 1937	-21.4%	31.1%	17.8%	25.4%
June 1962	-20.6%	31.2%	69.2%	94.8%
Mar 1938	-18.6%	35.2%	38.2%	84.5%
Sept 1946	-18.0%	6.4%	24.5%	115.4%
June 1970	-18.0%	41.9%	57.4%	56.3%
June 1930	-17.7%	-23.4%	-34.7%	-32.8%
Sept 2002	-17.3%	0.3%	27.0%	66.3%
Averages	**-23.1%**	**25.6%**	**37.9%**	**91.3%**

Source: MarketWatch

A focus for the portfolio is outperforming in down markets (historically the portfolio has done this on a monthly basis around 8 out of 10 times). In this quarter the portfolio's performance was impacted by its weighting in cyclicals and growth companies (for example **Adelaide Brighton, Sims Metal Group, CSL and Xero**), which in hindsight were too high. Likewise, while the portfolio had some exposure to more stable companies in the bond-like equities, asset plays and stalwart 'subsets of value' (and cash levels were close to 13% on average through the quarter), the stable company weightings were too low. In addition, performance was impacted by the portfolio's allocation to smaller companies (for example **Bega, Lifestyle Communities** and **Healius**) and overseas stocks (MSCI World unhedged –10.33% for the quarter).

One benefit of market corrections is they help focus on what is core to the proposition or strategy of the portfolio. We remain focused on our single purpose goal which is to identify 'risk adjusted value latency' diversified across 'subsets of value'.

Key contributors to portfolio performance during the 3 month period include **Graincorp (GNC**) (takeover bid), **Washington Soul Pattinson (SOL**) (appreciation of portfolio businesses), and **Mainfreight (MFT)** (solid FY18 result).

Portfolio stocks that performed poorly include **Bega (BGA)** (the highly rated management team disappointed with a profit downgrade for FY19 in addition to a fully geared balance sheet), **Adelaide Brighton (ABC)** (profit downgrade for FY19), **Healius (HLS)** (concerns about profit trends in Medical Centres and earnings quality) and **Lifestyle Communities (LIC)** (concerns about a housing correction).

Bega (BGA) downgraded its guidance for FY19 profit citing first the impact of the drought which reduced milk volumes in NSW and QLD, pulling supply out of Northern Victoria where supply was already under pressure due to increased feed costs. Secondly, the company stated there had been a general increase in competition for milk supply as the milk pool is redistributed amongst the larger players.

The profit downgrade was disappointing as it comes at a time when the business is facing growing pains as it integrates both Bega Foods (which includes Vegemite, Peanut Butter and other brands), and the recent acquisition of Murray Goulbourn's Koroit processing plant from Saputo.

Despite the stock's recent poor performance, we remain confident in its medium term outlook. BGA is an 'everyday needs' business and sits in our 'owner-operator culture' group of companies. Our VoF proposition is based on:

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- Redistribution of milk flow within the network to optimise end use (eg for mozzarella, infant formula etc) which might include potential site closures;
- Utilisation of spare capacity at both the Port Melbourne manufacturing plant for Bega Foods and the Koroit dairy plant, which should improve BGA's unit cost and asset position;
- Over the longer-term the expansion of branded product within the Bega Foods business into adjacent areas;
- Growing the Food Services channel and export markets based on BGA's 'farm-to-table' positioning.

Adelaide Brighton (ABC) delivered a disappointing downgrade to FY19 profit guidance (profit now expected to be flat on FY18). This was despite what appears to be otherwise favourable operating conditions, with housing commencements still high vs history and a solid outlook for domestic infrastructure spend. The company pointed to an unexpected drop in volumes in October and November (with some recovery in December) and a delay to a large project.

This was disappointing as it came after a series of changes at both management and Board level, which would normally have been reason to reconsider our position. The key mitigating factor for us in ABC's case is the influence of the Barro family (owner /operator of the Barro Group, a large private operator of pre-mix concrete and quarry products focused in Victoria), who retain a Board seat and continue to creep their equity interest (now 43%).

A key medium term value latency is the possibility the Barros will eventually vend in the Barro group to ABC, which should deliver material scale and operating asset benefits.

During the quarter a non-binding indicative takeover offer was made for **Graincorp (GNC)** by Long-Term Asset Partners at $10.42/share, a 43% premium. The portfolio took a position in GNC in early 2018. GNC is involved in the storage, handling, and marketing of Australian grain to domestic and overseas markets. GNC also owns "value-adding" plants in Malts and Oils. GNC is a cyclical business due to variability of the grain harvest and has been trading at a cyclical low following drought conditions in NSW and QLD. Besides the cycle, our VoF proposition for GNC includes the potential for profit improvement via:

- combining 'Marketing' and 'Storage and Logistics' business units, which should deliver savings via an overlap of costs, help stabilise market share losses and improve GNC's ability to deliver grain arbitrage opportunities (based on arbitraging quality, location and timeliness);
- improvements in supply chain costs through optimisation of rail contracts;
- better utilisation of fixed assets, particularly at Port, as well as in the Oils business.

Following the non-binding indicative offer, GNC shares are trading in between the proposed takeover price and the price prior to the offer, implying the market views a roughly 50/50 chance of success.

We are not surprised there is some scepticism surrounding the bid. In particular, the bidder is relying on a large amount of debt as well as a complex reinsurance arrangement to reduce the volatility of earnings in the storage and handling component of the business.

The good news for shareholders is the bid focused attention on underlying value in the business, with an alternate proposal tabled to the Board by Tanarra Capital to split the company into two businesses (one that would keep the cyclical businesses, one with just the stable businesses).

Our view is value lies in the range of $9.50 - $12.50/sh, based on a sum of parts valuation of the business today (i.e excluding some of the value latencies we have identified over the medium term). At the high end, our assumption is the Malt business trades at a multiple consistent with very recent transactions in the sector.

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In early January, while we were finalising this quarterly report**, Healius (HLS, formerly Primary Healthcare**) also received a non-binding indicative offer at $3.25/sh, a 33% premium to the price it was trading prior to the bid (albeit the stock increased 9% the day prior to the announced takeover).

The bidder is the Jangho Group, listed on the Shanghai Stock Exchange. Jangho currently holds a 15.93% stake in HLS. The offer is highly conditional, opportunistic (given the recent fall in HLS' share price) and undervalues the group in our view over the medium term. Jangho has prior success with Australian acquisitions, taking over the Vision Eye group in 2015.

HLS sits in our 'turnarounds' subset of value category. In recent years it has been resetting the operating model in its Medical Centres business under new CEO Malcolm Parmenter via:

- reducing upfront payments / increasing ongoing payments to GPs;
- increasing flexibility, training and support to encourage GP recruitment;
- re-assessing the layout and offering at each centre to assist in optimising profitability;
- implementing new IT systems to allow appointments which should help increase billings per GP (it should help GPs see more patients with chronic conditions).

Long-term we also see value latency in the Pathology business which has seen limited profit growth in recent years due to increasing rent payments to GPs (which of itself highlights the value in owning both Pathology and Medical Centres). The Pathology industry is largely a two-player market (**Sonic Healthcare** being the other main player), with high entry barriers and scale economics.

Mainfreight (MFT) reported a solid FY18 result during the quarter (September year-end). MFT sits in our 'owner operator culture' group of proprietorial management teams and in the stalwart subset of value (although it has characteristics of a cyclical and a growth company). We visited the company during the quarter in Auckland.

The essence of MFT's strategy is "intensifying its network globally". However, in our view what sets MFT apart from other operators is the tightness of execution around this core strategy. There are many examples from MFT's annual report (an excellent read) that speak to how they execute. The company makes it clear they don't want to grow just for the sake of growing. For example, they want:

- Pepsi rather than Coke (lower volume but higher margin)
- Freight and logistics, not just one or the other
- Customers that value MFT quality of people and service

For MFT, people are the most important part of good execution. This is complex given MFT's global footprint with the need to undertake training and constantly reinforce the core message (management does 4 trips (pa) each to US, Europe, Asia and Australia!).

We see a long runway of opportunity for MFT to grow globally given they are small in most of their markets. They are still a long way from capacity even in their dominant home market of NZ. However, growth in Europe and the US will take time and patience, as cultural differences remain.

MFT continues to invest for the long-term. For example, in Australia they are likely to invest in a large site in Dandenong of a similar size and scope of Epping (i.e. a large amount of warehousing space). They are also expanding the Epping site. In addition, they are adding branches in regional areas like Toowoomba, Geelong and Newcastle to intensify the network in Australia. Similarly in Europe, MFT continues to open new branches and regional hubs (we recently attended a European site tour).

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The other portfolio stock that performed well during the quarter was **Washington Soul Pattinson (SOL).** Following this strong performance the portfolio exited its position. However, the portfolio retains an exposure to **Brickworks (BKW)**.

SOL is one of the oldest listed companies on the ASX, dating back to 1903, having been managed by the same family (Millners) since the outset. Although the Milner family's long involvement with SOL has been criticised by some, we see it as a strength. In the words of the company:

> *"Our leadership has been grounded in successive family members, who value the history of the company, yet are able to adapt to changing times and economic conditions. All have had the ability to spot talented people to fill senior and middle management roles. In turn, management has always been supported by able, loyal, and long-serving staff. More than 40 employees have worked with the company for over 50 years. Five generations of the Pattinson family have served* the company, as have three generations of the Dixon, Spence, Rowe, and Letters families."

The listed structure of SOL is complex with a cross-holding with BKW which prevents either company from being taken over and was the subject of a recent court challenge. The listed value of SOL and BKW depend on the value of each other and at times both stocks have traded at discounts to the sum of their observable listed subsidiaries.

The combination of the closing of this discount, as well as our view on the underlying asset or business value latency, is what interests us. Often, behavioural factors have influenced these discounts including low institutional ownership, low sell side coverage and governance concerns.

SOL's recent strong share price performance has been in part due to a re-rating of its holdings in **TPG Group (TPM)** and **New Hope (NHC)**. Recently, TPG announced a merger with Australia's third mobile phone operator Vodafone. Prior to this, TPG had planned a rollout of its own mobile network focused on 5G technology. The merger reduces the need for additional capex and should create a much stronger rival to Telstra and Optus over the medium term, albeit the ACCC recently raised some concerns about the merger. NHC's rerating followed a strengthening in the coal price and in NHC's profit outlook as well as the successful acquisition of **Wesfarmer's (WES)** 40% stake in the Bengalla mine (at an attractive price), where it had an existing 40% stake.

However, even accounting for the rerating of both TPG and New Hope, the recent share price performance of SOL has been particularly unusual – SOL recently traded at a premium to the sum of its observable parts for the first time in well over a decade.

It appears that index or passive buying, coupled with low levels of liquidity, is the main reason for this unusual share price performance.

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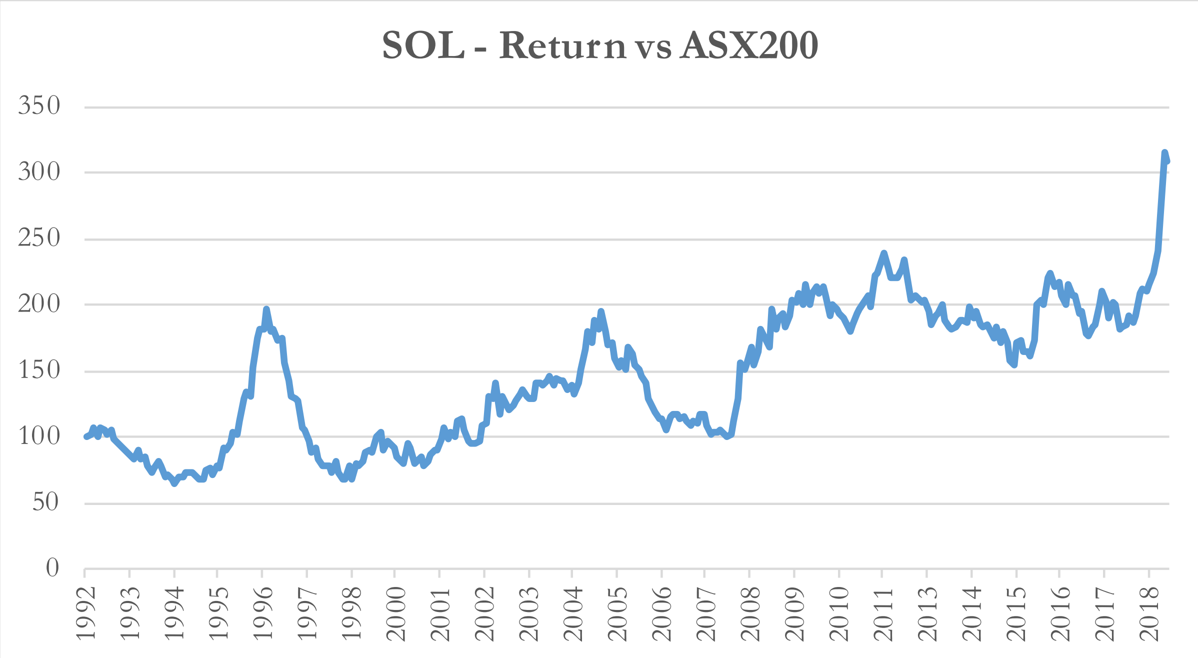

Interestingly for us, despite a highly similar asset exposure via the cross holding structure, BKW continues to trade at more than a 30% discount to its parts.

Whilst there are genuine concerns that its building products division will slow in any housing market downturn, the size of the discount infers little to no value to this division. BKW continues to sit on land held at cost (based on very old purchase prices) which the group is slowly developing via their industrial property trust (alongside Goodman).

Interestingly, BKW has also just made its first foray into the US Bricks market via a relatively small acquisition – funded by selling stock in SOL!

During the quarter the portfolio added **Aurizon (AZJ)** following the exit of a large shareholder. AZJ is Australia's largest rail freight operator, moving coal, iron ore and agricultural products usually from near point of production (eg mine or farm) to port. AZJ has two main business units. Firstly, the Network business which is owner of Rail infrastructure network. This business is a monopoly and is regulated by the Queensland Competition Authority (QCA). Secondly, rail freight operators and related logistics businesses under Coal, Bulk and Intermodal business units.

AZJ is a stalwart company, and sits in the specialist, focused manager category. Both Chairman Tim Poole and CEO Andrew Harding have specialised knowledge of infrastructure assets and the resources sector and display all the characteristics we look for in proprietorial managers.

AZJ shares have been impacted by a negative regulatory decision from QCA over the last 12 months. However, it now appears AZJ has made substantial progress towards an agreement that at least partly bridges its return expectations on its regulated assets.

Over the medium-term there appears a greater likelihood regulation moves to a light-touch approach, which suggests upside latency in the value of its regulated assets. An improved regulatory approach could also lead to more optimal outcomes in both cost efficiency and volumes (and scheduling) on the assumption that incentives are more aligned under a new framework.

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In addition, our VoF proposition for AZJ includes:

- A flow through of benefit to the Coal business via increased volumes (brownfield mine expansions and small greenfields).
- Ongoing near-term cost savings which should help offset any pricing pressure in recontracting.
- Over the longer-term, reducing train drivers from 2 to 1 in the Queensland network.
  - A 30-40% reduction of the current 1,000 train drivers equates to $0.20-$0.30 /share gross of any implementation costs.

Finally, we also added UK listed (but mostly US based) **Ferguson (FERG)** during the quarter. The stock was recently added to the Cooper Investors Global Equities Fund's portfolio. In addition, we recently visited the US to research both Reece's (REH) acquisition of Morsco and FERG (more detail under Trip notes).

FERG is a key player in the US plumbing distribution market with around 17% market share. The VoF proposition for FERG is based on:

- An attractive headline valuation @ ~12x PE (vs 16-20x for comparable US distributors)
- Strong balance sheet
- No.1 position in the US
- Strong culture
- Industry consolidation runway
- It remains under the radar being listed in the UK ~ having recently changed its name from Wolseley plc last year (the group generates 90% of its profits in the US).

The dynamic duo of CEO John Martin and US head Kevin Murphy (10 years as COO) have overseen a successful period of turnaround with FERG exiting around 60 businesses since the GFC to focus on areas where they have competitive advantages and scale. Today the group has built 17% market share in the US and provides an important service that makes professional plumbing contractors' lives easier and reduces inefficiency in large construction projects.

Operating trends are compelling - revenues are growing at high single digit rates through a combination of a recovery in US housing starts and home remodelling spend as well as market share gains. FERG has typically grown like-for-like sales +2-4% above the market which today looks like organic growth in the US of +8-10%. In latency terms there are opportunities to grow Gross Margins through increasing use of private label (today <10% of sales) and EBIT margins through further scale and efficiency gains (margins are 4-500bps lower than peers like Reece and HD Supply). The balance sheet at ~0.8x ND/EBITDA has plenty of capacity for continued consolidation of the highly fragmented industry tail.

On an earnings basis the company trades materially lower than peers like Watsco, Fastenal and W.W. Grainger. We think a large part of this discount is 'coverage arbitrage' - Ferguson is covered by analysts based in London, Paris and Dublin who have bad memories of 'the old Wolseley' which almost went bankrupt in the GFC. A good example of this bias saw the recent FY18 results beat consensus on almost every metric yet analysts focussed on the weak UK outlook (5% of group trading profits and shrinking).

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The Portfolio – Strategy, Process, and Structure

Our single purpose goal is to identify 'risk adjusted value latency' diversified across 'subsets of value' by focusing on businesses with:

1. Proprietorial managers – i.e. managers with skin and soul in the game
2. Enduring qualities, good operating trends and strong industry/strategic positions
3. Leverage to positive value latencies

We are particularly focused on companies who:

- are exposed to the ageing population;
- supply everyday needs;
- own and operate asset backed networks, or platform business models (like software businesses);
- are specialised operators of real estate and other real assets;
- have family links/heritage.

Strategy

- The strategy targets:
    - long-term capital growth and tends to outperform in down-markets.
    - investors with an endowment or family office mindset.
- The strategy is an unconstrained application of Cooper Investor's VoF process that we call the "CI Way", in that it has no institutional constraints and is completely benchmark unaware.
- Because the portfolio is significantly different to the benchmark it can, at times, materially underperform relative to the benchmark.

Process – VoF

- Single purpose goal is identifying risk adjusted value latency.
- At CI we take both a qualitative and quantitative approach to research and analytics with a focus on observation not prediction.
- Risk adjustment focuses on operating trends, industry structure, company strategic positions and focused management behaviour.
- Utilise CI's market access and networks.
- Take advantage of liquidity events, and market /stock dislocations.
- Risk controlled for liquidity and conviction.

Structure

- Concentrated, long-only, long-term equities portfolio (20-40 stocks).
- Portfolio of companies with value latencies, across 6 subsets of value, focused around a number of key "clusters".
    - Diverse exposures across small, mid and large capitalisation companies as well as different industries and countries (within a maximum of 25% overseas exposure. Note: overseas means non-ANZ listed stocks).
- Small team leveraging CI's well-resourced research platform and back office strength.

We seek to partner client capital with what we call 'Focused Management Behaviour' – companies that display enduring proprietorial qualities with the ability to deliver the value latency options afforded by good operating, industry & strategic position/trends. The management and governance cultures of the companies we seek fall into 3 broad categories:

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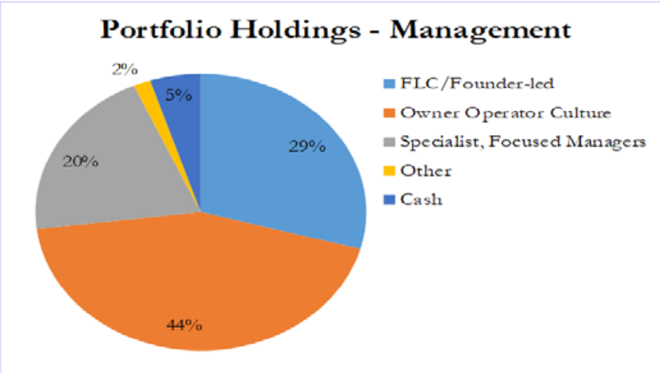
1. Family linked companies and Founder-led;
2. Owner operator cultures; and
3. Specialist, focused managers that are resetting governance & management priorities.

The portfolio's holding in each of these three groups is as follows:



All of these proprietorial management styles have the following behavioural qualities:

- Focus – intentional and know what they are doing
- Humility – authentic, energetic and long-term value obsessed
- Alignment with and respect for shareholder interests
- Deep, nuanced knowledge of business/industry
- Value and risk-based capital allocation (often counter-cyclical)
- Invest in skills, talent, innovation

The portfolio remains positioned around six subsets of value:

- **Stalwarts** (23% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions. (ASX, Brambles)
- **Bond like equities** (6%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time. (ALE Property Group, Arena REIT)
- **Growth companies** (24%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management. (Lifestyle Communities, Xero)
- **Asset plays** (9%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value. (Brickworks)
- **Low Risk Turnarounds** (7%) – sound businesses with good management in place and good balance sheets. We especially like spin offs and government to private turnarounds. (OHL Mexico)
- **Cyclicals** (15%) – stocks showing upside leverage to the cycle with experienced and contrarian managers who can allocate capital prudently and with good balance sheets. (Reece, Adelaide Brighton)

Currently the portfolio holds around 16% cash. The portfolio has around 11% of assets invested in overseas stocks that own businesses in USA, Canada, UK and Mexico.

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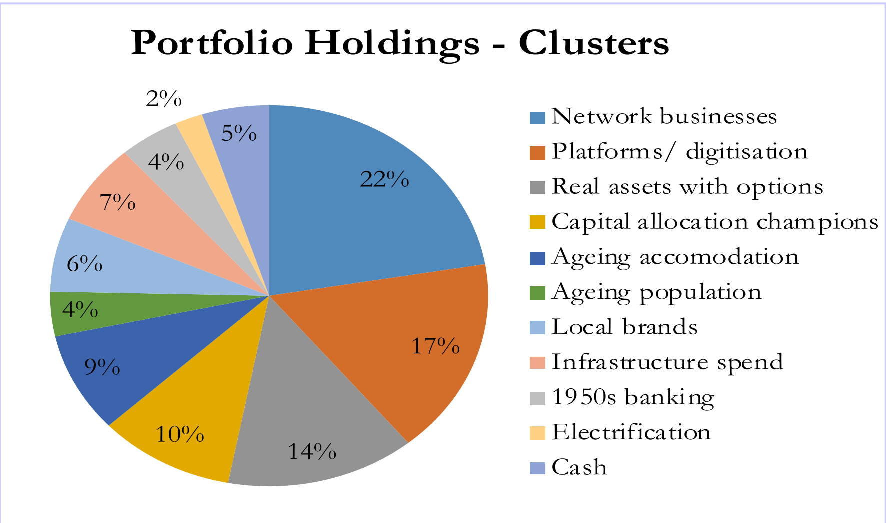
Portfolio attributes as at December 2018 are summarized below:

P/E	16.56
Beta	0.71
Yield	3.05
P/Book	1.97
ROE	12.3
Tracking error vs. ASX 200	5.45
Stock Number	34

Clusters define sets of companies that are exposed to particular industry, economic, demographic or other trends, as well as companies that share similar operating models. They are a summary of the “O” (operating, industry and strategic trends) in our VoF investment process. Clusters help us “fish in the most attractive ponds”.

Our current focus is on the following clusters:



- **Network businesses** – sturdy, strong and generally larger companies with world class competitive positions, where growth reinforces the business model. (CSL, Reece, Mainfreight).
- **Platforms /digitisation** – companies that are at the forefront of digitising industries, preferably with software that requires investment to scale, but once scaled have a low cost of adding incremental customers (Xero).
- **Real assets with options** – companies that own real assets like property, infrastructure, minerals or agriculture products that are under-utilised, under-rented or hidden (ALE Property)
- **Capital allocation champions** – companies with a history of value-creating and counter-cyclical capital allocation/investment across a portfolio of assets. (Brickworks).
- **Ageing accommodation /population** – companies providing accommodation or services to people aged in the 65+ age group (Lifestyle Communities).
- **Local brands** – companies with strong brands that will benefit from a trend towards local, boutique, fresh, home-grown food (Bega).
- **Infrastructure spend** – companies set to benefit from increasing spend on infrastructure, domestically or globally (Adelaide Brighton).
- **1950's banking** – banks and other financial companies with a high level of customer service backed by smart IT (St James's Place).
- **Electrification** – companies benefitting from the trend towards increasing electrification of things such as cars, and homes (TE Connectivity).

Trips

During the quarter we spent a week in the US focused on detailed research in the plumbing distribution and related sectors. We visited Ferguson, Morsco (owned by REH) and competitor sites covering the key business lines of plumbing distribution, waterworks (civil plumbing works) and HVAC (heating, ventilation & air-con).

The trip covered not only distribution (ie FERG and REH/Morsco), but we also saw product manufactured by Reliance (RWC), Aalberts (AALB-NL), Techtronic Industries (669-HK) and AO Smith (AOS-US). We also visited other distribution companies including Fastenal, W.W. Grainger and retail focused groups Lowes and Home Depot.

The trip reinforced the long-term latent value opportunity for both REH (via Morsco) and FERG, including:

1. Growth (organic and inorganic) through consolidation of a highly fragmented industry:
    - Trip confirmed the opportunity appears large (we visited many small independent operators).
    - Both FERG and REH/Morsco can participate/benefit. However, from observation of stores, Morsco has more work to do than FERG.
2. Margin and asset efficiency improvement:
    - Australia looks further advanced in areas such as branch density, delivery times, scale of DCs/logistics, IT (apps etc), and private label penetration. Know-how from REH on these issues should help margins over time (however, this is a long dated opportunity).

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Industry Observations – US Plumbing Distribution

- Plumbing distribution remains highly fragmented in the US:
  - We visited lots of smaller family businesses operating 1 or 2 shops.
  - Even competitors Hjoca and Win Supply are more like banner groups. They are local, parochial and fiercly competitive.
  - Interestingly it's the northern states in the US that remain most fragmented – NY, Chicago, Boston. These are unionised markets and therefore tricky to enter (wages ~50% higher).
- Why is it fragmented?:
  - 'Traditional business model' – still highly dependent on relationships.
    - What was different in the US vs Australia is plumbers often spend down-time at the branch where they have TVs, coffee, popcorn etc.
    - This relationship focus is a barrier to greenfields growth/rollout, and the main reason why M&A has been important for FERG & Morsco.
  - Stores did not have standard layouts in terms of SKUs (stock keeping units) and look and feel (closest was FERG layout and signage) with lots of local customisation to meet local needs. This is different to REH, where standardisation is much higher.
  - Although buying groups reduce some of the lack of purchasing power of the smaller players, a private label strategy can only be implemented by the largest players.
- We visited a lot of different showrooms which sell a range of mostly high end bathroom and kitchen product and in most cases kitchen appliances (showrooms include cabinetry):
  - Idea is the Showroom is a one-stop shop.
  - They are usually located in affluent areas, and/or close to areas where there is a lot of refurb/refresh (older suburbs with changing /younger demographics).
  - Offering is very consistent across each of the players.
  - Mid-range independents are often co-located with a plumbing site and generally were poorly kept (there are equivalents in Australia – this is the market share that REH has taken in Australia over many years).

Operating Trend Observations – US Plumbing Distribution

Housing cycle

- Despite short term weakness in housing starts driven by higher US mortgage rates, the medium term outlook remains positive:
  - There is no sign of excess inventories or likely discounting, although inventories are higher in build to sell (rather than build to order), which adds a little risk.
  - Some experts believe home builders have been focused at the higher price end (since the GFC) as they see this as less risky. This has created a lack of supply at the affordable end.
  - In terms of the medium term, US housing starts are below the 50yr average, which is low given population growth and the underbuild post GFC.

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  - Rental vacancy rates are back to normal levels (1.5% from 2.9% ~ effectively 1m houses that didn't need to get built) which means any remaining overhang has gone. Growth in renters suggests pent up demand for new houses.
  - Increased costs of land, labour and materials has likely impacted housing starts. Despite this, the profitability of home builders is still at relatively high levels.

Renovation & repairs market

- Although starts are important for Morsco and FERG, Renovation and Repairs (R&R) is a much bigger part of their business and this is less cyclical.
- Some interesting stats from a US expert, all of which are supportive for R&R:
  - Housing replacements (350k) are low vs US housing stock (130m) ~ implies a 600yr life on average.
  - Average age of a house has increased from 25yrs to 40yrs

Infrastructure spend

- Finally, the Waterworks business should benefit from a long estimated upgrade cycle in US infrastructure (many ~100yr old systems).

Some photos:
Morsco showroom which interestingly now incorporate appliances (where average spend is $30-50K on average up 10x in 20yrs), and includes lighting.

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

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Competitor Hajoca's plumbing counter sales store.

Supply hub for region for Ferguson (main point for DC inventory; ship direct to site for region)

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

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Portfolio Risk Metrics

The portfolio's volatility remains below the benchmark, driven by the portfolio's more diverse stock holdings and lower concentration risk to the big 4 Banks and large resource companies:

	*PORTFOLIO	#BENCHMARK
Total Return	+725.8%	+202.4%
Max Drawdown	-40.0%	-47.2%
Best Month	+7.4%	+8.0%
Worst Month	-10.1%	-12.6%
Positive Months	+67.8%	+62.6%
Annualised Volatility	+10.7%	+13.0%

*Cumulative (1 July 2004), before fees and expenses
S&P ASX 200 Accumulation Index
Max Drawdown for the Brunswick Fund occurred December 2007 to February 2009
Max Drawdown for the ASX200 Accumulation Index occurred November 2007 to February 2009
Best Month for the Brunswick Fund was November 2004, for the ASX200 Accumulation Index March 2009
Worst Month for the Brunswick Fund was October 2008, for the ASX Accumulation Index it was also October 2008