# CI BRUNSWICK FUND
## QUARTERLY COMMENTARY REPORT

COOPER INVESTORS

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

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

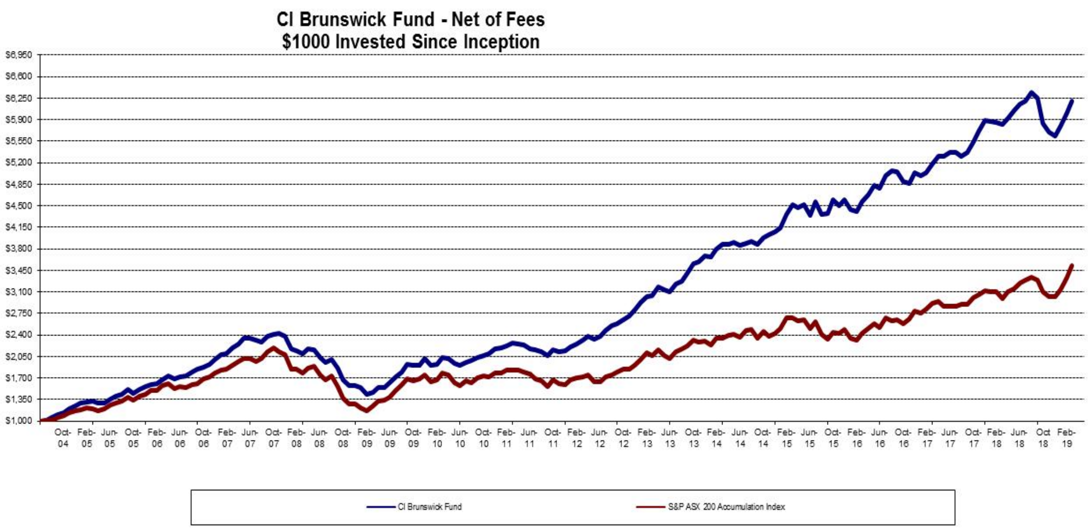
## MARCH 2019

***"The impediment to action advances action. What stands in the way becomes the way." Marcus Aurelius***

***"God grant me the serenity to accept the things I cannot change; courage to change the things I can; and wisdom to know the difference" Reinhold Neibuhr, The Serenity Prayer***

| | ****PORTFOLIO** | **#BENCHMARK** | **VALUE ADDED** |
|---|---|---|---|
| LAST 3 MONTHS | 7.16% | 10.89% | -3.73% |
| FY 2019 YTD | -1.22% | 3.31% | -4.53% |
| 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* | 15.92% | 8.55% | 7.37% |
| SINCE INCEPTION^ | 784.13% | 235.28% | 548.85% |

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



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

MARCH 2019

## Market and Portfolio Performance

The March 2019 quarter saw a significant rebound in global equity markets following a challenging quarter in December. The ASX200 Accumulation Index increased 10.89%, while the Brunswick Fund increased 7.16%.

The strong performance of global equities (US S&P 13.65%, MSCI World 11.17%, Shanghai Composite 23.93%) followed a tempering in the outlook for near term interest rate increases from the U.S. Federal Reserve. The world still remains a mixed bag of varying economic outlooks, geopolitical risks like Brexit and highly supportive monetary policy, which at some stage is likely to be unwound.

The Fund's performance in the quarter relative to the ASX200 Accumulation Index was disappointing. This largely reflected the Fund's underweight position in the large miners (ASX 200 Resource Index +17% in the quarter). In particular Iron Ore strengthened further following the Vale tailings dam incident.

Key contributors to portfolio performance during the 3 month period include **Constellation Software (CSU**) (strong Q4 result), **ASX (ASX**) (solid H1 19 result and leverage to equity market recovery in the March quarter), 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), **Aleatica (ALEATIC)** (despite improved governance, liquidity in listed structure is poor) and **Eureka Group (EGH)** (turnaround still in progress).

During the quarter, the Fund added a number of world-class businesses to the portfolio, run by proprietorial management teams.

Firstly, complementing Bega, the Fund took a position in **Saputo Inc (SAP)**, a Canadian-listed global dairy processor that focuses specifically on cheese. SAP was recently added to the Global Equity Fund portfolio. Founded over 60 years ago, today the company is run by a third generation Saputo, CEO Lino Saputo Jnr. The family still own over 40% of the company, fostering a unique owner-operator culture for a US$13bn market cap company. They have proven to be excellent stewards of capital generating a mid-teens ROE for over 20 years.

Saputo sits in the Stalwarts subset of value category – the company has leading market positions in the American and Canadian dairy markets which provide a stable stream of cash flows. Since listing in 1997 the company has returned around one third of this cash flow to shareholders and deployed the other two thirds into acquiring undermanaged or underfunded dairy processors. More recently the acquisitions have been focused in international markets like Argentina and Australia (Warnambool Cheese and Butter, Murray Goulburn) as Saputo builds a platform to service faster growing emerging markets.

Secondly, complementing ASX we added **Intercontinental Exchange (ICE)** a leading global operator of exchanges (NYSE, Energy/Financial/Ag/Metal Derivatives) and provider of data services for financial markets. ICE is also a part of the Global Equities Fund portfolio. The company is led by CEO Jeff Sprecher, who acquired the Continental Exchange for $1 in 1997 and through savvy capital allocation has built ICE into a US$40bn market cap entity today.

The company's recent push has been to scale up its data business via acquisitions. While the exchange operations are oligopolistic and high returning businesses, revenues are derived from trading and volatility that is inherently unpredictable. In contrast people buy and use data every day and this trend is becoming more acute with increases in the automation of financial markets, compliance and regulation as well as the need for independent pricing and reference data. The data business allows ICE to deepen its existing customer relationships as well as create a more predictable revenue stream. We see value latency stemming from the market recognising the quality of the data business as Jeff and his team execute on growth targets and cost synergies. Early progress has been solid on this front. Low volatility has also depressed trading volumes in some of ICE's exchanges. Despite these sources of upside and management's track record, ICE trades at a discount to its peer group, further underlying the attractiveness of the investment proposition.

Finally, the Fund established a position in NZ based **Infratil (IFT).** Infratil trades on a distribution yield of 4.5%, backed by an attractive portfolio of enduring infrastructure assets which provide strong and stable cash flows, with the key assets being:

1. Trustpower and TILT ~ ANZ operators of electricity retail and generation assets
2. Wellington Airport
3. RetireAustralia ~ Australian based retirement village operator
4. Canberra Data Centres ~ Australian based operator of data centres, primarily to government clients

The Fund is managed by Morrison & Co, who are specialist infrastructure investors with a solid capital allocation record as highlighted by the >10% CAGR in distributions generated over the past 10 years. One of its most successful investments, **Z Energy (ZEL)**, was acquired at a cyclical low point, its operations improved and eventually ZEL was sold/spun-out of IFT at a significant premium (and subsequently went on to perform well).

We expect this to continue as IFT simplify the current portfolio by looking to harvest existing investments (ANU ~ sold recently at a large premium to book value, NZ Bus and Perth Energy) and reinvest further into its underappreciated Canberra Data Centres (CDC). CDC generates highly attractive incremental returns and has a strong runway of growth with incumbency as the government's key outsource provider. This is underpinned by structural growth in data and cloud based services, with the opportunity to expand meaningfully into Melbourne and Sydney (IFT recently purchased an existing Sydney DC facility).

## 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 that have:**

1. Identifiable value latencies
2. Good operating trends and strong industry/strategic positions (with enduring qualities)
3. Focused Management Behaviour ('proprietorial' managers with skin and soul in the game)

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 (eg software businesses);
- are specialised operators of real estate and other real assets;
- have family links/heritage.

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

## MARCH 2019

### 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:

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

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

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

## MARCH 2019

The portfolio remains positioned around six subsets of value:

- **Stalwarts** (30% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions. (ASX, Brambles)
- **Growth companies** (22%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management. (Lifestyle Communities, Xero, CSL)
- **Bond like equities** (8%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time. (ALE Property Group, Arena REIT)
- **Asset plays** (11%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value. (Brickworks)
- **Low Risk Turnarounds** (3%) – sound businesses with good management and good balance sheets. We especially like spin offs and government to private turnarounds. (OHL Mexico)
- **Cyclicals** (14%) – 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 12% cash. The portfolio has around 15% of assets invested in overseas stocks that own businesses in USA, Canada, UK and Mexico.

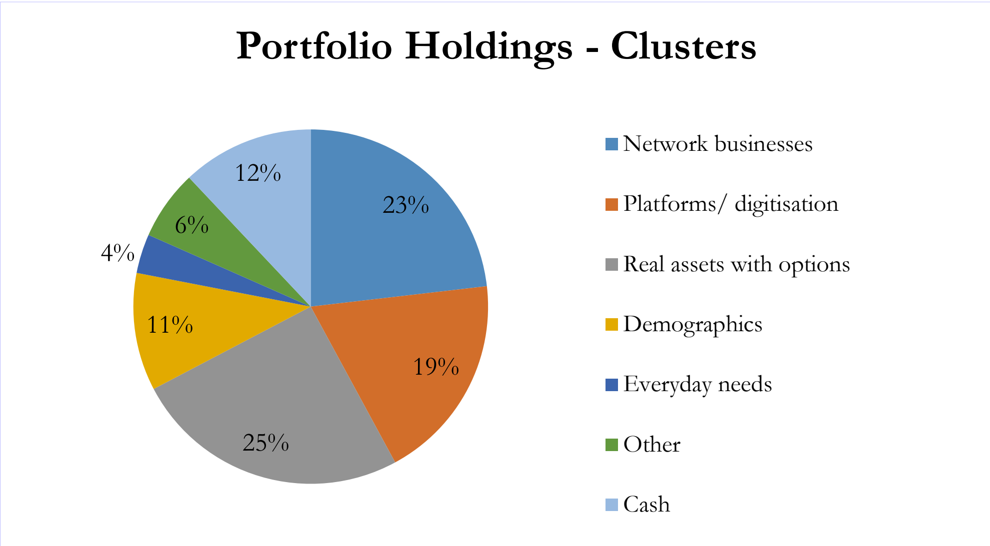
Portfolio attributes as at March 2019 are summarized below:

| | |
|---|---|
| P/E | 18.2 |
| Beta | 0.70 |
| Yield | 3.0 |
| P/Book | 2.2 |
| ROE | 12.5 |
| Tracking error vs. ASX 200 | 5.43 |
| Stock Number | 31 |

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”.

## MARCH 2019

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, ASX, Intercontinental Exchange).
- **Real assets with options** – includes companies that own real assets like property, and infrastructure that are under-utilised, under-rented or hidden, Listed Investment Companies (LICs) and conglomerates with net asset value discounts (Brickworks, Arena REIT, Infratil)
- **Ageing accommodation /population** – companies providing accommodation or services to people aged in the 65+ age group (Lifestyle Communities).
- **Everyday needs** – companies with products or services supporting everyday needs for food, clothing, housing and other basic requirements (Bega, Saputo).

# CI BRUNSWICK FUND
## QUARTERLY COMMENTARY REPORT



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

## MARCH 2019

### 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 | +784.2% | +235.3% |
| Max Drawdown | -40.0% | -47.2% |
| Best Month | +7.4% | +8.0% |
| Worst Month | -10.1% | -12.6% |
| Positive Months | +68.4% | +63.3% |
| 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