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.

JUNE 2020

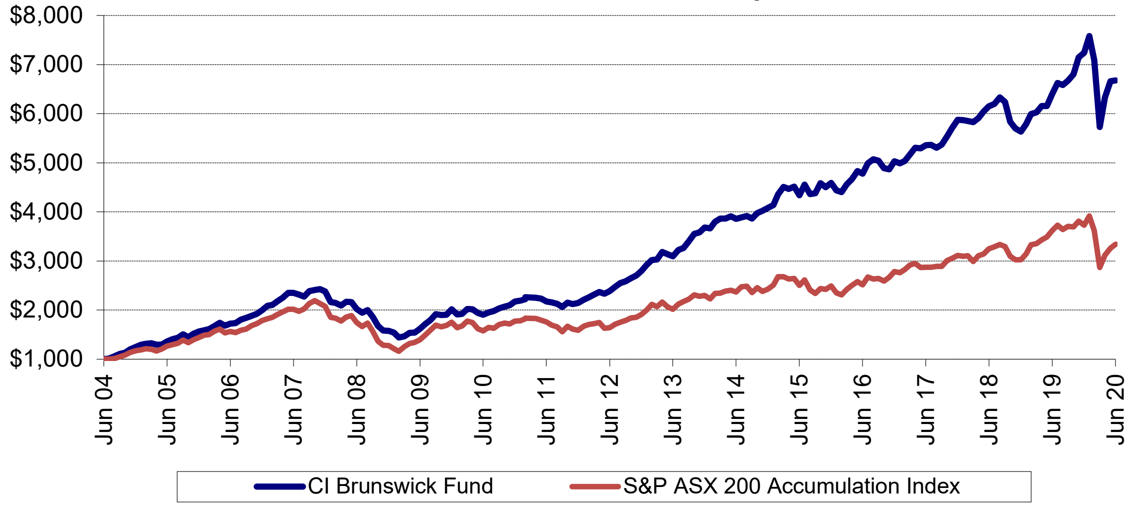
Brunswick Fund Mission

1. **Leverage CI's VoF stock research**
2. **Back proprietorial management**
3. **Allocate across Compounder, Reversionary & Real assets capital pools**

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
LAST 3 MONTHS	17.1%	16.5%	0.6%
FY 2020	6.1%	-7.7%	13.8%
FY 2019	5.1%	11.5%	-6.4%
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*	15.5%	7.8%	7.7%
SINCE INCEPTION^	898.5%	234.2%	664.3%

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

CI Brunswick Fund - Net of Fees
$1000 Invested Since Inception



Source: Factset

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"Dhyana is retaining one's tranquil state of mind in any circumstance, unfavourable as well as favourable, and not being disturbed or frustrated even when adverse conditions present themselves one after another"

— D.T. Suzuki

Market and Portfolio Performance

While the March quarter was dominated by the rapid spread of the COVID-19 pandemic leading to one of the sharpest bear market declines in history, the June quarter saw one of the quickest recoveries.

Despite much of the world entering lockdown which has led to severe contractions in economic activity globally, equities markets looked through to an eventual recovery, supported by some of the most significant fiscal and monetary stimulus in history.

During the June 2020 quarter, the ASX200 Accumulation Index returned 16.5%. Although, this was not enough to offset losses in March. For the 12 month period to June 2020, the Index returned -7.7%.

The portfolio faired relatively better, returning +17.2% for the June quarter and +6.1% for the 12 month period, outperforming the index by 0.6% and 13.8% respectively.

Key contributors to portfolio performance during the 3 month period include **Brickworks (BKW)** (announced new industrial JV lease to Amazon), **Lifestyle Communities (LIC)** (recovery from March sell-off, acquired a new site in Clyde) and **Elmo (ELO)** (recovery from March sell-off).

Portfolio stocks that performed relatively poorly include **CSL (CSL**) (performed strongly through February and March), **United Malt Group UMG)** (ongoing exposure to craft Beer consumption in the US) and **Brambles (BXB)** (less leveraged to the recovery).

In late May **Infratil (IFT),** which falls into our Asset Play Subset of Value, released its FY20 results, which were largely as expected, and shortly afterwards undertook a capital raising of NZ$300m. The capital raising removed any balance sheet risk (gearing levels are now slightly below the low end of its targeted range), particularly given the major Covid exposed asset, Wellington International Airport, had already agreed to revised terms with its financiers.

IFT has a good track record of allocating capital and in our view the current list of internal opportunities looks particularly attractive. For example, its data centre business (CDC), has a strong investment pipeline in Canberra, Sydney and potentially New Zealand. CDC comprises just under 30% of our IFT valuation and is positively exposed to structural growth in the quantity of data and how it's stored, which has been augmented by Covid-19 accelerating the transition of data into the cloud. To meet this growing demand will require additional investment in which the current unit economics for CDC are exceptionally attractive, particularly given contracted megawatts are generally with strong counterparties over long time periods (>5 years) and in an industry in which retention rates have historically been very high (>98%). While CDC remains un-listed for the time being, it's worth noting that its closest listed peer's share price (NXT.AX) has increased ~70% YTD, outperforming the index by 80% during a period of significant market stress.

Brickworks (BKW), another Asset Play, performed strongly in the fourth quarter of the financial year as its largest discount to inferred NTA in the past decade unwound. As discussed in the previous quarterly, BKW's Building Materials exposure (Aus & US) comprises only ~20% of our valuation yet it continues to trade in a highly correlated fashion to the Building Materials sector.

However very late in the fourth quarter, BKW announced that its Industrial REIT JV with Goodman Group (21% of our valuation) had signed a 20 year lease pre-commitment with Amazon for a distribution facility at Oakdale West. Post completion of the Amazon distribution facility, BKW expects the JV's assets to exceed $3bn with the JV retaining sufficient land for >5 years of future developments underscoring the attractive under-appreciated value latency within this business.

During the quarter, **Arena REIT (ARF)** undertook a $60m capital raising to exploit Covid-19 induced opportunities in the Childcare sector. The company has a strong history of deploying capital in a value accretive and risk conscious manner and accordingly we participated in the placement. Following the raising, ARF possesses very significant balance sheet latency (gearing of 18% vs target of 35-40%), an attractive opportunity set for capital deployment and strong valuation support (6.5% normalized dividend yield) while operating in a quasi-Government backed sector.

Another portfolio stock which reported results and raised capital ($171m) during the quarter was **United Malt Group (UMG**). UMG is a Low Risk Turnaround following its de-merger from Graincorp in April this year and is the fourth largest Maltster globally (brewers and distillers are its major customers). The impact from lock-down measures, especially for bars and restaurants, due to Covid-19 have been particularly pernicious on UMG's high margin craft brewing customers as these avenues represent their largest product distribution channel. While restrictions on bars and restaurants have significantly impacted UMG's most attractive customer segment, we believe the current crisis will accelerate the optimisation strategy we had anticipated as UMG became a more streamlined company focused entirely on its Malting operations and less on the vagaries of rainfall on the East Coast of Australia.

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Ryman Healthcare (RYM) reported their FY20 result delivering a reasonable performance despite the significant impact of COVID-19 (Sales +11.6%, EBITDA +7.8%, NPAT/EPS/DPS +6.6%). RYM has an excellent track record of earnings growth but in recent years this has slowed to below their targeted 15% compound annual growth rate (or doubling Underlying Profit every five years). This was due to consenting issues in Australia, investment in the cost base to support a doubling of the build rate over the medium term (800 units pa going to 1,600 units pa), as well as funding pressures on aged care earnings in both NZ and Australia.

Positively, management highlighted that after 18 months of hard work they now have 60% of their land bank consented which de-risks the development pipeline and delivery of their build program. This will re-accelerate earnings growth and manage elevated gearing levels as capital is recycled from new unit sales. Importantly RYM's brand and reputation has been enhanced following their performance during COVID-19, further entrenching their market leadership and competitive advantage. The mission remains to provide care that is “good enough for mum” and the building blocks now finally appear to be in place to deliver on the company’s ambitious aspirations.

As we mentioned in the March 2020 quarterly report, the portfolio took the opportunity to buy into a number of attractively priced stocks with compelling VoF attributes at the peak of the COVID crisis in March. One of these was **Ampol (ALD),** previously known as **Caltex (CTX).**

The stock fell significantly in March not only due to the impact of the COVID pandemic on fuel demand but also due to Canadian based Couche-Tard pulling its takeover offer for the company, citing uncertainty relating to the pandemic.

Ampol operates one of the largest fuels infrastructure and retailing businesses in Australia. Ampol’s fuels and infrastructure business is responsible for strategic sourcing of crude oil, feedstocks, refined products and management of the supply chain, with an infrastructure footprint that is very difficult for new entrants to replicate. Ampol also operates a large scale convenience retail network of 781 owned sites and ~2000 branded sites.

In addition to any cyclical recovery of fuel margins and volume, we see a number of sources of latent value. Firstly, there are a number of opportunities relating to Ampol’s asset base. Ampol is close to finalising an IPO of its property assets, which includes 250 sites nation-wide. Viva Energy demonstrated the value creation that is possible by lowering the cost of capital of its property assets via a REIT structure (Viva REIT now known as Waypoint REIT). Ampol also announced the sale of 50 freehold sites, and there is potential to extract value from its fuel infrastructure assets. Ampol has a large unutilised franking balance which has potential to be utilised via any form of additional capital return.

Secondly, there are a number of operating initiatives underway including a cost-out programme, and the rollout of its metro/foodary offering.

Finally, we believe the appointment of Matthew Halliday as CEO (and even prior as CFO) further adds to an already improving trend in focused management behaviour at Ampol.

In addition to Ampol, the portfolio also added two global stocks into the ‘compounder’ capital pool of the portfolio. Firstly, US-based **Intuit (INTU)**, which has been a long time Watchlist stock for our global team. It was purchased in March after a 20% decline made it an underperformer since mid-2019. Founded by board member Scott Cook in 1983 Intuit is the leading player in the US accounting software for SMEs (Quickbooks) and tax filing software (TurboTax).

The business has a unique and rare mix of Growth and Stalwart characteristics with incumbent leadership positions in its key markets combined with growth opportunities. Intuit’s QuickBooks Online product, which can be thought of as the Xero of the US is the leader with 3 million subscribers in a market of ~40 million SMEs that still mostly use Excel and paper receipts as accounting records. We see a recurring revenue business growing its top line double digits with 33% operating profit margins.

Secondly, UK-based **Halma (HLMA**) was also added. Halma provides investors with access to the secular trends in a number of specific areas which are expected to grow at a multiple of global GDP, namely: (1) Safety regulation in industry, energy and infrastructure (e.g. utilities, metro stations, public buildings), (2) Access to and testing of life critical resources (e.g. water, air) and (3) Medical niches and aging (e.g. ophthalmology, blood pressure monitors).

Halma has an exceptional track record of allocating capital via its M&A growth model over many years and achieving a ROIC meaningfully above its cost of capital. The company has a long runway of opportunities to deploy capital (at least another decade) and the current environment has the potential to provide an increased opportunity set.

Halma generates strong free cash flow, has an underutilized balance sheet, is capex light (3% of sales) and has now delivered 40 years in a row of 5% or more dividend per share growth. As such we find the company trades at a reasonable valuation given the rare combination of quality, growth and highly focused management.

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During the quarter **Mainfreight (MFT)** reported its FY20 result highlighting ongoing solid performance (Sales +5%, EBITDA +9%, NPAT/EPS +13%). While top-line growth was below MFT's expectations, the group continues to deliver margin expansion across a number of geographies.

MFT operate in a highly competitive market (freight & logistics). Despite this, MFT has delivered consistently improving performance over time resulting in strong shareholder returns (TSR in the mid-20%'s over 5, 10, 20 year periods). Key to this performance in our view, is MFT's culture and management team.

A focus of the portfolio is investing alongside what we call "Proprietorial Managers". MFT sits in the category of proprietorial managers we call "owner operator cultures". These are businesses where proprietorial behaviours have seeped into and through the firm; where the culture is closely linked to the firm's customer proposition and its success.

Through our interactions with company management and others within MFT we have observed many of these behaviours over the years. To illustrate, below is an extract from the Chairman's letter at the beginning of MFT's 2020 annual report, where he quotes the branch manager from MFT's Perth Depot – Jesse Cray Morgan (the full version is at the back of this report):

> *"Dad was an owner driver for Mainfreight back in the 1980's through until the early 2000's. At that critical time in life where we are all asked "what do you want to be when you grow up?" my father spoke about the merits of choosing a company that has a solid culture. He spoke about the Mainfreight way. About promotion from within and how hard work will always lead to gains. He was passionate about the business and he explained that passion drives people to accomplish great things."*
>
> *"…A team member explained that at the end of the shift (the night before), their last unit was loaded and closed up, but they discovered a piece of freight left behind. The team decided to open the unit up and have the piece of freight travel that night. They were tired and it was hard work. If they had taken the easy out and chosen to leave that piece of freight*

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behind, we would have paid for the empty space on that unit and paid the next night for it to physically travel.

If the team came across this same scenario a dozen times over a year and chose not to take the easy way out we would reap the benefits and delight the customer, directly leading to profit. Nothing works as well as hard work; it is too easy to say "no we can't do that" and you can easily find yourself starting to say no more often. Saying no is a lost opportunity, we find a solution and offer that solution to the customer and make some money. Money for the business and money for ourselves. With passion anything is possible."

The full version is at the end of this report.

MFT remains an attractive compounder, offering both growth and defensiveness. Growth comes via winning market share underpinned by MFT's quality offering, consistent execution and increasingly scaled network. The defensiveness comes from MFT's underlying customer exposures (DIY, Food and Beverage), which provided some buffer to COVID related weakness.

Even with a more defensive end customer, stage 4 lockdowns in NZ significantly impacted parts of MFT's business. MFT's latent balance sheet, and the many years management had selectively built up its customer base and quality offering has meant that MFT is likely to come out of the crisis in a stronger position.

We expect its strong culture will continue to drive its success.

"The adversity in our early years stoked a fire in the belly of Mainfreight which will never go out."

Mainfreight Annual Report 2020

The Portfolio – Strategy, Process and Structure

Objective & Structure

Provide long-term returns above the ASX200 Accumulation Index via:

- Long-only, focused portfolio (20-40 stocks) with VoF qualities.
- No leverage, no derivatives, no shorting.
- Non-index, endowment-like philosophy across domestic and international markets.
- Small team leveraging CI's well-resourced research platform and back-office strength.

Differentiated Strategy

1. "Pure" application of CI's VoF Philosophy:
    - Benchmark unaware.
    - 3 competing pools of capital – Compounding, Reversionary, and Real Assets and Income.
    - Focus on companies with proprietorial VoF behaviour.

2. Limited capacity:
    - Event and liquidity opportunities (ELOs), sell downs, IPOs and spin-offs.
    - Quality small and mid-cap opportunities.

3. Access to the CI global stocks:
    - Leverage to CI's global research (up to 25% of portfolio).
    - World-class global and regional champions.
    - Australian equities global comparison companies.

Process

Our singular 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).

The portfolio stocks can be grouped into three key areas or capital pools:

1. **Compounding sources of value – Growth and Stalwart companies**
    - World-class global, regional and domestic companies with preferential businesses or assets and a pathway to future underappreciated value options.
    - Currently, we are focused on companies exposed to:
        - Ageing and Health.
        - New Economy (particularly software businesses).
        - Data and Telco infrastructure.

        - Everyday needs.

    - **Stalwarts** (22% of the portfolio)
        - Sturdy, reliable and generally larger companies with world-class privileged markets and competitive positions. (ASX, Brambles)

    - **Growth companies** (33%)
        - Growing companies with value propositions identifiable by traditional value metrics and run by focused, prudent and experienced management. (Lifestyle Communities, Xero, CSL)

2. **Reversionary sources of value – Cyclicals and Quality Turnarounds**
    - In particular, we like spin-offs, privatisations and large-cap liquidity events (such as sell-downs) where management is in place with a plan for unlocking value, with follow-on value creating opportunities, and the assets are attractive to other potential owners.
    - At the moment, we are focused on:
        - Cyclicals in the agriculture sector exposed to drought.
        - Cyclicals exposed to US housing.
        - Infrastructure privatisations.

    - **Cyclicals** (9%)
        - Stocks showing upside leverage to the cycle with experienced and contrarian managers who can allocate capital prudently and with good balance sheets. (BHP, Ferguson)

    - **Quality turnarounds** (8%)
        - Sound businesses with good management and balance sheets. We especially like spin-offs and government-to-private turnarounds. (Graincorp, Napier Port)

3. **Real asset and income sources of value – Bond-Like Equities, and Asset Plays**
    - This includes holding companies, Listed Investment Companies (LICs), infrastructure and specialised real-estate companies and other asset-rich companies with growth and hidden value options, and catalysts for capturing value.
    - At present, we are focused on:
        - Social infrastructure.
        - Family-linked holding companies.
        - European conglomerates
        - Overcapitalised Japanese companies

    - **Bond-like equities** (12%)
        - Stocks backed by assets (infrastructure, property, utilities etc) with secure, low-volatile earnings and dividends that can be grown and recapture inflationary effects over time. (ALE Property Group, Arena REIT)

- **Asset plays** (13%)
  - Owner, operator managers with long term commitment to shareholders growth in asset value. Stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value. (Brickworks)

We seek to partner with focused managers that display enduring proprietorial qualities with the ability to deliver the value latency options afforded by good operation, industry and strategic position/trends. The management and governance cultures of the companies we seek fall into 3 broad categories:

1. Family-linked and founder-led companies.
2. Owner-operator cultures.
3. Specialised, focused managers who are resetting governance and 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 focussed on long-term value.
- Alignment with and respect for shareholder interests.
- Deep, nuanced knowledge of the business/industry.
- Value and risk-based capital allocation (often counter-cyclical).
- Invest in skills, talent and innovation.

Currently, the portfolio holds around 5% cash and has around 16% of assets invested in overseas stocks that own businesses in USA, Canada, UK and Mexico.

Portfolio attributes as at June 2020 are summarised below:

P/E	25.48
Beta	0.90
Yield	2.57
P/Book	1.96
ROE	7.63
Tracking error vs. ASX 200	5.66
Stock Number	37

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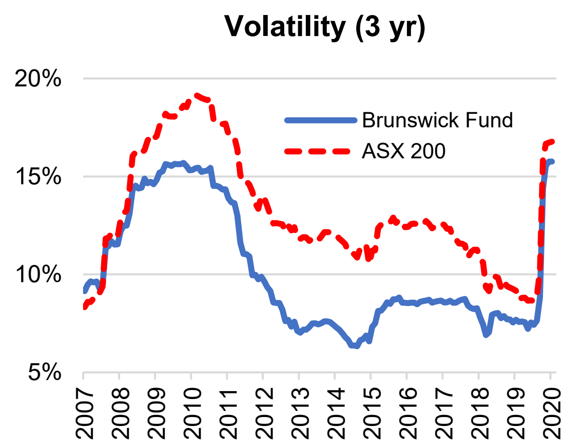
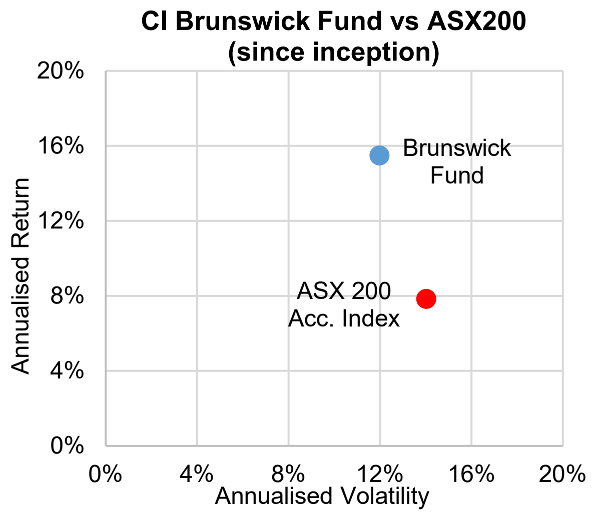
Portfolio Risk Metrics

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

	*PORTFOLIO	#BENCHMARK
Total Return	+898%	+234%
Max Drawdown	-40.0%	-47.2%
Best Month	+10.9%	+8.8%
Worst Month	-18.9%	-20.7%
Positive Months	69.3%	63.5%
Negative Months	30.7%	36.5%
Annualised Volatility	+12.0%	+14.0%

*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, it was March 2009.
Worst Month for both the Brunswick Fund and the ASX Accumulation Index was October 2008.





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Appendix

"Profit comes from hard work, not talk"

Proverbs 14:23 in the Old Testament says, "In hard work there is always something gained, but idle talk leads only to poverty". A core principle going back to before Christ underpins Mainfreight's Philosophy Pillar. Profit comes from hard work, not talk. In all labour there is profit. The impact of your efforts and what is left after your work is complete, is the gain from your labour.

The year 2020 has brought an unprecedented global coronavirus pandemic, a crisis with severe health, economic and social impacts. These are tough times but as we face this challenge and look to the road out on the other side, learning about our culture is critical now more than ever.

Dad was an owner driver for Mainfreight back in the 1980's through until the early 2000's. At that critical time in life where we are all asked "what do you want to be when you grow up?", my father spoke about the merits of choosing a company that has a solid culture. He spoke about the Mainfreight way. About promotion from within and how hard work will always lead to gains. He was passionate about the business and he explained that passion drives people to accomplish great things.

In 1997 when I was 16, Dad got me an after-school job in the depot at Mainfreight Hamilton, New Zealand. The average person makes 5-7 career changes in their working lives. Two marriages, 4 kids and two countries later, Mainfreight and its culture have been the constant for me. The Mainfreight culture is generational and withstands the test of time.

In 2008 when the Global Financial Crisis hit, we learnt lessons about costs, such as spending as if it was our own, and doing more with less. We ran the machine lean and came out the other side stronger. In following years, we reaped the benefits. Since the GFC, the team rarely book outsourced casual labour or vehicles, doing more with less. Instead we roll up our sleeves and do the hard work ourselves, and we profit. Continuing these principles on since 2008, we find ourselves in another economic downturn 12 years later.

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We find ourselves pulling these same tools out of our belts. This goes to prove that if it's a US housing market crash or a global health pandemic, the same principles apply and if we keep going back to these principles and we live and die by them every day, economic downturn or not, our business will always survive.

At Mainfreight we work hard and make money for the business, and if eligible, 10% of the profits are shared amongst the team. Everyone has a share. Victori sunt spolia; "to the victor belongs the spoils".

Bruce Plested challenged the capitalist system in last year's Annual Report. "One of the modern problems of the Western World is the perceived increase in inequality. Mainfreight believes that a significant factor in its financial success has come about through a profit sharing formula with the people who have helped create that success". "Humans are intrinsically self-motivated but when profits are shared and the success of the business becomes your personal success, there is more at stake".

At a Positive Action Team meeting, I asked the team how their shift went the night before. A team member explained that at the end of the shift, their last unit was loaded and closed up, but they discovered a piece of freight left behind. The team decided to open the unit up and have the piece of freight travel that night. They were tired and it was hard work. If they had taken the easy way out and chosen to leave that piece of freight behind, we would have paid for the empty space on that unit and paid the next night for it to physically travel. The line haul cost on that piece of freight was $240.

If the team came across this same scenario a dozen times over a year and chose not to take the easy way out, we would reap the benefits and delight the customer, directly leading to profit. Nothing works as well as hard work; it is too easy to say "no we can't do that" and you can easily find yourself starting to say no more often. Saying no is a lost opportunity, we find a solution and we offer that solution to the customer and make some money. Money for the business and money for ourselves. With passion anything is possible.

This year the economic circumstances created by the global coronavirus pandemic are similar to war times. These are unprecedented times and we won't shy away from them. These are tough times for many who have taken a hard hit. The global recovery from this economic downturn will be a long road out. The impacts could not have been anticipated.

But we don't need to anticipate any type of crisis if we continue to lean on our fundamental culture. This pandemic gives us the opportunity as a business to re-commit to our values. We will pull together and we will continue to work hard and profit.

Nothing we do at Mainfreight is short-term. They say pandemics hit every 100 years. If this is true, we will apply our culture and our Pillars and the same principles will get the business through the next pandemic 100 years from now. Going through challenging times such as these is a great opportunity to go back to our roots, grab hold of those fundamental principles and not forget them. Always remember – "spend money as if it's your own", "never say no to an opportunity, find a solution" and "with passion anything is possible". As we emerge from this pandemic and learn important lessons to improve our response in the future, we can look back and say that it was our culture that got us through to the other side. If we continue to work hard, we will continue to breathe and prosper."

- Jesse Gray-Morgan, 2020