

# CI BRUNSWICK FUND QUARTERLY COMMENTARY REPORT



Cooper Investors Pty Limited

AFS Licence Number 221794

ABN 26 100 409 890

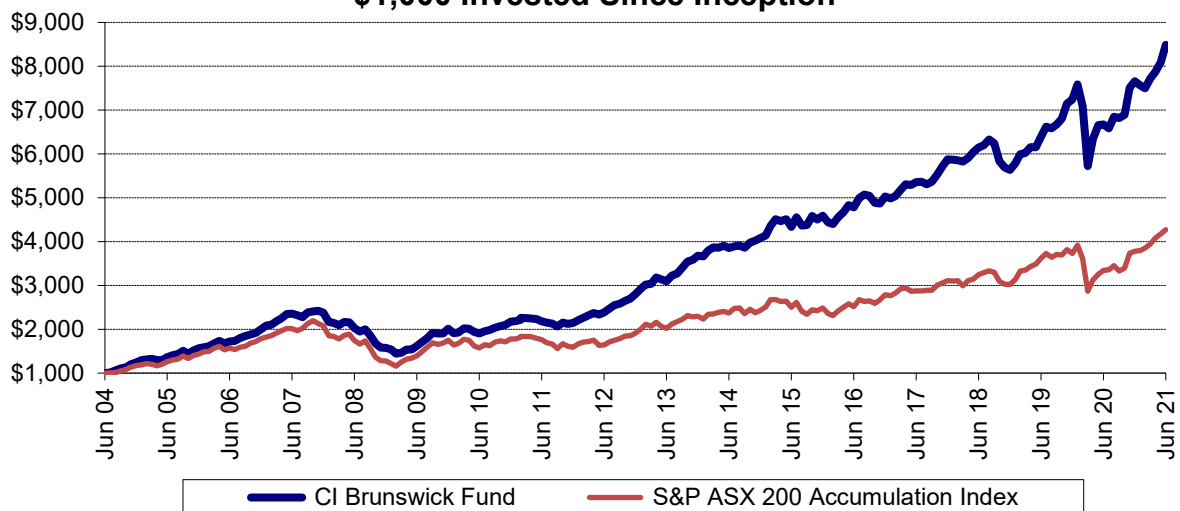
For current performance information please refer to the Monthly Performance Report.

## JUNE 2021

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
FY 2021	28.6%	27.8%	0.8%
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%
10 YEAR*	16.4%	9.3%	7.1%
SINCE INCEPTION*	16.2%	8.9%	7.3%
SINCE INCEPTION^	1,184%	327%	857%

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

### CI Brunswick Fund - Net of Fees \$1,000 Invested Since Inception



Source: Factset

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

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*"To me, the extraordinary aspect of martial arts lies in its simplicity. The easy way is also the right way, and martial arts is nothing at all special; the closer to the true way of martial arts, the less wastage of expression there is."*

— Bruce Lee

*"We are what we repeatedly do. Excellence then is not an act but a habit."*

— Aristotle

*"The journey of a thousand miles begins with a single step."*

— Lao Tzu

## The Brunswick Fund

### Brunswick Fund Mission

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

The Brunswick Fund is differentiated by its ability to invest in a relatively unconstrained universe of small, medium and large Australian and New Zealand companies and up to 25% International. Our intention is to purely apply CI's VoF investment philosophy across this universe via a small dedicated team, leveraging CI's domestic and global investors all working with the same investment philosophy and platform. Increasingly we see the advantage this provides for genuine compare and contrast of stocks to improve risk adjusted returns for investors.

The Fund is capacity constrained (**currently hard closed**), which means we are not taking any more net external applications after taking into account redemptions and cash distributions, to ensure it can take advantage of liquidity events (IPOs, secondary raisings, other dislocations) and invest in quality small and mid-cap stocks.

CI's VoF process leans into qualitative research, deep relationships, and people. Our aim is to back management teams that display proprietorial behaviours – teams that think and act like owners of businesses. We categorise these managers into three groups including Family linked and Founder led, Owner-Operator Cultures and Specialist Focussed Managers.

The Fund is focused on 3 broad pools of opportunity – compounder, reversionary and real asset and income securities.

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### Market and Portfolio Performance

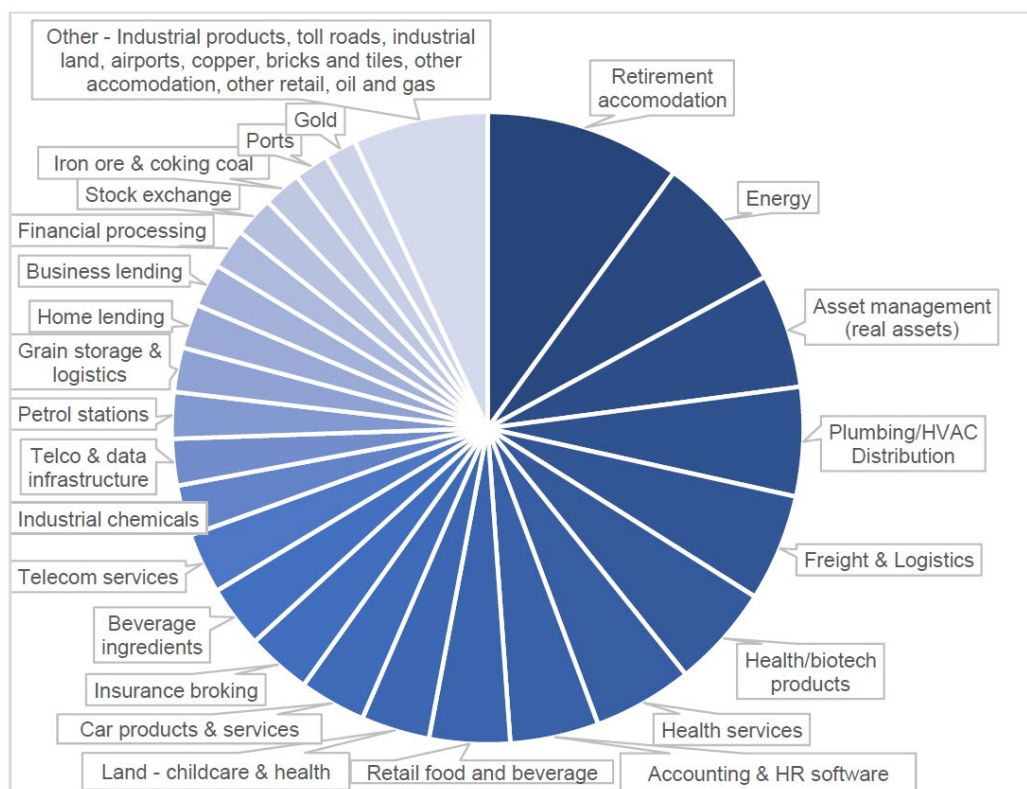
During the June 2021 quarter, the ASX200 Accumulation Index returned +8.29% and for the 12 month period to December 2020 returned +27.80%.

For the June quarter the portfolio returned +10.32% and +28.57% for the 12 month period.

The financial year 2021 (to 30<sup>th</sup> June) was the strongest performance for the ASX200 Accumulation Index since just prior to the Global Financial Crisis (financial year 2007). The strong performance followed significant government and central bank stimulus programmes aimed at offsetting the impact of covid-19, which underpinned a return to economic growth and a recovery in corporate profits. In addition to the improved outlook for corporate profits, stock markets continue to benefit from ultra-low interest rates – for example, the ASX200 dividend yield is at a relatively attractive 3.7% in comparison to cash/deposit rates (pretty much zero) and the 10-year government bond rate of around 1.5%.

While many stocks have re-rated in this environment, we continue to find opportunities that are attractive under our VoF investment philosophy. These companies display a combination of 1) identifiable sources of value latency, supported by 2) positive operating, industry and strategic trends with an economic engine driving value creation, and 3) focused management behaviour, in particular management teams that think and act like owners of businesses (display proprietorial behaviours).

The Brunswick Fund remains focused on quality companies that provide “core” products and services to both business and consumers:



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Overlaid to this “core” focus, we remain very interested in the following areas or ‘clusters’:

- Ageing, health and community
- New economy
- Everyday needs
- Real assets, such as infrastructure and specialised property

Our “core” and “cluster” focus should both position the Fund to weather periods of volatility and assist portfolio stocks to grow above the underlying rate of the economy.

\* \* \* \*

Key contributors to portfolio performance during the 3 month period include **Mainfreight (MFT)** (strong FY21 result), **Reece (REH)** (improved outlook for housing) and **Lifestyle Communities (LIC)** (additions to pipeline).

Portfolio stocks that performed relatively poorly include **Elmo (ELO)** (growth stock de-rating, concerns about UK acquisitions), **TPG Telecom (TPG)** (sudden resignation of founder and Non-executive Chairman David Teoh) and **Ryman Healthcare (RYM)** (sudden resignation of CEO, lower completions for FY22).

During the quarter **Mainfreight (MFT)** delivered a very strong FY21 result with sales growth +15%, and profit/EPS growth of +27%. This was particularly impressive given the H1 was impacted by covid-19 related lockdowns as well as falling warehouse inventories (customer drawdowns due to strong demand) in some geographies.

Mainfreight operates in the freight and logistics sector under three core divisions 1) transport (mostly ‘LCL’ or less than container load freight), 2) warehousing and 3) air and ocean, which is also referred to as freight forwarding. Mainfreight’s customers are skewed to non-discretionary sectors and Mainfreight provides a quality service, built around its strong culture. Mainfreight sits in our “owner-operator culture” group of proprietorial management teams.

Based on current observations, Mainfreight’s operating trends are likely to stay strong over the near term. In particular, the group’s Air and Ocean business continues to benefit from tight capacity and a global surge in freight rates as demand has accelerated over the last 12 months, with no sign this is about to soften.

Mainfreight management expect to continue to reinvest into its core geographies by way of new depots and warehouses, adding density to its network. Given operations are not only in Australia and New Zealand, but also in the US and Europe, Mainfreight’s market opportunity is very large. However, growth will more likely be steady as it consistently builds out a quality customer base and continues to reinvest in its culture to consistently deliver a high quality service to these customers.

Finally, the FY21 result further demonstrated the potential latent value still present in terms of Mainfreight’s scale and margins. As Mainfreight grows, its margins continue to trend upwards.

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

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However, margins in Australia, US and Europe still remain well below NZ, where it is a dominant player.

**TPG Group (TPG)** recently announced that founder David Teoh would resign from its Board. Since the merger with Vodafone Australia, David had moved from an executive to a non-executive role, while Vodafone Australia CEO Inaki Berroeta became CEO of the combined group.

Given David's history and track record with TPG, this was disappointing. However, Inaki Berroeta is a mobile industry veteran and the Board retains a strong skew to shareholder Directors, namely Chairman Canning Fok, who is Chairman of Hutchison International (25% shareholder in TPG), Pierre Klotz and Diego Massida who are senior executives of Vodafone PLC (25% shareholder), and Robert Milner, Antony Moffatt and Jack Teoh who represent the interests of Washington Soul Pattinson (12.5%) and the Teoh family (17%) respectively.

We still believe that TPG's low cost focus, underpinned by its culture, should continue to support the earnings profile of the combined group going forward. In particular, TPG is well placed to consolidate its position as the attacker brand in the Australian market. Within its fixed line business, TPG has done well to manage the impact of the NBN which has had a large negative impact on the industry, sucking profit from the operators as return for the billions of capital invested by the NBN. The good news is this has now largely played out, while the merger provides ongoing opportunity to accelerate further cost out and refocus some of the combined group product offering.

Evidence from offshore is interesting here. In the US, T-mobile undertook a dramatic refocusing from 2014, simplifying its products, systems and cost structure to deliver a 5-year EPS CAGR of over 60% p.a., after which it merged with Sprint. The merger then provided the next stage of opportunity with free cash flow once again expected to accelerate from current levels.

The relatively stable 3-player market in the US also points to the potential for a similarly rational mobile market in Australia. Over the medium term this should support improving margins and returns on capital and provide the backdrop to further grow earnings through fixed wireless (via bypassing the NBN costs) and ultimately through new opportunities presented by 5G spectrum.

**Aspen Group (APZ)** sits within our Real Assets and Income category, owning a diverse portfolio of residential accommodation assets targeting the affordable end of the market.

The company owns a portfolio of residential housing in Perth (acquired below replacement value at the market lows), mixed use parks across Australia (tourism, long stay), land-lease communities, residential apartment complexes (acquired well below replacement cost), co-living communities and a prominent residential mining village in Karratha (valued at a 17% cap rate).

In our view, the APZ investment possesses an attractive combination of a highly sophisticated, opportunistic and heavily aligned Management team paired with a significant opportunity to create value. This value creation firstly emanates from significant latency within APZ's existing portfolio (brownfield expansion at high incremental returns, de-risking of current developments and further optimizing operations) and secondly a very significant addressable market (affordable housing).

We expect management can add value via opportunistic M&A, given their strong track record, competency and access to deal flow. The group also benefits from a material deferred tax asset

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which further augments cash returns and aids capital recycling into new opportunities when they arise.

From a Brunswick Fund portfolio perspective, APZ provides a group of highly un-correlated assets with significant downside protection reflecting the asset class (primarily affordable housing – average value per dwelling site is \$79k) combined with opportunistic acquisitions made below replacement value.

**Eureka Group (EGH)** also sits within our Real Assets and Income category and shares some similar characteristics to Aspen, providing lowly correlated assets and attractive downside protection. One way in which the two investments differ is that Eureka is currently building platform value within a specific sub-set of the affordable housing market.

We increasingly expect Eureka to become the market leader in the provision of low cost, community housing in regional areas throughout Australia. This reflects their growing specialized knowledge in how to optimize independent living villages such that they are operationally efficient, appropriately resourced with good amenities, decent food and empathetic village managers and importantly generate value for residents (safety, community and an improved standard of living). The company has been building significant internal IP on how to run these independent living communities efficiently at a village and group level noting that cash profitability has increased >65% since Murray Boyte was appointed to the role of Executive Chairman.

We expect this internal IP to be deployed over a much larger asset base over the next few years given the significance of the (growing) addressable market combined with an appetite and a process developed to acquire existing assets accretively. The company is also nearing completion of its first brownfield expansion at Wynnum in which we expect it to provide attractive incremental earnings, a template for further brownfield opportunities and valuable learnings as they examine the viability of greenfield opportunities.

**Brickworks (BKW)** hosted an investor day during June showcasing its industrial property portfolio and in particular the current Amazon warehouse development site in Sydney (Oakdale West). Once complete in October, Amazon's facility is expected to be the largest warehouse in Australia covering four levels over its 53k sqm base floor (adding to nearly 200k sqm overall), and is expected to employ some 1500 people.

The BKW site is very large and also encompasses a Coles facility (similar base floor area to Amazon) with a further 258k sqm of land available (of which BKW has a heads of agreement on 57k sqm).



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We expect that the value of this developed portfolio will double over the next five years, underpinning growth in BKW's net asset value (NAV) per share.

Secondly, in BKW's traditional building products division, operating trends remain strong as the group's Brick plants come back online in the US, and the cyclical tailwinds continue to support housing markets in both Australia and the US.

Finally, BKW's cross holding ownership of **Washington Soul Pattinson's (SOL)**, of which BKW's owns 39%, provides further support to its NAV, particularly following the strong share price performance of SOL post the recent announcement of its proposed merger with **Milton Corporation (MLT)**. Value creation from the merger is likely to emanate over time from the re-deployment of Milton's capital (material exposure to large cap equities) into opportunistic private market opportunities (private equity, direct credit, property) in which SOL can utilize their proven capital allocation prowess. The merger also results in significant index re-weighting benefits (passive money being forced to purchase), earnings accretion and increased attractiveness for active fund managers given SOL will increasingly look more akin to a family office (diversification/correlation benefits).

BKW sits in our Real Assets and Income category as an asset play. It combines an attractive set of portfolio assets which trade at a discount to our assessed NAV, based mostly on observable inputs. BKW retains a proprietorial culture through the cross-holding structure with SOL, and a long term orientation underscored by the fact dividends haven't been reduced in the last 45 years. The stock also intermittently throws up opportunistic investing opportunities as market behavioural biases assert themselves as they did in 2020 when it was perceived as a pure building products company despite this representing less than 20% of fundamental value in our view.

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

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**Elmo (ELO)** was one of the poorer performing stocks in the Fund over the last 12 months. Elmo provides a range of cloud based software in the HR and payroll sector. Over the past few years Elmo made a series of acquisitions to help expand both its product offering (software modules) and its geographical /segment focus, more recently adding the UK with a product tailored now to both the lower and mid-markets.

Understandably, investors remain sceptical of the more recent acquisitions, given a long history of Australian companies finding offshore acquisitions somewhat difficult. In addition, Elmo is still loss-making (the only stock in the fund that is not profitable) and the path to profitability remains uncertain.

This illustrates one of the challenges of investing in early stage growth companies i.e. that the path can be rocky as the company oscillates between executing and stumbling and perhaps illustrates why these companies are often held in private hands – private market valuations (for example the private market valuations of SEK's HR software businesses) appear to be considerably higher at present.

For now, ELO continues to display a number of attractive VOF attributes. Elmo is on track to deliver strong organic growth this year (organic includes the underlying growth from recent acquisitions) in the order of 25-30% p.a. This should take ELO to more than \$100m of recurring revenue, which is still small in a \$15-20bn market (indicative of ELO's latent value opportunity). It also appears that the tailwind of companies seeking to enhance their HR system capabilities via cloud based adoption post covid-19 remains strong.

Elmo has a founder-led management team with Danny Lessem as CEO having led the business for many years. Danny displays many proprietorial behaviours in particular a willingness to continue to reinvest heavily into the business with the view to driving long-term growth and shareholder value.

**Lifestyle Communities (LIC)** announced the purchase of adjoining land that will extend its St Leonards development by a further 160 homes (to 360 homes). The Bellarine Peninsula is an attractive area for LIC given the combination of relatively affordable land, proximity to a high growth corridor in Geelong and the Surf Coast, and the attractiveness of living seaside for many potential residents.

LIC has demonstrated a strong track record of acquiring new sites, many of which are bought off-market and are not surprisingly a critical part of ensuring a long runway of growth.

The good news is Victoria remains under-penetrated with only ~50 land lease communities versus more than 150 in both NSW and QLD, a key positive given LIC remains the dominant player in the state. More broadly, land-lease communities still represent a low share of housing relative to the US, with product awareness also low. As the baby boomers hit retirement age (see more discussion of this below), we expect awareness and demand for land lease communities will grow in coming years.

LIC's high referral rates (current residents referring new residents, ~55%) is supported by the company's strong culture, which continues to build under founder/CEO James Kelly.

Finally, sector returns (IRRs >20%) continue to look attractive, via LIC receiving a high quality annuity stream (rental payments for the land from Residents).



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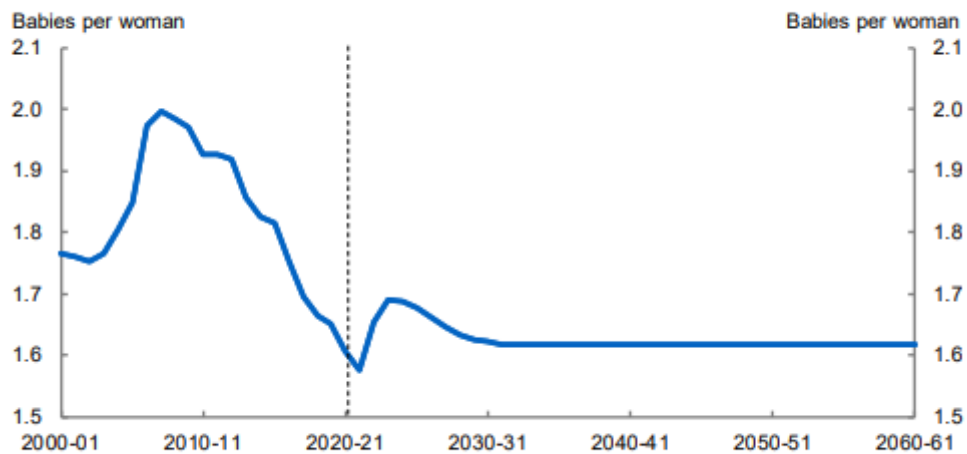
LIC is a real "business for purpose" given their product offering and operating model helps to address inequality in housing options for Australia's ageing population. Or put another way, helping retired and semi-retired people over 50 to live an independent life at an affordable price. In our view, there is a strong argument to be made that the LIC business provides a compelling social good.

\* \* \* \*

During June 2021, the government released its latest intergenerational report. We have pulled out some charts particularly relevant to the Fund's portfolio stocks.

Despite the covid bounce, fertility rates are expected to stay low:

**Chart 2.11 Total fertility rate**



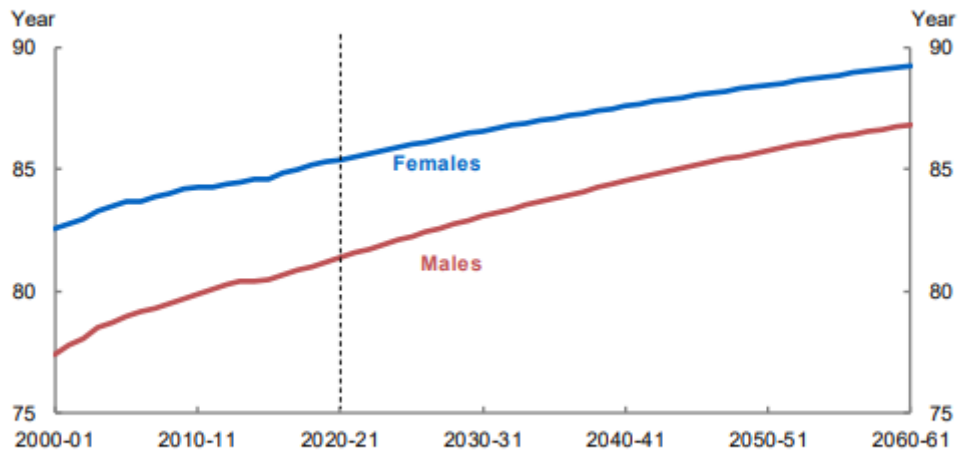
Source: Centre for Population, Population Statement (2020) and McDonald (2020).

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

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... and with an ongoing increase in life expectancy ...

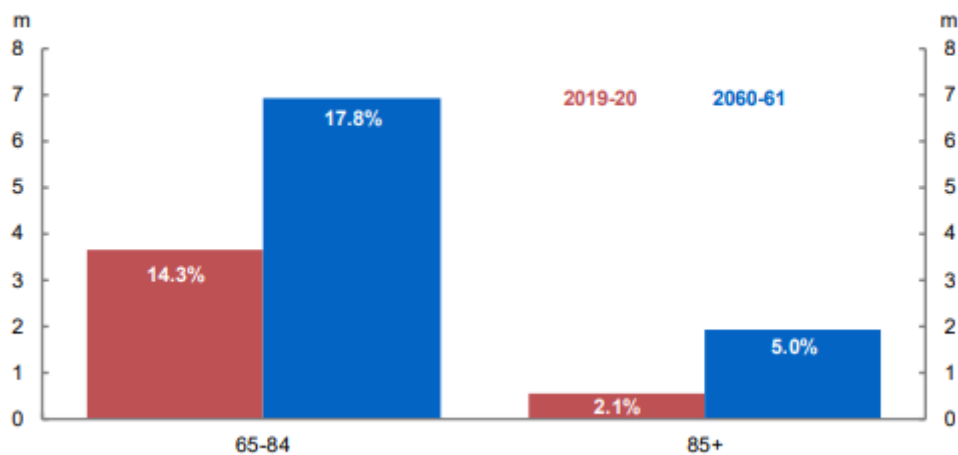
Chart 2.13 Life expectancy at birth



Source: ABS Australian Historical Population Statistics; ABS Life Tables: States, Territories and Australia, 2016-18; ABS Life Tables, 2017-2019; and Treasury.

... growth in the older demographics (65-84, 84+) is expected to accelerate:

Chart 2.15 Older Australians by level and share of population



Source: ABS National, state and territory population, September 2020, and Treasury.

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

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In numbers, this means there are expected to be ~1 million more 65-84 year olds over the next decade, while the 85+ group is expected to grow 60% in 10 years, and by nearly 250% in 20 years:

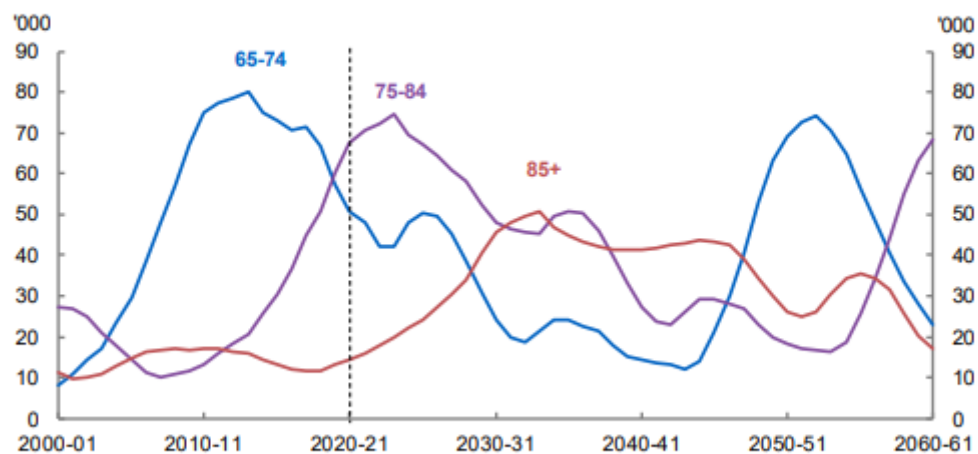
**Table A1.1 Demographic projections**

	2020-21	2030-31	2040-41	2050-51	2060-61
Population (millions)	25.7	28.8	32.2	35.6	38.8
0-14	4.8	4.8	5.2	5.8	6.1
15-64	16.6	18.3	20.2	22.1	23.8
65-84	3.8	4.8	5.5	6.0	6.9
85 and over	0.5	0.8	1.3	1.7	1.9
Life expectancy at birth (years)					
Male	81.4	83.1	84.5	85.8	86.8
Female	85.4	86.6	87.6	88.5	89.3
Total fertility rate	1.61	1.62	1.62	1.62	1.62
Old-age dependency ratio	3.9	3.2	3.0	2.9	2.7
Net overseas migration (per cent of total population)	-0.4	0.8	0.7	0.7	0.6

Source: Intergenerational Report, June 2021

This will have profound impacts on the demand for various products and services over coming decades as the baby boomers age ...

**Chart 7.1 Increase in age-groups – 5-year moving average**



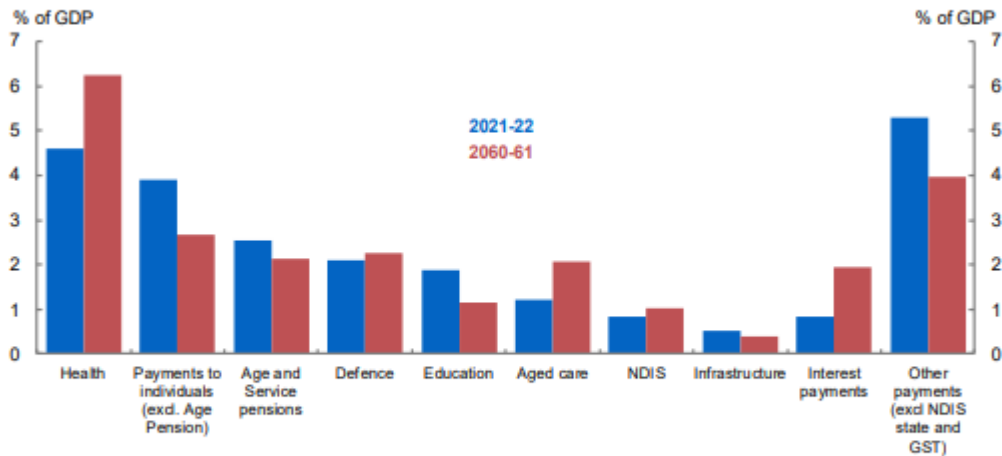
Source: ABS Demographic Statistics and Treasury.

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... in particular the spend on Healthcare will increase significantly (as % GDP) ...

**Chart 7.4 Composition of government spending over time**

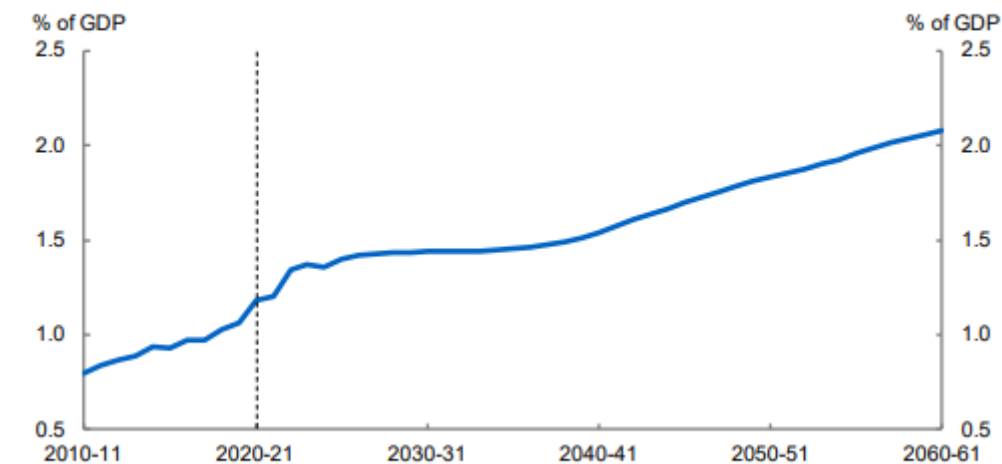


Note: Other payments in this chart includes a range of payments such as funding for the Australian Public Service, superannuation, official development assistance, law and order, the arts, community development and tourism. It excludes GST payments and state government contributions to the NDIS.

Source: Treasury.

... as will the spend on Aged Care:

**Chart 7.2.1 Aged care spending**



Source: Treasury.

As discussed at the start of this quarterly, the Brunswick Fund remains well positioned to benefit from these trends over the longer-term.

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

## JUNE 2021

## 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.

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- **Stalwarts** (27% of the portfolio)
  - Sturdy, reliable and generally larger companies with world-class privileged markets and competitive positions. (Mainfreight, TPG Group)
- **Growth companies** (27%)
  - Growing companies with value propositions identifiable by traditional value metrics and run by focused, prudent and experienced management. (Lifestyle Communities, CSL)

### 2. Reversionary sources of value – Cyclical 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:
  - Quality companies impacted by the Covid-19 pandemic.
  - Cyclical in the agriculture sector exposed to drought.
  - Cyclical exposed to US housing.
  - Infrastructure privatisations.
- **Cyclical** (15%)
  - Stocks showing upside leverage to the cycle with experienced and contrarian managers who can allocate capital prudently and with good balance sheets. In other words growth cyclical who can go to higher highs over multiple cycles. (BHP, Ferguson)
- **Quality turnarounds** (10%)
  - Sound businesses with good management and balance sheets. We especially like spin-offs and government-to-private turnarounds. (United Malt, Napier Port)

### 3. Real asset and income sources of value – Bond-Like Equities and Asset Plays

- Stocks with specific risk and non-correlating attributes that make them very different to broader equities indices. All these securities are traded public securities. Our hope is these stocks will provide relative and perhaps absolute protection to the portfolio in times of monetary inflation, economic upheavals, and stock market corrections. Note: without hedging we cannot promise that outcome.
- 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.
  - Gold companies
  - Agriculture
- **Bond-like equities** (9%)



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- 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. (Arena REIT)
- **Asset plays (11%)**
  - Owner, operator managers with long term commitment to shareholder's growth in asset value. Stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value. (Brickworks, Infratil)

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 2% cash and has around 12% of assets invested in overseas stocks that own businesses in USA, Canada, and UK.

Portfolio attributes as at June 2021 are summarised below:

P/E*	22.4
Beta	0.9
Yield	2.8
P/Book	2.4
ROE	10.6
Tracking error vs. ASX 200	5.95
Stock Number	37

\*Note PE ratio distorted by Infrastructure stocks and some under-earning turnarounds and cyclical.

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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	+1,184%	+327%
Max Drawdown	-40.0%	-47.2%
Best Month	+10.9%	+10.2%
Worst Month	-18.9%	-20.7%
Positive Months	69.1%	65.2%
Negative Months	30.9%	34.8%
Annualised Volatility	+11.9%	+13.9%

\*Cumulative (1 July 2004), before fees and expenses

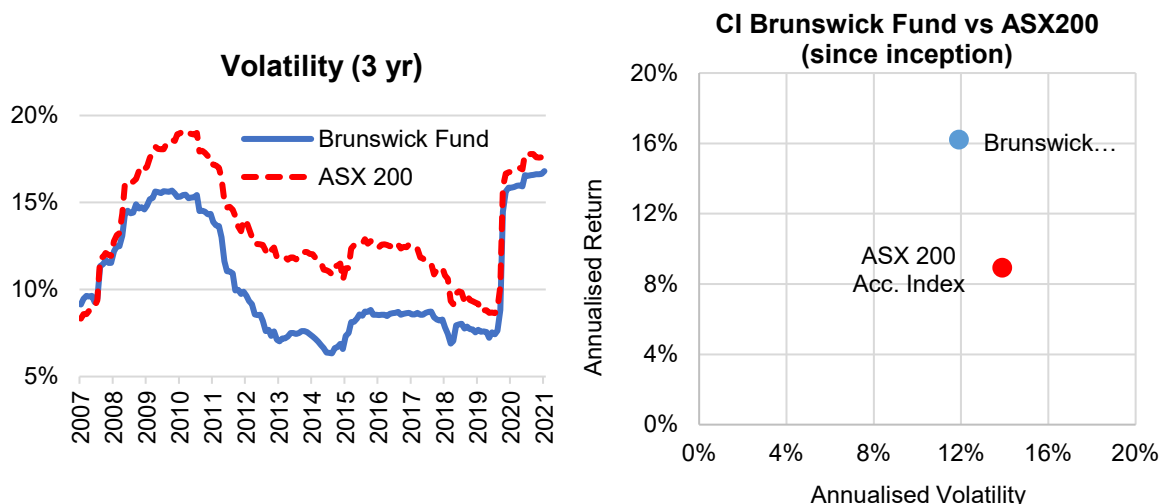
# S&P ASX 200 Accumulation Index

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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