

CI BRUNSWICK FUND QUARTERLY COMMENTARY REPORT



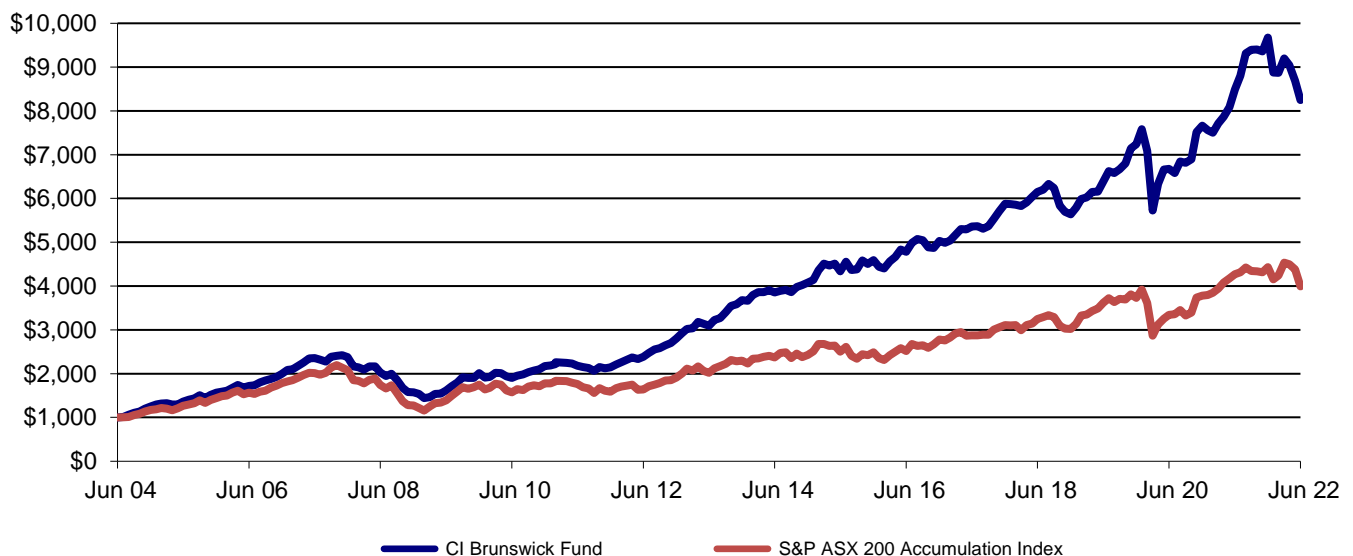
AFS LICENCE NUMBER 221794
ABN 26 100 409 890

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Cooper Investors Brunswick Fund	**PORTFOLIO	#BENCHMARK	VALUE ADDED
<i>Financial Year Ending</i>			
30 June 2022	-1.10%	-6.50%	5.40%
30 June 2021	28.60%	27.80%	0.80%
30 June 2020	6.10%	-7.70%	13.80%
30 June 2019	5.10%	11.50%	-6.40%
30 June 2018	16.00%	13.00%	3.00%
30 June 2017	13.40%	14.10%	-0.70%
30 June 2016	12.50%	0.60%	11.90%
30 June 2015	14.30%	5.70%	8.60%
30 June 2014	26.80%	17.40%	9.40%
30 June 2013	32.00%	22.80%	9.20%
30 June 2012	12.40%	-6.70%	19.10%
30 June 2011	16.10%	11.70%	4.30%
30 June 2010	18.70%	13.10%	5.60%
30 June 2009	-19.40%	-20.10%	0.80%
30 June 2008	-12.90%	-13.40%	0.50%
30 June 2007	45.70%	28.70%	17.10%
30 June 2006	35.30%	23.90%	11.40%
30 June 2005	47.60%	26.40%	21.20%
SINCE INCEPTION*	15.2%	8.0%	7.2%
SINCE INCEPTION^	1169.7%	299.5%	870.2%

*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: National Asset Servicing

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“The important thing is to never stop questioning”

— Albert Einstein

“What man actually needs is not a tensionless state but rather the striving and struggling for some goal worthy of him.”

— Victor Frankl

The Brunswick Fund

Brunswick Fund Mission

1. Leverage CI's VoF stock research
2. Back proprietorial management
3. Allocate to 3 capital pools - Compounders, Reversionary & Real assets / income

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 stocks. 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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Change to Reporting

Starting this financial year (FY23), investors will receive an annual letter which will outline the Brunswick Fund's performance, positioning and strategy in more detail.

From the September 2022 quarter onwards, the Fund's quarterly reports will be shortened.

Market and Portfolio Performance

During the June quarter the portfolio returned -10.1% and for the 12 months to 30 June 2022 (FY22) returned -1.1%.

For reference, the ASX200 Accumulation Index returned -11.9% for the quarter and -6.5% for the FY22.

Over the past 10 years, and since inception (~18 years), the Brunswick Fund has returned +14.9% p.a. and +15.2% p.a.

The June quarter saw the ASX200 Accumulation Index fall in sympathy with other global stock markets as concern moved from high inflation and increasing interest rates to the increasing likelihood that a recession will follow the central bank tightening that is now underway.

Peak to trough a number of stock indexes such as the S&P 500 are down well over 25% which places this period in the top 10 biggest drawdowns since World War 2, while the Nasdaq has fallen more than 35% (with more than half the stocks on the Nasdaq falling by significantly more than the index).

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It is an interesting time to reflect on returns across various asset classes. Both stocks and bonds performed poorly over the last 12 months, pulling back 10 year returns to single digit levels, while small cap stocks have produced returns at only a small premium to cash and bonds. Short rates (cash) has outperformed long rates over 1,3, 5 and 10-year periods.

Only physical commodities offered respite, a function of the inflationary forces driving their prices higher. It is also not surprising that in more volatile times, gold and the USD have been robust.

<u>Total Return</u>	<u>% Return (p.a.)</u>			
	<u>1 YR</u>	<u>3 YR</u>	<u>5 YR</u>	<u>10 YR</u>
ASX200	-6.47%	3.34%	6.83%	9.29%
ASX300 Industrials	-9.56%	2.20%	4.98%	9.83%
ASXS300 Resources	2.95%	7.73%	15.06%	6.99%
ASX Small Ordinaries	-19.52%	0.38%	5.07%	5.37%
MSCI AC World (AUD)	-7.60%	7.43%	9.91%	13.78%
CI Brunswick Fund	-1.09%	10.50%	10.48%	14.91%
Australian 10 yr Government bonds	-14.40%	-4.12%	0.50%	2.26%
CPI*	5.10%	2.80%	2.30%	2.20%
Commodities basket (RBA, AUD)	26.10%	16.30%	16.80%	5.80%
Rural commodities basket (RBA, AUD)	26.60%	11.60%	10.0%	6.60%
Gold (AUD)	11.23%	9.31%	8.96%	5.31%
US Dollar (vs AUD)	8.44%	0.69%	2.0%	3.9%
Cash (12-month deposit reinvested)	0.25%	0.95%	1.46%	2.38%

* to March 2022

Source: Factset monthly returns, RBA, NAB Asset pricing

Investment cycles can last longer than many people expect, but the above returns suggest incrementally that small caps and the industrial sector could be interesting hunting grounds.

The “CI Way” – which combines our VoF investment philosophy and the firm’s culture and values – includes both bottom-up and top-down elements to choosing stocks and building portfolios.

In particular, two central or guiding principles assist us with top down allocation across our three capital pools of compounders, reversionary and real assets and income securities. These two principles are: 1) observation not prediction – evidence not opinion; and 2) the hubris to humility cycle – everything is cyclical in the end.

Our observations come from the coal face through our extensive company visitation program. Some recent examples of observations that are informing our decision-making include:

- Technology adoption tailwinds remain strong. In some cases, the adoption trends are accelerating with labour shortages and the need for productivity savings;

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- The new capital scarcity across the global technology sector has already led to reduced willingness of offshore players to invest money in niche markets like Australia;
- Labour cost inflation in sectors like building is very regional, for example areas of South East Queensland and NSW are seeing heightened demand for labour due to both structural growth and recent events (flooding);
- The ultra-low rate environment created by COVID-19 has likely assisted first-time home buyers to the housing market and is one reason we continue to observe the unusual combination of very low levels of immigration, high supply additions and low vacancy rates /strong rental growth across the housing market;
- It is not just retailers that have elevated inventories at present; industrial distribution/manufacturers are also carrying above normal levels of inventory due to supply chain concerns;
- High container rates have increasingly pushed shippers to less-than-container load freight, in an attempt to minimise usage of containers;
- For the first time in perhaps 15 years, insurers are able to write incremental premium at both reasonable underwriting profits and reasonable investment returns;
- Many industrial properties have cap rates below the government bond rate;
- Across the old energy sectors, the correlation between commodity price (oil, LNG, coal, electricity) and share prices remains historically low;
- The derating in the technology sector has created dramatic variations to private market valuations.

Some observations around our capital allocation thinking:

- The Fund's positioning remains relatively defensive and our expectation is that many of the Fund's portfolio companies will see increased opportunities should a downturn eventuate;
- Over the last 5 years, the real asset and income securities capital pool has produced the best returns, which is particularly interesting given this pool has in general a lower risk profile;
- Given the large movements in prices we are revisiting many of the VoF propositions in our watchlist stocks;
- We are particularly alert for behavioural opportunities where stocks are impacted by forced selling, redemptions and other events, particularly at the small end of the market. These situations are more likely to present in current market conditions.

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Key contributors to portfolio performance during the 3 month period include **Steadfast (SDF)** (hardening rate cycle continues), **Tabcorp (TAH)** (Queensland racing reform) and **Ferrovial (FER)** (improving passenger and vehicle movements).

Portfolio stocks that performed relatively poorly include **Brickworks (BKW)** (slowing housing market), **Elmo (ELO)** (growth stock derating), and **Mainfreight (MFT)** (concern global freight markets will slow).

During the quarter we invested in de-merged **Tabcorp (TAH)** which was separated from the Lotteries business (TLC). TAH provides online and retail wagering, racing and sports vision and gaming services across more than 4,000 venues.

The company sits within our Reversionary capital pool, as a Spin-Off which is an area that we are particularly excited about given the process generally aids re-focusing, improved incentives and capital allocation. Importantly this is often paired with an attractive share price driven by non-fundamental, indiscriminate selling and often forced selling (e.g. mandated exclusions).

TAH's wagering business has historically suffered a regulated structural cost disadvantage versus competitors. This has facilitated aggressive re-investment and pricing from competitors driving continued market share losses for TAH. These competitors (Sportsbet/Flutter, Ladbroke/Entain) are now fully scaled and reside at the bottom of the cost curve. We'd posit that TAH were also not lean, mean and focused enough to more effectively protect their competitive position.

The opportunity we see for TAH now is that the improved incentives, focus and empowerment have the potential to drive: 1) greater urgency to "level the playing field"; 2) increase accountability and responsibility to improve customer engagement and satisfaction to drive turnover growth; & 3) increased operating efficiency as there is now greater focus on its cost/productivity position as a smaller, single entity.

Initial signs have been positive with the recent favourable renegotiation of their Queensland wagering licence, the increased Point of Consumption tax in NSW improving TAH's relative competitive position and our observations regarding the management team articulating many of the portends to spin-off success.

Renowned investor, Seth Klarman, described spin-off situations as an interesting place to look because "there's a natural constituency of sellers and there's not a natural constituency of buyers". This appears consistent with TAH's Wagering business which was the "ugly (and smaller) sister" of the previously merged business resulting initially in many unnatural shareholders of TAH shares. Many shareholders for instance had purchased the combined entity to gain exposure to the Lotteries business and then received a stub shareholding in the Wagering business. As a result, we were able to acquire shares in TAH at what we perceive as an attractive valuation without having to rely on the company executing on many of the potential latencies we can see.

Empirical research studying spin-offs has found that a high percentage of spin-off companies are acquired post de-merger (>20%). While this is not part of our investment thesis, it is worth mentioning as a reference point that the current TAH business was bid for by a number of separate parties (Entain, BetMakers, Apollo) in the past 18 months - valuing the business at least 55% higher than the current trading price.

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Earlier in the year we also initiated a position in the Casino operator, **Star Entertainment Group (SGR)**. The investment sits within our Reversionary Capital Pool and more specifically within our “Industry and Events” sub-category. The Event investment opportunity has been driven by a public inquiry into SGR’s suitability to retain its Casino License in Sydney post the uncovering of poor behaviour, practices and overall Governance. The Chairman, CEO, CFO, Board members and a large number of other senior personnel have left the company in the wake of the inquiry. Unsurprisingly, SGR’s shares have significantly under-performed over the past year and its’ Enterprise Value is more than 30% below pre-covid levels.

In our view, there is an attractive level of asymmetry at the current share price with significant latent value despite elevated regulatory uncertainty, the risk of SGR losing its license and the likely imposition of substantial fines at a minimum. Risk mitigants which drive this asymmetry include a highly supportive valuation across a range of normalized metrics, a capex holiday strengthening the balance sheet and improving return-on-capital as these assets become more productive, solid operating trends as pandemic impacts recede, the regulatory precedence with Crown Casinos and the potential for corporate interest in SGR given its difficult to replicate asset base. In the medium term, there is also the opportunity for SGR to realize a significant level of latent value within the business via a PropCo/OpCo transaction.

During the quarter **Ryman (RYM)** reported its FY22 result. Ryman (RYM) is a specialised developer and operator of mixed retirement villages (independent living) units and aged care accommodation in Australia and New Zealand.

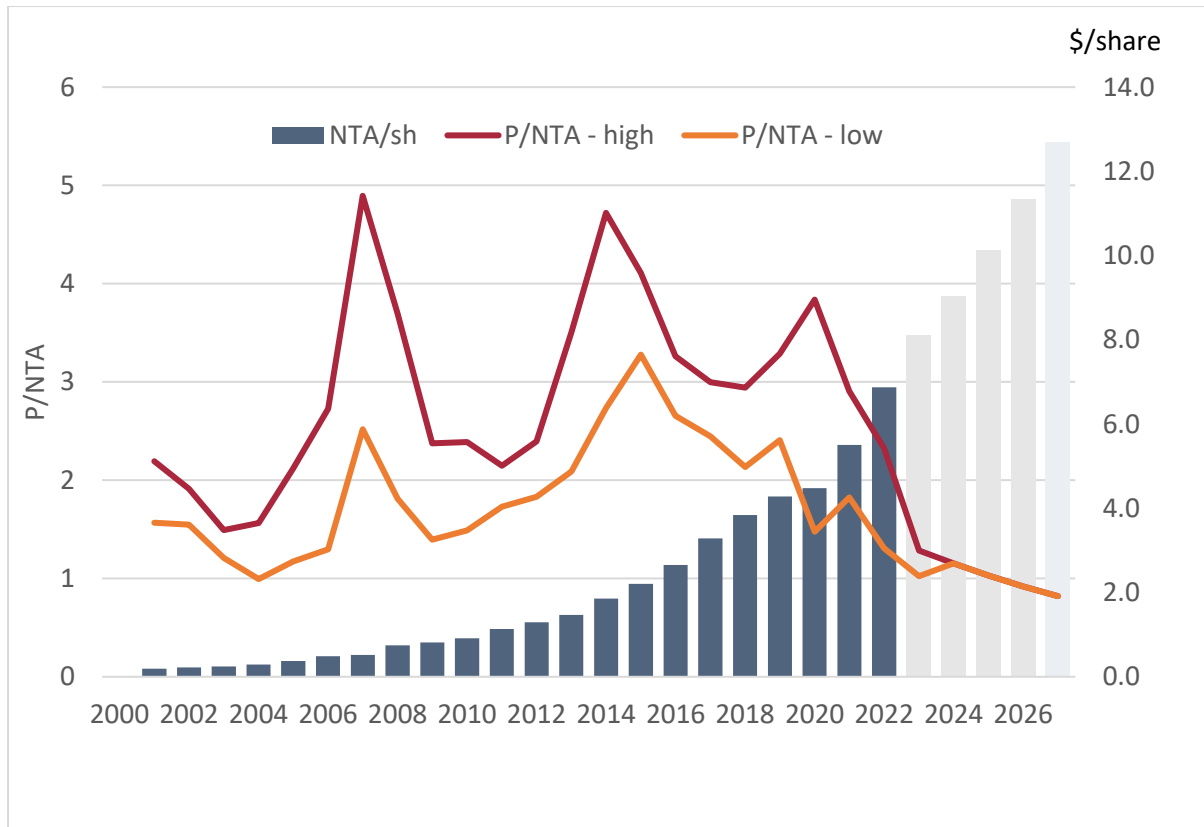
RYM sits in our ‘owner-operator culture’ category of management which dates back to the original founders who were able to combine a proposition of care to residents (the customer proposition) with an attractive economic model (the shareholder proposition) and embed this within people, processes and structure of the business. No mean feat.

The NZ retirement sector has de-rated materially over the last 12 months given a number of headwinds including COVID, aged care funding, wage / labour pressures, and a cooling housing market. RYM also faced concerns around elevated gearing and its expected exit from the MSCI index at the end of May.

Against this pessimistic backdrop RYM delivered a resilient FY22 result with net profit +14%, accompanied by upbeat outlook commentary for FY23 around build rates and margins. The FY22 highlight was the sales momentum achieved in Victoria in 4QFY22 (March qtr) after several periods disrupted by Covid resulting in excess inventory (now cleared).

The sector derating means RYM now trades close to 1x its net tangible assets (NTA), whereas historically RYM has traded on average closer to 2-3x:

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The current valuation is interesting in the context of RYM having 16 sites in various stages of development versus just 4-5 a few years ago. Based on the existing development pipeline we expect NTA per share to nearly double over the next 5 years.

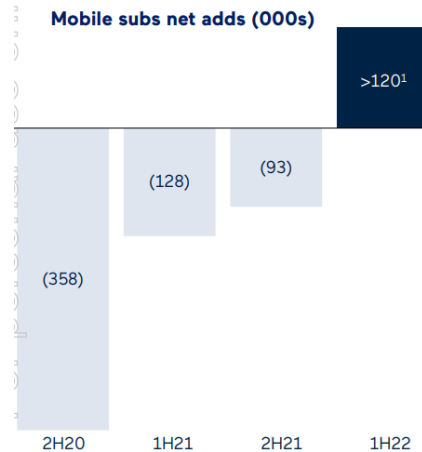
RYM no doubt has some challenges to navigate in the near term. Housing sentiment remains weak which is likely to translate to falling house prices impacting RYM's resale gains. In addition cost inflation remains a risk to the returns RYM will generate on its development pipeline.

However, with evidence of a refocus at both the Board and management levels, we remain confident RYM is well placed in coming years.

During the quarter **TPG group (TPG)** hosted an investor presentation that provided additional data points for our VoF proposition. TPG is the third largest player in Australia's telecommunications services sector operating the Vodafone, TPG, iinet, AAPT, Internode, Lebara and felix brands. TPG owns a significant national mobile and fibre asset network.

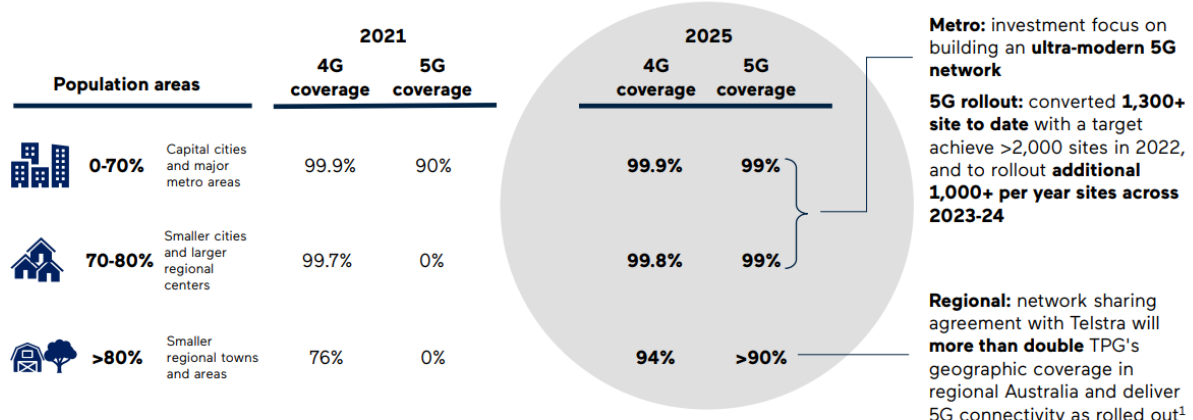
First, there appears to be early signs of a recovery in volumes/subscriber growth as borders re-open. Historically, the Vodafone brand has resonated strongly with students and other short-term visitors:

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Source: TPG investor day presentation

In addition, assuming TPG's agreement to utilize Telstra's network in regional areas is approved, we expect this will help stabilise churn rates medium term which should favour TPG winning market share from Optus.



Source: TPG investor day presentation

Secondly, there are a number of ways TPG's margins are likely to expand including cost savings achieved from the merger of Vodafone and TPG as well as ongoing simplification opportunities. TPG are also utilising fixed wireless products to transfer broadband subscribers from NBN to their own mobile network at much higher margins.

Finally, we expect TPG to be more capital efficient going forward. This includes monetisation of passive infrastructure such as the sale of Towers (with ongoing reduced capital requirements), asset sharing such as the Telstra regional agreement and the improved utilisation of the mobile network via fixed wireless.

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Importantly, this type of low-risk turnaround is attractive to us because it is in a stable/defensive sector with some signs of a moderate improvement in industry profitability, for example via mobile pricing becoming more rational.

Although TPG is no longer run by founder David Teoh, the management team display all the attributes we look for around focus, specialisation and expertise. The Board of Director are mostly representing shareholders (Teoh Family, Washington Soul Pattinson, Vodafone plc, and CK Hutchison) with large interests in the combined group creating strong alignment to improving outcomes for shareholders.

During the quarter we met with global CFO of **ESAB Corporation (ESAB)** and toured its main Australian distribution facility in Melbourne. ESAB is a US-listed spin-off backed by Mitch Rales, founder of Danaher (US\$200bn market capitalization company in the healthcare sector). ESAB is a global leader in arc welding equipment such as Cigweld®, cutting automation technology and consumables. In Australia Cigweld® is the market leading brand in the retail channel, while the ESAB brand is making headway into industrial and direct segments.

As a spin-off we were attracted to ESAB as it trails key US peers on margins. One key factor driving the gap is product mix as ESAB has a larger skew towards lower margin consumable products, but has clear strategies to shift this mix both organically and inorganically over time. One area of focus is its health-related specialty gas business which makes a range of valves used by both hospitals and other industrial customers.

ESAB trades at an attractive multiple of free cash flow of around 11x.

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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 (41% of the portfolio)**
 - 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).

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- Data and Telco infrastructure.
 - Everyday needs.
 - **Stalwarts (21%)**
 - Sturdy, reliable and generally larger companies with world-class privileged markets and competitive positions. (Mainfreight, TPG Group)
 - **Growth companies (20%)**
 - 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 (32%)**
- 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 who will benefit from reflation
 - Restructuring opportunities in defensive sectors
 - **Cyclical (22%)**
 - 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, Orica)
 - **Quality turnarounds (12%)**
 - Sound businesses with good management and balance sheets. We especially like spin-offs and government-to-private turnarounds. (ESAB)
- 3. Real asset and income sources of value – Bond-Like Equities and Asset Plays (22%)**
- Stocks with specific risk and non-correlating attributes that make them very different to broader equities indices. 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 and housing
 - Family-linked holding companies.
 - Private asset-linked growth

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- **Bond-like equities (9%)**
 - 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 (13%)**
 - Owner, operator managers with long term commitment to shareholder 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 operating, 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 – positive attitude, courageous, authentic, energetic and focused 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 14% of assets invested in overseas stocks that own businesses in USA, Canada, and UK.

Portfolio attributes as at June 2022 are summarised below:

P/E*	14.4
Beta	0.9
Yield	3.8
P/Book	1.6
ROE	10.1
Tracking error vs. ASX 200	8.1
Stock Number	38

*Note excludes holding companies like Infratil and Ferrovial as these distort the PE

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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	+1,170%	+299%
Max Drawdown	-40.0%	-47.2%
Best Month	+10.9%	+10.2%
Worst Month	-18.9%	-20.7%
Positive Months	68.1%	63.9%
Negative Months	31.9%	36.1%
Annualised Volatility	+12.1%	+13.9%

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

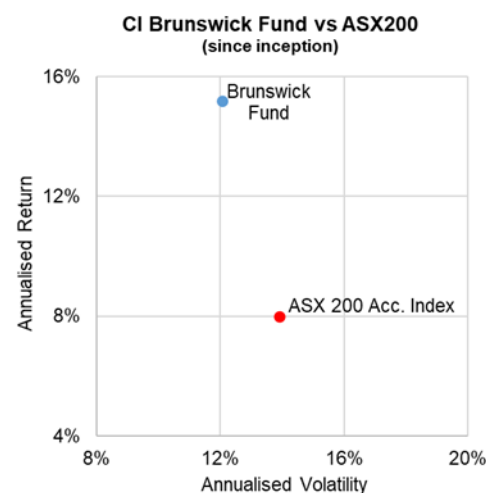
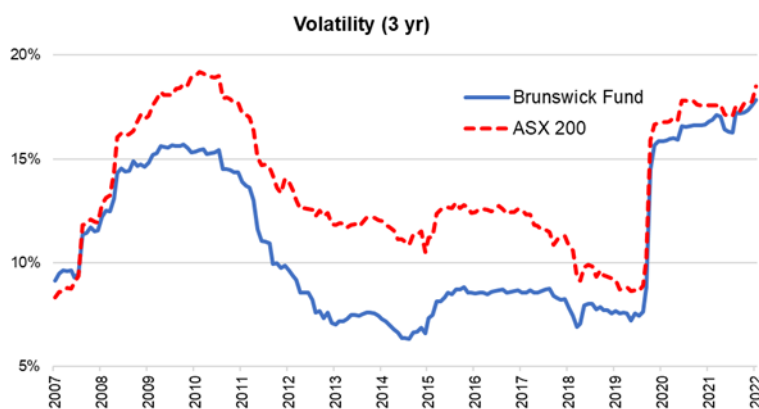
S&P ASX 200 Accumulation Index

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 April 2020, for the ASX200 Accumulation Index, it was November 2020.

Worst Month for both the Brunswick Fund and the ASX Accumulation Index was March 2020.



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