CI PENSIONS FUND
QUARTERLY COMMENTARY REPORT

COOPER INVESTORS

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

MARCH 2019

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	11.84%	11.58%	0.26%
ROLLING 1 YEAR	15.95%	13.89%	2.06%
ROLLING 2 YEAR	12.62%	8.86%	3.76%
ROLLING 3 YEAR	12.74%	13.14%	-0.40%
ROLLING 5 YEAR	11.19%	9.04%	2.15%
SINCE INCEPTION*	11.22%	9.00%	2.22%
SINCE INCEPTION^	71.60%	54.91%	16.69%

*Annualised
^Cumulative (3 March 2014)
**Before fees and expenses and adjusted for franking credits
#S&P ASX200 Accumulation Index – adjusted for franking credits

The purpose of the CI Pensions Fund is to provide a conservative equities portfolio that may be suitable for investors who are in the pensions/decumulation phase. The portfolio may also be suitable for charities, foundations and others who are looking for a conservative equities exposure.

Whilst return is important the portfolio also aims to perform much better in down markets and to exhibit lower than market volatility.

The Fund commenced in March 2014. Over the ensuing five years the portfolio has achieved its objectives of delivering a higher return than the market with a lower level of risk. These objectives have been achieved through stock selection and portfolio construction. The strategy is unchanged since the commencement of the Fund.

Market and Portfolio Performance

The ASX 200 Accumulation Index (adjusted for franking credits) rose by 11.58% over the March quarter and over the past year returned 13.89%. The model pensions portfolio returned 11.84% and 15.95% for the quarter and year respectively.

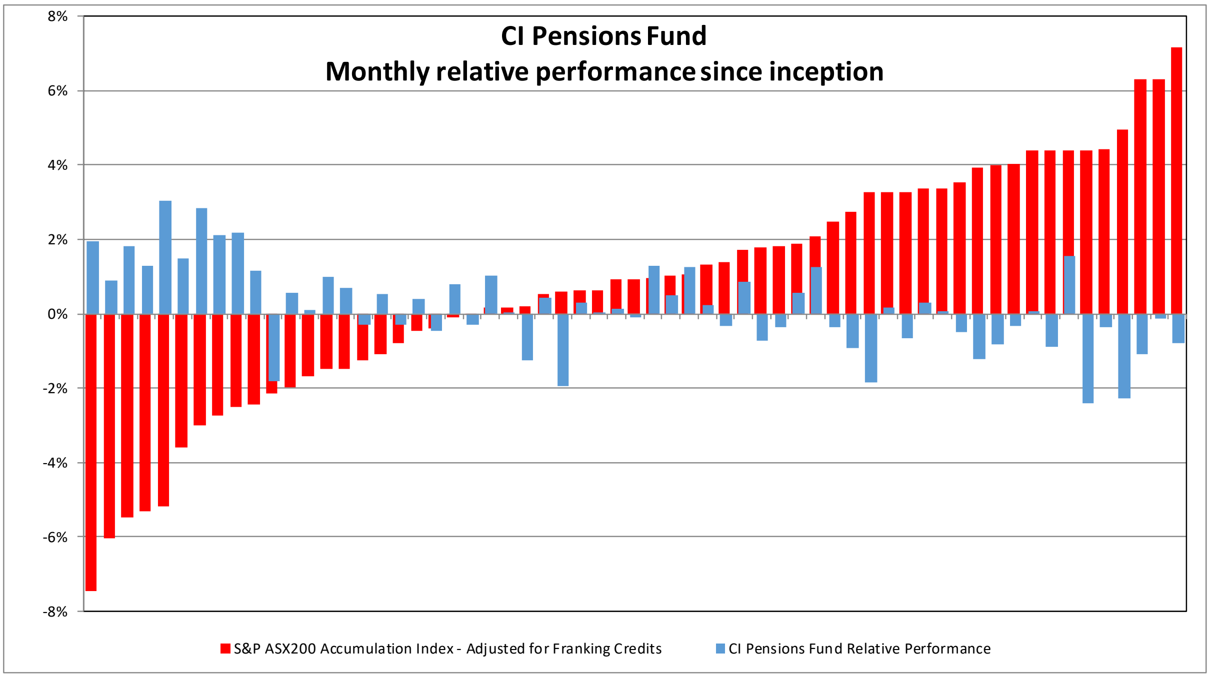
It was pleasing that the portfolio returns kept up with the market in what was the best quarter for the Australian market for more than a decade.

The best performing stocks over the quarter included RIO, Danaher, Chorus, Macquarie, BHP and Costco. Whilst no stocks had meaningful negative returns for the quarter the relative underperformers included Computershare, Carindale and Coles.

The biggest factor affecting the stock market was the sharp decline in bond yields with the Australian ten year bond yield ending up a full percent lower than eighteen months earlier. There was little change in the level of the A$.

The volatility of the portfolio over the quarter was 73.5% of the market's volatility.

The chart below shows the CI Pensions Fund's monthly relative returns. The red bars show each month's market return sorted from the worst to best month and the blue bars show the portfolio's return relative to the market for each month.



Since inception the market (adjusted for franking credits) has shown a monthly negative return 22 times and in these months the portfolio has performed better than the market 16 times. When assessed using monthly data the portfolio has captured 67% of the market's downside and 91% of the market's upside.

The Portfolio

During the quarter we added Seek and Amadeus to the portfolio and sold the small position in Bega.

Seek owns employment businesses in Australia, New Zealand and many developing economies, particularly in Asia. Seek has an investment segment that has stakes in many emerging technology companies as well as a 60% stake in Zhaopin, a leading Chinese online employment company. Seek also has online education businesses; however, they are a small proportion of the company's revenue and earnings.

Seek listed on the Australian stock exchange in 2005 and currently has a market capitalisation of $6.1b.

We classify Seek as a growth stock with a strong technology base and an innovative approach to running its business.

We feel that the Board and management have a lot of credibility, deep industry experience and they continue to reinvest into its businesses and adjacent technology opportunities. The company's track record is very good, apart from the education business.

Over the past year, the share price has dropped away given cyclical concerns around the employment outlook. In addition, some investors are critical of the continued investment in early stage ventures. The investment in early stage investments is expensed rather than capitalised; therefore, it does not create earnings quality issues and we feel these type of investments should be expected from a growth stock.

Amadeus is a leading global technology infrastructure provider to the travel industry (particularly commercial aviation) and is listed in Madrid, Spain.

The company provides two major business lines. The most exciting business and reason to own the shares is the group's IT Solutions business which largely provides enterprise software to airlines. These systems (known as PSS or Passenger Service Systems) can include everything from hosting and managing an airline's ticketing website and mobile app, down to the airport passenger routing and baggage handling systems. This is a high margin business (>60% EBITDA margins) and is enjoying a period of opportunity as more and more airlines need to modernise their antiquated IT systems with today's travellers less tolerant of poor technology experiences.

Unlike most software businesses that charge a maintenance fee, Amadeus' revenue growth is linked to total 'passengers boarded' thus they benefit from the secular growth in air travel which is expect to continue growing at 6%+, and in emerging markets at 10%+.

Their second business line is GDS (Global Distribution System) which is a distribution business sitting between airlines and passengers managing seat inventory. The business generates earnings on every ticket sold by both online and offline travel agents that goes through their system, with approximately 50% global market share (varies by region) against the other two major players (Sabre and Travelport).

Amadeus has a strong management team, with CEO Luis Maroto and CFO Ana De Pro both having steered the company adroitly through at a period of rapid growth and heavy investment. Today the company is highly cash generative, and having de-geared the balance sheet to under 1x EBITDA management have started to increase shareholder returns with the recent initiation of a EUR1bn share buyback.

Amadeus adds to the technology based grouping of companies in the portfolio, is in a good growth phase, and is also highly profitable and disciplined when it comes to capital allocation and rewarding shareholders.

We sold the small position in Bega because we hold Saputo, a large international dairy company and we did not need to hold two dairy companies.

The portfolio owns 42 securities including seven global stocks (15%) and three New Zealand stocks (6.1%). The cash weighting is around 4.3%.

Stock News

Chorus continues its build out of fibre cable on-time and on-budget. After 2019, the capital expenditure will decline.

The new regulatory framework for Chorus looks as though it will be finalised this year, which will provide greater certainty for investors.

The fibre take-up by consumers is running well ahead of expectations and consumers' data usage continues to grow strongly, which will translate to greater connections and take up of unlimited data plans.

These three points mean that investors are feeling that the Chorus business is de-risking which supports the higher share price.

Viva REIT (VVR) has been listed for over two years now and it is well on the journey of building out a solid track record and developing a high degree of predictability, as you would hope in a single purpose REIT.

In conjunction with its financial results in February, VVR announced an equity raising of $110m at $2.32 per security. This raising is the second undertaken by VVR since listing and the purpose of the raising is to enable VVR to increase its portfolio of service stations and keep its gearing ratios steady. VVR also introduced a dividend reinvestment plan, which means it will retain some of its earnings to assist growth.

Whilst the drop in bond yields over the quarter were important drivers of the increased security price, we feel the developing track record is also assisting in the de-risking process for VVR.

Coles made three significant announcements during the March quarter.

The first was Coles executing a contract with Witron Australia to develop two new distribution centres, one in south-west Brisbane and one in western Sydney, which will implement a key element of its supply chain modernisation.

The second was Coles entering into a new alliance agreement with Viva Energy, which should enhance the Coles convenience offering through service stations. This new alliance is also a positive development for VVR.

The third announcement was that Coles has entered into an exclusive partnership with Ocado to improve its online customer proposition. Ocado is a UK-based company which is a leading provider of technology and distribution centres for grocery chains online offerings. Ocado has built up an impressive list of clients including Kroger in the US, Morrisons in the UK and Groupe Casino in France.

These announcements indicate that the recently listed Coles (spun out from Wesfarmers) is acting with some urgency and intent to improve their business.

Computershare continues to perform well operationally, beating market expectations for the 1H19 result and upgrading earnings guidance. However, the share price performed poorly given more subdued expectations for US interest rates (every 100bp move in short-term interest rates has a ~15% profit impact).

While this is unfortunate, we remain encouraged by the strong underlying business momentum, growth and capital management optionality, and focussed management team.

For **Macquarie**, a rebound in markets, confirmation that FY19 profit would grow another 15% and smooth leadership transition were all supportive.

The appointment of the highly-regarded Shemara Wikramanayake as new CEO highlights the depth of talent in the business and strong succession planning. Wikramanayake has spent over 30 years with the company, which includes delivering stellar results while running Macquarie Asset Management.

The long-time global head of Commodities and Global Markets, Andrew Downe, has stepped down. He is also being replaced by a high-quality successor, Nicholas O'Kane. O'Kane has been integral in building the Commodity Markets and Finance business into a powerhouse.

This quarter **Danaher Corporation** announced its largest ever acquisition with the US$21bn purchase of GE's biopharma business. The Fund has owned Danaher Corporation since inception and the price has more than doubled. We are accustomed to the Danaher acquisition playbook and the company is one of the rare corporations that consistently creates shareholder value from its M&A investments.

Over the last decade Danaher has morphed from an industrial focused business into one of the world's leading Diagnostics and Life Sciences companies. The GE deal fits perfectly into what we would expect from the company. Today we see a higher growth, more recurring and predictable business with further margin expansion opportunities looking forward.

In February **Saputo** acquired leading UK dairy processor Dairy Crest Group for C$1.7b. Like Danaher, Saputo has an excellent acquisition track record and their continued consolidation of the dairy industry is a core feature of our investment proposition. The challenging environment for the industry is leading high quality M&A opportunities such as Dairy Crest and we are very supportive of Saputo using its scale, balance sheet and expertise to deploy capital in this counter-cyclical manner.

Saputo has typically targeted undermanaged or underfunded players, however with Dairy Crest they are buying a high quality and well run operation. Dairy Crest will give Saputo a platform in Europe which they can complement with additional acquisitions over time. Saputo have a truly global presence with scale operations in the US, Canada, Argentina, Australia and now the UK.