

“Many of life’s failures are people who did not realize how close they were to success when they gave up.” – Thomas A. Edison

FINANCIAL YEAR	**Portfolio	#Benchmark
2024 FYTD	-0.73%	-0.77%
3 Year*	12.0%	11.0%
5 Year*	9.5%	6.7%
10 Year*	12.1%	7.4%
Since inception*	14.8%	8.2%
Since Inception^	1335.0%	355.0%
<small>* Annualised ^ Cumulative (1 July 2004) # S&P/ASX 200 Accumulation Index ** Returns are gross of fees and expenses Past performance is not necessarily a reliable indicator of future performance Data Source: Internal CI data reports, 30 September 2023</small>		

QUARTERLY PORTFOLIO HIGHLIGHTS

For the FY24 FYTD (three months to end of September), the Brunswick Fund returned -0.73% (gross, or before fees), which compares to the ASX200 Accumulation Index return of -0.77% over the same period.¹

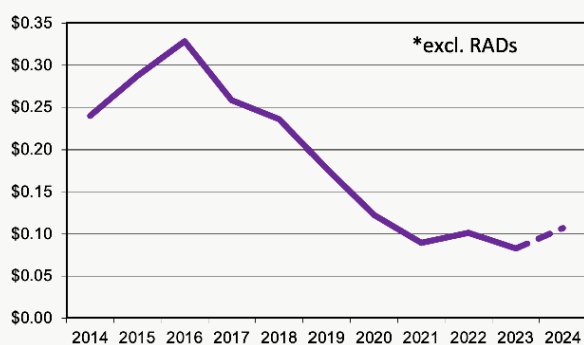
The Fund’s Real Asset and Income securities capital pool was the strongest contributor for the FYTD (+1.41%), offset by the other two pools (Compounders -1.09% and Reversionary -1.08%).

At the end of the quarter, Star Entertainment (SGR) raised capital to reduce gearing and provide a buffer for future liabilities such as the Austrac fine. The Fund participated as we view this as a de-risking event for the stock. Star was detractor to performance in the quarter. There is no change to our view on Star which we outlined in both our FY23 annual letter and our FY23 annual update. Star is unlikely to be a quick turnaround, requiring an expected three-to-five year investment horizon.

Over the course of 2023 we significantly increased our investment in Regis Healthcare (REG), Australia’s last remaining listed Aged Care provider (subject to Bain completing its acquisition of Estia). Regis was a key contributor to performance during the quarter.

We were able to invest in the company at a significant discount to replacement value and at a market capitalisation below land value in our view, while more importantly, we have been observing tangible signs of operating and industry trends improving.

Regis – EV/per Licensed Bed



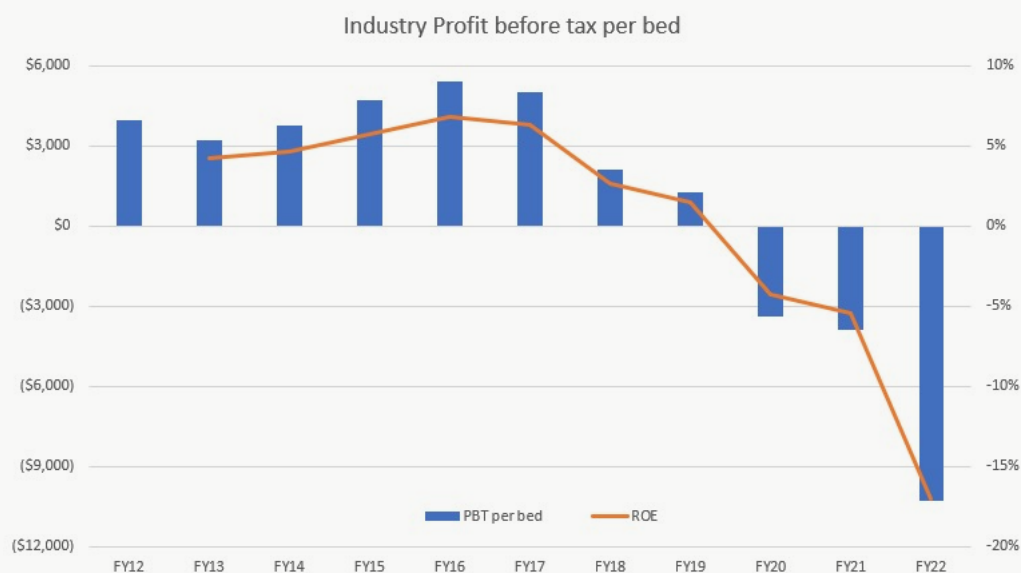
Source: CI Data (extracted from multiple sources)

¹ Past performance is not necessarily a reliable indicator of future performance

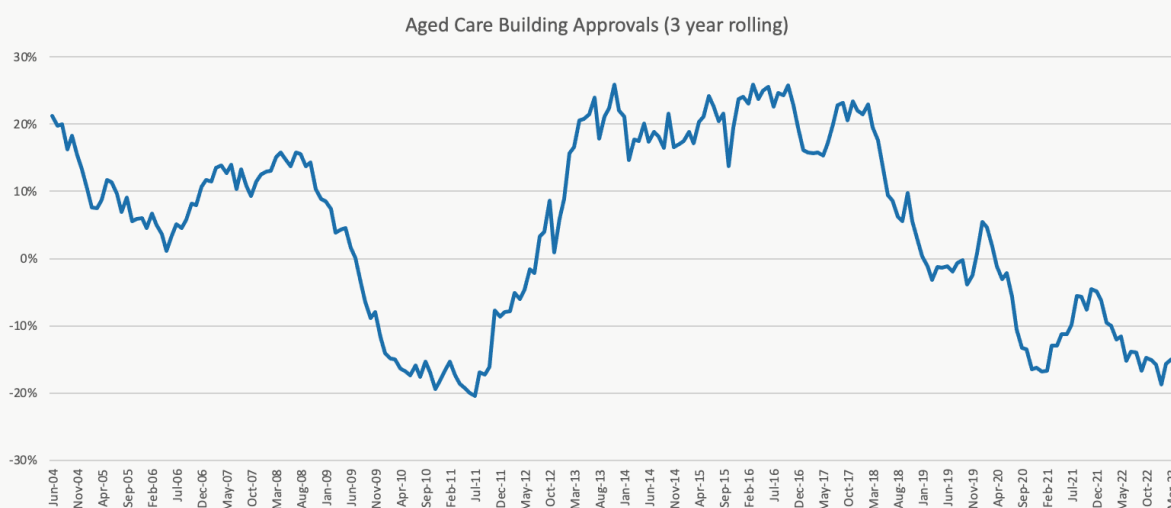
We have also been able to invest alongside the founders of the business (combined 54% ownership), who have experienced numerous regulatory cycles, government funding regimes and previous industry capital strikes. The founders have built up a high-quality portfolio of assets in premium metro locations which should stand to disproportionately benefit from future regulatory change, particularly user pays.

The industry has been through an especially challenging seven-plus years driven initially by excess supply and margin compression from reduced government funding, followed by a prolonged Royal Commission, and finally a pandemic in which residents and the industry was acutely impacted.

The result is 60% of operators remain loss making (Source: Stewart Brown), with the industry on a capital strike as returns have been too low to justify further investment.

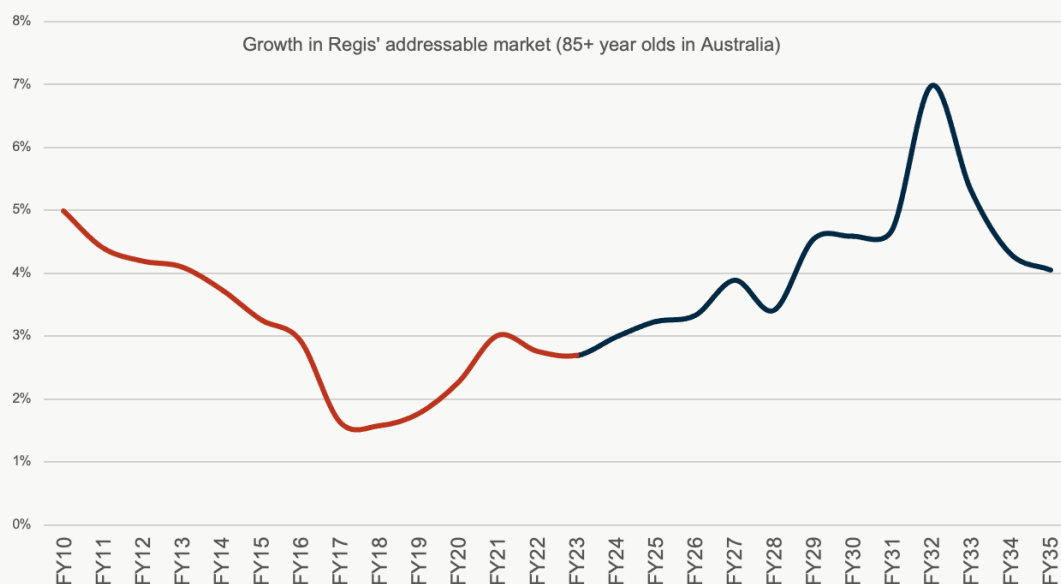


Source: CI Data (extracted from multiple sources)



Source: CI Data (extracted from multiple sources)

This capital strike and insufficient future supply has coincided with an acceleration in Regis' addressable market, with population growth across 85+ year olds increasing significantly from here until FY32 as shown below.

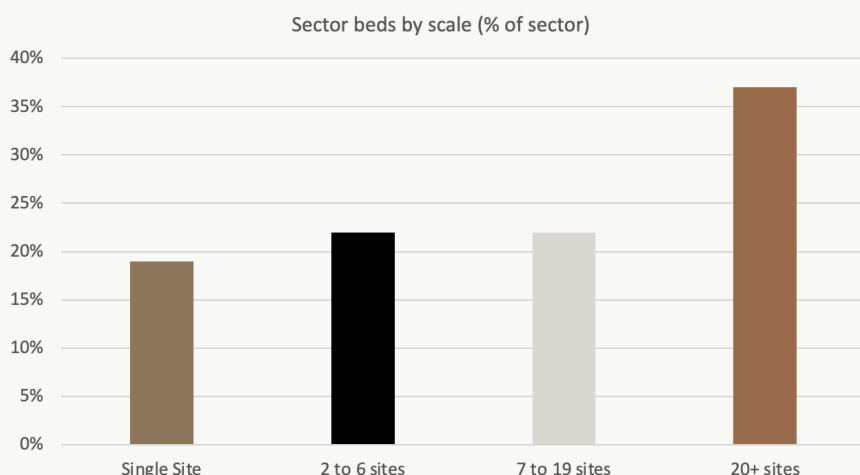


Source: CI Data (extracted from multiple sources)

Accordingly, the demand/supply dynamic looks highly attractive over the medium term. Importantly for Regis, this trend is already well under-way with occupancy continuing to ratchet higher over the past 18 months and with further room to move.

What is particularly interesting from an investment standpoint, is that current returns for operators remain significantly below the incentive pricing backdrop which is required to drive future investment in supply. This is something that is becoming increasingly apparent to the Government, noting this is one of the key issues the Aged Care Taskforce is looking to formally address in coming months.

In addition, major growth investment from industry participants is likely to come via consolidation rather than new developments since the cost per aged care bed is more than 30% cheaper via acquisition. The industry is highly fragmented (following graph), and the compliance and administration requirements are overwhelming sub-scale operators. This M&A activity is likely to drive further supply attrition as under-utilised, or no longer fit-for-purpose homes are closed and sold for their land value, with industry participants suggesting more than 20% of existing beds are no longer fit-for-purpose (very aged stock, four-bed shared rooms etc).



Source: CI Data (extracted from multiple sources)

Absent significantly higher earnings for operators, there is the potential for a significant supply shortfall as there is also a large time lag (three-plus years) from deciding to build a new home to inhabiting one.

We see significant value latency in Regis from basic return normalisation where the trends are already supportive, value accretive M&A noting that their balance sheet is un-gear'd and asset rich, the continued recycling of non-productive assets, and the potential for significantly higher industry returns being facilitated by increased user-pays (RAD retention, higher basic daily accommodation fee etc) and improved Government funding regimes with the new Pricing Authority (IHACPA) in order to incentivise new (and required) supply.

Early in the quarter we added a new position to the Fund – NewsCorp (NWS), a stock we have followed for many years. NWS straddles both the Real Asset and Income pool (asset play) and Compounding pool (stalwart) and sits in the Family and Founder category of management teams.

The opportunity in NWS lies in its complex structure – multiple holdings in subsidiary businesses – which has obscured the quality and operating trends underlying these businesses.

NWS' largest and directly observable holding is REA (NWS owns ~61%). REA is well followed in the Australian equity market, and generally trades at a high multiple of its earnings reflecting the quality of its business, its strong cash generation, growth profile and strong balance sheet.

REA has been an incredibly successful investment for NWS. Since the split of Fox and NewsCorp in 2013, REA share price alone has increased by ~17% p.a. in AUD terms and ~13% p.a. in USD terms. However, our interest in NWS is in everything else other than REA – what we will call the 'rump'.

At the time of writing, NWS market value in USD terms is ~\$11.6bn and NWS share of REA is ~\$8bn. This implies the rump value is ~\$3.6bn. Note, our purchase price of NWS implies a rump value between \$2.5bn and \$3.5bn.

What is interesting, is that in 2013, the rump traded at \$7.5bn, but at this point was heavily skewed to NWS' traditional media assets, with advertising more than 50% of group revenue. In contrast today, advertising is just 16% of group revenue with a good proportion of this advertising being digital, which is more targeted to the individual consumer.

Arguably the most important part of the rump is Dow Jones. In FY23, this business generated ~\$500m of EBITDA. Dow Jones includes both consumer facing publications such as the Wall Street Journal and Barons, as well as corporate related businesses such as Factiva, Dow Jones Risk & Compliance, Newswires and recent acquisitions such as OPIS, which focuses on data products in the oil and gas sectors.

Dow Jones earnings have more than doubled in recent years, in part driven by acquisitions but mostly due to strong organic growth.

Comparable businesses include the New York Times, which trades on 17x EBITDA, and Thomson-Reuters, which trades on 22x EBITDA. On these multiples, Dow Jones (alone) would be worth \$8-10bn.

In addition to Dow Jones, the other parts of the rump include:

1. Move (owns realtor.com), with revenue of around \$600m in FY23. Move is the equivalent of Domain in the US, ie the number two real estate portal behind Zillow. NWS very nearly sold this for \$3bn earlier this year.
2. Book publishing – the second largest in the world with \$2bn of revenue in FY23 and a relatively stable earnings profile.
3. Foxtel/Subscription video, with its 'Binge', 'Kayo' and 'Foxtel Now' offering has a more sustainable position in the Australian market, particularly given NWS dominance in sport. An IPO of Foxtel (partial or full), remains possible.
4. News Media – which includes an array of various mastheads of varying quality, but with a growing trend to subscription (for some mastheads). News Media still generated \$2.3bn of revenue in FY23, although the earnings contribution (and hence risk going forward) is now low.

5. Finally, a considerable overhead cost base of ~\$200m p.a. that fell 9% in the year, with potential for further savings going forward.

In short, while a conglomerate discount for NWS might have been justified in the past due to ...

- Lower quality earnings streams at risk of disruption, particularly in print
- Over-gear asset in Foxtel that was also being disrupted
- Risk that capital allocation wouldn't add value

... there is genuine evidence that both the quality of the rump has improved, underlying trends are positive, and capital allocation (mostly into Dow Jones data related businesses) continues to be very good.

Finally, we can't avoid saying something about the Murdoch family. Although controversial at times, what can't be disputed is their track record of value creation and their willingness to act – buying and selling when conditions are most favourable (the most recent being the sale of 20th Century Fox studios). This indicates that the value latency we see will likely be realised at some point in the future.

OBSERVATIONS FROM THE ROAD

During the September quarter, the team undertook significant travels to the US, UK and across Australia visiting a range of companies and industries.

In the US we attended Infratil's investor day and met with a range of companies and industry participants across Infratil's core exposures (Data Infrastructure, Renewables).

Infratil's investor day was centred around showcasing Longroad Energy, their US renewable platform and allowed us to spend time with Infratil and Longroad's management team. We came away from the investor day with increased conviction that Longroad is building a genuinely valuable platform with significant value latency over a three to five year horizon, which is not reflected in the share price. More importantly, spending time with and listening to Longroad's management team gave us greater confidence that they have the proprietary management qualities and the track record and appropriately aligned incentives to extract these value latencies.²

Broader industry meetings highlighted that while the Inflation Reduction Act is a significant tailwind and has invited a rush of capital towards the clean energy sector in the US, there are very few utility scale renewable platforms with large development pipelines that are managed by skilled and experienced operators and backed by long term capital.

As part of the trip, we were also able to firm up our conviction in Canberra Data Centres ('CDC'), which represents approximately 35-40% of Infratil's NAV. We observed very strong operating and pricing trends within data centres globally, as well as a favourable medium-term demand and supply outlook. Comparing and contrasting CDC's niche business model (hyperscale, government and commercial co-location) to global peers also provided us confidence that CDC's customer proposition is differentiated and strategically sound. Through its customer exposures, CDC is positioned to benefit from AI tailwinds and the expected step up in computational intensity over time.

We also met with a range of transport companies in the US. We observed weak freight forwarding trends that continue to overhang Mainfreight's share price in the short term but also highlighted the potential latency for Mainfreight in the US as a result of recent changes in the US less-than-truckload (LTL) industry structure driven by the bankruptcy of Yellow Corporation (12% market share).

We also visited numerous housing-related companies in Arizona, Texas and Michigan where the overall tone and sentiment still remained positive on current conditions, albeit it wasn't to the same degree as when we visited four months earlier.

While confidence remained in the structural under-supply of housing, their tempered positivity was largely driven by concerns on the potential near term demand impact from higher mortgage rates, which have since continued to ratchet higher.

² Please note this is a forecast only, based upon Cooper Investors' current views and assumptions, and is not guaranteed to occur. Any value latency forecast may differ materially from the results ultimately achieved.



Source: FactSet

A number of home builders also noted that suppliers were now more amenable to passing on their own input cost savings which was in contrast to our meetings in May. There was also a persistent refrain across meetings that Sales people were needing to re-learn how to sell again post being “order-takers” in 2021 and early 2022.

We have reduced our direct US housing exposure during the quarter but continue to monitor conditions closely as the longer-term under-supply is an attractive tailwind in our view.

London remains buoyant on the surface, but with various challenges simmering underneath:

- Inflation and wage inflation are still high, albeit energy prices haven't been as bad as anticipated 12 months ago
- There has been a small uptick in unemployment and in mortgage arrears
- Most mortgagees are yet to roll off much lower two and five-year fixed rates
- The removal of interest rate deductibility for investment property is one risk to the housing market
- Office vacancy rates at Canary Wharf are very high and likely to get worse (Barclays going from two to one building, amalgamation of Credit Suisse and UBS staff, WFH rates high, etc.)

At the industry level:

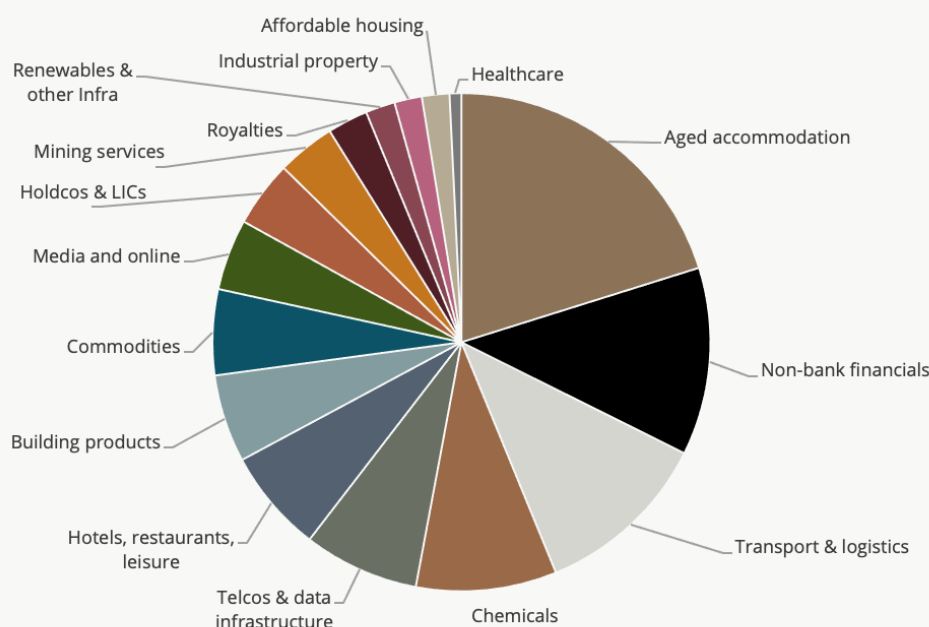
- A number of Australian insurance brokers have made forays into the UK market via acquisition. There is some risk that operating trends are moderating from high levels and a relatively long cycle. In particular, financial line premiums have softened.
- Data centre trends also very strong in the UK and in essence, demand continues to outstrip supply for the foreseeable future despite considerable private capital going into the space.
- The aged care industry in the UK is very similar to Australia, albeit a little more fragmented, with more private equity ownership, and more private pay contribution. Sector occupancy has not yet recovered anywhere near the larger players in Australia.
- The auto industry is at an interesting point with the switch to electric vehicle (EV) adoption now close. It seems likely legislation will be passed requiring OEMs sell a minimum 24% EVs in the UK from next year, ratcheting up to 100% by 2035. The very large Jaguar Landrover manufacturing site in Birmingham is getting a GBP £15bn investment from parent Tata Motors to retool to EV and bring more manufacturing back to UK.

PORTFOLIO POSITIONING

There was little change in the quarter to the Funds' overall allocation to each of the three capital pools. We have been adding to the real asset and income pool over the last six months, such that we have close to equal weighting now across each pool.

At industry exposure level, the Fund retains a balance between diversity, with focus on certain clusters like aged accommodation, and an overall relatively defensive exposure. The Fund remains very different to the benchmark ASX200.

Brunswick Fund by Industry



Source: NAB Asset Servicing, CI data

MARKET OBSERVATIONS

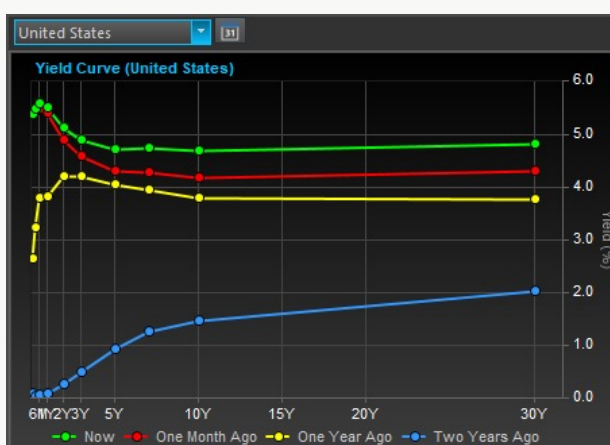
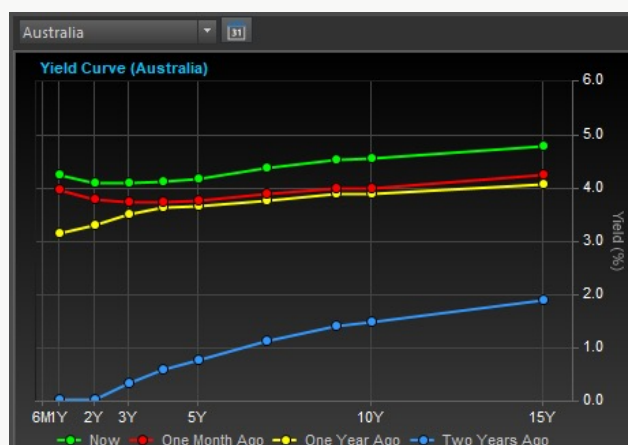
Across most developed economies around the world, inflation remains relatively sticky, employment full and consumers continue to spend in some cases on things they were prevented on spending through covid.

Most Central Banks continue to raise or hold interest rates at current levels. The steady realisation of rates being higher for longer has seen the 'yield curve' (which maps the interest rates at various time horizons) move higher – essentially a flattening of the curve, ie longer-term rates moving up towards the current shorter rates. The charts on the following page highlight how the yield has moved over time periods from two years ago through to today (Australia and US).

This has had some impact on listed markets as stock prices reflect higher costs of capital and risk around company debt levels.

More broadly in Australia, several 'top-down' factors continue to impact various companies/stocks:

- Migration levels are accelerating, which should alleviate some of the issues with availability of labour and wage pressure in some sectors. However, many sectors such as the construction industry remain tight
- Migration will increase demand for many products and services. In the short term it will likely exacerbate pressure on affordable housing and rents



Source: Factset

- House prices have largely recovered from the recent dip. Given the increase in interest rates this has made housing much less affordable, particularly for the middle and lower segments of the market.
- There is currently a high level of public spending on infrastructure projects, the majority on road and rail (perhaps necessary given migration trends).
- The above spend has stretched State budgets particularly in Victorian and NSW, which could see further increases to taxes, asset sales and project cancellations.

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