CI Australian Equities Fund

QUARTERLY REPORT December 31, 2024

AFS LICENCE NUMBER 221794 ABN 26 100 409 890

Performance Summary

Net of fees and expenses	3M	FYTD	1Y	3Y*	5Y*	10Y*	Inception*	FY2024	FY2023	FY2022	FY2021	FY2020
CI Australian Equities Fund %	-5.36	0.08	3.10	4.19	7.11	8.07	10.41	8.49	12.65	-2.72	27.08	-2.13
S&P/ASX 200 Accumulation Index %	-0.80	6.93	11.44	7.41	8.05	8.51	8.74	12.10	14.78	-6.47	27.80	-7.68
Relative %	-4.56	-6.85	-8.34	-3.22	-0.94	-0.44	1.67	-3.61	-2.13	3.75	-0.72	5.55

Past performance is not a reliable indicator of future performance

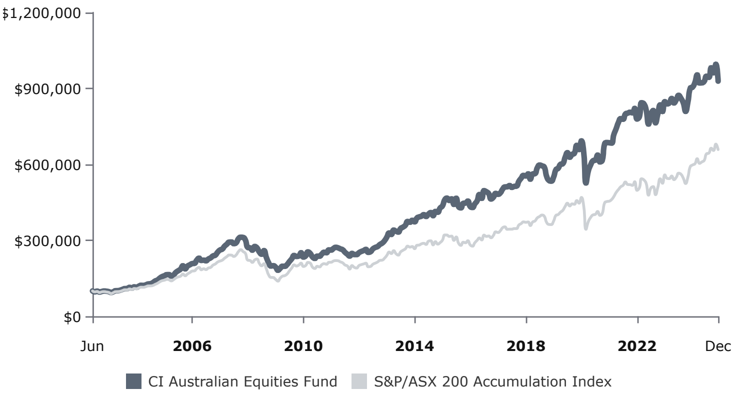
Source: Internal CI data reports, December 31, 2024

Inception Date: 4 July 2002

*Annualised

Download Data

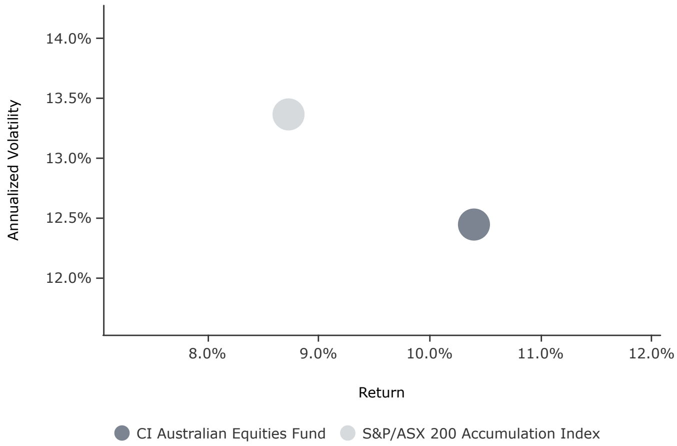
$100K INVESTED SINCE INCEPTION (NET)



Past performance is not a reliable indicator of future performance

Source: Internal CI data reports, December 31, 2024

RISK/RETURN SINCE INCEPTION (PER ANNUM)



> "A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty" – Winston Churchill

Quarterly Highlights

- The portfolio was down 5.4% during the quarter, underperforming the S&P/ASX 200 index by 4.6%[1].
- Notable underperformers included **Iluka Resources (ILU)**, **Wisetech (WTC)**, **Lendlease (LLC)** and **BHP Group (BHP)**. Not owning the outperforming **Commonwealth Bank Australia's (CBA)** was also a large drag.
- Positive contributors included **Sigma Healthcare (SIG)**, **HMC Capital (HMC)** and **QBE Insurance (QBE)**. Not owning underperforming **Rio Tinto (RIO)** and **Fortescue (FMG)** also helped.

[1] Past performance is not a reliable indicator of future performance.

Portfolio Insights & Market Observations

The cocktail of several underperforming large positions, continued commodity-related weakness dragging on resource exposures and **Commonwealth Bank Australia's (CBA)** relentless march up (not owned) were the ingredients for a very disappointing quarter.

Looking forward, the banks look extremely overvalued in an absolute sense and very stretched in a relative sense. In isolation, this is hard to justify given the outlook for virtually no profit growth over the next three years. However, for now, a combination of relative earnings stability (particularly vs. resources), excess demand from structurally underweight institutions (particularly industry superannuation funds) and passive buying continue to support the sector. We also note the strong correlation with US financials' performance, which suggests quant buying too.

Their recent outperformance versus resources is particularly stark. While further outperformance is clearly a possibility, historically the cycle typically turns in favour of resources when at these extremes.

Chart 1: Bank Sector 1Y Outperformance vs Resources

Source: FactSet

We retain an underweight position, which is largely expressed through not owning CBA. While we appreciate its strong strategic positioning and managerial strength, the extreme valuation (four standard deviations above its 20-year median price/earnings ratio) and uninspiring operating trends (low single-digit earnings prospects and a low double-digit ROE) are a significant drag on our assessment of Risk-Adjusted Value Latency. With the stock now comprising more than 10% of the S&P/ASX 200 index, the portfolio would be a major beneficiary of even a moderate mean reversion.

Chart 2: CBA P/E ratio

Source: FactSet

On the flipside, the portfolio is overweight Cyclicals. This is largely expressed through stocks exposed to a rebound in property/housing (e.g. **Lendlease (LLC)**, **Ryman (RYM)**, **Reece (REH)**), which we see as near bottom of the cycle following an extended period of high interest rates. We are marginally underweight resources given that Chinese stimulus does not appear targeted at commodity-intensive industries.

We are also overweight Growth. This is driven by attractive stock-specific Risk-Adjusted Value Latency, including **HMC Capital (HMC)** (see "stock story" discussion below), **Sigma Healthcare (SIG)** (Chemist Warehouse a low-cost category killer in pharmacy/health/beauty), **Light & Wonder (LNW)** (the old Aristocrat team has laid the foundation for multi-year market share gains) and **Wisetech (WTC)** (opportunity to become the "Microsoft of supply chain logistics software").

The portfolio is significantly overweight mid-cap stocks and underweight large cap. While this is partly due to the bank positioning, it also reflects where we are seeing the most attractive Risk-Adjusted Value Latency emerge after an elongated period of outperformance from large "steady compounding" stocks. Examples include our overweights in **HMC Capital (HMC)**, **Lendlease (LLC)**, **Orica (ORI)**, **Sigma (ORI)** and **Light & Wonder (LNW)**.

Key portfolio additions during the quarter included **DigiCo Infrastructure REIT (DGT)**. We also added to the positions in **HMC Capital (HMC)**, **Light & Wonder (LNW)**, **Sigma Healthcare (SIG)** and **Ryman (RYM)**.

DigiCo is a portfolio of operating, but underutilised, data centre assets anchored by the high-quality SYD1 asset. This is complimented by a significant suite of development opportunities in both Australia and the US. We see significant latent value from contracted utilisation being increased and the development pipeline actioned.

Key exits during the quarter included **QBE Insurance (QBE)** and **Woolworths (WOW)**.

QBE has been one of the portfolio's largest active weights in recent years. The original investment proposition was that of low-risk turnaround predicated on actions to improve returns in the long underperforming North American division. A combination of decisive management actions and improved industry conditions have significantly improved the business, with the market now anticipating the group recovery to a low-90s combined operating ratio in coming years (our original "north star"). With the stock having almost doubled since we purchased it two and a half years ago, and the turnaround opportunity no longer "latent", Risk-Adjusted Latency looks less compelling.

Observations From The Road

In November we visited China for the third time during 2024. Economic trends appear stable compared to our previous visit in May, with the continued strength in infrastructure, manufacturing and exports offsetting declines in property and broader (but related) weakness in the consumer. The increased recognition by central authorities of the challenges, and the impact on both investor and consumer confidence, crystalised during the quarter with a raft of stimulus measures announced. These measures appear to be focussed on managing further downside risk in residential property, stabilising inflation and improving consumer sentiment over a multi-year period. We consider the announced measures to be a positive step and anticipate continued targeted policy responses to manage downside risks (while not anticipating any major direct commodity-linked stimulus along the lines seen post the GFC and 2015/16).

We also travelled through South East Asia (SEA) to further our understanding of the recruitment landscape and the role of employment portals. Over the past decade, leading Australian employment portal, SEEK, has established a presence in the SEA region via the acquisition of JobsDB and Jobstreet. SEEK has recently made significant investments in its core platform to improve functionality, enhance the customer experience and price dynamically (among other benefits).

It was evident that SEEK maintains a strong position across the region, with competition coming from LinkedIn, Indeed, free government platforms and small local players. In general, the market has not yet reached the same level of maturity as Australia and opportunity remains to take placement share. In emerging markets, propensity to spend can be low and platforms must clearly articulate the value they provide in terms of candidates received and placements made. Unlike Australia, which is a self-service market, clients in Asia preference platforms that offer a high level of service and account management. In many cases clients need to be guided through employment platforms and educated on what benefits they can expect to receive. To gain share of placements, it is important to combine an intuitive front-end experience with localised support. While not without execution risk, the refreshed underlying platform and intention to invest into a high touch sales model should position SEEK for success in SEA over the long term.

Stock In Focus

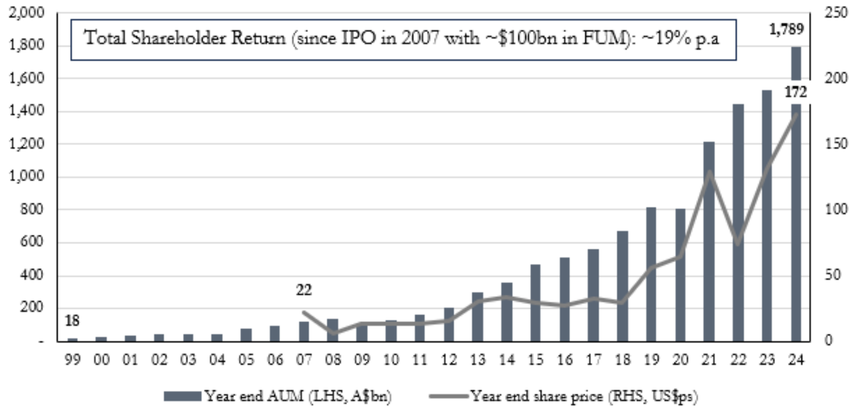
During the quarter, we continued to build on the portfolio's position in capital-light alternative asset manager, **HMC Capital (HMC)**. HMC was founded by ex. UBS investment banker, David Di Pilla, originally forming a consortium to acquire the Masters Property portfolio in 2016. This was a highly successful acquisition, returning a >6x multiple on invested capital for investors and underpinning the IPO of HMC in 2019 with assets under management (AUM) of ~$1bn.

Importantly, Di Pilla has built a strong bench of highly capable leaders of each vertical with demonstrated track records of success in their respective domains. For example, Matt Lancaster in Private Credit, who was previously Macquarie's US Principal Finance lead. In this role, he was responsible for over $14bn of credit investments, which realised a net return of LIBOR + 950bp p.a. Another example is Angela Karl, who leads their Energy Transition platform. She brings over 20 years of investment and advisory experience in the energy and utilities sector. Prior to joining HMC, Angela was a Partner at QIC Global Infrastructure and helped growth their portfolio.

Today, HMC has ~$17.5bn of AUM and established platforms across the four key verticals of Real Estate (~$10bn), Private Credit (~$2bn), Digital Infrastructure (~$5bn) and Private Equity (~$1bn). A fifth vertical, Energy Transition, is currently under development with agreements to acquire a second seed asset for the platform signed towards the end of the quarter. These five verticals operate in end markets supported by positive long-term trends with significant scalability, which provides a compelling opportunity for the HMC platform to continue to grow.

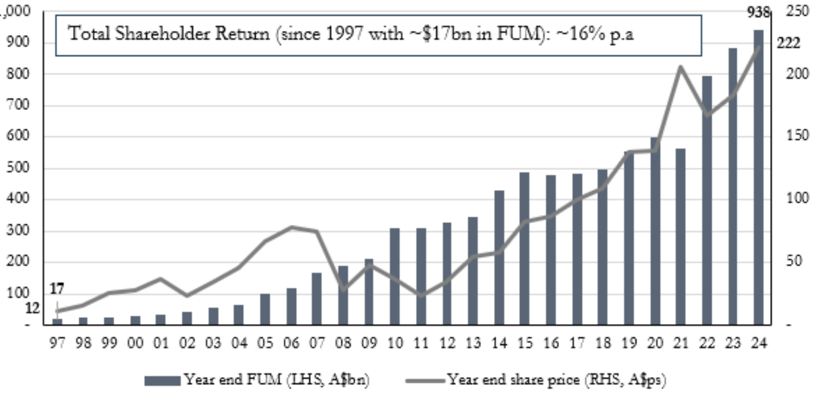
We see several similarities between the HMC platform today and two up-and-coming alternative asset managers ~25 years ago: Macquarie and Blackstone. As is the case at HMC, Macquarie and Blackstone began with an investment banking background and leveraged this skillset into building different, yet globally leading, alternative asset management businesses. In the late 1990s and early 2000s, both Macquarie and Blackstone had ~$20bn in AUM. Macquarie had a ~$4bn market capitalisation at the time (Blackstone did not list until 2007). HMC has ~$17.5bn of FUM and a ~$4bn market capitalisation, placing it at a very similar stage to that of Macquarie and Blackstone 25 years ago. From this point, Macquarie and Blackstone have both scaled tremendously, building ~$1trn+ alternative asset management platforms with market capitalisations of ~$90bn and ~$340bn, respectively.

Chart 3: Blackstone



Source: Blackstone filings, FactSet

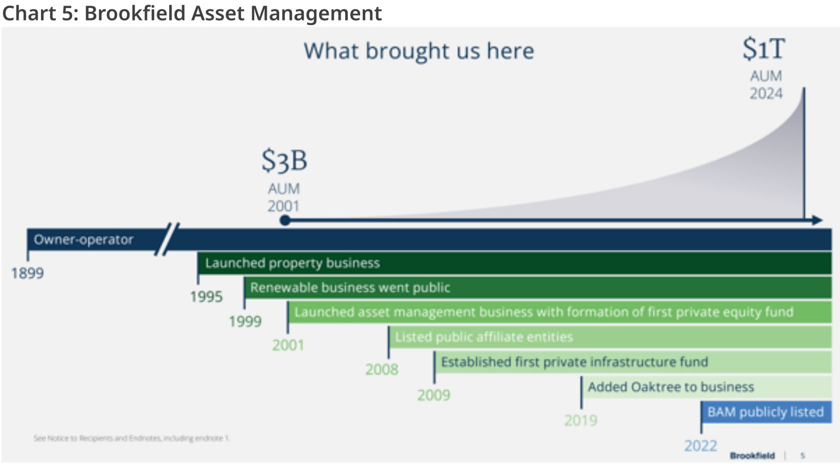
Chart 4: Macquarie



Source: Macquarie filings, FactSet

A third illustration of the extent of the opportunity set available to HMC is Brookfield Asset Management. Brookfield is slightly different, having begun life as an asset owner (branded Brascan) rather than as an investment bank (or from founders with an investment banking background). Despite this, Brookfield operates in the same five verticals as HMC (real estate, private credit, digital infrastructure, private equity & energy transition) and has scaled from ~US$3bn of AUM in 2001 to US$1trn today. It has ambitions to double again over the next five years.

Chart 5: Brookfield Asset Management



Source: Brookfield Asset Management filings

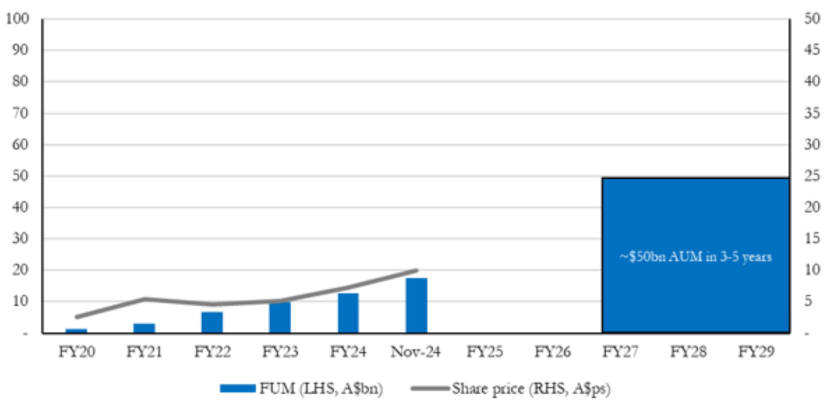
Macquarie, Blackstone and Brookfield of the late 1990's and early 2000's all share similarities with where HMC Capital is at today. They are three giants of the alternative asset management industry, which highlights the extent of the opportunity set available to the business over the long-term. HMC is still at a relatively early stage in the journey.

Our investment proposition is underwritten by the opportunity set we see for the business to grow from ~$17.5bn AUM currently to ~$50bn over the next 3-5 years. We see significant upside to the current ~$10ps share price on the execution of this with Macquarie, Blackstone and Brookfield all highlighting the potential for significant growth beyond $50bn in AUM over the long term. Importantly, we are backing a highly intentional, founder-led management team with significant ownership in the company and an established track record to execute on this potential.

The pathway to $50bn in AUM consists of:

- Continued growth in the real estate platform via deployment in existing strategies and the raising of new strategies (currently underway),
- Growth in Private Credit, driven by geographic expansion of Payton's Commercial Real Estate Business and expansion into Corporate & Asset Based Credit,
- Continued growth in Digital Infrastructure through the execution of value-add, development and inorganic opportunities in the existing listed vehicle, and
- Execution of HMC's Energy Transition platform with total operational and development capacity of ~6.2GW, representing a ~$12bn AUM opportunity on a fully built-out basis.

Chart 6: HMC Capital



Source: HMC filings, FactSet

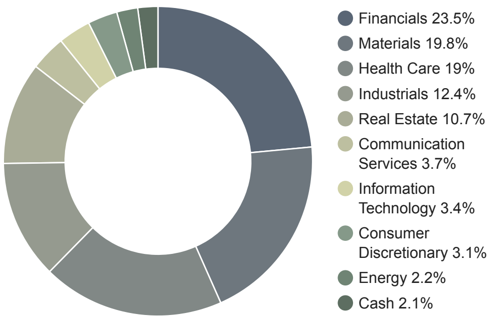
Portfolio Snapshot

Source: Internal CI data reports, December 31, 2024

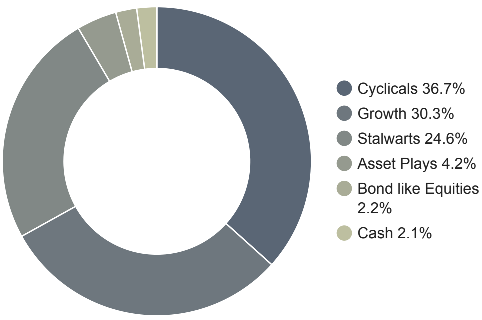
TOP 5 FUND HOLDINGS

NAME	SECTOR	SUBSET
BHP Group Ltd	Materials	Cyclicals
CSL Limited	Health Care	Growth
National Australia Bank Limited	Financials	Stalwarts
Macquarie Group Ltd	Financials	Stalwarts
ANZ Group Holdings Limited	Financials	Stalwarts

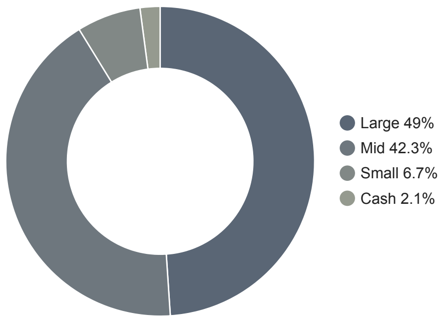
SECTOR EXPOSURE



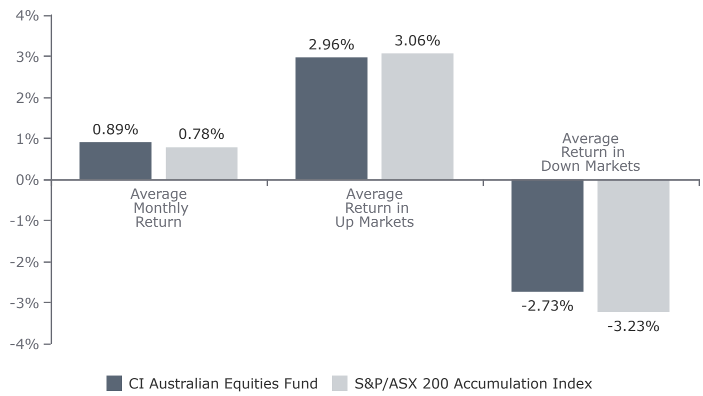
SUBSETS OF VALUE



MARKET CAPITALISATION



SINCE INCEPTION NET RETURNS IN UP/DOWN MARKETS



Further Information

Looking for further information regarding the Fund, please don't hesitate to get in touch:

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Financial product advice contained in this document

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