CI BRUNSWICK FUND
QUARTERLY COMMENTARY REPORT

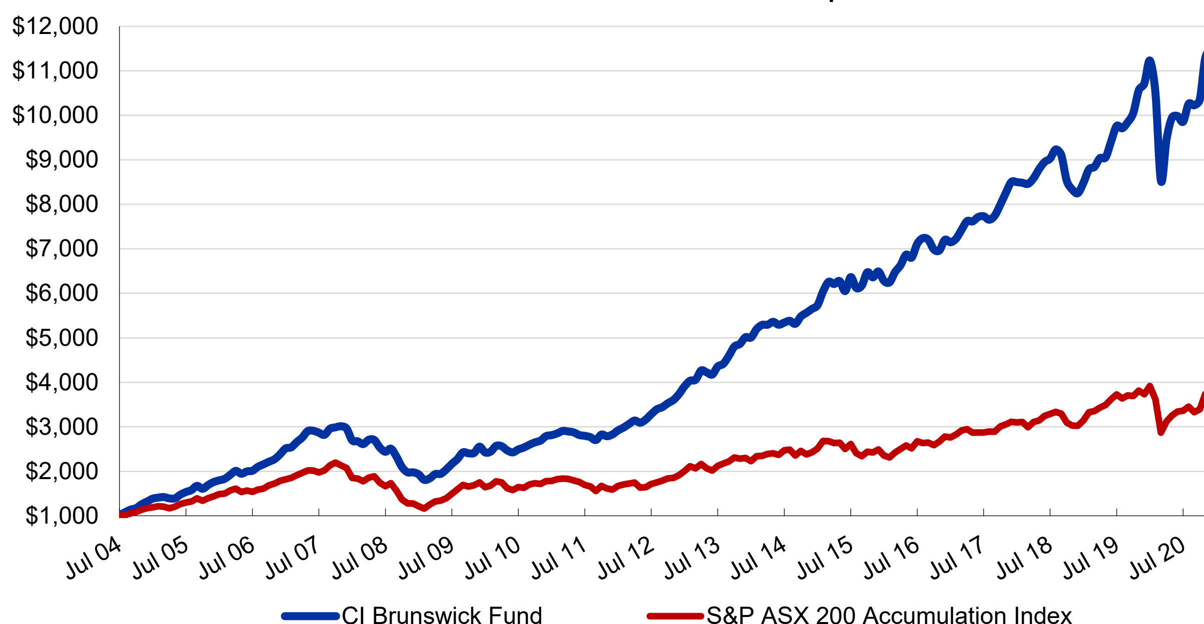
Cooper Investors Pty Limited AFS Licence Number 221794 ABN 26 100 409 890

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

DECEMBER 2020

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
LAST 3 MONTHS	12.7%	13.7%	-1.0%
FY 2021 YTD	15.4%	13.2%	2.2%
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%
SINCE INCEPTION*	16.0%	8.4%	7.6%
SINCE INCEPTION^	1,052.3%	278.3%	774.0%

*Annualised ^Cumulative (1 July 2004) **Before fees and expenses # S&P ASX 200 Accumulation Index
Past performance is not necessarily a reliable indicator of future performance



Source: NAB Asset Servicing

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"Three things support the perfection of a man: character, learning and practice."

— Plato

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 NZ 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 (40% of the Fund at present), Owner-Operator Cultures (30% of the Fund), and Specialist Focussed Managers (27% of the Fund).

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

Market and Portfolio Performance

Equities markets delivered another strong quarter of performance following the successful trials of a number of Covid-19 vaccines. In particular, many stocks that had been hurt by social distancing and travel bans recovered strongly, as did other cyclical stocks on the expectation of a broader, stronger recovery of global economies being more likely now in 2021.

During the December 2020 quarter, the ASX200 Accumulation Index returned +13.7% and for the 12 month period to December 2020 returned +1.4%.

The portfolio returned +12.7% for the December quarter and +7.5% for the 12 month period.

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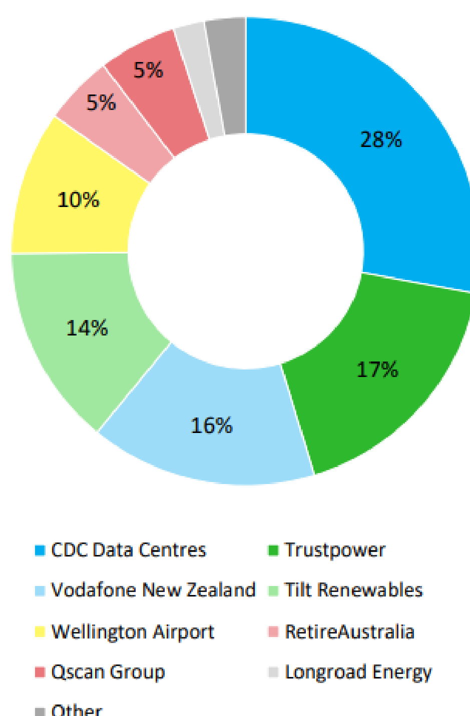
Key contributors to portfolio performance during the 3 month period include **Infratil (IFT)** (unsolicited takeover bid from AustralianSuper), **Mainfreight (MFT)** (solid 1H21 result) and **Lifestyle Communities (LIC)** (improving outlook in Victoria, acquired additional sites).

Portfolio stocks that performed relatively poorly include **Salesforce (CRM**) (announced acquisition of Slack), **Aurizon (AZJ)** (concern that coal volumes will fall given coal price pressure) and **Northern Star (NST)** (fall in the gold price).

In early December, Infratil (IFT) confirmed it had received two takeover approaches from Australian Super. The headline offer price of NZ$7.43 reflected a 28% premium to IFT's closing share price. Infratil, one of our Asset Plays, owns a collection of infrastructure assets predominantly in New Zealand and Australia. At present, its major sector exposures are Renewable Energy and Digital infrastructure, which are both experiencing material tailwinds. Importantly, IFT's exposure to these sectors are in market leading businesses – Canberra Data Centres (CDC) & Tilt Renewables.

Infratil Portfolio Composition



Source: Infratil

The Brunswick fund took a position in Infratil in late 2018 following an Investor Day at CDC. Infratil owns 48% of CDC which based on lagged independent valuations translates to ~28% of IFT's asset value.

While interest in CDC has certainly increased since 2018, we continue to believe this business is materially under-appreciated as it possesses the rare combination of attractive unit economics, infrastructure like earnings streams (long duration contracts, high retention) and strong future growth

prospects. These characteristics imply future growth creates significant value. No doubt this is a key part of the attraction for Australian Super.

Tilt Renewables, a developer and operator of wind farm assets in NZ and Australia, is another asset within Infratil's portfolio attracting significant investor interest. The company sold the Snowtown II Wind-Farm for $1.1bn a year ago for ~2x replacement value and recently announced it will be conducting a formal strategic review of Tilt. This follows corporate interest in Tilt Renewables and the takeover of Infigen (IFN) earlier this year by European based Iberdrola.

Infratil also recently acquired Vodafone NZ (mid-2019) from its parent company, Vodafone PLC. While Covid has slowed down the transformation program at Vodafone NZ there remains a relatively clear investment strategy: 1) Reduce the margin differential between Vodafone NZ and key competitors (a ~30% differential); 2) explore network sharing arrangements to reduce the Capex intensity of the industry; and 3) post improvements in underlying profitability, separate the infrastructure component of Vodafone to expose the different costs of capital applied to these more reliable earnings streams.

Very recently, Infratil closed an investment in Qscan, a premium Australian Radiology business. We look forward to doing further work on the Qscan business and the industry now that it has been brought into the Infratil stable.

In combination, Infratil's attractive set of assets provides a unique combination of growth (CDC, Tilt, Qscan), cash generating ability (Trustpower), and optimisation opportunity (Vodafone NZ). Most of the assets are privately owned and tricky to value, particularly given the 'optionality' inherent in each platform where privileged market positions enable capital deployment at high rates of return over long periods of time. Infratil's skill at allocating capital is best illustrated by the stock's 18% p.a. TSR since listing in 1994.

Napier Port (NPH), a Low Risk Turnaround, released its FY20 result during the quarter which was in-line with its prospectus forecast. In isolation this is a strong outcome as NZ's Covid-19 related lockdowns impacted log volumes through the port, which were already weakened due to a decline in log pricing in February and March of CY20. Although log volumes declined 8%, the trend has improved materially over the past few months as global economic activity recovers. In addition, pipfruit (apples, pears) volumes were resilient during the period with Container Revenue +2%.

Looking into FY21 there are a number of short term Covid related challenges, namely a sharp reduction in cruise ships docking at Napier (~10% of earnings) and secondly the potential for a shortage of seasonal harvest workers from 2Q20 onwards which could impact Napier's pipfruit volumes. Despite these transient risks, we believe Napier has the opportunity to improve operating efficiency and capital discipline irrespective of the macro environment as transitions from public to private ownership.

Mainfreight (MFT) reported a strong 1H21 result during the quarter, despite the challenges of Covid-19 which included a significant lockdown across New Zealand. During the half sales grew 7% (vs 1H20), EBITDA 16%, EBIT 20%, NPAT and EPS 23% and dividends per share 36%. Mainfreight has an outstanding history of compounding shareholder returns >20% p.a. underpinned by reliably growing earnings. Although its home country of New Zealand has been the biggest contributor to earnings, more recently growth in Australia has accelerated (14% sales growth in the half, EBITDA

+39%) driven by market share gains. In addition, MFT's Australian and NZ customers proved highly resilient and in many cases were positively impacted by Covid-19 (customers in food and beverage, DIY).

Mainfreight has a very strong balance sheet (net debt/EBITDA 0.3x), which was further strengthened in the period by a strong focus on cash collection and reduced capex spend which means it is well placed to ramp-up investment in its network assets, particularly in Australia, US and Europe, and build out its cross-docking capability at some of its existing sites.

Although the stock has performed strongly we continue to see a long-term opportunity across its various geographical markets with a highly focused management team and strong culture which supports Mainfreight's quality service offering and long-term positive operating trends.

During the quarter, **Elmo (ELO)** made two significant acquisitions in the UK. The first, "Breathe", provides cloud-based HR management software to small businesses in the UK and will complement Elmo's focus on the mid-market (Breathe branding to be retained). Elmo plans to bring Breathe back to Australia as well as continue to grow its position in the UK market. The second acquisition, "Webexpenses", provides a cloud-based employee expenses tool to 1,000 mid-market companies in the UK. This bigger UK presence will help Elmo rollout its other 15 modules into the UK market, which has 2x the number of mid-market companies relative to Australia.

Post these acquisitions, Elmo's combined annual recurring revenue is expected to exceed $80m, providing significant scale to reinvest in R&D and continue to grow its position in the HR management software markets in Australia and the UK. ELO trades on an attractive multiple of recurring revenue (~6x) relative to US HR and payroll peers like Paycom (25x) and Paylocity (17x), and other cloud software providers like Xero (23x).

* * * *

Salesforce (CRM) was added to the Brunswick Fund during the quarter. The team has followed the company closely with growing admiration for its entrepreneurial and values-based culture led by founder and CEO Marc Benioff. The business is well placed as the leader in its field with more companies moving to the Cloud and prioritising digital transformation.

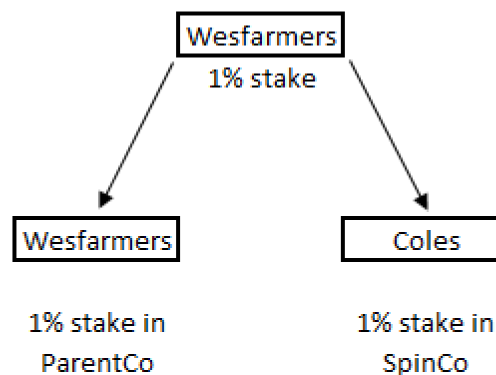
During the quarter Salesforce also announced the acquisition of Slack, the collaborative tools provider, for US$25bn. Salesforce has been built through savvy acquisitions, and whilst we knew acquisitions would continue we definitely were surprised with the size of the Slack deal (12% of Salesforce market capitalisation). When the Fund bought Salesforce we identified a business that had been performing strongly operationally yet its share price was lagging SAAS peers due to many investors' negative view on the 2019 acquisition of Tableau. We viewed these concerns as unfounded and saw Salesforce as very well placed with Cloud adoption accelerating with the pandemic and the shift to remote working, particularly given management commentary had been focused on delivering on organic growth and margin opportunities. Yet we also understand management's position that Slack is a unique asset. Time will tell whether it's a good deal or not.

Salesforce is investing heavily to grow revenues at nearly double the market growth rate. The ramifications are that margins of 18% are below the typical levels for a US$20bn revenue enterprise software company. The company spends nearly 40% of revenue on sales & marketing, a high level. Plus any acquisition is typically dilutive to margins in the near term and temporarily stunts the organic margin expansion that is occurring. If they decided to slow their growth, margin expansion would follow - as such we see the company trading on below 25x Free Cash Flow. In the meantime we believe the organic investments are generating attractive returns. Management need to continue executing on the growth, margins and cash flows at this important time post a larger deal. Shareholders also need to be patient as Salesforce execute but the stock offers value latency in the SAAS space where the average company trades on nearly ~20x sales.

Spin-Offs

One of the areas we remain excited about is Spin-Offs; these fall within our Low Risk Turnaround subset of value.

In simplest terms, a spinoff is a tax-free sale of one of the company's business units, which results in the shareholder of the original company now owning shares in both the original stock and the newly created, independent company.



Some of the more recent large spin-offs include Wesfarmers spinning off Coles, Fairfax de-merging Domain and BHP spinning off South32.

Typical reasons a company may choose to de-merge or spin-off these individual business units include:

- The spin-off operates in an unrelated business to the parent
- Value is being obscured since it is buried within a larger organization
- There is the potential for increased operational focus and/or greater capital allocation flexibility

- The spin-off is no longer wanted and alternative divestment options have not been possible
- To solve a regulatory hurdle

Spin-offs often possess attractive VoF attributes. These include:

- Latent value opportunities in refocusing via the NewCo's cost structure, capital investment process and the new optionality often provided by a conservative balance sheet.
- Improved Management focus (FMB) and highly aligned incentives.
- Behavioural (market) factors surrounding the listing which favour new buyers

As shown below, there is strong empirical evidence supporting spin-offs as an attractive pond to fish in combined with portfolio benefits (spin-offs have historically exhibited low Index correlation) which in our Reversionary capital pool provides balance to other stocks like cyclicals for example, that are more leveraged to changes in economic conditions.

				Outperformance	
Author	Published	Period	Sample #	1 Year	3 Years
Cusatis	1992	1965-1988	163	+12.5%	+18.1%
Desai and Jain	1999	1975-1991	155	+15.7%	+32.3%
Sigrist	n.a.	1992-2008	192	+24.4%	+43%
Penn State	1993	1964-1988	204		+10%
McKinsey	1999	1988-1999	168	+10%*	
S&P Global	2017	1989-2015	516	+8.4%	+22.1%

We also think we can tilt the playing field further in our favour by focusing on the spin-offs that display the most attractive VoF characteristics, particularly where operating trends are improving and the Management teams display proprietorial characteristics.

In addition, the Fund has the advantage that its spin-off universe is expanded by the ability to invest in small, mid and large cap Australian and New Zealand companies as well as International stocks.

In our view, GrainCorp (GNC) which de-merged from the larger United Malt earlier this year possesses many of the spin-off attributes listed above.

The company released its results in November which was accompanied by very strong harvest expectations for the upcoming year. This was recently reiterated by the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), which is forecasting 28.6 million tonnes, at the top end of harvests experienced over the past two decades. As a throughput business, this is clearly a positive tailwind for GNC.

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

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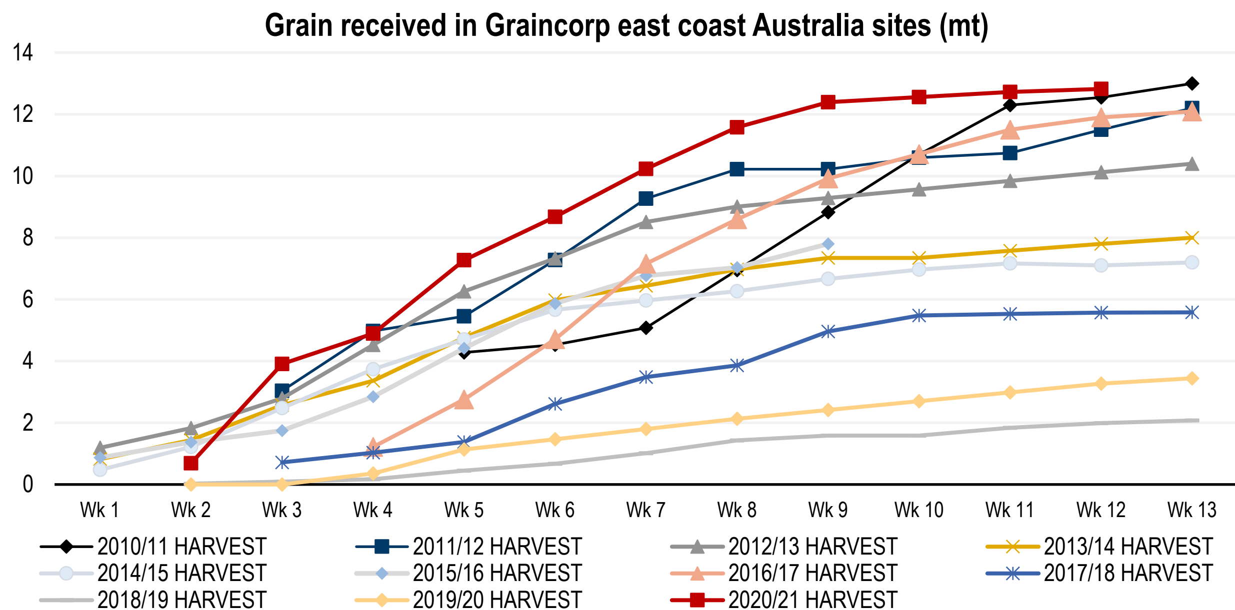

Source: Credit Suisse and GNC company data

However, what we are particularly interested in is the potential for GNC to rejuvenate itself following its de-merger from United Malt Group. This rejuvenation primarily focuses on greater cost efficiency (further cost-out), customer engagement (winning back market share) and improved capital discipline (excess cash returned to shareholders and fewer/more discerning “growth” projects). While it is still early days, the ability to deliver a strong set of earnings and FCF in FY20 despite it being the third year of a drought is a good start. A large portion of this was driven by recent self-help initiatives as the company prepared for independent life without being attached to the larger United Malt Group.

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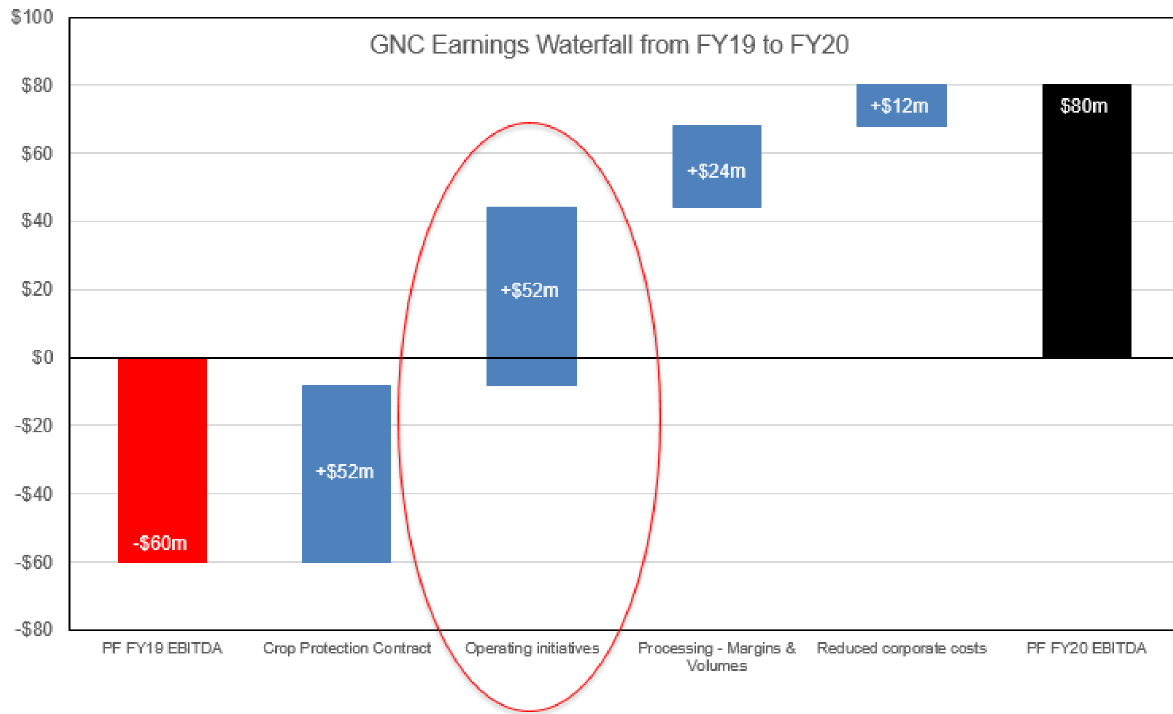

Source: Company data

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.

- **Stalwarts** (25% of the portfolio)
  - Sturdy, reliable and generally larger companies with world-class privileged markets and competitive positions. (Mainfreight, TPG Group)
- **Growth companies** (29%)
  - 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 – Cyclicals 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.
     - Cyclicals in the agriculture sector exposed to drought.
     - Cyclicals exposed to US housing.
     - Infrastructure privatisations.
   - **Cyclicals** (11%)
     - 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 cyclicals who can go to higher highs over multiple cycles. (BHP, Ferguson)
   - **Quality turnarounds** (7%)
     - 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. 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** (11%)

- 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** (17%)
  - 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 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 – 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 3% cash and has around 16% of assets invested in overseas stocks that own businesses in USA, Canada, UK and Mexico.

Portfolio attributes as at December 2020 are summarised below:

P/E*	25.8
Beta	0.91
Yield	2.4
P/Book	2.4
ROE	9.2
Tracking error vs. ASX 200	5.9
Stock Number	39

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

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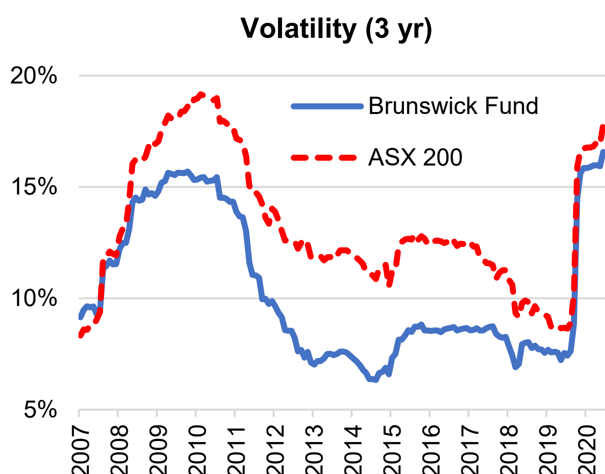
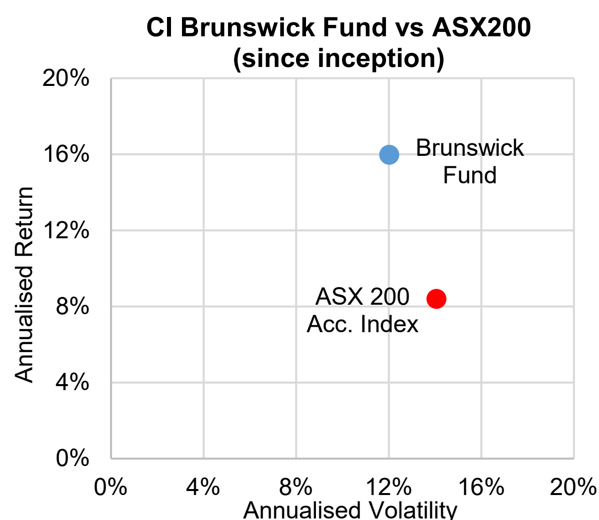
Portfolio Risk Metrics

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	+1,052%	+278%
Max Drawdown	-40.0%	-47.2%
Best Month	+10.9%	+10.2%
Worst Month	-18.9%	-20.7%
Positive Months	69.2%	64.1%
Negative Months	30.8%	35.9%
Annualised Volatility	+12.0%	+14.1%

*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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