CI BRUNSWICK FUND
QUARTERLY COMMENTARY REPORT

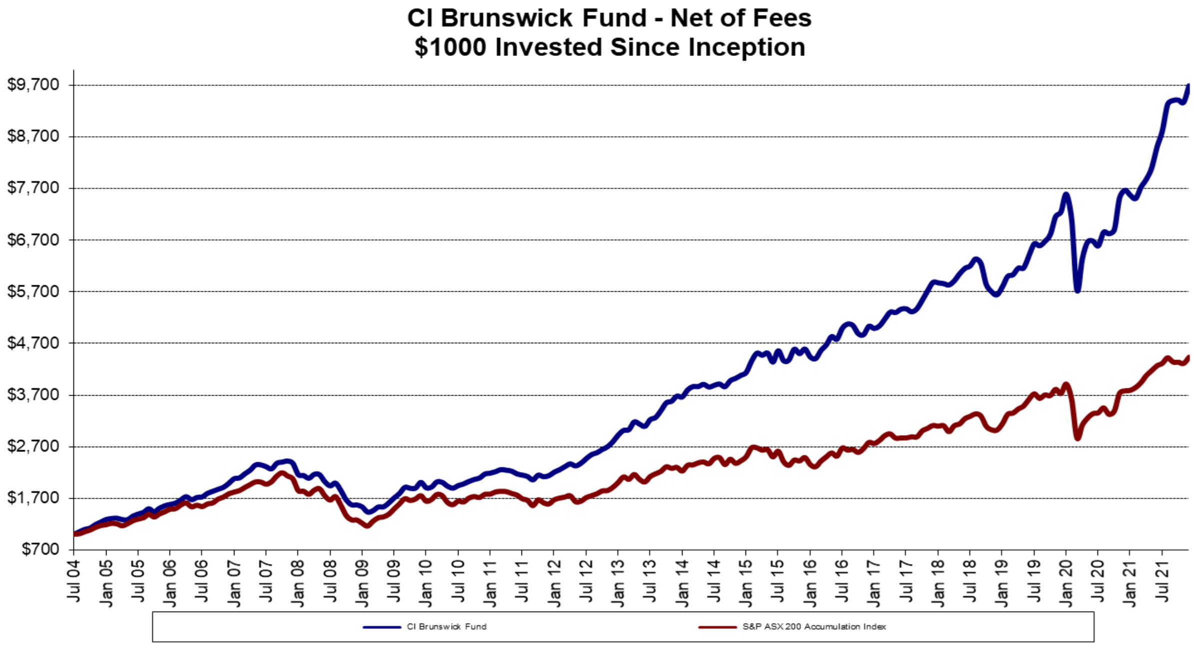
Cooper Investors Pty Limited AFS Licence Number 221794 ABN 26 100 409 890

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

DECEMBER 2021

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
FYTD	15.4%	3.8%	11.6%
FY 2021	28.6%	27.8%	0.8%
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%
10 YEAR*	18.0%	10.8%	7.2%
SINCE INCEPTION*	16.7%	8.9%	7.8%
SINCE INCEPTION^	1,381.4%	343.5%	1,037.9%

*Annualised ^Cumulative (1 July 2004) **Before fees and expenses # S&P ASX 200 Accumulation Index



Source: NAB Asset Servicing

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"Luck is what happens when preparation meets opportunity."

— Seneca

"It is unwise to be too sure of one's own wisdom. It is healthy to be reminded that the strongest might weaken and the wisest might err"

— Mahatma Gandhi

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 Australia and NZ companies and up to 25% International. 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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Market and Portfolio Performance

During the December 2021 quarter, the ASX200 Accumulation Index returned +2.09% and for the 12 month period to December 2021 returned +17.23%.

For the December quarter the portfolio returned +3.40% and +28.56% for the 12 month period.

Financial markets where again volatile in the December quarter. Inflation reached a 40 year high in the US, with the Federal Reserve now signalling a ‘tapering’ of monetary support and the beginning of interest rate increases from 2022.

Although economic growth is robust in many countries, the spread of COVID-19 is also still rampant, with cases rising during the winter months across the Northern Hemisphere and Australia now seeing the highest infections since the pandemic began. While most countries are now ‘learning to live’ with the virus, it seems likely covid cases will remain elevated for an extended period of time.

With this backdrop, ongoing volatility is likely, which should provide investment opportunities for the Fund.

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Key contributors to portfolio performance during the 3 month period include **Australian Clinical Labs (ACL)** (MedLabs acquisition, ongoing strong COVID-19 volumes), **Reece (REH)** (strong Q1 result) and **Ferguson (FERG)** (strong Q1 result).

Portfolio stocks that performed relatively poorly include **Ryman (RYM)** (Q2 impacted by COVID-19), **TPG Group (TPG)** (no news), and **Lifestyle Communities (LIC)** (no news, concern rising COVID-19 cases will slow sales).

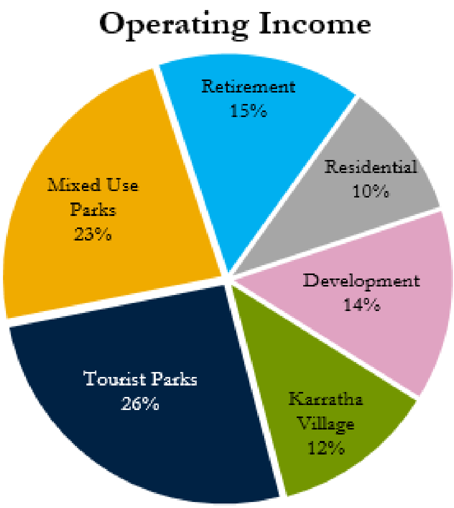
Australian Clinical Labs (ACL) is the third largest Pathology operator in Australia with a strong market presence outside of NSW and QLD.

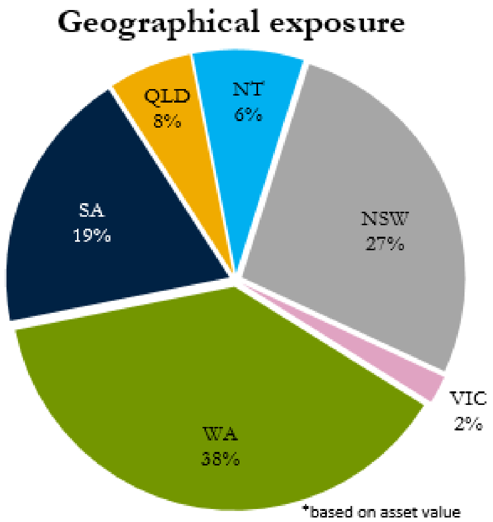
The stock sits in our ‘reversionary’ capital pool and has been demonstrating robust VoF attributes reflecting under-appreciated value latency, strong operating trends driven by the resumption of business-as-usual pathology testing in concert with elevated and persistent COVID-19 testing, and a high degree of focused intensity emanating from the senior management team.

Since ACL’s listing on the ASX, the market has placed limited value on each additional $1 of COVID-19 testing related earnings. We were therefore pleased to see ACL’s recent acquisition of MedLabs which was largely funded out of COVID-19 testing related cash flow. While the acquisition appears highly attractive financially (double digit EPS accretion, significant cost synergies) the strategic benefits appear equally, if not more important. These include a scaled presence in QLD, which had been lacking, in addition to a scaled-up presence in NSW in which their footprint has more than doubled in a largely complementary manner. The improved positioning in NSW and QLD will also assist ACL bidding for nationally contracted work, it will reduce the need for out-sourcing and expands their sub-specialty expertise (skin histopathology and gastroenterology).

We will remain keen observers of how the company integrates the Medlab acquisition and further utilises the optionality that has been established within the business (scalable IT systems, very strong balance sheet and a returns focused culture).

Aspen Group (APZ) sits within our 'real assets and income' capital pool, owning a diverse portfolio of residential accommodation assets targeting the affordable end of the market.





In a previous quarterly we noted that Aspen possesses an attractive combination of a highly sophisticated, opportunistic and heavily aligned management team paired with a significant opportunity to create value (more than $1 trillion addressable market).

In September this opportunism was on show with the company closing on the acquisition of a Perth apartment portfolio (514 apartments, 17 complexes, 4.7 Hectares) at valuations materially below replacement value and close to land value alone. We had been talking to APZ management about this specific opportunity for more than 2 years, underscoring their patient opportunism.

The company in early December then acquired a partially completed residential lifestyle estate out of receivership and in July a partially completed retirement estate at less than half of replacement value and well below land value alone. While these two smaller acquisitions are not material at a group level, it is representative of the value creation the company has been layering into the portfolio over the past few years, which is progressively becoming more apparent.

APZ provides exposure to a group of highly un-correlated assets (residential, tourism and resources property exposure) with significant downside protection reflecting the asset class (primarily affordable housing) and the management team (acquisitions made below replacement value augmented by further operational value creation).

In a similar vein our investment in **Brickworks (BKW),** an asset play, provides us with lowly correlated asset exposures. This primarily comprises 1) a significant look through exposure to Washington Soul Pattinson's defensive portfolio of listed and unlisted assets, 2) a leading Australian focused Industrial REIT with embedded growth options and 3) leading building materials businesses in Australia and the US.

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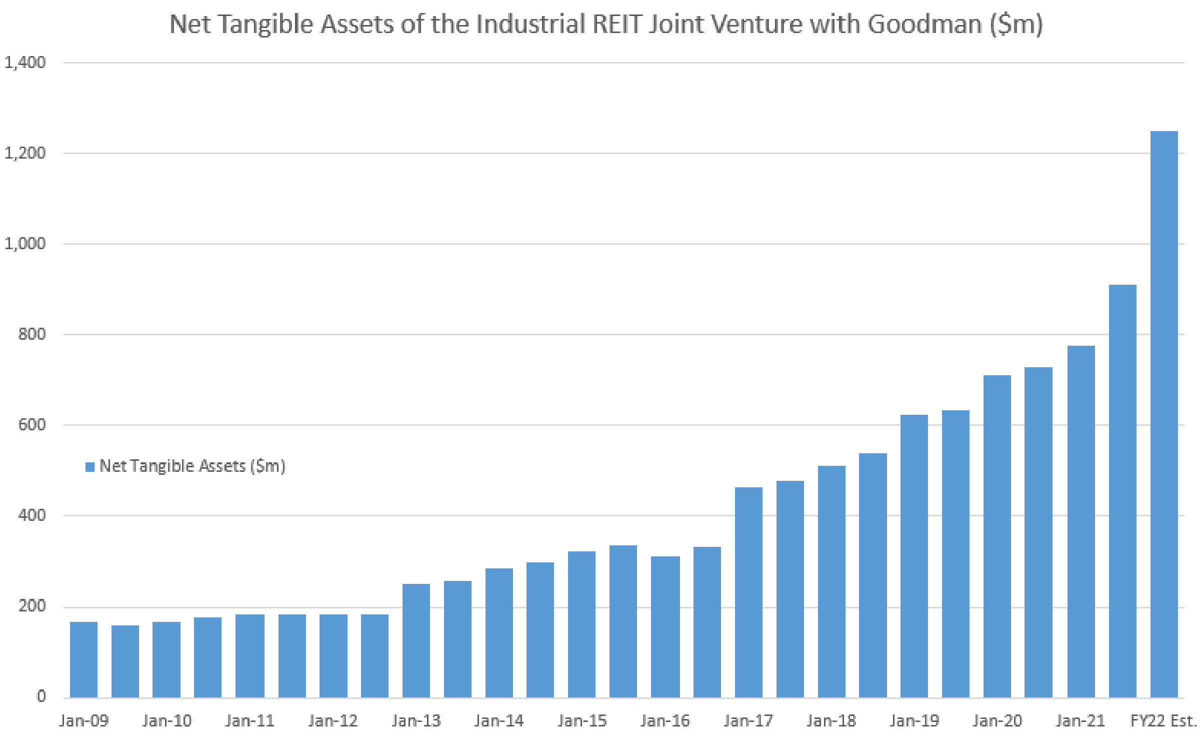
The important feature is that BKW is not only trading at a discount to our 'sum of the parts' valuation but BKW 'parts' are also growing in value and the highest growth is occurring in the highest quality assets – for example the Industrial REIT which comprises more than 30% of our valuation today.

This mix shift in portfolio quality over the past 5 years remains under-appreciated in our view.



*excludes value from Industrial land bank

During the quarter retirement village and care operator/developer **Ryman (RYM)** reported its 1H22 result under newly appointed CEO Richard Umbers. 1H22 profit grew 9%, with a robust housing market assisting resale profits. However, resale profit growth was partly offset by rising corporate costs (+13%) driven by both higher wage costs and COVID-19 related expenses.

RYM sits in the Fund's compounding capital pool. Over the last 20 years RYM has delivered 21.8% p.a. total shareholder returns (share price plus dividend), underpinned by ~19% p.a. earnings per share (EPS) growth, ~17% p.a. dividend per share growth and ~18% p.a. book value per share growth. All of RYM's growth has been organic, a remarkable performance.

However, in more recent years RYM's value creation has slowed (last 5 years, TSR +10% p.a., EPS +5.4% p.a., book value per share +14% p.a.). In short, this is a function of falling asset returns and a slowing capital recycle model (ability to quickly sell units to 'recycle' into the next development) as RYM increased its focus on Victoria and shifted to higher density developments. More recently, COVID-19 has added costs into the care side of the business and impacted both sales volumes and RYM's build or development rate, particularly in Victoria.

Interestingly, the recent appointment of a new CEO, new Chairman and other key management personnel suggest some degree of refocusing.

RYM sits in our 'owner operator culture' management category. RYM's sense of purpose runs deeply within the business and its culture. Since its founding in 1984 by Kevin Hickman and John Ryder, RYM has effectively balanced the cost of its 'care' proposition to residents with its ability to generate a financial return for shareholders. While Kevin and John are no longer directly involved, Director Geoff Cummings (10% shareholder) has also had a long involvement with the business.

The backdrop for RYM, and its operating trends, is favourable. House price growth in NZ and Melbourne is strong, which is a key support to RYM's resale profits. RYM has a significant development pipeline coming to market in the next few years, while over the longer-term the demand outlook is supported by favourable demographics – the next 10 years the 85+ demographic in Australia is forecast to increase to 800k from 500k (~5% growth p.a.), while the 65-84 group will increase to 4.8m from 3.8m (~2.5% p.a. growth).

RYM also appears to offer attractive value latency. RYM's P/NTA is low for this point in the housing market cycle and has steadily de-rated from 3.5x to 2.2x since 2017. Book value can be seen as a reasonable proxy for the value of RYM's existing assets, while the premium to book indicates RYM's ability to add value from growth / development.

Based on history, it is unusual for RYM's P/NTA to contract during such a large upswing in the housing market, with P/NTA multiples typically expanding as investors anticipate future growth in NTA. Using the current share price and our NTA growth estimates, RYM's P/NTA will further contract to around 1.7x by the end of FY23. The stock has only traded lower during the GFC and in the midst of COVID-19.

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A key tenet of the Brunswick Fund is finding the best sources of risk-adjusted value latency via compare and contrast of investment opportunities both outside and within the fund.

A recent example during the September quarter was a comparison we did on the Fund's existing holding in **BHP (BHP)** relative to **Orica (ORI)**. Both stocks fall into our 'reversionary' capital pool and demonstrate resource driven cyclicality.

The simplified VoF conclusion:

<u>Value latency:</u> BHP was no longer clearly under-valued on a tangible asset basis, whereas Orica's asset and sales base was trading at its cheapest levels in more than a decade. For ORI, there was also significant latency in exploiting the previous enterprise resource planning (ERP) investment program which had been highly challenging. When combined with the re-focusing and optimisation strategy this had the potential to drive margin improvement.

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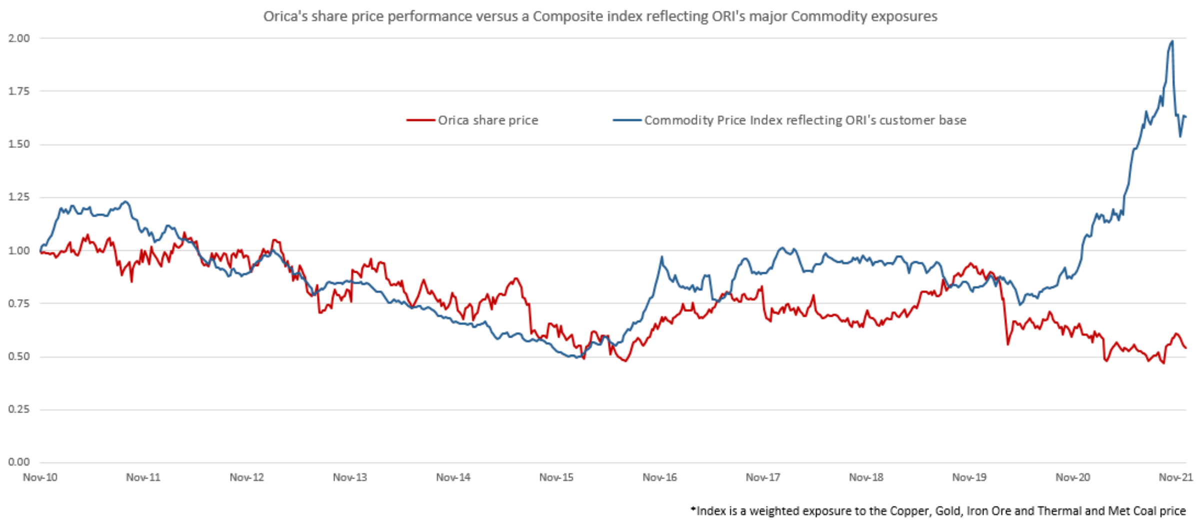
Operating Trends: BHP's major commodity, Iron Ore, was trading at very elevated levels relative to historical pricing and at significant premiums to the 90th percentile of their respective cost curves.

In contrast, one of the key operating trends to observe for ORI is commodity pricing and whether this incentivizes the increased use of explosives (ORI's main product). The observation was that commodity pricing across ORI's main exposures had rebounded significantly over the past 12 months and channel checks had indicated there was a focus on maximising production to exploit this attractive pricing.

Focused Management Behaviour: the recent management change at ORI had potential to provide a meaningful platform to re-focus operations, divest non-core assets and optimize the existing footprint versus BHP.

While ORI is likely to see ongoing challenges in the near term (customer COVID-19 issues persisting and recent East Coast Australia weather events), the latency inherent in its existing operations, the likely recovery of mining volumes from COVID-19 and the benefits to accrue from its ERP and cost efficiency initiatives provides an assortment of value creation opportunities for the new CEO.

Based on these observations we redeployed capital from BHP into ORI.



Our decision to sell BHP was fortuitous as it preceded a sharp fall in the share price driven by the Iron Ore price declining and the announcement that BHP would be collapsing the dual-listing structure (BHP shares are listed in both Australia and London).

BHP's London listing has historically traded at a large discount to the Australian listed BHP shares (regularly more than 15%) and as a result the collapsing of the dual listing was a catalyst to drive convergence between the Australian listed shares and the London listed shares.

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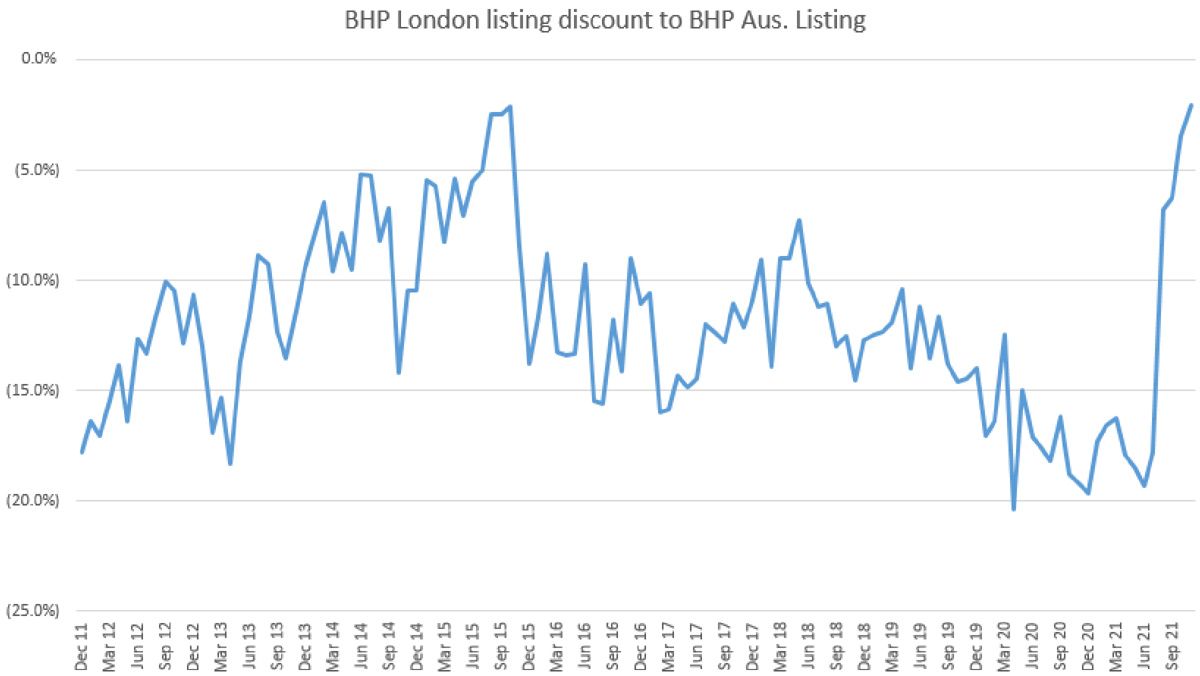

Following BHP's sharp share price retracement, the company's quality assets appeared attractively valued again, its key commodity exposure had reverted, it had announced the divestment of its petroleum business to WPL and there was an additional margin of safety that the Brunswick Fund was able to exploit by purchasing BHP via the London listing (a ~7% discount at the time with strong likelihood of near-term elimination – scheduled for Jan 2022). Given the improved VoF characteristics the Fund re-purchased a position in BHP.

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During the quarter the Fund initiated a position in **Colfax (CFX-US).** Colfax was founded in 1995 by Mitch and Steve Rales, the brothers who founded **Danaher (DHR-US)**. Colfax was a private equity like vehicle for the brothers to buy, improve and potentially sell businesses. Colfax was eventually listed in 2008 but had a difficult next 10 years given ownership of cyclical industrial businesses with leverage. In 2015 Matt Trerotola, a former Danaher executive joined as CEO and began to steady the ship. Cyclical businesses were sold, the balance sheet repaired and the company moved into medical technology.

More recently, in 2021 Colfax announced it will separate into 2 businesses – Enovis, a leading orthopaedics company and ESAB, a leading welding company.

Enovis will be a $1.5bn revenue business with a clear number one position in orthopaedic prevention and rehab products as well as an emerging reconstructive surgery product business. It is a well-run business with a lot of upside. First, COVID-19 and subsequent strains of Delta and Omicron have caused non-emergency surgeries to be pushed out and near-term growth to be dampened. There is a pathway to mid to high single digit growth on the other side. Secondly, while EBITDA margins are solid at 17% they are lagging peers in the 25% range. With an increase in size and scale there is a significant margin runway. Lastly, The Rales modus operandi is to reinvest cash flow back into the business via M&A to accelerate strategic and financial objectives. All together over the next 3-5 years we see an attractive earnings growth profile with a business trading on ~18x PE led by a highly accomplished management team and board, which continues to be led by Mitch Rales with support of his brother Steve who combined own 12% of the company.

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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 (52% 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).

    - Data and Telco infrastructure.
    - Everyday needs.

- **Stalwarts** (25%)
    - Sturdy, reliable and generally larger companies with world-class privileged markets and competitive positions. (Mainfreight, TPG Group)
- **Growth companies** (27%)
    - 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 (28%)**
    - 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 who will benefit from reflation
        - Restructuring opportunities in defensive sectors
    - **Cyclicals** (16%)
        - 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, Orica)
    - **Quality turnarounds** (12%)
        - Sound businesses with good management and balance sheets. We especially like spin-offs and government-to-private turnarounds. (United Malt, Z Energy)

3. **Real asset and income sources of value – Bond-Like Equities, and Asset Plays (19%)**
    - Stocks with specific risk and non-correlating attributes that make them very different to broader equities indices. All 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** (10%)
  - Owner, operator managers with long term commitment to shareholders 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 operation, 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 1% cash and has around 18% of assets invested in overseas stocks that own businesses in USA, Canada, and UK.

Portfolio attributes as at December 2021 are summarised below:

P/E*	18.67
Beta	0.93
Yield	2.68
P/Book	2.40
ROE	11.35
Tracking error vs. ASX 200	6.81
Stock Number	40

*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	+1,381%	+344%
Max Drawdown	-40.0%	-47.2%
Best Month	+10.9%	+10.2%
Worst Month	-18.9%	-20.7%
Positive Months	69.5%	64.8%
Negative Months	30.5%	35.2%
Annualised Volatility	+11.8%	+13.7%

*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.