COOPER INVESTORS BRUNSWICK FUND

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AFS LICENCE NUMBER 221794
ABN 26 100 409 890

QUARTERLY REPORT | DECEMBER 2022

FINANCIAL YEAR	**Portfolio	#Benchmark
2023 FYTD	10.6%	9.8%
3 Year*	9.4%	5.6%
5 Year*	10.6%	7.1%
10 Year*	14.2%	8.7%
Since inception*	**15.4%**	**8.3%**
Since Inception^	**1304.0%**	**338.7%**

* 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

"A great investment opportunity occurs when a marvelous business encounters a one-time huge, but solvable problem." **Warren Buffett**

QUARTERLY PORTFOLIO REVIEW

For the December quarter the Brunswick Fund returned 9.47% and for the financial year to date (FYTD) 10.6%.

For comparison the ASX200 Accumulation Index returned 9.40% in the December quarter and 9.8% for the FYTD.

The strong performance of equity markets in the quarter was despite the ongoing 'macro' uncertainty of high inflation and the corresponding increases in interest rates. These factors have dominated the 2022 calendar year creating a wide dispersion of winners and losers at both a sector and stock level.

As the table below highlights, the Australian market fared relatively well, particularly large stocks, due to the ASX200's skew to both commodity companies and the Banks. In contrast, US technology companies, the S&P 500, emerging markets and ASX small caps all performed poorly:

Index	Total Return - Calendar year 2022
ASX 200 Accumulation	-1.1%
ASX Small Ordinaries	-18.4%
S&P 500	-18.1%
NASDAQ	-32.5%
MSCI World (Developed)	-15.6%
MSCI Emerging Markets	-15.2%

Source: Factset

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Small capitalization stocks have added significant value to the Brunswick Fund over the last 19 years.

Of interest at present is Australian small capitalization stocks have now materially lagged their larger peers for more than 20 years. Most global markets with long data sets (100 years) suggest smaller stocks tend to outperform larger stocks, reflecting the higher risks of investing in this part of the market (smaller stocks tend to be much more volatile and less liquid). Looking forward, this could be a happy hunting ground for the Fund.

At the stock level, **Elmo (ELO)** (takeover bid), **Origin Energy (ORG)** (takeover bid) and **Lifestyle Communities (LIC)** (lifted its medium-term outlook for settlements), all performed well during the quarter.

In contrast, **Star Entertainment (SGR)** (potential for new taxes), **Ryman (RYM)** (gearing levels too high), **Australian Clinical Labs (ACL)** (decline in covid testing volumes), performed relatively poorly.

The biggest contributors to the Fund's performance in the quarter were the takeover bids received for ELO and ORG.

ELO provides cloud-based HR software in Australia and the UK to a mix of SME and mid-market customers. The Fund has held ELO for around 5 years since its IPO in the middle of 2017 and for most of that period the weighting in the Brunswick Fund was relatively small. Since IPO, ELO has grown its annual recurring revenue by around 30% p.a. and made a series of acquisitions to assist building out its product set.

However, ELO is yet to make a profit and over the last 12 months 'profitless' growth stocks de-rated significantly (note: ELO is the only stock in this category in the Brunswick Fund). ELO's share price fell to a low of around $2.20 per share when a large UK holder opted to sell at depressed prices. At this stage the Brunswick Fund more than doubled its position, holding ~8% of the register.

Not long after this, we travelled to the UK and visited ELO's two UK businesses – Webexpenses, which offers cloud-based expense management software (receipt management and reimbursement) and Breathe, which offers HR software to SMEs. We also met with a number of customers, former employees and industry consultants to deepen our knowledge, reaffirming both the quality of these businesses and what appeared to be a significant opportunity in the UK.

Shortly after returning from the UK, ELO received a binding takeover bid at $4.85 per share from K1 Investment, a US-based private equity fund that specializes in the software sector and it seems likely ELO's UK businesses were a key attraction for K1.

At times ELO has been a rollercoaster performer for the Fund, being either a key outperformer or a key detractor. Despite the takeover bid being below our view of longer-term value, our IRR was ~12% p.a. over the 5+ year investment period (vs ~7.7% p.a. for the ASX200 Accumulation Index and ~5.5% p.a. for the ASX Small Ordinaries). The offer will allow us to redeploy into other areas where we see more significant near-term value latency.

In addition to the ELO bid, ORG also received a non-binding takeover offer at $9 per share by a consortium including Brookfield and EIG. ORG's assets will be split with Brookfield owning Energy Markets (Electricity and Gas generation and Retail businesses), while EIG will take control of ORG's share in the Australia Pacific LNG (APLNG) business.

We first invested in ORG with the view there was little value attributed to the Energy Markets business, following a significant fall in its earnings base, an outcome of many years of poor government decision-making and confusing policy, accelerated by the more recent spike in energy prices.

ORG shares currently trade at a significant discount (~15%) to the bid price given the bid is still non-binding and regulatory approval is required. This wide spread is likely also a function of the Federal Government's intervention in the domestic gas market which proposes that pricing should reflect domestic production costs including an unquantified "reasonable return".

Brookfield are a global leader in renewables, infrastructure and property investment, with a long-term investment horizon and a clear eye on the substantial capital that is required to transition Australia's energy network to renewables.

The Fund also owns a position in Brookfield, which itself was topical during the quarter as the listed parent spun-off a 25% holding in its asset management business. Brookfield's parent owns both the asset manager (which earns fees for managing assets) and stakes in its various listed and unlisted assets/funds (renewables, property, infrastructure etc). Brookfield sits in the Brunswick Fund's real asset and income capital pool.

Star Entertainment (SGR) performed poorly during the quarter as the NSW Treasury proposed to increase taxes by more than 30%. While details are limited and there is likely an element of positioning ahead of the NSW election in March, the proposed tax increase could render Star Sydney uneconomic.

We are expecting a challenge to the government's extraordinary and oppressive decision given a 20 year tax agreement was only re-contracted two years ago.

Post the conclusion of the NSW inquiry our judgement of the regulatory risk proved to be optimistic and highlights the risks of government policy interventions.

FUND POSITIONING

The Fund holds 36 stocks, with 19% by value held in International stocks and 3% sitting in cash. Our cash position is held to offset our more illiquid positions in the Fund, rather than as a view on the state of markets.

In addition, the two stocks under takeover bid equate to around 7% of the portfolio.

The two takeovers are an illustration of the value latency we see across the portfolio (which we've realized sooner than expected in these cases). We see similar latency in other parts of the portfolio, as examples:

- ~12% of the Fund is in positions where we are actively engaged with Directors assisting value realization. In most cases we hold a substantial (more than 5%) interest in the company. We expect value realization events in the next 12 months

- ~14% in highly 'idiosyncratic' situations with a clearly defined value pathway, relatively independent of broader economic conditions

- ~8% in small capitalization stocks that we see as deep value. These stocks were impacted either by covid or have recently suffered a large de-rating and we see significant upside over a 3-5 year timeframe

- ~8% in quality global stocks that have some cyclicality or have de-rated significantly over the last 12 months (and are trading on ~10-12x PE ratios)

The rest of the portfolio includes ~18% in quality asset situations trading at discounts (sometime because of the listed company structure) or where we see long-term value creation potential in the asset category. Around 10% is in commodity cyclicals and their 'picks and shovels', ~10% in quality large stalwarts and a further ~12% in higher growth companies that we believe are well placed to create value over the next 5 years.

There were no significant changes made to the Fund's positioning during the quarter. The fund holds 36% in compounders, 34% in reversionary stocks, and 26% in real asset and income securities.

Across the quarter we visited companies on the east coast as well as in Perth and had one of the busiest December periods for many years, with a significant number of company meetings.

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CLIENT RELATIONS

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