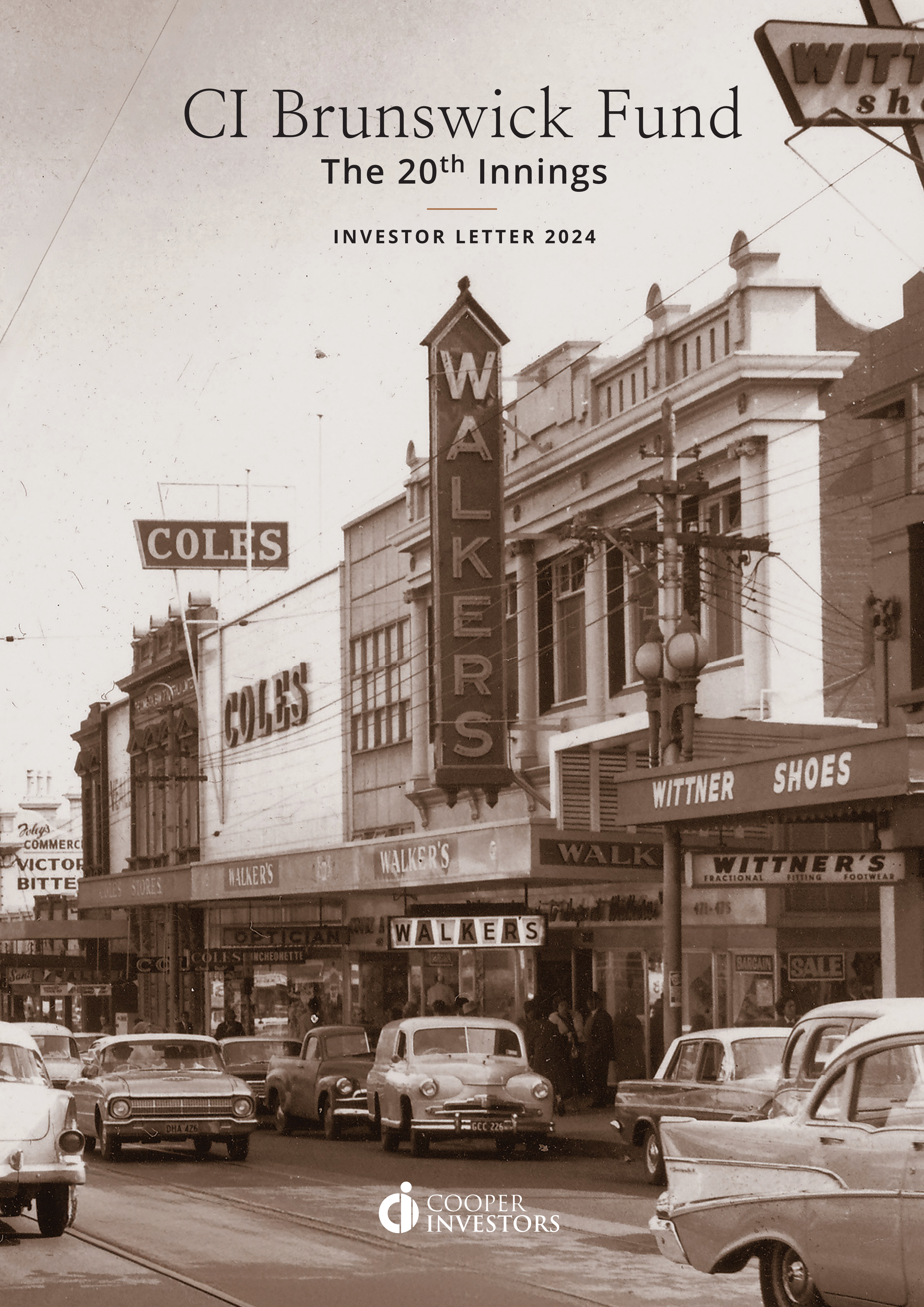
CI Brunswick Fund

The 20th Innings

INVESTOR LETTER 2024



COOPER INVESTORS

CI BRUNSWICK VS. THE ASX 200 ACCUMULATION INDEX

	ANNUAL PERCENTAGE RETURN (GROSS)		
12 Months to June 30	**Brunswick Fund**	**ASX 200 Acc. Index**	**Relative**
2024	12.83%	12.10%	0.73%
2023	13.84%	14.78%	-0.94%
2022	-1.09%	-6.47%	5.38%
2021	28.57%	27.80%	0.77%
2020	6.09%	-7.68%	13.77%
2019	5.15%	11.55%	-6.40%
2018	16.03%	13.01%	3.02%
2017	13.37%	14.09%	-0.72%
2016	12.46%	0.56%	11.90%
2015	14.30%	5.68%	8.62%
2014	26.79%	17.43%	9.36%
2013	31.97%	22.75%	9.22%
2012	12.37%	-6.71%	19.08%
2011	16.06%	11.73%	4.33%
2010	18.71%	13.15%	5.56%
2009	-19.37%	-20.14%	0.77%
2008	-12.92%	-13.40%	0.48%
2007	45.72%	28.66%	17.06%
2006	35.33%	23.93%	11.40%
2005	45.57%	26.35%	21.22%
10 Year*	11.90%	8.05%	3.85%
Since Inception^	1530.97%	414.03%	1116.94%
Since Inception (p.a.)	14.97%	8.53%	6.44%

*Annualised
^Cumulative (inception date was 1 July 2004)
Past performance is not an indicator of future performance

Cover Image: Coburg Historical Society

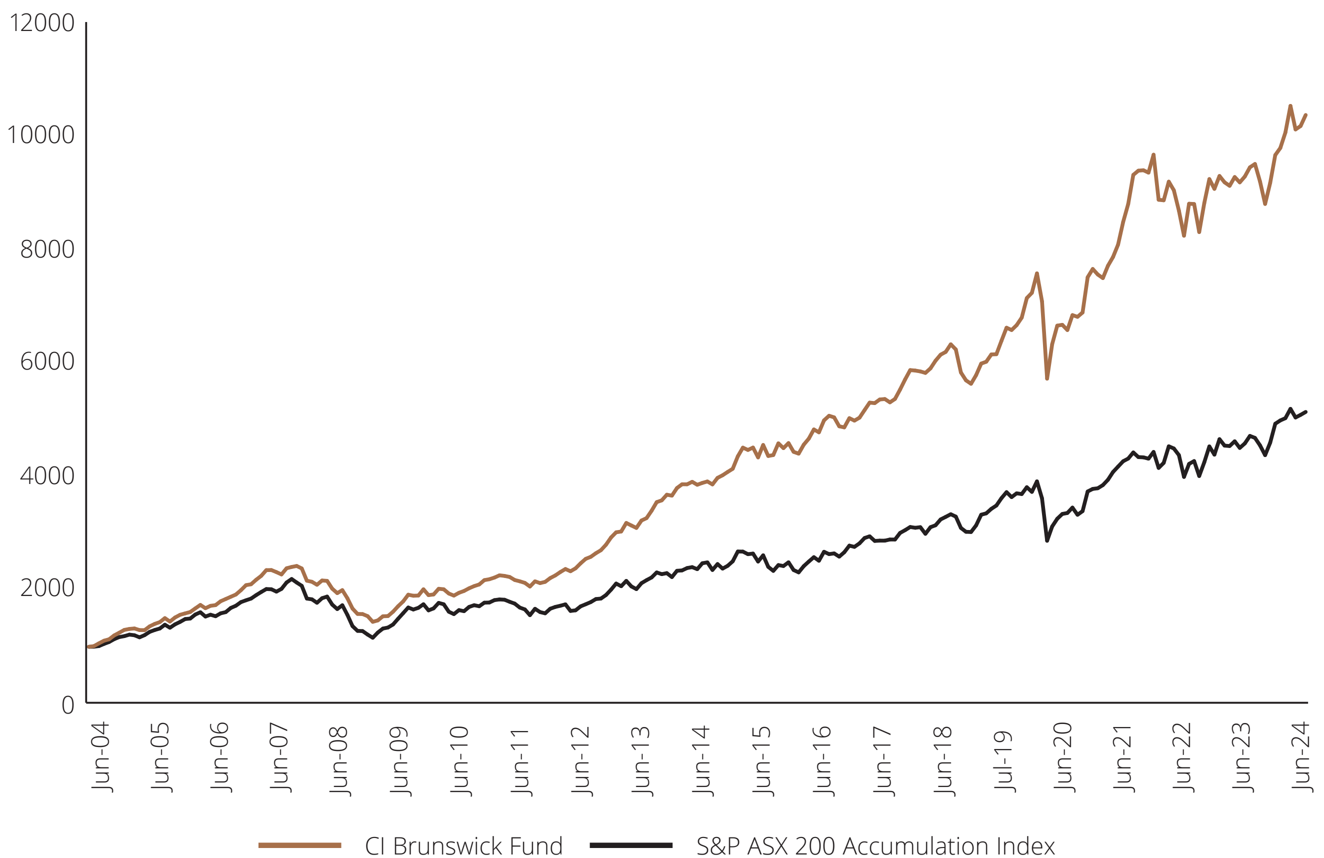
JULY 2024

BRUNSWICK FUND INVESTORS,

This year is a special year for the Brunswick Fund as we celebrate our 20th anniversary. We'd like to thank you, our investors, for your support over these 20 years and trust you'll also find reasons to celebrate.

Over the 20-year innings, the Fund has returned 15.0% p.a. on a before fees basis, and 12.4% p.a. after fees, which translates to 10.4x investors' original investment. Compared to the Fund's benchmark, the ASX 200 Accumulation Index, returned 8.5% p.a. or 5.1x investment.[1]

Chart 1: **Brunswick Fund Returns Net of Fees (index starts at 1,000 in July 2004)**



Source: Internal CI data, 30 June 2024
Past performance is not a reliable indicator of future performance.

Given the important milestone, we have dedicated some of this letter to looking back over the last 20 years as well as a more detailed look at the last year. We trust this will be helpful for contemplating what to expect going forward.

It shouldn't be a surprise that much has changed since July 2004. Back then, the Hon John Howard was Prime Minister of Australia, the iPhone did not exist, the average price of a loaf of bread was $2.47, unleaded petrol had just nudged $1 per litre, and the median house price in Melbourne was $321,000.

Since the inception of the Brunswick Fund, the world has been through a global financial crisis and pandemic, the emergence of new geopolitical and economic drivers, and unprecedented economic change.

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

I began working and investing (first personally) a little over 20 years ago. There are many experiences that have influenced me during that period. But one that stands out was in 2008, when I was working at Credit Suisse in London, and walked across the road from the office to see staff carrying boxes out of Lehman Brothers after the company had succumbed to bankruptcy. An institution that up until that point had survived, and mostly prospered, for 158 years. It left a deep impression that anything can, and will happen – change is the only thing that can be assumed.

This is why it is so challenging to succeed as an investor over extended periods of time, which is perhaps why we enjoy investing so much. For me it also why the VoF investment philosophy resonates – our system of investing provides both anchor principles and beliefs, as well as flexibility and openness to adapt as the world changes. As an example, for the first time in the Fund's 20-year history, we participated in a pre-IPO placement with Guzman y Gomez.

You should have confidence, as we do, that Australia, its economy, and the stocks listed on the ASX are both dynamic and remarkably resilient. It is why we remain passionate and focused on investing in listed markets.

The aim of the Brunswick Fund is to provide investors with an exposure to a portfolio of mostly ASX-listed stocks (as well as global 'compcos' or comparison companies), balancing good returns, with lower risk and consistency. In other words, underpinned by a 'tortoise over the hare' mindset.

Throughout the Fund's 20-year history as well as today, the investment philosophy and strategy remains steadfast. The Fund is committed to the application of the Cooper Investors' VoF investment philosophy across a relatively unconstrained universe.

The Fund continues to be capacity constrained which means we are not taking any new external applications beyond accounting for redemptions, cash distributions or a significant market dislocation. This will help us maintain performance and assist us in taking advantage of liquidity events (IPOs, secondary raisings, other dislocations) and access to quality small and mid-cap stocks.

We thank investors for your continued support and we remain highly focused on delivering another 20 year innings of strong risk adjusted performance for you.

Justin O'Brien, Portfolio Manager

Justin O'Brien
Portfolio Manager

Stuart McLachlan
Deputy Portfolio Manager

Gordon Lee
Research Analyst

20 years of enduring outperformance

Over the past 20 years, stock markets (ASX 200 and MSCI World Index) have delivered on their promise of generating returns above inflation, cash, and bonds. And so too has the Brunswick Fund:

Table 1: 20 year returns across asset classes

	20-year total return (p.a.)
Inflation	1.9%
Cash	3.2%
Australian government bonds	4.3%
RBA commodities basket	5.1%
ASX Small Ordinaries	5.5%
ASX 200	8.5%
MSCI All Country World Index	8.7%
Brunswick Fund (gross of Fees)	15.0%
Brunswick Fund (net of Fees)	12.4%

Source: RBA, ABS, GDD, S&P, MSCI
Note: the Brunswick Fund Fee calculation over life of Fund is impacted by a different fee structure for the first few years. This coincided with a high level of absolute returns. The base fee is 1% p.a. with a 10% performance fee above the benchmark ASX 200.
Past performance is not a reliable indicator of future performance.

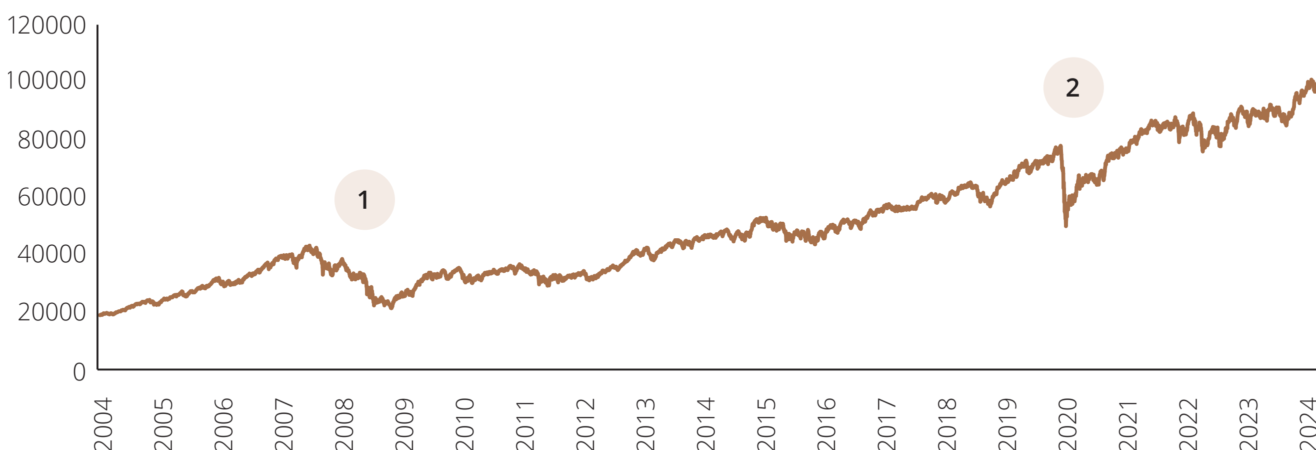
The ASX 200 returned 8.5% p.a. over the 20-year period. Whilst a solid performance, this is below the very long-term returns of 10.7% p.a. estimated by Dimson, Marsh and Staunton (over the period 1900–2023). The 20-year return is a spread of around 4% to government bonds, which again is below the ~5.5% p.a. spread estimated over the longer period. The point is, with bonds yields now at higher levels, history suggests equities should deliver higher absolute returns, particularly relative to recent history.

THE ASX 200 OVER THE LAST 20 YEARS

The last 20 years has included some remarkable events. As the chart below illustrates, there were two significant “draw-down” events over the 20-year period:

1. Global financial crisis (perhaps a 1 in 50 year event)
2. Global pandemic (perhaps a 1 in 100 year event)

Chart 2: ASX 200 Accumulation Index



Source: Factset data

Inevitably, markets recover from these big events and over longer periods trend upwards, with lots of mini-cycles in-between:

Table 2: **ASX 200 returns last 20 years over various "bull" and "bear" markets**

Period	Total Return (%) of ASX 200	Years	% p.a.
July 2004 – October 2007	129%	3.25	25.4%
October 2007 – March 2009	-50%	1.5	-46.8%
March 2009 – February 2020	259%	11	11.6%
March 2020*	-36%	0.1	
23 March 2020 – July 2024	97%	4.25	16.0%

Source: Factset data
*peak drawdown for COVID was 20 Feb 2020 through 23 March 2020

ASX 200 COMPOSITION

Interestingly, not a lot has changed at the large end of the ASX 200 over the last 20 years. The top 10 stocks still represent about half of the ASX 200 by market capitalisation. The composition also remains similar with the big banks, big resource companies and a few select industrials dominating the top 10:

Table 3: **ASX 200 top 10 stocks today vs 20 years ago**

Top 10 stocks – 2004	$bn market cap	Top 10 stocks – 2024	$bn market cap
21st Century Fox (A and B)	$49.4	BHP	$215.2
NAB	$45.3	CBA	$212.2
BHP	$45.2	CSL	$141.1
CBA	$41.7	NAB	$111.6
ANZ	$32.7	Westpac	$94.3
Westpac	$30.9	ANZ	$86.1
Telstra	$29.0	Wesfarmers	$74.1
Woolworths	$12.1	Macquarie	$71.0
St George	$11.1	Goodman	$60.8
Rio Tinto	$10.8	Woodside	$51.2
Total Top 10	**$308**		**$1,117**
ASX 200	**$654**		**$2,301**
Top 10 % ASX 200	47%		49%

Source: Factset data

Over the 20 years CSL made the biggest leap, from #39 to #3, and was the stand-out in terms of returns. This was a function of both organic growth and acquisitions. As long-term investors, CSL was owned in the Brunswick Fund for around 18 of the 20 years and highlights our focus, particularly in the Compounding (growth) capital pool, to find stocks that can move their way up through the index over time.

Also notable over the period, 21st Century Fox changed to a US listing, and then underwent various changes into Newscorp and Fox, with Fox assets eventually sold to Disney. St George was also acquired by Westpac.

Of the starting group of the 10 largest ASX 200 stocks, the key outperformers were BHP, RIO and CBA.

CBA has the highest ROE of the Australian banks and despite the Global Financial Crisis and a financial services Royal Commission, delivered strong shareholder returns over the period. The Brunswick Fund owned CBA for some of the 20-year period but has had no significant exposure to CBA or any of the large banks for the past five years. Underpinning the Australian banks is their now high exposure to Australian residential property lending, having moved away from offshore businesses and financial advice/wealth. The Fund retains exposure to Australian property via other stocks.

Over the 20-year period, the mining sector was supported by strong growth in demand from China. In particular, the growth in demand for iron ore, which is a key ingredient in steelmaking, has played a critical role in the urbanisation of China, both in new property development and the building of infrastructure. BHP and RIO now make most of their profits from their iron ore divisions.

The observation of the past 20 years is that there is unlikely to be much change at the big end of the ASX 200.
To assist us in consistently outperforming the index over longer periods the Brunswick Fund's strategy is to be different.

The Fund achieves its differentiation through its "pure" application of CI's VoF Philosophy:

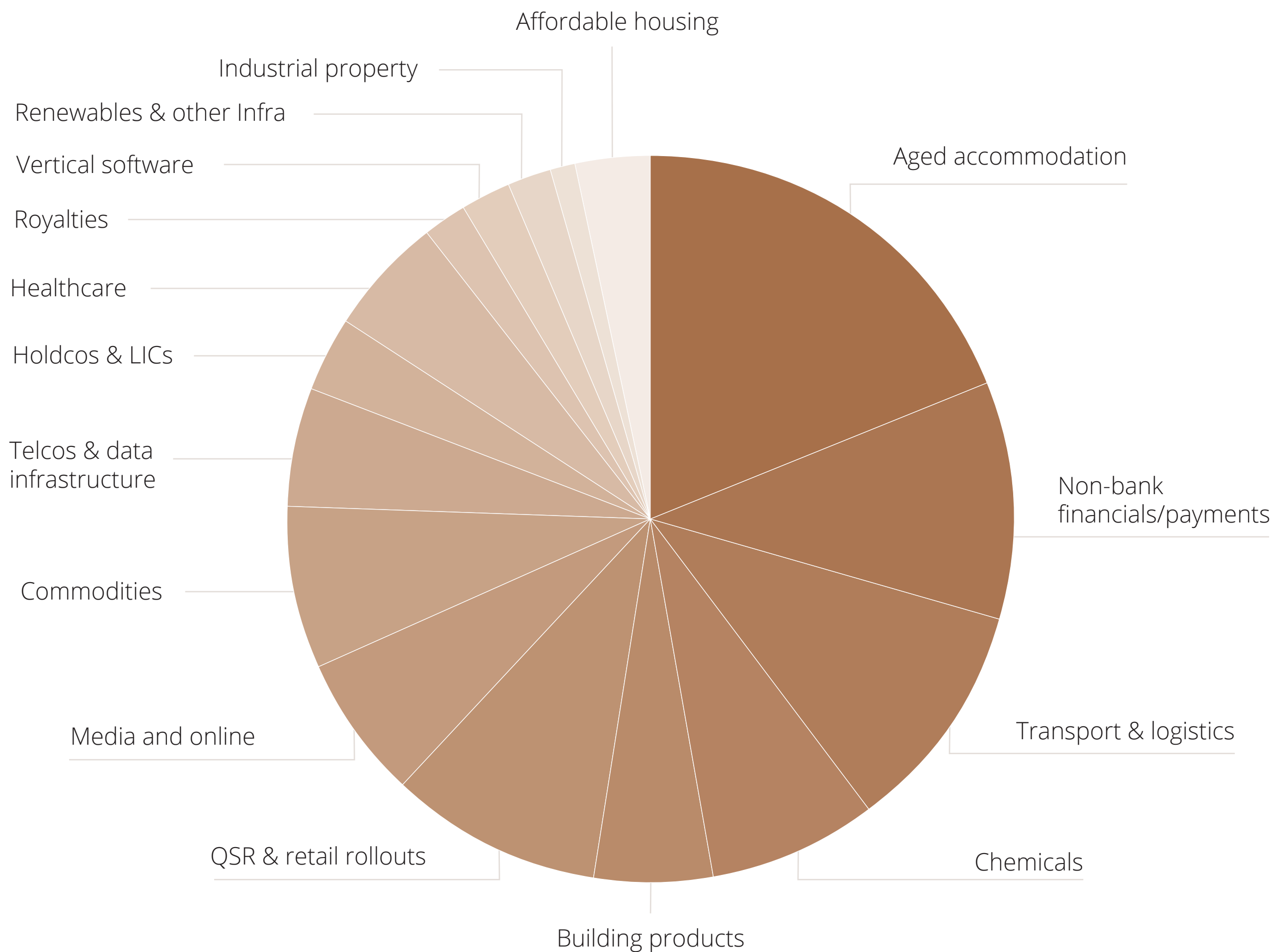
- Benchmark unaware
- Focused strategy:
  - Leveraging CI's domestic and global research (up to 25% of portfolio invested internationally) – compare and contrast opportunities to improve risk and return attributes
  - Backing companies with proprietorial VoF behaviour
  - Allocating to three competing pools of capital – Compounding, Reversionary, and Real Assets and Income

What you own

The Brunswick Fund is composed of a relatively eclectic mix of stocks that own businesses operating in a broad array of end markets. However, there are some sectors that feature more prominently e.g. the aged accommodation sector.

We aim for both diversity (size, geography, business model, subset of value/capital pool) and concentration in key clusters or areas that we think are particularly attractive and where we think our specialist knowledge can add value.

Chart 3: Brunswick Fund by sector – a wide diversity of industries



Source: Internal CI data, 30 June 2024

The Fund's benchmark is the ASX 200 Accumulation index which is the reference we use for performance. However, the benchmark does not significantly influence the way we manage the Fund and we don't spend a lot of time thinking about how the Fund is positioned *relative* to the benchmark.

The top five holdings in the Fund at 30 June 2024 in alphabetical order are as follows:

1. Aspen Group
2. Guzman y Gomez
3. Infratil
4. Newscorp
5. Regis Healthcare

Review of FY24

For the FY24 year the Brunswick Fund returned 12.8% gross, or 11.7% net of fees.[2] The ASX 200 Accumulation Index by comparison, returned 12.1%.

CAPITAL POOLS

The Fund invests in three Capital Pools – Compounding, Reversionary and Real Assets (see page 11 for further detail). The Reversionary capital pool provided the strongest contribution to returns in FY24. This pool has also been a strong contributor over three and five years. In contrast, the Compounding pool returns were disappointing in FY24. However, we have made several changes to the Compounding pool this year that give us increasing confidence looking forward.

Table 4: Brunswick Fund returns (Gross) by Capital Pool

	Average weight (%) FY24	1 Year return contribution	3 Year return contribution (% p.a.)	5 Year return contribution (% p.a.)
Compounding	30.3%	-0.5%	0.2%	3.4%
Reversionary	38.3%	7.9%	4.9%	4.5%
Real Assets	28.5%	4.9%	2.8%	3.5%
Cash	3.0%	0.4%	0.3%	0.2%
Total	100.0%	12.7%	8.3%	11.6%

Source: Internal CI data, 30 June 2024
Past performance is not a reliable indicator of future performance.

SIZE AND GEOGRAPHY

In the Fund's FY23 letter we unpicked in more detail the performance attribution across our small and large capitalisation stocks and domestic and international allocations. We have summarised the contribution to return from each of these buckets and their average weight during FY24 below:

Table 5: Brunswick Fund returns by size and domestic/international

Category	Average weight (%) FY24	1 Year return contribution	3 Year return contribution	5 Year return contribution
Domestic – Small (<$3bn)	32.5%	6.2%	2.6%	3.9%
Domestic – Large (>$3bn)	48.7%	3.3%	4.0%	5.7%
International	15.8%	2.8%	1.3%	1.8%
Cash	3.0%	0.4%	0.4%	0.2%
Total	100.0%	12.7%	8.3%	11.6%

Source: Internal CI data, 30 June 2024
Past performance is not a reliable indicator of future performance.

Over the past five years, it has been a more difficult backdrop to generate returns in the small capitalisation (less than $3 billion) part of the market. The Small Ordinaries Accumulation Index has returned just 3.7% p.a. over the five-year period and the index actually fell by 1.5% p.a. over the last three years. This is well below the return of the ASX 200 (7.3% p.a. over 5 years and 6.4% p.a. over 3 years). By comparison, if the Fund's small capitalisation stocks were 100% weighted, this portfolio would have returned 6.4% p.a. for the last 3 years, and 11.0% p.a. over the last five years (gross).

2 Past performance is not a reliable indicator of future performance.

During the FY24 year, the contribution from smaller capitalisation stocks was stronger than prior years.

The Fund's international stocks also did particularly well in FY24. These stocks shouldn't however be thought of as a portfolio within a portfolio. Rather, each stock makes its way into the Fund usually as a 'compare and contrast' to an ASX listed stock. For example, the Fund holds US-listed Louisiana Pacific (LPX), a peer to ASX-listed James Hardie (JHX).

STOCK CONTRIBUTORS AND DETRACTORS

At the stock level, Regis Healthcare (Reversionary), Newscorp (Real Assets and Income) and Guzman y Gomez (Compounding), were all key contributors to FY24 returns.

Key detractors were Star Entertainment (now sold, Reversionary stock), Ryman Healthcare (Compounding), and Lifestyle Communities (Compounding). Underlying all of the key detractors was balance sheet risk that manifested via regulatory review/dispute (for Star) or as the housing market softened (Victoria and New Zealand). We continue to see opportunity in Ryman and Lifestyle Communities given we are likely at, or towards, the bottom of the housing development cycle.

Table 6: Key stock contributors to FY24 performance

Key Contributors	Portfolio Return	Key Detractors	Portfolio Return
Regis Healthcare	5.7%	Star Entertainment*	-2.3%
Guzman y Gomez	2.2%	Ryman Healthcare	-1.3%
Newscorp	2.0%	Lifestyle Communities	-0.7%

Source: Internal CI data, 30 June 2024
*Stock sold from portfolio during period
Past performance is not a reliable indicator of future performance.

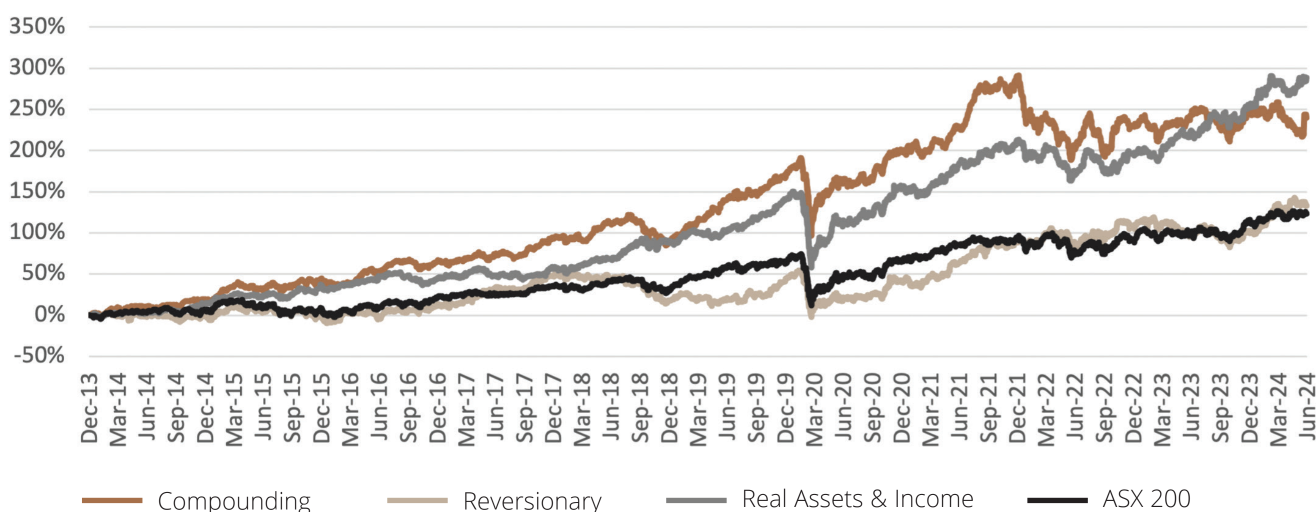
Capital pools

Capital Pool	Compounding	Reversionary	Real Assets & Income
Subsets of Value	*Growth & Stalwarts*	*Cyclicals & Low-risk Turnarounds*	*Bond-like Equities & Asset Plays*
Features	Underappreciated Growth	Low-Risk Sources of Reversionary Value	Uncorrelated Endowment-like Assets
Key Attributes	• Runway for organic growth • Proprietorial managers (families and founders and owner-operator cultures) • Pathway of value creation • Identifiable value based on traditional metrics	• Quality businesses • Defensive sectors • Capital or supply scarcity • Balance sheet repair • Corporate events (spin-offs, restructurings etc) • Specific pathway for value creation (e.g. cost out) • Specialist (expert), aligned management teams	• Asset backing • Lower correlation to markets • Inflation protection (income or assets) • Ability to grow asset value over time • Evidence of valuation anomalies

The chart below shows how each of the Fund's capital pools have performed over the last ten years assuming each pool as a separate portfolio. Of note, the Real Asset and Income pool has produced particularly attractive returns over the 10 year period, given it has the lowest volatility.

While the Reversionary pool returns are lowest over the full period, the capital pool has delivered strong returns over the last five years. In part, this reflected opportunities created as a result of COVID-19 and, more recently, the increasing interest rate cycle.

Chart 4: Brunswick Fund cumulative returns (Gross) by Capital Pool



Source: Internal CI data, 30 June 2024
Past performance is not a reliable indicator of future performance.

We've also compiled the returns of each capital pool on an annual basis, as well as the annualised volatility of each pool.

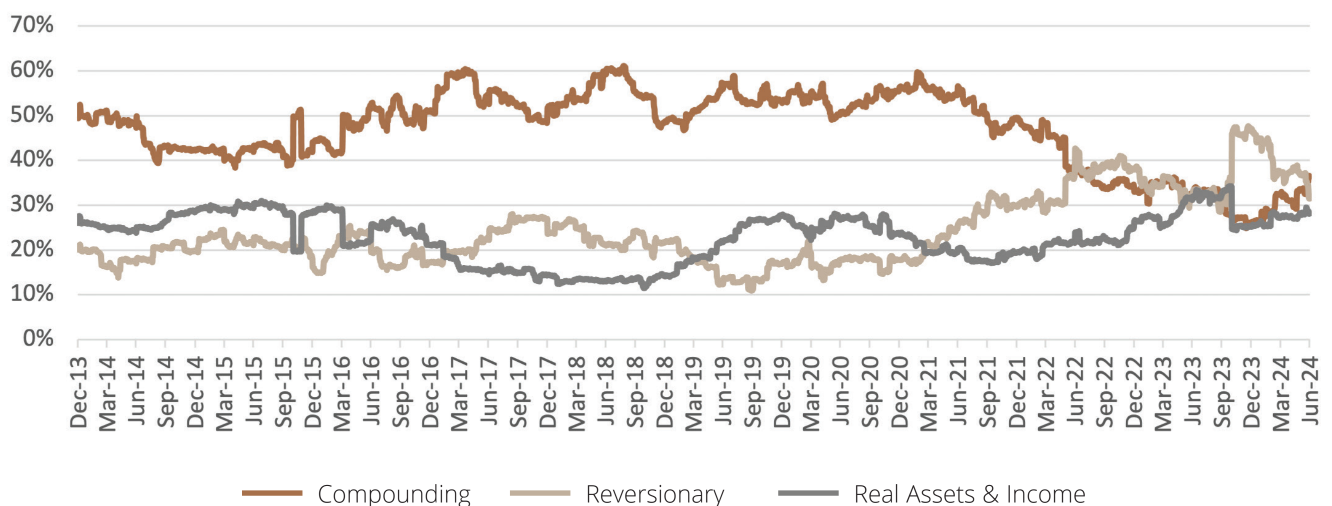
Table 7: **Brunswick Fund annual returns (Gross) by Capital Pool***

Financial year (ending 30 June)	Compounding	Reversionary	Real Assets & Income
2015	18.3%	6.0%	18.6%
2016	18.0%	-5.2%	21.1%
2017	12.7%	34.3%	0.4%
2018	21.8%	9.5%	14.0%
2019	13.5%	-18.3%	20.0%
2020	10.1%	0.9%	4.5%
2021	25.3%	35.9%	34.2%
2022	-8.9%	14.9%	-4.8%
2023	13.7%	7.7%	20.1%
2024	-0.7%	16.3%	19.7%
Return (Ann.)	12.4%	8.4%	13.8%
Volatility	12.8%	15.8%	12.0%
ASX 200 (Ann.)	8.0%	8.0%	8.0%

*Assuming each pool as a separate portfolio.
Source: Internal CI data, 30 June 2024
Past performance is not a reliable indicator of future performance.

Below, we show the allocations across the three pools. Broadly, we have a similar level of allocation across the three capital pools. We expect to increase the allocation to the Compounding capital pool over time, however this is opportunity dependent.

Chart 5: **Brunswick Fund Capital Pool allocation**



Source: Internal CI data, 30 June 2024
Past performance is not a reliable indicator of future performance.

Note: during the year we implemented a quantitative assignment of stocks to capital pools. This resulted in movement of a couple of fund stocks across pools which is evident in a spike up/down in Reversionary and Real Assets & Income pools. Often stocks have attributes across more than one pool.

Capital Pools & Key Stock Performance

COMPOUNDING CAPITAL POOL

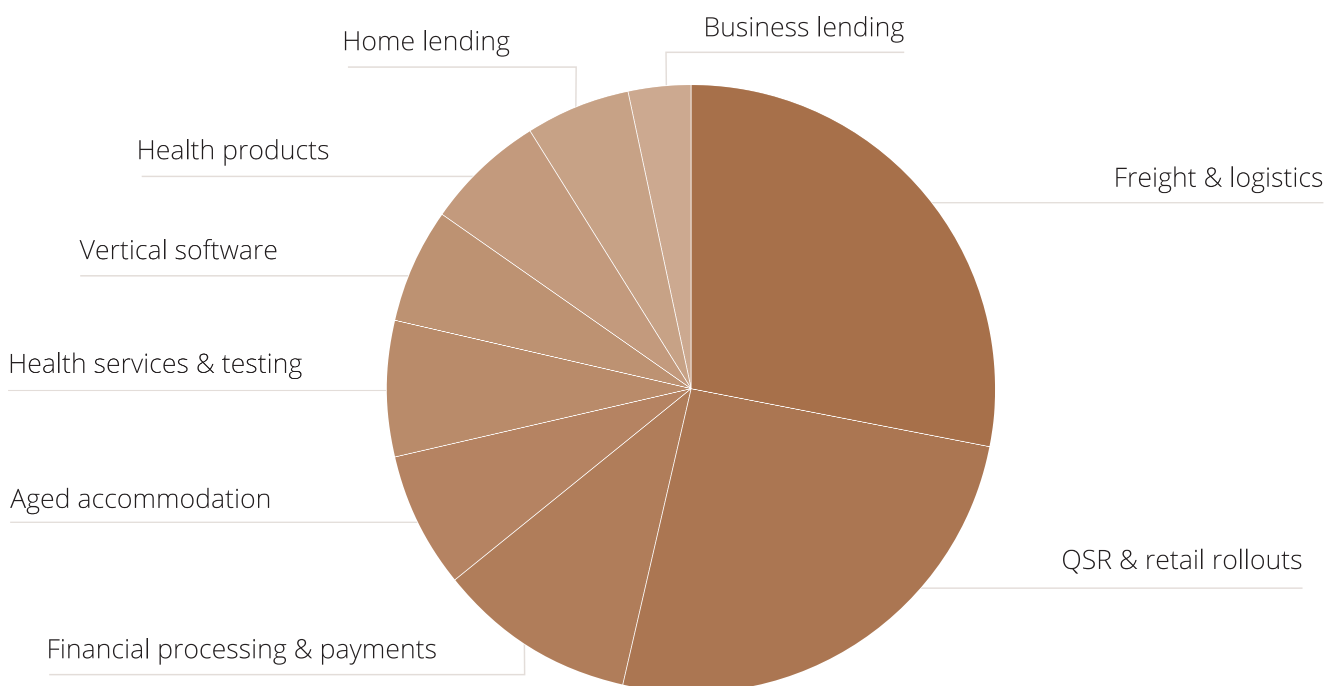
The Compounding pool consists of world-class global, regional and domestic companies with preferential businesses or assets and a pathway to future underappreciated value options.

Performance of stocks within the Compounding capital pool varied throughout the year, both adding significant value in some instances and detracting in others.

Currently, the Fund is exposed to a number of key clusters or groups including:

1. Ageing & Health
2. QSR and retail rollouts
3. Freight and logistics
4. Platform companies in payments and vertical niches

Chart 6: Compounding pool by sector



Source: Internal CI data, 30 June 2024

Aged Accommodation & Health

The aged accommodation group includes assets that provide accommodation to people aged 65+, which is growing at twice the rate of underlying population growth.

The Fund is also exposed to companies producing health-related products that we expect will benefit from the ageing demographic over time.

Interest-rate linked financials

This group of stocks are stalwart-like, primarily providing services in insurance, financial processing and lending, earning both fees and interest income.

Transport and niche industrials

This includes companies that are leaders in areas of 'business-to-business' service or niche branded products. This includes providers of less than container load (LCL) freight services, logistics (warehousing) facilities, freight forwarding (Air and Ocean) and rail haulage services for a range of commodities, grains and general freight. It also includes businesses providing distribution services for building materials products.

QSR & retail rollouts

This includes everyday needs restaurants and retailers with low-cost positions, with strong unit economics, large growth or rollout opportunities, managed by strong proprietorial cultures able to scale businesses longer-term.

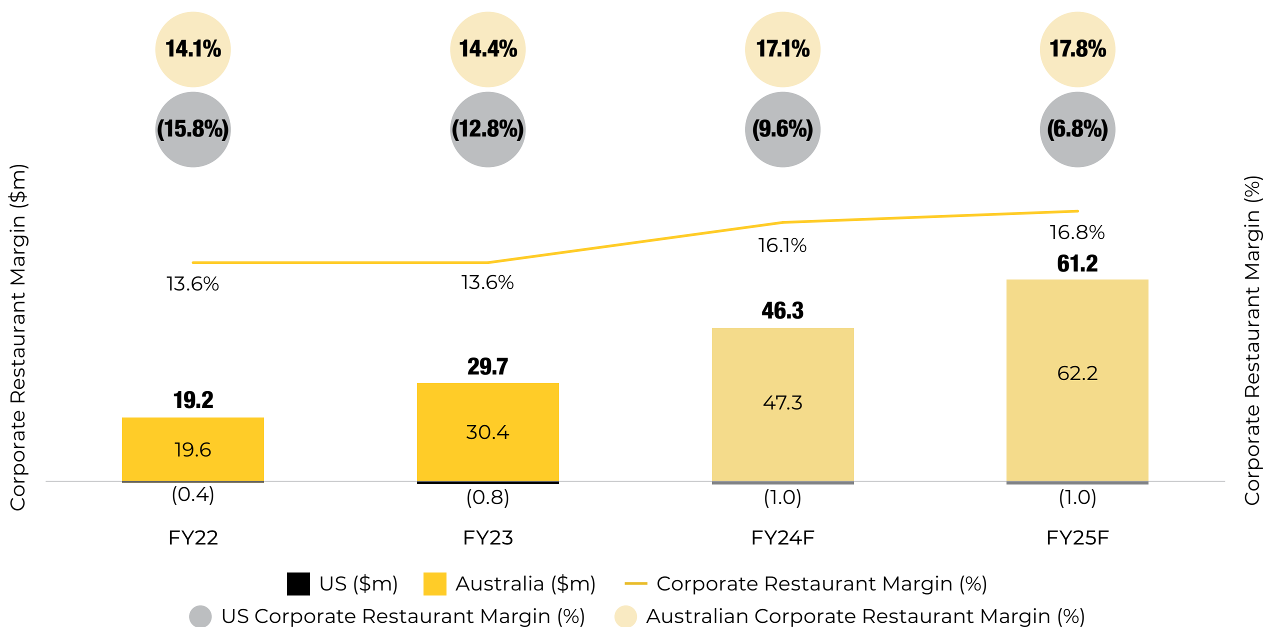
KEY STOCK PERFORMANCE

Guzman y Gomez (GYG)

For the first time in our 20-year history, the Brunswick Fund participated in a pre-IPO capital raising for Guzman y Gomez (GYG), a Mexican-themed fast-casual restaurant business. The Fund can hold up to 10% of the NAV in unlisted assets and while we have reviewed many pre-IPO opportunities over the years, only GYG has had sufficiently attractive attributes to warrant an investment by the Fund.

Investing pre-IPO afforded us the ability to conduct a deeper level of due diligence, with extensive access to management while leveraging both our domestic and international capabilities. In short, GYG presented an attractive combination of strong 'unit' (or per store) economics, combined with a large store roll-out opportunity, a strong culture and management team and best in class Board.

Chart 7: GYG 'unit' (per store) economics



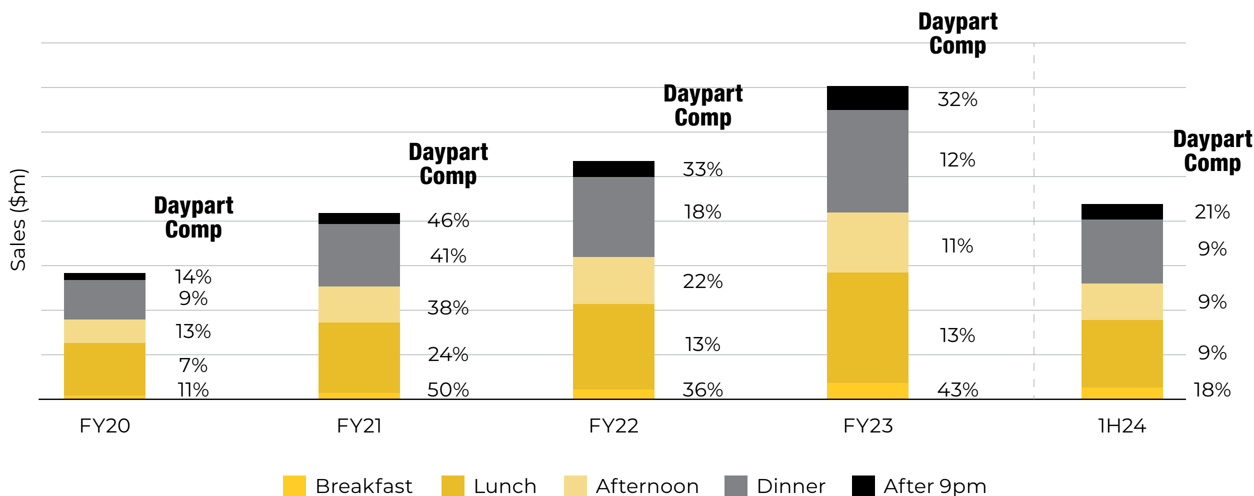
Source: GYG Prospectus

Ever since Steven Marks (co-CEO) and Robert Hazan founded the business in 2006, GYG has built a strong customer proposition that caters to a significant portion of the population. GYG's cuisine and business model is suitable to each of the major dayparts (breakfast, lunch and dinner) with an ability to sell through all channels (drive-thru, dine-in and pickup/delivery via platforms). GYG's offering resonates across broad customer segments and demographics (age, sex, ethnicities, geographical locations).

GYG sits in the 'fast casual' dining segment, which is growing at a high rate in the US and Australia, much higher relative to traditional quick-service restaurants (QSR) like McDonalds, KFC and Domino's. Fast casual concepts are positioned as share-takers from traditional QSR and full service restaurants through a superior customer proposition. They generally provide better customisation and choice, with fresher, healthier and higher quality food, all while serving customers at a similar service speed and affordable price point. Within restaurants, clean and fresh Mexican cuisine has high entry barriers and is difficult to replicate at scale. The category and model demands excellent operational execution in-store, a complex supply chain and high labour intensity. Significant store volumes are needed before profitability can be achieved.

We can observe the strength and compounding qualities of GYG's proposition through its 'same-store-sales' growth:

Chart 8: GYG same store sales growth



Source: GYG Prospectus

Our view is GYG is at an attractive maturity point for the following reasons:

- It has 185 domestic stores, which gives us confidence and observational evidence that its proposition genuinely resonates with a broad customer base and is not niche,
- It is completely self-financing with proven unit economics,
- There is still significant white space left for new stores in the domestic market, and
- The people and systems are thoughtfully set up to enable the business to scale and execute on the rollout.

It's important to note that our investment is predicated solely on a domestic rollout opportunity, and we expect GYG to deliver 20%+ p.a. growth in new stores in Australia over the medium term with additional latencies in growing breakfast and extending trading hours. There is also the potential of succeeding in offshore markets longer-term.

Roll outs (QSR, Speciality and Food Retailers) are a focus area of investment for Cooper Investors, particularly for our global funds where the opportunity set is much deeper. We look for roll out concepts that deeply resonate with consumers, have a strong economic model and a large runway for growth.

In addition, we have observed the most powerful roll outs feature:

- Culturally driven value proposition: intrinsic to the culture, so it gets incrementally better every day and competitors struggle to match the intensity,
- Dynamic offering: broad (meaning kitchen and marketing) and can shift (i.e. to value during a downturn), take advantage of digital apps, and evolve with consumers, and
- Own and create IP: own their brand which they can leverage globally.

There is a degree of inevitability that roll outs provide to the observational investor – once a customer proposition is proven, you can open it up and it is highly likely it will win in its local market. That is, the roll out is not a prediction, it's an observation that a superior customer proposition will prevail in 50, 100 or 500 identical (micro) competitive battles.

GYG is a Compounding (growth) stock, with a founder-led management team. Similar to CSL (moving from #39 to #3 over the last 20 years in the ASX 200), we want to own Compounding stocks that we think will be longer-term winners and that can therefore move up through the index over time.

Lifestyle Communities & Ryman Healthcare

In contrast to the trends observed in the US housing and homebuilding market, the Australian and New Zealand context has been much more challenging.

Two key underperformers for FY24, and long-term Fund holdings, were Lifestyle Communities (LIC) and Ryman Healthcare (RYM). Both stocks are developers of aged accommodation – land-lease communities for LIC, and integrated retirement/care villages for RYM. Both companies struggled amidst a soft housing market brought on by rising interest rates. In particular, the NZ market has a higher interest rate setting than Australia, with a more significant fall in house prices and low 'liquidity' in the housing market as buyers and sellers struggle to meet. LIC's business is entirely focused on Victoria – which has been the softest market in Australia.

Underpinning the next 5–10 year outlook for both stocks are strong demographic trends. For RYM this relates to the 85 year and older group which is expected to grow at multiples of the population. Similarly, the baby-boomers remain an attractive segment for LIC. Given all the challenges related to the rapid increase in building costs in recent years, the supply /demand setup looks attractive to us.

The New Zealand retirement developers now trade at very low multiples of their net tangible assets versus history (~0.5x with the exception of Summerset which trades around 0.9x). Similarly LIC's share price has trended back to a level closer to existing asset value, that is, only priced for delivery of the current pipeline. Both RYM and LIC continue to grow and develop their pipelines to meet the growing demand of the ageing population and we continue to deeply analyse both businesses, given their track record of creating value. Experience has taught us that a cyclical downturn can be the best time to buy.

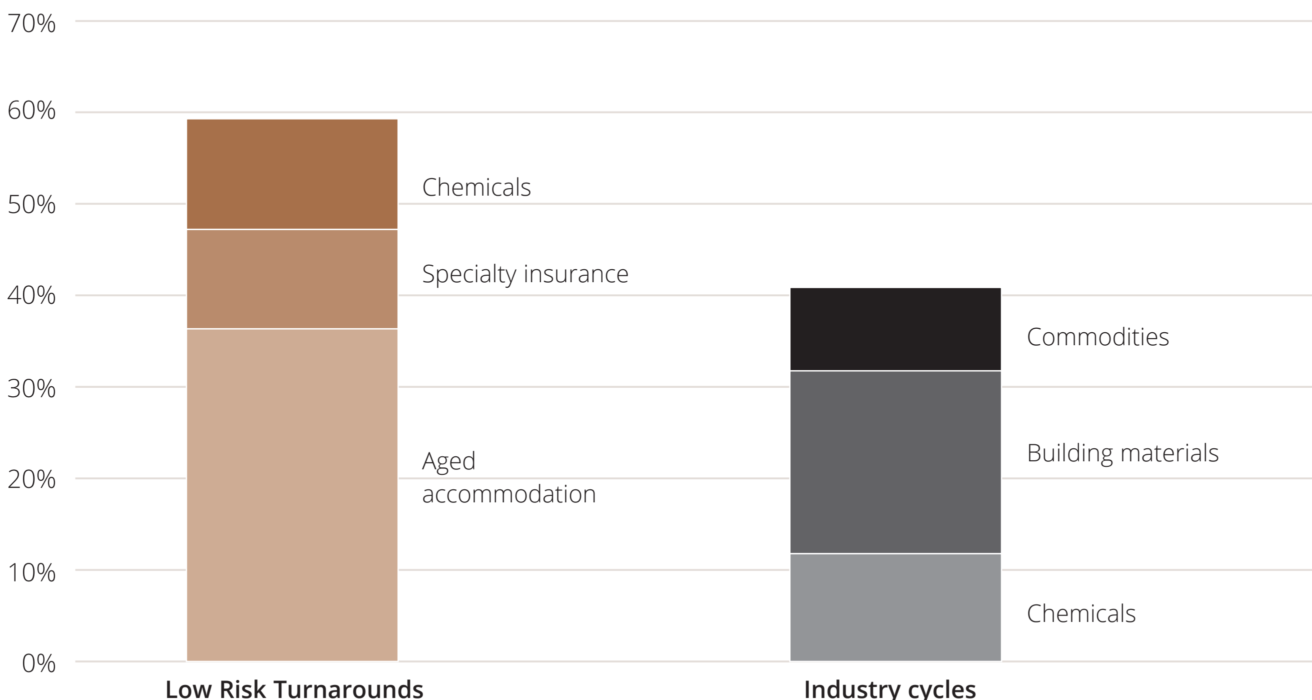
REVERSIONARY CAPITAL POOL

In the Reversionary capital pool we particularly like spin-offs, privatisations and large-cap liquidity events (such as sell-downs). 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.

The Reversionary pool includes the following key sub-groups:

- Industry Cycles
- Low Risk Turnarounds, Events & Special Situations

Chart 9: Reversionary pool by sector (% of Reversionary pool)



Source: Internal CI data, 30 June 2024

Industry Cycles

We typically look to invest in select industries where the returns are below long run averages, industry return drivers are beginning to exert upward pressure (via capital starvation, bankruptcies or demand is outstripping the supply response, higher incentive pricing is required etc) and valuations remain attractive relative to replacement cost, private market pricing and/or the normalised earnings power of the business.

The Fund owns a number of positions exposed to cycles in commodities, specialty chemicals and US housing.

Our recent trip to the US gave us increased conviction in the positive operating and industry trends for the US housing industry while valuations for these high-quality businesses were attractive following significant de-ratings on the back of the Fed rapidly increasing interest rates.

Low Risk Turnarounds, Events and Special Situations

In this category we are generally looking for an idiosyncratic reason which has created attractive risk adjusted value latency.

Our favourite sub-category is "spin-offs" (also called de-mergers) which involve the separation and listing of a division from the parent. There is significant research which supports outperformance of spin-offs over-time relating to a "re-focusing" dividend that combines operating improvements (e.g. cost-outs) with improved capital allocation (spin-offs are sometimes starved of capital) and more aligned incentives for management.

Within this category we also lean into re-capitalisations where a good business has had a bad balance sheet. Often this cleansing act results in lower risk profile ex-post accompanied by significant reversionary value. This was a particularly fruitful category during 2020 for example as good businesses were forced into recapitalisations.

KEY STOCK PERFORMANCE

Regis Healthcare (REG)

Regis Healthcare was the strongest contributor to Fund performance over the past 12 months and is the Fund's largest position.

The company is one of the largest aged care providers in Australia. It was founded 30 years ago by Brian Dorman and Ian Roberts, who both remain on the Board and are significant shareholders. The company now has 7,600 aged care beds within 68 freehold facilities predominantly located in more affluent areas.

Our VoF process works best when we are well calibrated to the company and the industry and have closely followed how the market prices the stock. This generally involves a long period of observation, industry network building and repeated company meetings.

Investing in REG followed the same playbook. We have watched the company closely over the past six years, which were action-packed as the industry navigated two significant challenges. Firstly, the fall-out from the Aged Care Royal Commission, excess bed supply, and the considerable difficulties associated with operating an aged care business during a pandemic. And secondly, the significant labour shortages experienced in the last few years.

These substantial headwinds led to very poor industry profitability and a capital strike (existing and new) in which new building approvals reached decade lows despite the strong long-term demand for new beds.

Through this period, it was clear value latency was on offer. However, we only first began purchasing REG more than two years ago once we observed an inflection in the group's operating and industry trends. These observations capture incremental improvements in occupancy and financial quality and more importantly it was palpable that things were getting less dire in company and industry meetings.

Given the long cycles in constructing new aged care beds and the relatively quantifiable growth in demand from here, it appears likely that occupancy for Regis will continue to strengthen. We expect a marked improvement in free cashflow generation as Regis' occupancy approaches full capacity, by virtue of less room price discounting and fixed cost leverage.

Our current base case valuation is under-pinned by a continuation of the status quo Government funding arrangement. However, there is material value latency should the Government adopt the Aged Care taskforce recommendations, which is fundamentally about restoring industry profitability to a level that will incentivise new bed supply. The recommendations include:

- a proposal for 3% Refundable Accommodation Deposit retention for operators
- an increase in "Everyday Living Fees" to cover the cost of providing services where the industry currently loses money, and
- an increase in the accommodation supplement.

Assuming these were to be implemented, we estimate more than $3 per share of incremental value latency before incorporating the second order impacts of these initiatives, including the significant balance sheet optionality which would accrue, and value accretive Greenfield developments re-commencing.

Rio plc

During the year we switched our holding in BHP for Rio plc prior to BHP's bid for Anglo American. The two businesses are remarkably similar in terms of their commodity exposure and financial characteristics – profits, cash flows, balance sheet and return on capital. Both stocks have significant iron ore businesses, growing copper businesses and a smaller weight to 'other' (which for Rio is mostly its Aluminium business).

Historically, both stocks also had dual listing structures – a UK (plc) listing and an ASX listing. Unlike 'cross-listings' (a listing of the same company across multiple exchanges), a dual listing results from two separate companies, often with different tax structures, where the shares are not fungible across jurisdictions.

At the end of January 2022, BHP made the decision to consolidate its dual listing into a single Australian based listing. The Brunswick Fund owned BHP plc through this process, eventually receiving shares in the ASX listing.

In contrast, Rio has retained its dual listing structure. Over time, the UK listing of both stocks traded at discounts to the ASX listing. One factor behind this is Australia has a full dividend imputation (franking) tax system, whereas the UK has only partial imputation, although there are clearly multiple factors impacting the discount at any point in time.

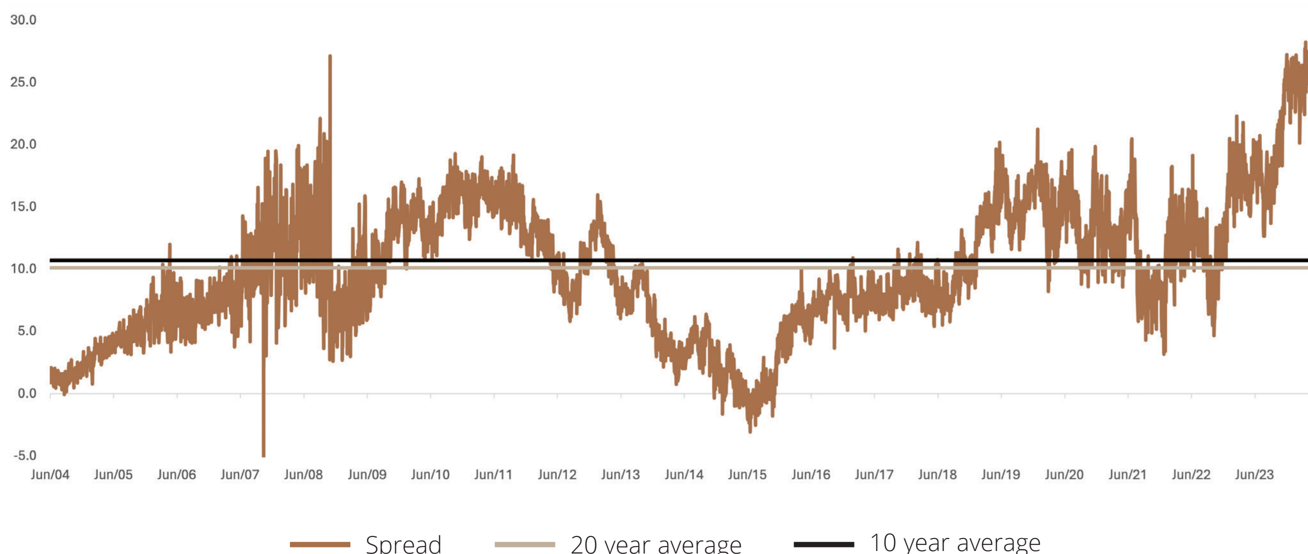
At the time we purchased, the ASX listing of RIO was trading approximately 27% higher vs the London (plc) listing, a near all-time high premium (see chart below).

A key challenge for RIO to consolidate the listings is the much greater percentage of the market capitalisation in the UK (~70%, vs ~45% for BHP), which is likely to make it harder to get shareholder approval.

Notwithstanding this, the underlying logic for consolidating is compelling. There is a large mismatch between where profits are earned and where the market capitalisation is domiciled. Most of RIO's profits are made in Australia. These profits are of most value to Australian residents who can receive franking credits. Given RIO can't distribute all its franking credits, the franking credit balance (now well above $8bn), will only increase in size over time under the current structure.

At present there is no suggestion that RIO will follow BHP, only that the discount was at a high level when we bought (the average long-run premium is 13%).

Chart 10: RIO ASX vs London listings spread (% premium)



Source: Factset data, Fed Economic Data

Louisiana Pacific (LPX)

A key outperformer for the year was US-listed Louisiana Pacific (LPX-US), which manufactures a range of wood-based products for homebuilding. LPX is a large producer of Oriented Strand Board (OSB: similar to plywood) and Engineered Siding, which is a competitor product to James Hardie's (JHX) siding products.

As we outlined in our quarterly reports, following a successful investment in JHX, the Fund pivoted into LPX. This followed a significant rerating of JHX stock and deeper work on LPX which highlighted the opportunity. We then undertook a detailed 'compare and contrast' of the two stocks.

Over the past couple of years, various members of the investment team have travelled to the US undertaking multiple company visits linked to the housing market. Our initial visits found the sector out of favour with the perception that interest rate increases would soon impact housing affordability and demand.

What we discovered was a more nuanced situation. Most US homeowners purchase housing with 30-year finance at a fixed rate. As rates increased significantly this meant there were many homeowners stuck in relatively low-cost mortgages with a large switching cost. This led to reduced turnover of houses within the existing stock, so buyers increasingly focused on new.

The US homebuilding sector is quite different to Australia. Most of the US players are 'spec' builders and don't wait for a signed contract before they start building. While this strategy leads to inventory risk, many US homebuilders strengthened their balance sheets post GFC (largely net cash) to assist their business models to deliver volumes at scale, becoming more like industrial product businesses. As interest rates increased, some of the homebuilders even supported demand by subsidising the rates new buyers received in the first few years.

This volume-based model is supported by a much larger US market allowing the homebuilders to achieve scaled positions, for example DR Horton (focused on the low-priced segments in Southern states), NVR (East Coast market) and Lennar (middle and retirement market in Southern states). These players have long histories of winning market share, as it has become increasingly difficult for smaller private players to compete.

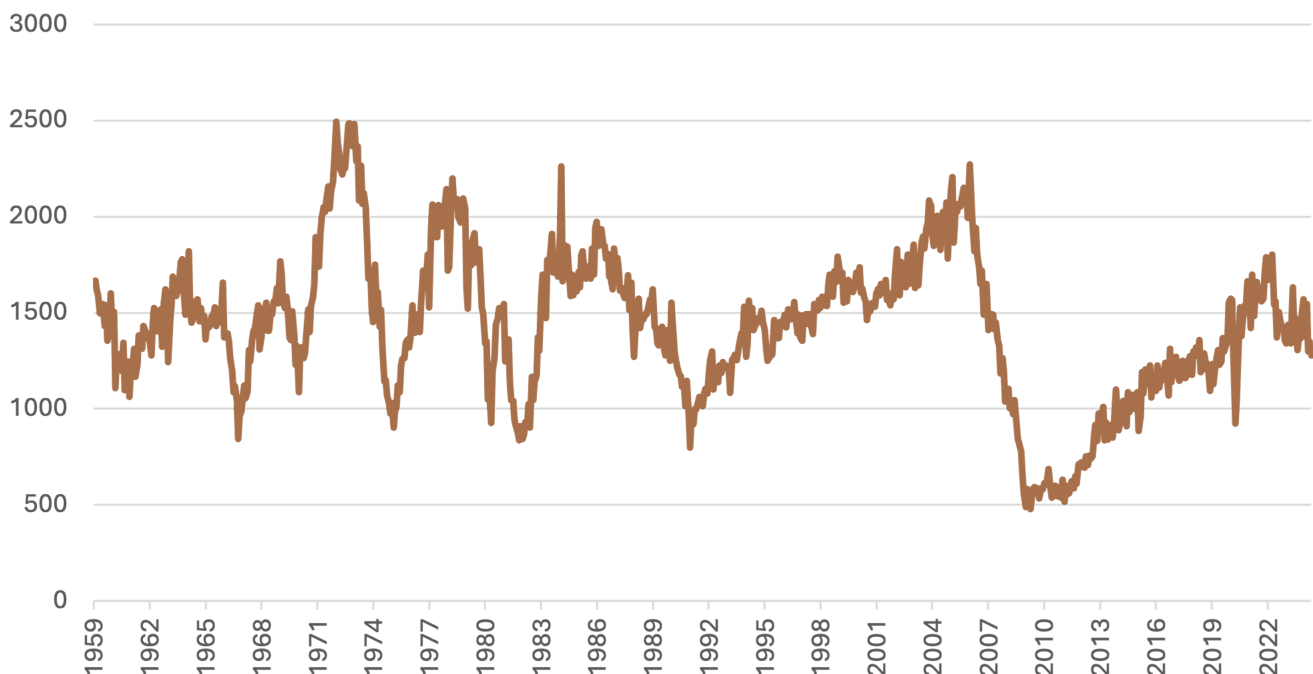
This recent relative stability of the homebuilders has been a positive for many suppliers to the US housing market. Our focus has been on JHX, LPX and Ferguson (plumbing distribution).

Following numerous visits and detailed analysis of LPX, we formulated our VoF proposition based on LPX 1) converting more OSB mills to Siding mills (each dollar invested creates >$1.50 of value on our estimates); 2) increasing the proportion of Sidings volumes to "Expert Finish" which generates ~2x the gross margin; and 3) converting a very large OSB mill (Wawa) which they recently purchased out of bankruptcy into a new Siding mill. These latencies were in addition to market share gains as Engineered Wood and Fibre Cement continue to take share from Vinyl (available to both JHX and LPX) and a large opportunity to increase LPX's exposure to the Repair and Remodelling market via better distribution capabilities.

Finally, relative to JHX, LPX also has more exposure to new builds. In the past this created more volatility in LPX's earnings, but provided an opportunity for us to buy LPX shares at an attractive price.

This volatility is likely to continue over short to medium term periods, particularly as the outlook for interest rates evolves. However, as we have mentioned before, we continue to like the setup for US housing exposed stocks over the medium to longer term period. As shown in the chart below, the US has only just recovered back to the long-term average housing starts of ~1.5m p.a. The significant under-build post the GFC should support any weakness shorter term and points to likely strength over the medium-term, particularly if turnover of existing housing stock remains low.

Chart 11: US Housing Starts ('000)



Source: St Louis Fed Economic Data

REAL ASSETS AND INCOME CAPITAL POOL

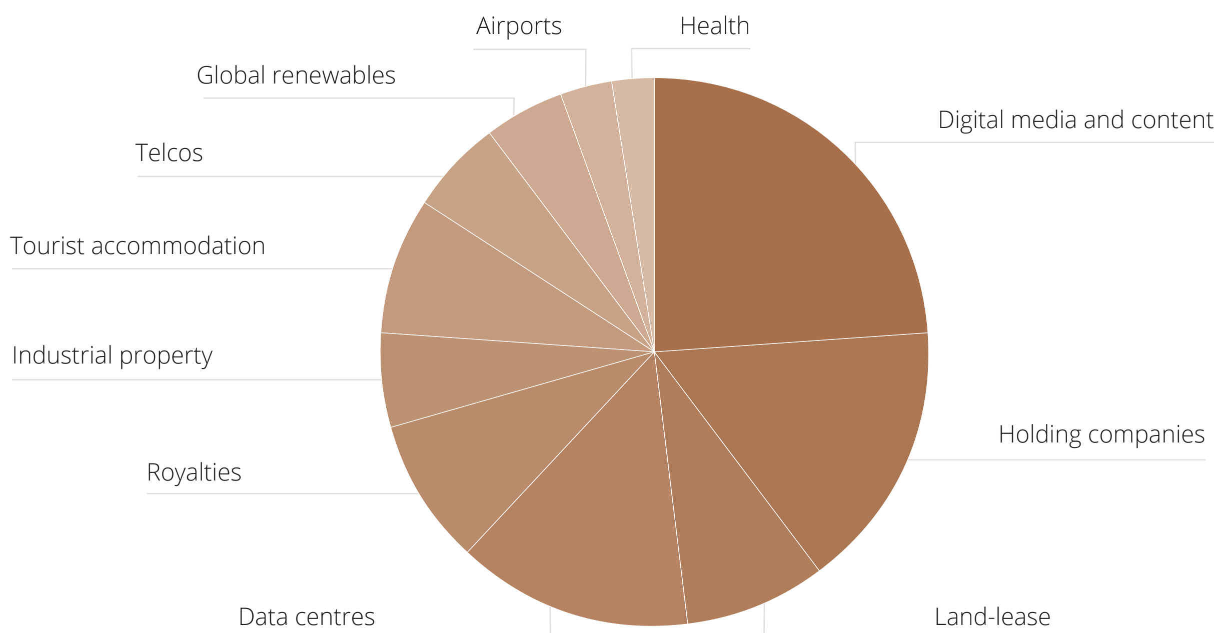
These are stocks with specific risk and non-correlating attributes that make them very different to broader equity indices. All of these securities are traded publicly. Our hope is these stocks will provide relative and perhaps absolute protection to the portfolio in times of monetary inflation, economic upheavals, and stock market corrections.

This pool invests in:

1. Specialty real estate in ageing, health and social sectors,
2. Data, renewables and other infrastructure, and
3. Quality asset discounts, holding companies and royalties.

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.

Chart 12: Real Assets and Income pool by sector



Source: Internal CI data, 30 June 2024

Specialty real estate

This includes business providing rental accommodation to individuals that have limited assets and are dependent on the aged pension, as well as developer and operators at the affordable end spanning caravan/tourist parks, rental accommodation in the form of apartments and land-lease communities. The Fund is also exposed to industrial property leased to high quality global e-commerce companies.

Infrastructure

The infrastructure exposures include large data centre developers/operators, telecommunications operators, hydropower electricity generation, domestic and offshore airports, as well as exposure to some of the leading developers of renewable energy assets in the US, Europe and Australia.

Quality asset discounts, holding companies and royalties

This includes exposure to diverse 'asset plays' backed by long-term conservative management teams where there are valuation discounts based on observable prices as well as a pathway to grow net asset value per share over time. We also like royalty streams over quality, long-life assets/commodities such as gold and oil and gas.

KEY STOCK PERFORMANCE

Newscorp (NWS)

A key purchase for the Fund in the early part of FY24, and a key contributor to FY24 performance was Newscorp (NWS), a stock the Fund has previously owned and closely followed for many years.

NWS sits in the Real Assets and Income capital pool – it is an asset play with a significantly underappreciated portfolio of quality/growth businesses.

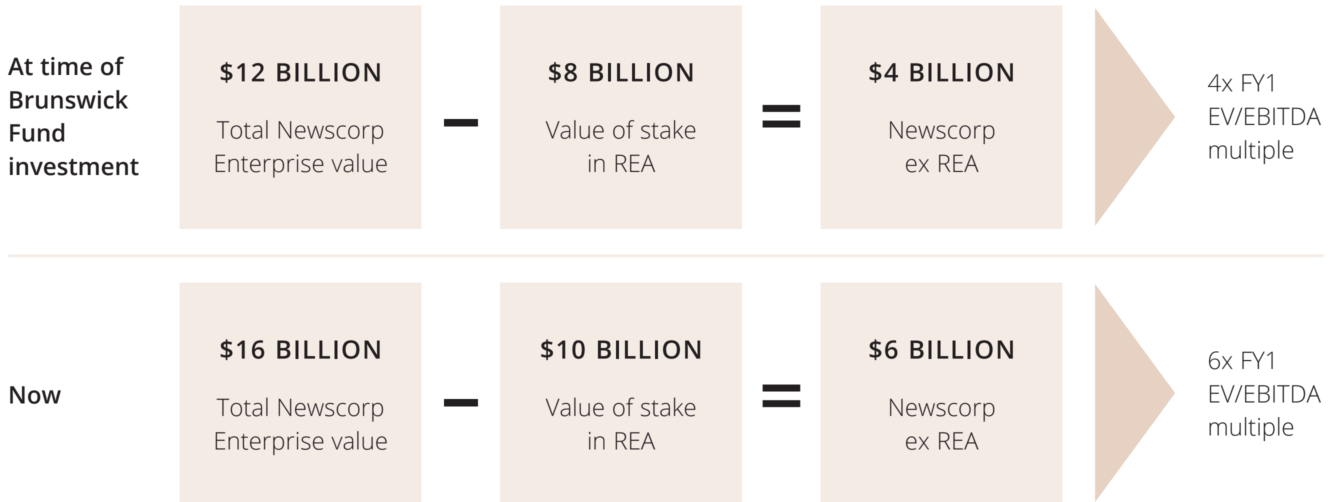
Per the table at the start of this letter, 20th Century Fox was the largest Australian company by market capitalisation back in 2004. To understand NWS today, it is helpful to go back in time a little. In mid-2013, FOX was separated from NWS following the phone hacking scandal (2011/2012), with FOX retaining the mostly US-based growth/content assets, including Fox Studios and Fox Cable /News, while the more challenged print assets and traditional media and a number of Australian assets stayed under the NWS listing.

In 2013, the new look NWS was predominantly still an 'old world' media business with more than 50% of revenue based on advertising. The key exception was NWS' 61% ownership of Realestate.com (REA), worth US$1.7bn at the time.

Fast forward to today, and the value of this 61% stake in REA has grown more than fivefold. REA is now so big it has swamped the value of everything else.

As illustrated below, at the time of our investment, NWS Enterprise Value was $12bn, with the stake in REA worth $8bn, the implied valuation multiple of everything else (the 'rump') was 4x EV/EBITDA:

Chart 13: NWS implied value of the 'rump'



Source: Factset, Newscorp reports, CI analysis

The rump is a multitude of businesses generating around $1bn p.a. in EBITDA based on a rough build-up as follows:

Table 8: NWS EBITDA by business excluding REA

Business	EBITDA
Dow Jones	$550m
Books	$250m
Foxtel*	$200m
News	$150m
Move#	$100m
Corporate	-$250m
Total	**$1bn**

Source: NWS quarterly disclosures
*adjusted for holding,
#normalised level of profit

Since our investment, the value of both the NWS rump and REA has increased. The implied multiple has also increased but at 6x EV/EBITDA, remains at a low level compared to peers – for example Dow Jones peers typically trade closer to 15–20x EBITDA.

Answering why the NWS rump trades at such as discount is not straight forward. The first factor likely relates to NWS being complex, given the array of underlying businesses:

Chart 14: NWS Business Units and Brands

One solution is for NWS to simplify its structure by tax efficiently spinning off REA to shareholders. In receiving both REA shares and NWS rump shares, the market will be much more likely to ascribe full value to the rump. It's important to note that earlier this year, NWS management announced they were conducting a review of the NWS structure to assess whether there are structural options (such as an REA spin-off) that would assist in realising value for shareholders.

The second reason for the discount likely relates to some misperception that the NWS rump is mostly 'old world' media. Our view is the quality of NWS' portfolio is underappreciated given its transition from traditional media with reliance on advertising to a business underpinned by subscriptions. Advertising is now only 16% of revenue and is strongly skewed to digital advertising which is much more targeted and therefore of higher value.

In recent years, NWS has made clever acquisitions in Dow Jones to add data/subscription businesses such as OPIS, which provides data on energy commodities. In addition, Dow Jones 'risk and compliance' division is in strong demand from companies facing rapidly increasing regulatory and compliance burdens.

Finally, NWS appears to have made some headway licensing content to AI developers. Again this not only monetises some of its 'old media' assets, but does so under a subscription type revenue model. We think there is significant runway going forward given the breadth of NWS content and the long history of its archives.

Therefore even if NWS remains 'as-is' in the medium-term and doesn't spin-off REA, we continue to see upside driven by further growth in Dow Jones, the online real estate businesses (REA and Move), the Book Publishing business (HarperCollins) and a stable outlook for its traditional media and Foxtel.

The last reason given to explain the rump discount relates to the Murdochs, implying the Murdochs act in their own interests to retain poor performing assets and are not interested in creating shareholder value.

On this point, history could be a guide. In 2019 the Murdochs did a remarkable pivot, selling 20th Century to Disney. The logic for this was that the subscription video on demand (SVOD) market requires scale. Netflix became a category killer and its size meant made it a dominant player, able to leverage the cash flow generated from subscribers to invest in its own content. Disney and 20th Century together had a better chance of competing.

The sale of 20th Century proved prescient as distribution via SVOD fragmented, with multiple content providers seeking their own distribution platforms. This has reduced profits in both content generation and distribution. This pivot is evidence to us the Murdoch family will act to realise value when necessary.

Aspen Group and Eureka

During the year the Fund accepted a takeover offer from Aspen Group (APZ) for its shares in Eureka Group (EGH). The Fund is a substantial shareholder in APZ and was a substantial shareholder of EGH. Both groups are providers of affordable housing. EGH's sole focus is affordable rental accommodation to seniors.

Despite the Fund accepting the offer and receiving our shares, APZ did not achieve an ownership stake of more than 50% of the shares outstanding in order to affect control. APZ currently holds 36% of EGH shares and is seeking a Board seat. However, it is possible APZ decides to sell its stake in EGH, particularly given APZ has many attractive ways to deploy capital at present.

In our view, by accepting the offer, we 'high-graded' our position, given we see substantially more value latency in APZ, and rate APZ's management team highly.

At the time of print, APZ's shares trade at ~$1.80, well below its $2.10 NAV (net asset value) per share as at the end of December 2023, which we expect will be at least $2.20 per share by 30 June 2024. In addition, APZ's NAV looks conservatively stated, with a more realistic 'market value' closer to $2.50 per share. As an indication of the conservativeness of the NAV, much of APZ's residential assets are valued with a 'cap rate' above 5%, despite APZ, and almost all residential properties, transacting at cap rates of 3%.

APZ has undergone a remarkable transformation over the last 7–8 years. Back then "AKV", its mining accommodation village in Karratha, was more than 50% of its net operating income (NOI). Today it is approximately 10% of NOI and APZ is much larger, having grown from 671 units, via acquisitions and organic development, to more than 5,000 sites/dwellings today. Our view is scale is critical to creating sustainable operators in this sector, and was a key reason we supported the merger with the sub-scale operator EGH.

Housing affordability is one of the biggest challenges we face in Australia. Despite an abundance of space, most of us want to live proximate to a few very large cities which has resulted in significant appreciation of house prices, outpacing wages growth by a large margin.

Affordability is at its worst level in 20 years and is likely to deteriorate further given supply of new housing is at cyclical lows but demand growth driven by migration is high. This has led to low vacancy rates for rentals, with the likelihood that rental prices will increase even further.

The segment of the population reliant on affordable housing is very large. APZ estimate more than four million households with an annual income of less than $90,000 require affordable housing, which APZ define as $400,000 cost to buy or around $400 per week in rent. Some estimate rental accommodation at this level is now well below 10% of total stock, from more like 40% of total stock pre-COVID.

Adding to the challenge is the cost of building new accommodation has skyrocketed with a high cost of land, building materials and the labour needed to construct. There are also significant taxes and development costs in the cost of construction, and more recent taxes levied onto investors owning rental stock. All of these costs have risen substantially since the onset of COVID-19 and remain stubbornly high. Given the multitude and complex reasons underpinning the inflation, it is hard to see this changing.

This is where APZ has an important role to play. To make the housing equation stack up, APZ is doing things most others can't or won't do. For example, buying assets from receivers, or buying assets cheaply and repositioning. A good example is the portfolio APZ purchased in Perth in 2019. APZ paid $52 million at the time for 17 properties, many with very high vacancy rates. Their most recent refurbishment within this portfolio was the Maylands apartment complex, only 5km from Perth CBD. APZ paid just $58,000 for each apartment, which at acquisition had just 38% occupancy. By spending $131,000 on average, on both the apartments and surrounding area, APZ has significantly improved the units' "liveability", which has driven occupancy to 100%, even while lifting the average rent from $190 per week to $425 per week. The University of Western Australia is an anchor tenant.

MAYLANDS – EXTERIOR UNDER CONSTRUCTION

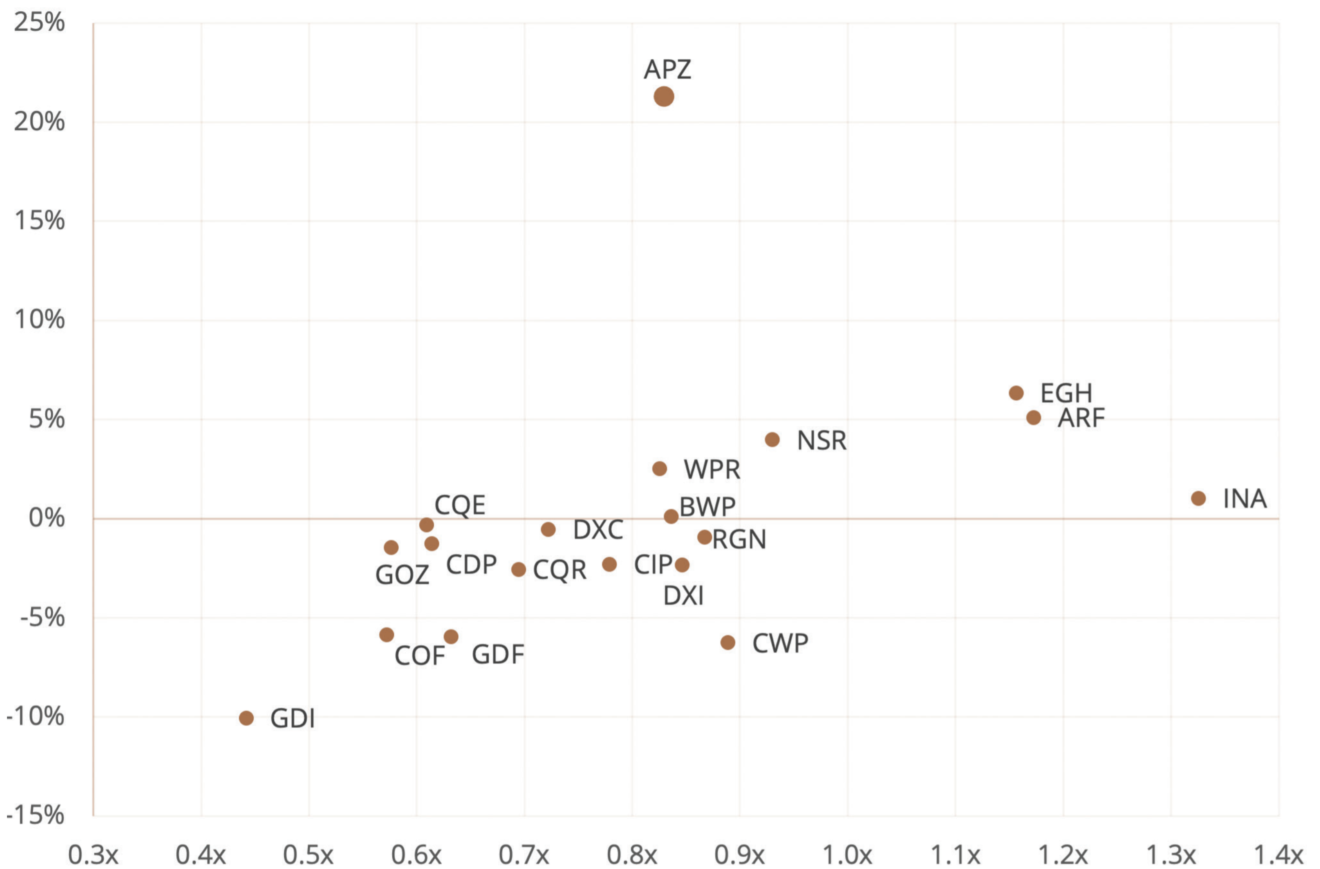
MAYLANDS – INTERIOR COMPLETED

Source: Aspen Group – 1Q FY24 Update

The return to investors on this spend was greater than 50%.

In addition to what appears to be an attractive opportunity set, APZ is one of the few real estate focused stocks to have grown earnings per share consistently double digit over the past few years. Demand for their product remains strong and growing every day, and all of this is underpinned by APZ's proprietorial culture and management team.

Chart 15: ASX REITs – 5 year EPS CAGR vs asset multiple



Source: Factset, Moelis estimates, CI analysis

Risk and portfolio attributes

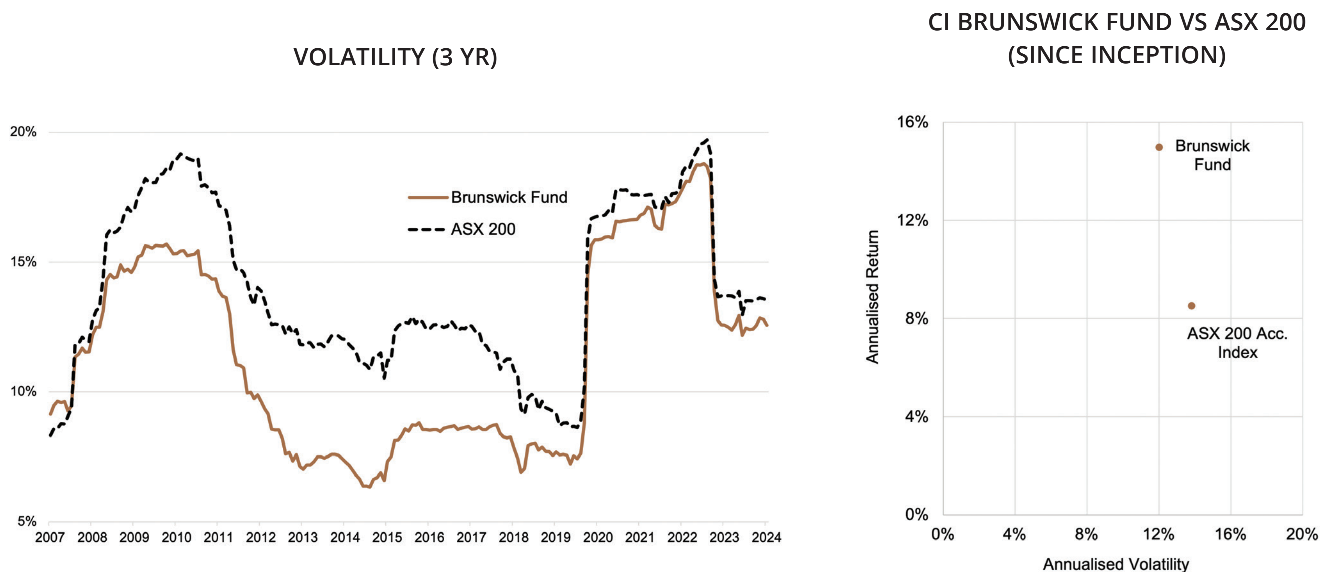
There are many ways to think about risk and its impact on performance. Some considerations include statistical measures summarising returns profile, drawdowns (maximum fall), and historical volatility at the portfolio level:

Table 9: Portfolio risk attributes

	*PORTFOLIO	#BENCHMARK
Total Return	+1,531%	+414%
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), pre fees and expenses
S&P ASX 200 Accumulation Index
Max Drawdown for the Brunswick Fund occurred December 2007 to February 2009.
Source: Internal CI data, 30 June 2024
Past performance is not a reliable indicator of future performance.

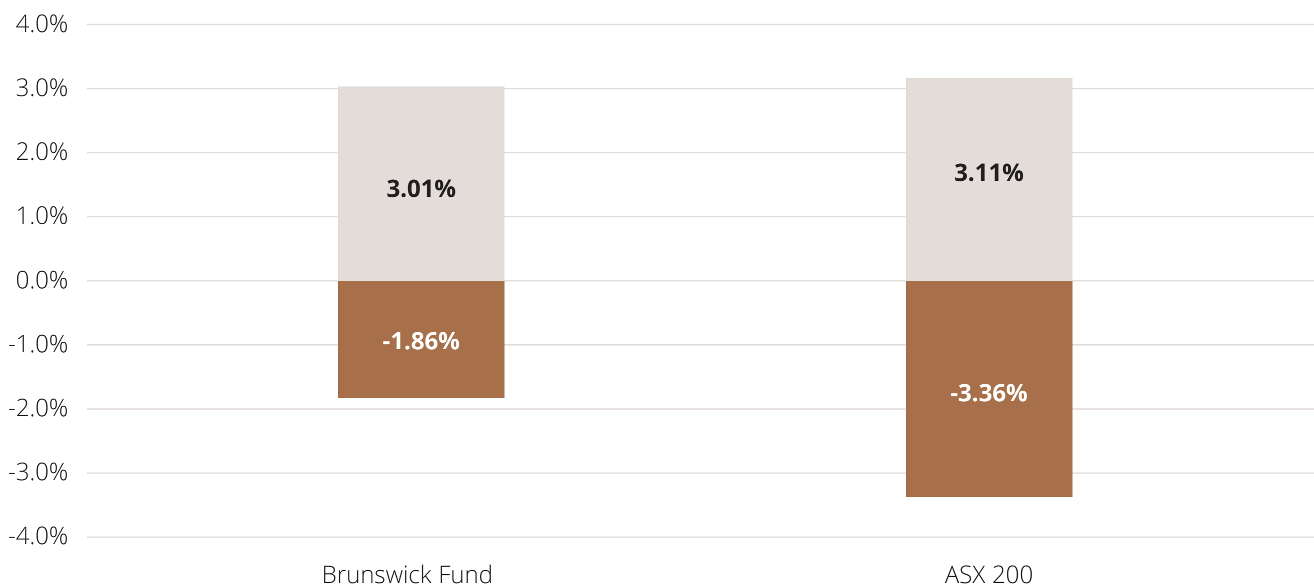
Chart 16: Brunswick Fund historical volatility



Source: Internal CI data, 30 June 2024

One important aspect to the Fund's performance historically has been that most of the attribution comes from performing better in down-markets. Since inception, this has occurred in 80% of down-markets (based on monthly returns).

Chart 17: Average monthly returns in up and down markets



Based on 240 monthly data points, 153 up months, 87 down months
Source: Internal CI data, 30 June 2024
Past performance is not a reliable indicator of future performance.

As we reflect on our 20-year innings, the Fund has remained true to its namesake, Brunswick. By investing in everyday products and services, genuine people with strong values and beliefs, and businesses that are run by their proprietors, the Fund continues to deliver value to investors.

The Brunswick Fund remains very well positioned across our three capital pools and we continue to find opportunities across each pool.

We once again thank you for your ongoing support and look forward to another great 20-year innings ahead.

Best Regards,
The Brunswick Fund Team

Disclaimers

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