

CI BRUNSWICK FUND STRATEGY

- We aim to purely apply CI's VOF investment strategy across a relatively unconstrained universe of small, medium and large Australian/New Zealand companies and up to 25% international, via:
 - Leveraging CI's VoF research across the ~20 investors doing thousands of one-on-one company meetings ever year;
 - Backing proprietorial management teams – managers with an ownership mindset;
 - Allocating across 3 capital pools – compounders, reversionary and real asset and income securities.

FINANCIAL YEAR	**Portfolio	#Benchmark
2023 FYTD	1.0%	0.4%
3 YR*	9.2%	2.7%
5 YR*	10.6%	6.8%
10 YR*	14.1%	8.4%
Since inception*	15.0%	7.9%
Since Inception^	1182.5%	301.0%

* Annualised (1 July 2004)

^ Cumulative (1 July 2004)

S&P ASX200 Accumulation Index

** Returns are gross of fees and expenses

Past performance is not necessarily a reliable indicator of future performance

THE BRUNSWICK FUND

The Brunswick Fund is differentiated by its ability to invest in a relatively unconstrained universe of small, medium and large Australian and New Zealand 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, 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.

MARKET AND PORTFOLIO PERFORMANCE

For the September quarter and the financial year to date (FYTD), the Brunswick Fund returned 1.01%.

For comparison the ASX200 Accumulation Index returned 0.39%.

As a reminder we have moved to an in-depth June annual newsletter. Please see our 2022 report, <https://simplebooklet.com/cibrunswickfundannualletter2022>. We will continue with issuing September, December, and March Quarterly reports but they will be much shorter and succinct fund updates.

The September quarter was again volatile as central banks around the world continued to raise interest rates in an attempt to tame inflation. Markets rebounded in the month of July, only to give most of this back in September. Investors were particularly spooked in late September following the UK government's proposal to cut taxes, with concern this would add fuel to the inflation fire and create an even bigger burden of UK government debt. This created volatility in UK government bond markets which fed through many other financial markets. While the media focused on the tax cuts, most of the UK's budget stimulus relates to the UK consumer energy support, which some are estimating will cost £150bn for the next 6 months (although it is an uncapped liability so the actual number is uncertain).

However, at time of publishing, the UK government had given up on the tax proposal and is now promising to focus on debt reduction. This about-face, combined with the RBAs more moderate 25bp increase in the cash rate (versus an expected 50bps increase) announced in early October, resulted in markets rallying once again. As interest rates continue to normalize, we expect financial markets will remain volatile, particularly as the 'real' economy also begins to adjust to the new normal.

During the quarter, the Fund's compounding capital pool of stocks (growth and stalwart companies) initially performed well, but by the end of the quarter had detracted from performance, a similar story to the FY22 year. We have selectively added to some of our compounding positions where value latency is compelling over a 3-5 year time horizon, including some New Economy/ Software companies.

The reversionary pool was the strongest contributor for the quarter, a continuation of the FY22 year. In particular, the Fund's cyclical stocks performed well. The real asset and income securities pool was also a positive contributor despite many REITs and other long-dated/long-duration stocks falling. This reflects our skew to asset plays over bond-like equities at present.

At the stock level, Infratil (IFT) (index inclusion and partial sale of one of its portfolio companies above market expectations), Monadelphous (MND) (strong FY22 result) and Lifestyle Communities (LIC) (lifted its medium-term outlook for settlements), all performed well during the quarter.

In contrast, TPG Telecom (FY22 result below market expectations), ESAB Corporation (ESAB) (stock derating), and Arena REIT (ARF) (higher bond rates), performed relatively poorly.

Although TPG's FY22 result disappointed, the group's underlying trends remain positive in terms of subscriber growth and margins. A key source of value latency for the stock relates to potential network sharing benefits that will accrue should its agreement with Telstra be approved by the ACCC. At present, the ACCC has expressed concerns about this agreement, so it seems unlikely approval is received quickly.

ESAB, a global leader in welding and cutting equipment, is a recent spin-off backed by Mitch Rales, who is founder of Danaher Corporation (\$200bn US-listed Healthcare company). Spin-offs are a focus area for us within the reversionary capital pool due to much research supporting their long-term outperformance. ESAB has many characteristics that are typical of spin-offs – it is relatively small (~\$2bn market capitalization), unloved, and with some challenges managing a global supply chain. Like many spin-offs, the stock has de-rated since listing despite solid operating trends. In its last quarterly update ESAB grew the topline at 5% and EBIT at 7% (although this included loss of sales from Russia, ex-Russia EBIT was +15%). ESAB trades on a 9x PE ratio, with a more than 10% free cash flow yield and ~10x EV/EBIT.

Arena REIT de-rated during the quarter as the market became concerned about the impact of higher interest rates on its net income and cash flows. We had reduced our exposure to Arena REIT by nearly half when the stock had significantly re-rated in the period post covid. However, we remain confident in the stock's VoF proposition. Relative to peers (other REITs), ARF is significantly under-gearred, has longer duration of fixed rate swaps and its leases mostly have inflation-linked escalation clauses. It will also benefit from long-term structural demand for childcare (and government support), and our view is its current assets are under-rented.

FUND POSITIONING

The Fund holds 38 stocks, with 15% by value held in International stocks and 5% 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.

There were no significant changes made to the Fund's positioning during the quarter. The Fund holds 38% in compounders, 34% in reversionary stocks, and 23% in real asset and income securities.

The quarter was busy with company engagements including the August reporting season, asset tours in South Australia and Victoria and research trips to New Zealand and the UK. In addition, much of the rest of the team at CI travelled both domestic and abroad across several countries.

During the quarter we added to our position in Aspen (APZ), which is part of the Real Asset and Income Securities capital pool. Aspen undertook a capital raising to reduce debt on its balance sheet in preparation for acquiring additional assets.

Aspen owns and operates residential, retirement and park communities across Australia and is at the pointy end of affordable housing targeting rental accommodation at less than \$400 per week or a \$400k purchase price. To achieve this Aspen opportunistically acquires assets at attractive prices and in many cases looks to re-purpose and optimize each site. Aspen's model spans traditional rentals (short and longer-term), land-lot sales as well as land-lease communities.

We recently toured Aspen's various South Australia assets and came away with stronger conviction in the management team and the investment proposition. The assets are an eclectic mix with the over-riding theme that they have been purchased well below replacement cost but also retain significant optionality for value-add development via increased density and/or utilizing unproductive land.

Coorong Quay (CQ) is representative of the opportunities the APZ management team generally seek (purchased well below replacement cost with development optionality). CQ is a very large precinct (79 Hectares on Hindmarsh Island with 3,000 approved residential sites) bought out of receivership which had been significantly over-capitalised by previous owners who never completed the development. The site has a very large pipeline of development sites and value creation potential. Incremental returns from here are highly attractive given the community facilities and structures have already been built and the growing critical mass of residents increases the community appeal (lowering marketing costs) and the risk profile.

Aspen's "Adelaide Caravan Park" asset is another example. It is well located in close proximity to the CBD, where Aspen are currently working with the council towards building multi-residential apartments on site. Based on recent transactions this would imply a doubling of the NAV (+\$14m).

We also toured, "Highway One", which is a caravan park to the north of Adelaide. It has 10 hectares of land with a significant proportion currently unproductive that will likely be developed over the next few years. The intention is to provide highly affordable housing utilizing "Xodbox" houses (~50m²) which cost only ~ \$125k to build and are likely to generate >10% unlevered returns on capital. Given the rental price point, APZ will be able to deploy a significant quantum of capital at these attractive returns.

Aspen's focus at the affordable end of the market is highly supportive of their business and its resilience. Elasticity of demand is strong – as underscored by their comments that when they drop rent by \$20/week, they get 4x the number of applicants. Generating a return at this low end of the market requires a low cost overhead, the ability to acquire assets (land particularly) very cheaply (often out of insolvency) and to develop acceptable housing at a low cost.

Aspen trades at \$1.58/share, versus our assessment of Aspen's NAV in excess of \$2.20 per share. Although this likely understates the true value given it doesn't capture the 'blue-sky' latency reflecting Aspen's quality management team and their ability to acquire assets at attractive prices, particularly should more of these assets become available during an economy-wide correction.

During the quarter, we added to our position in Star Entertainment (SGR), which sits in the reversionary capital pool, as the stock came under further pressure following recent regulatory hearings. Our event-driven investment framework for SGR is predicated on 1) looking through the windshield (SGR will likely be one of the most well-regulated and governed casinos in the world for instance), not the rearview mirror and 2) the event (regulatory issues, the media attention and the behavioural biases this creates) is the opportunity to buy long term, high quality assets at deep discount to a base case valuation prior to incorporating future value latencies (property monetization, 1k additional slots in Sydney).

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 (37% 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** (19%)
 - Sturdy, reliable and generally larger companies with world-class privileged markets and competitive positions. (Mainfreight, TPG Group)
- **Growth companies** (18%)
 - 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 – Cyclical and Quality Turnarounds (35%)

- 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.
 - Cyclical who will benefit from reflation
 - Restructuring opportunities in defensive sectors
- **Cyclicals** (20%)
 - 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** (15%)
 - Sound businesses with good management and balance sheets. We especially like spin-offs and government-to-private turnarounds. (ESAB)

3. Real asset and income sources of value – Bond-Like Equities and Asset Plays (23%)

- 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 and housing
 - Family-linked holding companies.
 - Private asset-linked growth
- **Bond-like equities** (8%)
 - 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** (15%)
 - Owner, operator managers with long term commitment to shareholder 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 – 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 5% cash and has around 15% of assets invested in overseas stocks that own businesses in USA, Canada, and UK.

Portfolio attributes as at September 2022 are summarised below:

P/E*	14.2
Beta	0.9
Yield	3.8
P/Book	1.5
ROE	10.7
Tracking error vs. ASX 200	7.7
Stock Number	38

*Note excludes holding companies like Infratil and Ferrovial as these distort the PE

COOPER INVESTORS BRUNSWICK FUND



AFS LICENCE NUMBER 221794
ABN 26 100 409 890

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	+1,183%	+301%
Max Drawdown	-40.0%	-47.2%
Best Month	+10.9%	+10.2%
Worst Month	-18.9%	-20.7%
Positive Months	68.0%	63.9%
Negative Months	32.0%	36.1%
Annualised Volatility	+12.2%	+14.0%

*Cumulative (1 July 2004), before fees and expenses

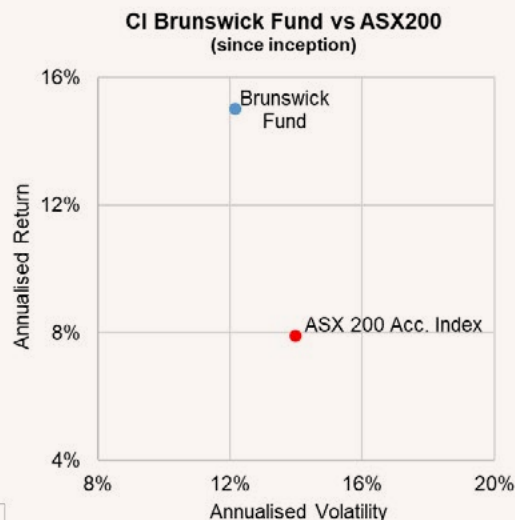
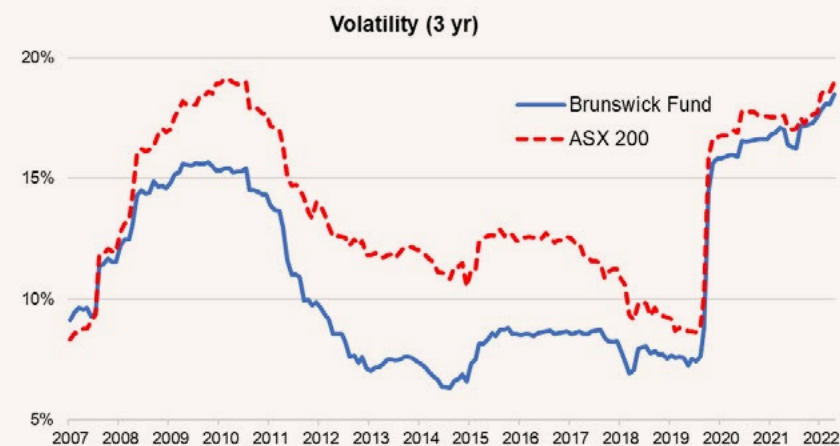
S&P ASX 200 Accumulation Index

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.



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