CI Brunswick Fund

COOPER INVESTORS

QUARTERLY REPORT September 30, 2024

AFS LICENCE NUMBER 221794 ABN 26 100 409 890

Performance Summary

Net of fees and expenses	3M	FYTD	1Y	3Y*	5Y*	10Y*	Inception*	FY2024	FY2023	FY2022	FY2021	FY2020
CI Brunswick Fund %	13.75	13.75	28.27	7.90	12.08	11.81	12.96	11.67	12.66	-2.85	27.15	4.41
S&P/ASX 200 Accumulation Index %	7.79	7.79	21.77	8.44	8.37	8.93	8.82	12.10	14.78	-6.47	27.80	-7.68
Relative %	5.96	5.96	6.50	-0.54	3.71	2.88	4.14	-0.43	-2.12	3.62	-0.65	12.09

Past performance is not a reliable indicator of future performance

Source: Internal CI data reports, September 30, 2024

Inception Date: 2 July 2019

*Annualised

^Partial Year

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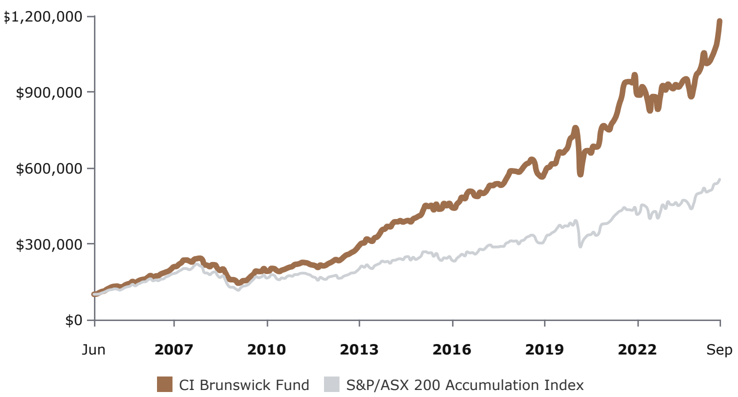
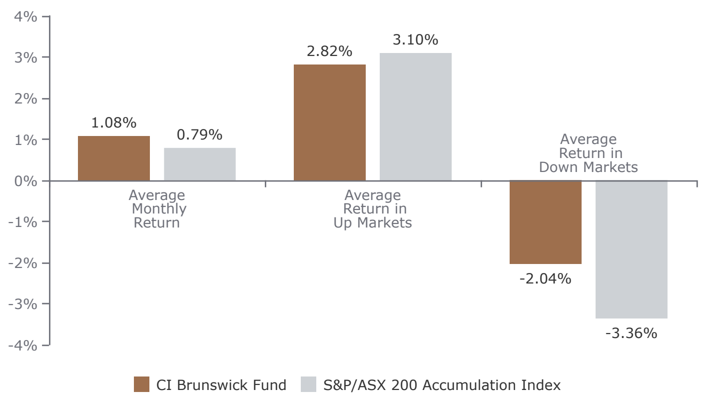
$100K INVESTED SINCE INCEPTION (NET)



SINCE INCEPTION RETURNS IN UP/DOWN MARKETS (NET)



Past performance is not a reliable indicator of future performance

Source: Internal CI data reports, September 30, 2024

> "Goddess, sing of the cataclysmic rage of great Achilles, son of Peleus, which caused the Greeks immeasurable pain and sent so many noble souls of heroes to Hades." - Homer, The Illiad

Quarterly Portfolio Highlights

For the FYTD (financial year to date, which is the 3 months to end of September), the CI Brunswick Fund returned +14.0% gross, before fees, and 13.7% net, after fees, which compares to the ASX200 Accumulation Index return of +7.8% over the same period.[1]

The Fund's Reversionary capital pool was the strongest contributor (+6.9%), followed by Compounders (+3.6%) and Real Assets & Income Securities (+3.4%), while cash contributed +0.2%.

Similar to FY24, the Fund's performance was driven by winners from each of the capital pools (stocks highlighted below). In addition, performance was skewed towards the Fund's large weights. As these large weights continue to do well, we face the predicament of 'when to sell winners?'. Peter Lynch was famous for his quote that doing so was like cutting your flowers, particularly if you reinvest into poor performers, i.e. you 'water your weeds'. But of course, even the best stocks have hiccups or can trade well above fundamental value when sentiment takes over. Reconciling whether there is still value latency in winners can therefore be difficult.

For us, this reconciliation is core to our VOF (Value latency, Operating industry and strategic trends, and Focused management behaviour) investment philosophy – and it is an ongoing process. We constantly reassess a stock's VOF score, which we then 'compare and contrast', to other stocks owned or not owned. Stock prices often go up in response to new information, which we then factor into our scores and assessment of value latency. Sometimes we can identify latent value ahead of time, which could be better described as potential in nature, being possibilities, opportunities, or scenarios. While we would not want to pay for this type of latent value, it can be a key source of stock price performance if realised.

Often, realisation of this type of latency is linked to an action, such as an external event. An example being government or regulatory policy. During the quarter, we saw this in the Aged Care sector as the Government and the Opposition agreed on new legislation which will support and benefit the profitability of the industry, including the Fund's holding **Regis Healthcare (REG)**. Ideally, we look for asymmetric outcomes. In this case if the new legislation didn't eventuate, we owned one of the strongest players in the sector, who would likely benefit regardless, for example by acquiring weaker players. It was a form of heads we win, tails we win (or at least don't lose).

But at the time we invested in Regis, this regulatory upside was a distant opportunity (potential only). What we could observe was the industry had been through some significant events (Royal Commission, COVID-19), and was likely near the end of this cycle. Our view was some form of regulatory fix was necessary given existing funding was not enough to support much of the sector, let alone encourage future investment in new beds needed to meet growth in demand.

Central to the Cooper Investors (CI) way of investing is this idea of the Hubris to Humility Cycle(s), and a meaningful amount of our time is spent observing these cycles at different levels, for example across economies, industries, companies and people.

This idea is ancient and features in civilisation's oldest written stories. Per the quote above, the Illiad tells the story of Achilles – the Greek's finest warrior. However, it is not a story of heroism. Rather, it details how Achilles pride, emotion, and hubris leads first to Achilles withdrawing himself and the Myridons from the war after Agamemnon claims Briesis (a slave woman who Achilles took as a war spoil). This fragments the Greek's force and leads eventually to the death of Patroclus, who is Achilles' right-hand man. Achilles subsequent rage at Patroclus' death eventually leads to Achilles own death at the arrow of Paris, as the Gods' intervene on the Trojan's behalf.

So long as humans are investing in stock markets, running businesses and forming government policy, there will be ongoing sources of opportunity presented by the hubris to humility cycle.

At the stock level, key contributors to Fund performance for the quarter were **Regis Healthcare**, **Aspen Group** and **Guzman y Gomez**. Key detractors were **Lifestyle Communities**, **Aurizon** and **Liberty Financial Group**.

Regis Healthcare (REG) was again a strong contributor during the quarter. The company reported a solid operating result with further improvements to occupancy and earnings trends while cash flows were significantly better than expected as RAD pricing (Refundable Accommodation Deposits) strengthened materially during the half.

The key positive news related to the Government's announcement that several of the key Aged Care Taskforce recommendations would be enacted in legislation, with bi-partisan agreement giving the industry confidence that the improved funding regime would be enduring.

The new legislation is likely to place the industry on a more sustainable footing with increased returns, cash flow and regulatory certainty. There are a number of key recommendations worth highlighting. Firstly, operators will now retain 2% per annum of the RAD price for new residents post July 1, 2025 (up to a maximum of 10% cumulative). Given Regis' significant RAD exposure this is a meaningful addition to future EBIT (>$35m, >55% increase vs FY24 levels). Secondly, a 'cap' (without requiring regulatory approval) on RAD pricing has been lifted from $550k to $750k. Given the very tight supply/demand dynamic we expect this will support much stronger growth in RAD pricing over the next few years (noting the compounding impact of this on the 2% RAD retention profit).

Thirdly, the Hotelling supplement will also increase immediately and further for FY26 while the legislation has also outlined an independent review of the accommodation supplement to consider whether the current supplement appropriately incentivises new supply. On our estimates these changes generate significantly improved earnings and cash flow for existing Aged Care assets.

A key tenet of our investment proposition is that there has been a prolonged capital strike in the industry as operator returns have been insufficient to drive capital investment. This can be seen in only 1,435 net new beds added in the past 15 months (<1% supply growth).

While the new legislation will materially improve earnings and cash flow for existing Aged Care assets, it is still unclear whether these improved returns will be sufficient to generate the quantum of supply required to meet the demand projected in the next decade, particularly given the cost of construction has increased materially in the past few years (>40% as per industry feedback).

From an investing stand-point, Regis retains attractive risk-adjusted value latency despite its recent share price outperformance. While the industry is starting to transition towards improved profitability, there are a number of reasons why we believe we are still relatively early in the up-cycle. These include:

- Industry returns still need to improve significantly from these low levels (as the new legislation will only be completely cycled by FY29) and importantly remain at these levels for a period of time to improve poor balance sheets and provide the confidence for operators to fund new builds.
- Once it gets towards that level of incentive returns, there is then a long time lag between deciding to build a new facility and opening that facility (~3-4 years).
- Demand is rapidly accelerating with Regis' target market (85+ year olds) increasing from an incremental 13.7k potential residents in FY23 doubling to 27k in FY27 before peaking at 61k in FY32 (>4x FY23 levels). A material demand shock is likely coming.
- In the interim, incremental occupancy is likely to drive relatively high incremental margins (despite mandated care minutes), and as facilities approach maximum occupancy there is likely to be upward pressure on room rates (pricing power).
- Cash flows are also likely to be strong reflecting Regis' working capital position and accommodation deposit (RAD) flows which provides balance sheet capacity for value accretive bolt-on M&A. Given the industry is highly fragmented with many sub-scale operators we would expect further acquisitions in addition to the recently announced CPSM and Ti Tree acquisitions (+906 beds, +13% bed growth).

Regis continues to be well placed for this industry backdrop given its existing scaled position with quality incumbent assets located in more affluent suburbs which should disproportionately benefit as the Government increasingly pivots the funding regime to increased user pays. In addition, the proprietorship and experience of Regis' two founders on the Board reduces the risk of poor capital allocation as the company's net cash balance sheet strengthens further.

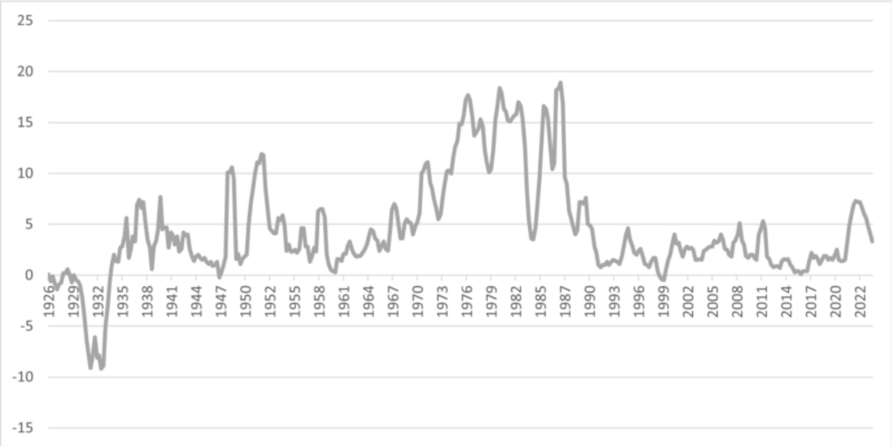
Put simply, we continue to see favourable VOF asymmetry in Regis and while these VOF trends persist intend to heed Peter Lynch's analogy.

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

OBSERVATIONS FROM THE ROAD

During the quarter we visited New Zealand, which was our second trip in recent months. In our view, New Zealand is further along the path of slowing its economy to tame the covid-induced inflation of recent years:

Chart 1: NZ Inflation Rate (annual, % p.a.)



Source: Reserve Bank of New Zealand

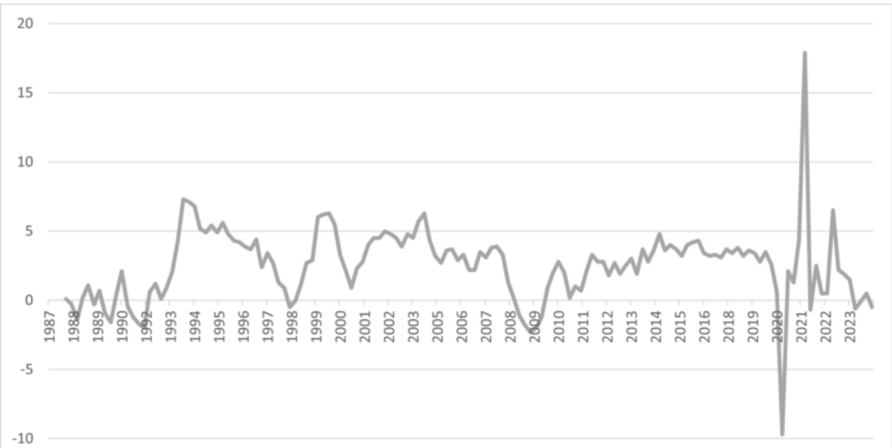
New Zealand raised its cash rate earlier and it has remained at a more elevated level of 5.5%, versus Australia at 4.35%.

Chart 2: NZ Overnight Cash Rate (% annual)

Source: Reserve Bank of New Zealand

This had led to a meaningful slowdown in economic growth.

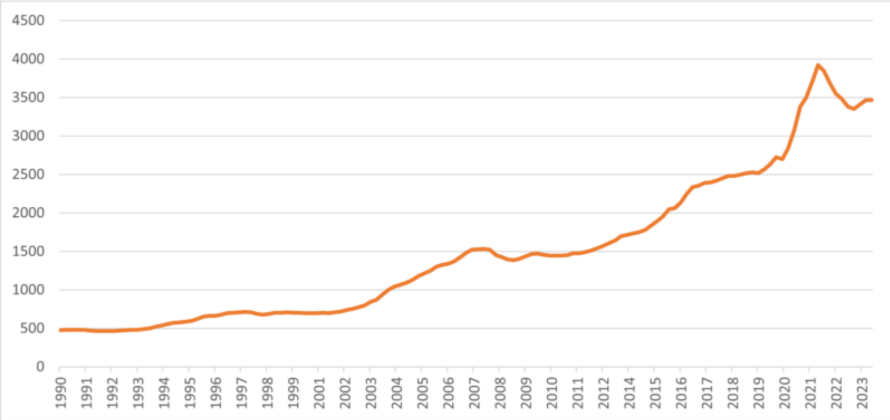
Chart 3: NZ GDP Growth (Real, annual %)



Source: Reserve Bank of New Zealand

It has also had a meaningful impact on house prices.

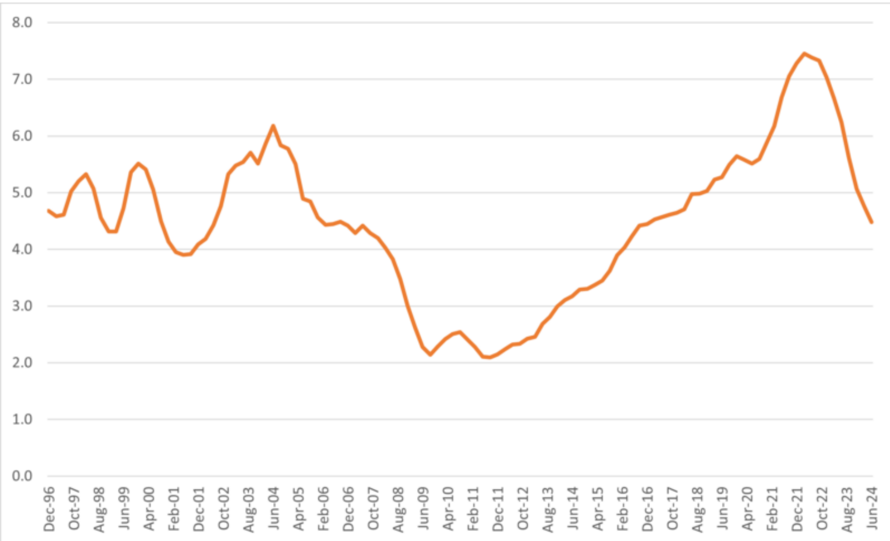
Chart 4: NZ House Price Index



Source: Reserve Bank of New Zealand

With a significant slowdown in housing starts (particularly when adjusted per capita) from elevated levels:

Chart 5: Consents per capita



Source: Reserve Bank of New Zealand

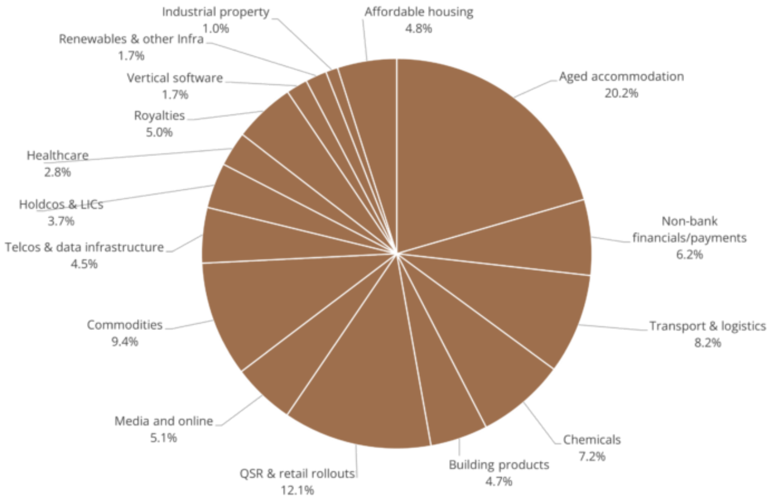
We are therefore focused on a number of reversionary stock opportunities that have been impacted by the rate setting and the flow on impact of the housing cycle.

PORTFOLIO POSITIONING

During the quarter the Fund added to its commodity exposures, particularly iron ore as the iron ore price fell well below $100/T. A weaker iron ore price reflects weak Chinese demand and economy in general with an export glut now for steel in global markets. Late in the quarter the Chinese continued to provide more stimulus via lower interest rates.

In terms of industry, the Fund balances diversity with a focus on clusters like ‘aged accommodation’, and an overall relatively defensive positioning. The Fund remains very different to the benchmark ASX200 (active share of 97.5%).

Chart 6: Brunswick Fund by Industry



Source: Citi, Internal CI data reports, September 30, 2024

A number of clusters remain of interest in terms of current and future opportunities:

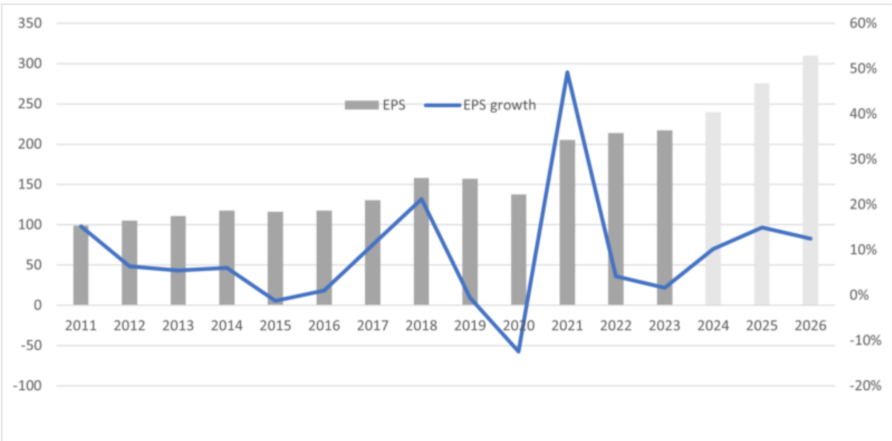
- Ageing demographics and community
- Affordable housing and other residential exposures where demand and rental growth is strong
- Infrastructure and property leveraged to data, renewables and industrial /online
- Companies benefiting from the US housing cycle
- Attractively valued 'platform' companies that generate high incremental returns on capital as they grow
- Assets in the ground that are valued well below replacement cost, earning low to mid-cycle returns on capital at present, that will benefit from an improved supply/demand dynamic
- Small and mid-cap companies more leveraged to the next profit cycle.

MARKET OBSERVATIONS

During the quarter both the Reserve Bank of New Zealand (RBNZ) and the Federal Reserve of the US began cutting interest rates (RBNZ cut 25bps, US Fed cut 50bps), which was something markets had been expecting, with more cuts being forecast. Both countries cash rates are still above the cash rate in Australia and have seen more significant signs of an economic slowdown.

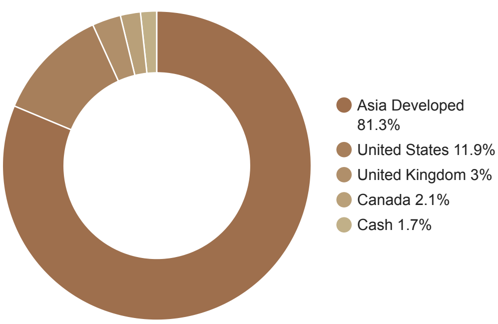
However, the cut to US interest rates is unusual when corporate profit trends are improving and could lead to a re-acceleration of inflation.

Chart 7: S&P 500 EPS Growth

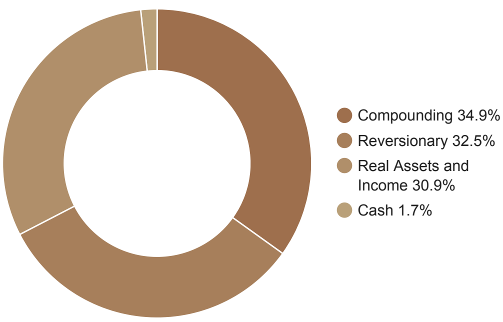


Source: Factset

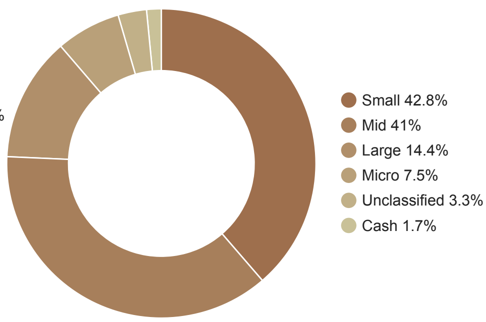
REGIONAL EXPOSURE



CAPITAL POOLS



MARKET CAPITALISATION



Source: Internal CI data reports, September 30, 2024

Further Information

Looking for further information regarding the Fund, please don't hesitate to get in touch:

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