CI Australian Equities Fund

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 Australian Equities Fund %	5.75	5.75	16.47	6.93	8.95	9.46	10.81	8.49	12.65	-2.72	27.08	-2.13
S&P/ASX 200 Accumulation Index %	7.79	7.79	21.77	8.44	8.37	8.93	8.88	12.10	14.78	-6.47	27.80	-7.68
Relative %	-2.04	-2.04	-5.30	-1.51	0.58	0.53	1.93	-3.61	-2.13	3.75	-0.72	5.55

Past performance is not a reliable indicator of future performance

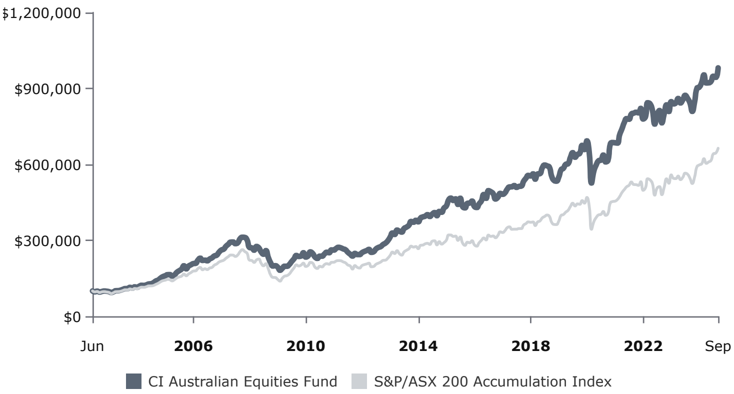
Source: Internal CI data reports, September 30, 2024

Inception Date: 4 July 2002

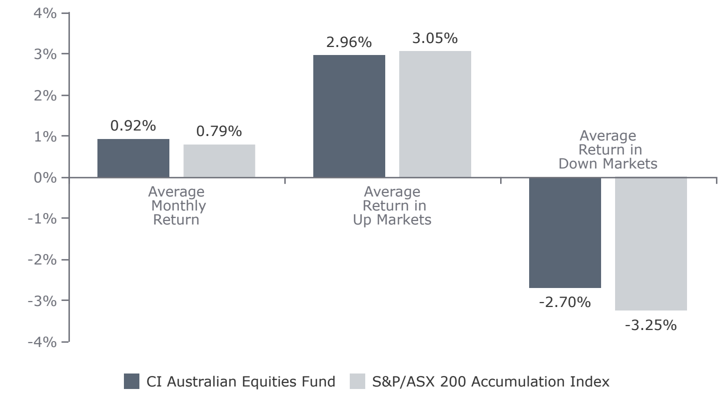
*Annualised

Download Data

$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

> "The impediment to action advances action. What stands in the way becomes the way." – Marcus Aurelius
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> "The key is to fail, learn, and improve quickly. If you're constantly learning and improving, your evolutionary process will be ascending." – Ray Dalio

Market and Portfolio Performance

The portfolio returned 5.7% for the September quarter, underperforming the S&P/ASX 200 index which returned 7.8%.[1]

Major positive contributors to performance included **Wisetech Global** (as the business is growing strongly and management continue to expand their opportunity set), **Lendlease Group** (progress on execution of turnaround strategy and improved sentiment towards real estate post central bank rate cuts) and **Seek** (although underwhelming earnings result, the company continues to execute well in a tough trading environment). Investments that were a major drag on performance for the quarter included **Ramsay Healthcare** (weak earnings results as industry conditions remain challenged), **CSL** (drifted on no material news) and **QBE Insurance Group** (although producing solid results industry conditions are beginning to be less supportive).

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

The portfolio struggled to keep pace with the strongly rising market, particularly in July a month where the outperformance of the Bank sector (where the portfolio is underweight) continued to be a drag on performance. We addressed the outperformance of the Bank sector at length in our last quarterly, so please refer to that document if you are looking for a detailed discussion on the topic and the rationale for the portfolio's positioning. Despite the portfolio's underperformance for the quarter, it was pleasing to see the portfolio claw back some performance in September, as the bank sector finally took a pause. Unsurprisingly this pause coincided with a reassessment by the market of the opportunity elsewhere in the market, most notably the resources sector, as the Chinese Government responded to the ongoing deflationary environment with additional monetary easing and promises of additional fiscal measures.

Core to our thesis on the portfolio's underweight bank positioning has been that we see greater opportunity for Risk Adjusted Value Latency outside of the bank sector. We have the patience to wait for the attractiveness of these alternative investment opportunities to be recognised. September was a snapshot of what should be expected as central banks globally begin to respond to easing inflationary pressures, and in China's case outright deflation, by gradual monetary easing and the portfolio is well positioned for this.

The portfolio has been building investments to real estate exposed companies over the last year, as the extended down cycle has exposed a range of attractively valued opportunities. Additionally, we see increased certainty regarding interest rate structures as being a key catalyst for improved industry sentiment and activity in the real estate sector, i.e. a precursor to improved Operating trends (the O of the VoF process). The portfolio has exposure to property industry investment activity and ownership through **Lendlease** (see our last quarterly for more detail on the investment proposition for LLC), **Mirvac** and **Goodman Group**, but also exposure to real estate building activity through **Reece** and **Iluka** (with the end market for Iluka's mineral sands products being linked to the global residential real estate sector).

More broadly, monetary easing also typically leads improved demand trends across many cyclical industries. We mentioned the increasing attractiveness of Cyclical companies in our last quarterly update, and the portfolio has further increased its overweight exposure in the Cyclical Subset of Value over the September quarter.

General Observations

THE PORTFOLIO

We recently added **HMC Capital** (HMC) to the portfolio. HMC is a capital light alternative asset manager at an early stage in their growth journey with $12.6bn of funds currently under management (FUM). Today, HMC has established capability across four key verticals of Real Estate ($9.6bn), Private Credit ($1.6bn), Digital Infrastructure ($0.7bn) and Private Equity ($0.8bn); with a fifth vertical, a Renewables platform, currently under development and targeting a launch during FY25. These five verticals operate in end markets supported by positive long term trends with significant scalability, each with the potential to be as large as HMC's total FUM today ($12.6bn). This opportunity set, combined with a highly intentional, founder led management team with significant ownership in the company and an established track record, lays the foundations for HMC to grow into a $50bn+ alternative asset manager over the medium term thereby representing compelling risk adjusted value latency.

Observations From The Road

US

We have had several of our investors travelling through the US this September looking into a diverse range of opportunities. On the whole the sentiments we expressed in the last quarterly were reinforced regarding the weaker demand conditions versus last year. However, the observed evidence also indicates a relatively similar environment to that which we saw when we were in the US in June, indicating slower but relatively stable demand backdrop. Not surprisingly many companies are looking to lower interest rates, which has begun, and getting to the other side of the election, irrespective of who becomes president, as key to improving operating trends. The sense is that there is a lot of activity awaiting a more certain backdrop.

INCITEC PIVOT

While in the United States we attended the **Incitec Pivot** (soon to be Dyno Nobel) Investor Showcase in Salt Lake City, including a number of site visits to the company's operations there. It was encouraging to see the clarity of strategy and the continued move to refocus the business back to the core global explosives franchise. The intent shown towards improving earnings and returns through commercial and operational levers is supportive of our view that the company has significant latent potential which is not being fully recognised by the market as the business has had many challenges over the last few years. As always execution will be critical and early indicators are supportive.

US REAL ESTATE

Whilst at a nascent stage and starting from a low base, sentiment towards commercial real estate across the US was improved relative to prior trips to the US over the past 24 months. Supported by the recent cut to the federal funds rate, this improved sentiment was evident through anecdotes of the cancellation of redemption requests within unlisted institutional property funds, early signs of increased transaction activity and slight compression of cap rates for the first time since the beginning of the monetary tightening cycle in 2022. The early improvement in sentiment and activity is most evident across industrial and multifamily asset classes at this stage, asset classes supported by strong long-term fundamentals despite pockets of near-term oversupply across parts of the US (particularly in multifamily). At the sector level, office markets remain challenged however trends remain similar to Australia with modern buildings in prime locations continuing to perform well.

ENERGY MARKETS

We attended, and conducted a series of meetings around, the Gastech LNG conference in Houston. The regulatory environment for energy projects across the US, including LNG, has clearly become increasingly challenging with parallels to the more comprehensive requirements demanded from Australian oil and gas operators over recent years evident. In addition, construction remains difficult, with labour constraints and cost increases over the last couple of years problematic for contractors and in some cases stalling projects mid construction. Despite these challenges, the scale of LNG capacity expansion currently in construction and in the future development pipeline across the US is significant in the context of global LNG markets. Whilst the precise timing that these projects come to market is difficult to determine given the challenges faced, the scale of new supply is likely to put downward pressure on LNG prices over the coming years from the elevated levels we are currently experiencing.

Additionally, there appears to be some structural change going on in the US electricity markets, some of which are forecasting load growth for the first time in decades. Data centres, onshoring and electrification are driving up demand growth expectations. Meanwhile grid stability is deteriorating due to aging infrastructure and increased intermittent generation from renewables. These issues are increasing the demands on domestic gas generation and leading to more regular micro structural volatilities in the energy markets. We suspect that this is providing **Macquarie's** energy trading business with more opportunity. Macquarie is well positioned given that it provides the full suite of solutions to customers (e.g. risk management & financing solutions), but also operates in proprietary physical trading more opportunistically.

NEW ZEALAND

On a brief trip through New Zealand, we observed an economy that has slowed "sooner and deeper than expected", to quote one contact. Construction, real estate and hospitality are the hardest hit sectors. Businesses are facing similar challenges to that seen in Australia, with bureaucracy and red tape slowing progress on many fronts and a struggling health system. Agriculture appears to be the shining light at the moment, with milk prices at reasonable levels for dairy farm profitability.

Despite the current environment being tough, the major banks are not seeing material signs of asset quality distress (a reminder that the Australian listed banks have exposure to New Zealand ranging from mid teen % to >20% for **ANZ**). They would appear to have significantly de-risked their portfolios' and materially higher credit impairment charges seem unlikely; however, secular stagnation locks them into low growth (as in Australia).

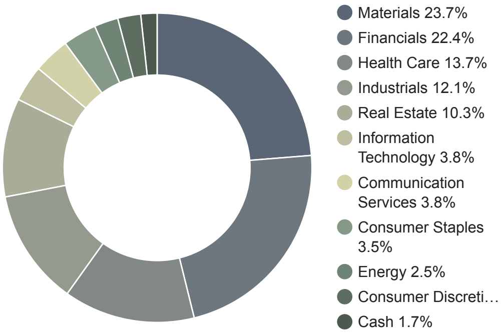
The central bank has responded to the weak economy by lowering interest rates. Given the evident extent of the economic weakness, they are likely to continue to ease, which should get the economy on firmer footing over the course of the next year.

Portfolio Snapshot

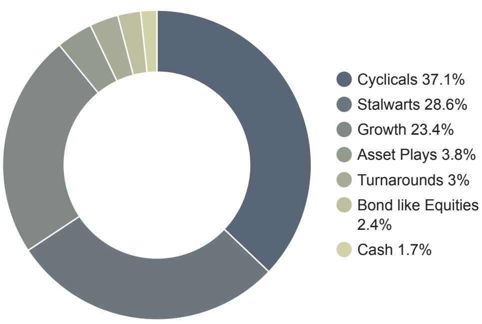
Source: Internal CI data reports, September 30, 2024

NAME	SECTOR	SUBSET
BHP Group Ltd	Materials	Cyclicals
CSL Limited	Health Care	Growth
Macquarie Group Ltd	Financials	Stalwarts
National Australia Bank Limited	Financials	Stalwarts
ANZ Group Holdings Limited	Financials	Stalwarts

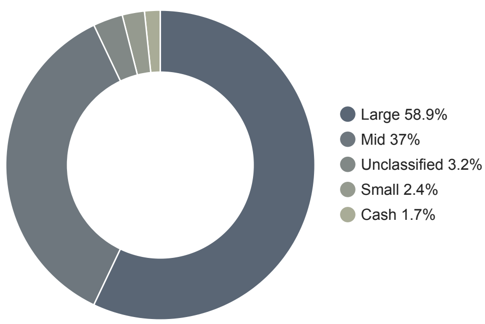
SECTOR EXPOSURE



SUBSETS OF VALUE



MARKET CAPITALISATION



Further Information

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

www.cooperinvestors.com | clientrelations@cooperinvestors.com | +61 3 9660 2600

Zenith RECOMMENDED

Financial product advice contained in this document

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