

CI AUSTRALIAN EQUITIES FUND QUARTERLY REPORT



Cooper Investors Pty Limited AFS Licence Number 221794 ABN 26 100 409 890

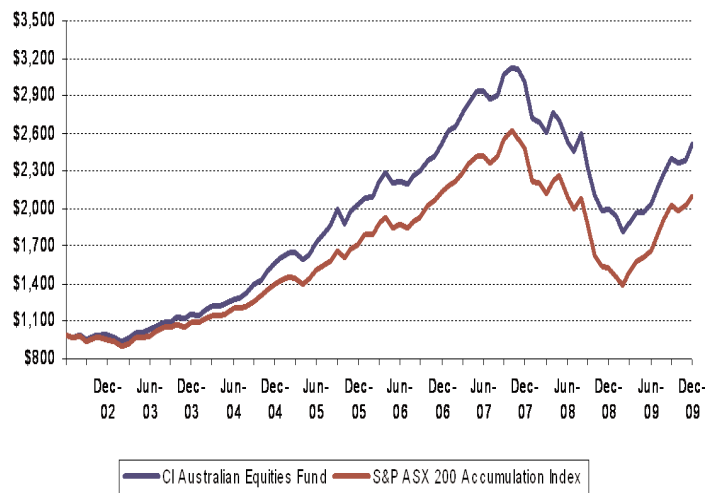
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“Try not to become a man of success but rather try to become a man of value”. Albert Einstein

Market and Fund Performance

	**FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	4.72%	3.39%	1.33%
ROLLING 1 YEAR	26.91%	37.03%	-10.12%
ROLLING 2 YEAR	-7.65%	-8.15%	0.50%
ROLLING 3 YEAR	0.78%	-0.70%	1.48%
ROLLING 5 YEAR	11.12%	8.36%	2.76%
ROLLING 7 YEAR	15.50%	11.86%	3.64%
SINCE INCEPTION*	14.32%	10.38%	3.94%
SINCE INCEPTION^	172.78%	109.68%	63.10%

CI Australian Equities Fund - Net of Fees
\$1000 Invested Since Inception



*Annualised

^Cumulative (4 July 2002)

** Before fees and expenses

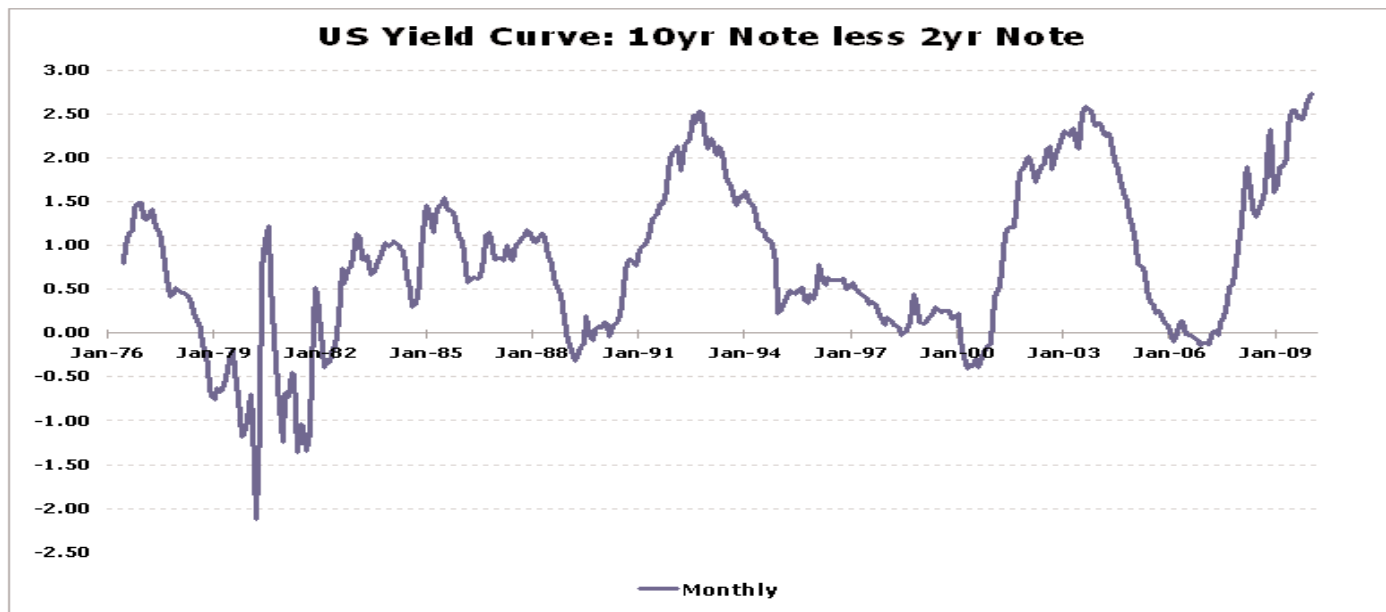
- In a more moderate fourth quarter of the calendar year, the ASX 200 Accumulation Index rose 3.39%. The market has now risen 59% from its low point in March 2009.
- Over the quarter the CI Australian Equities Fund rose 4.72%, out-performing the benchmark by 1.33%. The stocks in the portfolio which made a strong positive contribution to performance included RIO, BHP, Coca Cola Amatil, Amcor, Orica, Asciano and Austar. On the negative side the stocks in the portfolio which under-performed were Brambles, Woolworths, Metcash, CSL and Oil Search.
- More broadly, it was interesting to observe that, after a remarkable period of out-performance for most of 2009 it was the banking sector which finally succumbed to a more subdued performance with three out of the four major banks under-performing the ASX 200 over the December quarter; the only exception being Commonwealth Bank. Our performance was aided by the portfolio being underweight the banks (18% of the portfolio) compared with the ASX 200 weighting of 26%.
- The materials index continued its generally positive year to finish on a high note (+13.9% over the quarter), as did consumer staples (+4.7%). In addition to the financials, the other negative drag on the index over the quarter was energy (-2.3%) as, despite a rise in the oil price, Woodside, Santos and Oilsearch all fell.
- The strong global recovery in markets has been driven by the stimulatory effects of both monetary and fiscal policy in all countries around the world, including China's \$570b stimulus package and their 35% credit expansion. Liquidity has continued to flow into commodity linked currencies such as the AUD and commodity linked stock markets. Australia's currency strength is explained by the economic performance of the Asian region (including Australia) in addition to the U.S.'s loose interest rate policy. The U.S. (the world's reserve currency) now has the steepest yield curve in 40 years reflecting the severity of the downturn. The biggest risk question remains when and how do governments withdraw liquidity?

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The Portfolio

Portfolio strategy remains the same, namely to identify stocks with VoF (value latency, operational performance, industry/strategic positioning & focused management) qualities within 4 broad categories:

1. Stocks with strong and sustainable dividend yields backed by strong balance sheets and businesses ~ dividends have historically made up over 50% of total returns and we believe this is going to be a key theme over the next decade.
2. Growth industries and companies, both locally and on the global stage e.g. resources, engineering services, healthcare.
3. Asian geographic exposure ~ Australia's prospects are inextricably linked to the Asian region.
4. Consolidations ~ particularly in OECD countries where economies are mature and, in the face of global competition, firms will need to drive value from consolidation.

Stock comments:

Coca-Cola Amatil

- A notable positive contributor to the Fund was our over-weight position in Coca-Cola Amatil (CCL). CCL is one of the largest bottlers of non-alcoholic beverages in the Asia-Pacific region and is one of the six major Coca-Cola bottlers in the world. More recently CCL has formed a 50/50 joint venture with SABMiller which manufactures and markets a range of premium beers in Australia and New Zealand. CCL has delivered consistent growth in earnings and improvement in returns. A hallmark of their performance has been the continued growth of their mature brands such as Coke, supplemented by the introduction of new categories and extension of existing categories - bottled water, sports and energy drinks - which has delivered both operational and earnings growth.
- However it is CCL's reach into the burgeoning Indonesian market which has the potential to deliver significant growth. The latent potential in the Indonesian economy has taken many years to emerge but, more recently, the macro-economic transformation underway has started to deliver a more stable and consistent level of growth. Against this backdrop and a population of circa 240m, there has been a meaningful rise in foreign capital invested in Indonesia. A corollary of this has been the growing presence of international supermarket chains which has provided an ideal distribution platform for CCL's portfolio of beverages. CCL is currently stepping up its investment in production facilities in Indonesia to more fully participate in this growing market.

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- If an SOE has two years of losses there are negative regulatory consequences.
- There will definitely be more acquisitions by Chinese companies globally, including Australia. Strategic importance rather than price will be the main criteria.
- The Nasdaq listed companies we saw were the “best” companies.
- Foreign companies struggle in China across both old and new industries, e.g. eBay failed, Google is not the largest search engine.
- English was widely spoken - most of our meetings did not need an interpreter, which is different from three years ago.

Commodities

- Chinese produced coal is becoming more expensive and there is likely to be a shortage for at least a few years until new mines are fully functional.
- Coal production costs are going up quicker than prices.
- China will import if it is cheaper than domestic production.
- Closing small mines and steel mills but there remains plenty of new capacity coming on stream.
- Iron ore prices expected to rise by 20% for 2010.
- China is trying to consolidate the buyers of commodities but this will take a long time.
- Government policy to diversify energy mix away from coal means the Chinese will be big buyers of gas, uranium, wind and clean coal technology. Any meaningful change in energy source from coal will take years.
- The scale of the country and its industry is staggering, everything is huge.

Overall, we would maintain that investment portfolios should have solid exposure to commodities and services that China needs but does not already control – examples being iron ore and high quality coal. Equally obvious though is the lack of exposure to industries where China dominates such as steel, ships and other heavy industry.

Market Observations & Outlook

“Be content with what you have; rejoice in the way things are. When you realize there is nothing lacking, the whole world belongs to you”. Lao Tzu

- Undoubtedly the global economy has suffered its most serious contraction since the Great Depression. Indeed, it was less than 12 months ago global economic activity had collapsed and global banking systems had only narrowly averted a catastrophe. In response governments embraced fiscal expansion at an unprecedented level and central banks dramatically reduced the cost of money. Specifically, the Chinese Government’s surge in investment spending and broader stimulus measures has greatly supported Australia’s economic resilience. Critically, the broad economic recovery in China has underpinned the renewed demand for Australia’s resources.
- It is readily apparent that the substantial activism by governments and central banks globally has enabled economic stabilization. It remains unclear, however, whether there will be sufficient private demand to provide the foundations for an ongoing sustainable global recovery.
- In Australia, an interesting case study is an examination of the role of government handouts and a sharp reduction in interest rates supporting retail spending. In 2008, Christmas sales were supported by fiscal stimulatory measures targeted to the household. In addition, from September 2008 to December 2008, interest rates fell by 275 basis points. In marked contrast, the most recent Christmas period saw no additional supportive government spending measures while interest rates had firmed in recent months. It would appear that the impact of the withdrawal of government fiscal support and higher interest rates has seen a noticeable softening in retail sales in December 2009. Our feedback from department stores and electronic retailers suggests sales and margins have been sluggish.
- The evidence that consumers are becoming more prudent is further supported by a study undertaken by Commsec which showed that credit debt is growing at the slowest pace on record. More broadly, while consumers were more reticent to use credit cards, there has been a material pickup in the use of debit cards to

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make purchases. For example, in September credit card purchases fell 0.4% compared with a year earlier while purchases on debit cards rose by 7.7%.

- A further change in the retail sector, most particularly in supermarkets, has been the almost universal acceptance of private label becoming a staple product in consumers' shopping baskets. For example, it is apparent that independent supermarkets, which have tried to distinguish their businesses from Coles and Woolworths by offering a broader array of branded products, have had to provide a more significant presence in private label. At the same time branded manufacturers are funding more frequent and deeper promotions as consumers remain sensitive to price and are enticed to private label.
- As consumers are showing signs of more careful purchasing behaviour we have become mindful of the amount of capital being allocated to the supermarket sector (new stores, refurbishments, new market entrants) and the changing nature of competition by its participants. Our industry feedback from one of the independent supermarket retailers suggested that the investment in store refurbishments over a three year period had not given them the lift in sales they had hoped. Given the amount of capital that each industry participant, in particular Woolworths, is spending on refurbishments this is a metric that will need to be closely monitored.
- We also note the improved sales performance of Coles.
- The growing emergence of Aldi, and to a lesser extent Costco, will provide additional competition to the earnings pool generated by the incumbent supermarkets. Historically the major supermarkets have been beneficiaries of restrictive provisions in their leases preventing landlords from leasing tenancies greater than 500sqm to competitors. Through changes to legislation, competitors such as Aldi will now have greater access to shopping centres which have previously been dominated by Coles and Woolworths.

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