CI AUSTRALIAN EQUITIES FUND
QUARTERLY REPORT

COOPER INVESTORS

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

JUNE 2009

"Debts are nowadays like children, begat in pleasure but brought forth in pain" Moliere

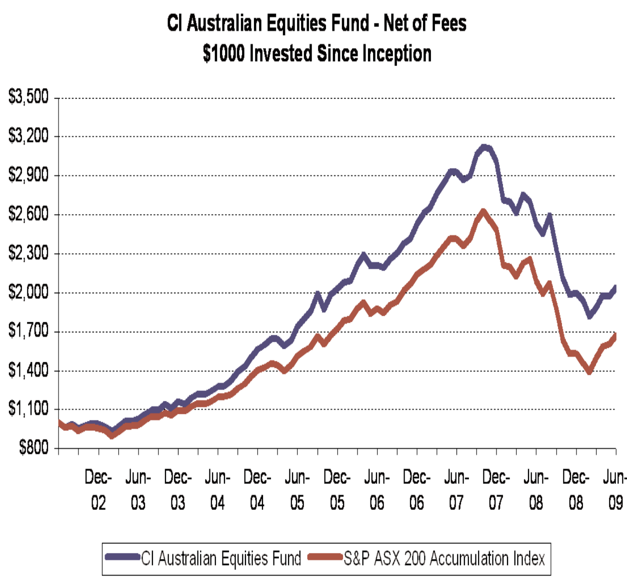
"It is always wise to look ahead, but difficult to look further than you can see" Winston Churchill

"Government's view of the economy could be summed up in a few short phrases: if it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidise it." Ronald Reagan

PORTFOLIO PERFORMANCE

	PORTFOLIO	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	8.53%	11.29%	-2.76%
ROLLING 1 YEAR	-18.25%	-20.14%	1.89%
ROLLING 2 YEAR	-15.50%	-16.83%	1.33%
ROLLING 3 YEAR	-1.59%	-3.82%	2.23%
ROLLING 5 YEAR	11.22%	6.86%	4.36%
SINCE INCEPTION*	12.05%	7.60%	4.45%
SINCE INCEPTION^	121.61%	66.91%	54.70%

* Annualised
^ Cumulative (4 July 2002)



The last quarter of the fiscal year saw some relief from the downward trend established in the market from its peak in October 2007. From its lows in early March the index rose 25%, to end the fiscal year down -20.14%. The March quarter was the worst for the Australian equity market since 1982, the June quarter was its best since 1984. Over the year to 30 June 2009 the fund returned -18.25%, outperforming the index by 1.89% but in reality it was a tale of two halves. From July to December 2008 the Fund outperformed by 6.09%, only to give back a lot of the relative performance during the latter half of the period. Our internal risk measurement metrics shows the portfolio as a low beta portfolio, and so it comes as no surprise that it outperformed during the down market. Our cautious stance on the financial sector and the economy in general meant that we "missed the turn" in early March as the cyclical parts of the market led the upward charge. It remains to be seen whether this market leadership can continue if, as we believe, earnings will remain subdued for the next twelve months.

The main positive contributors during the quarter were Orica (reported a result which showed less volatility resulting from mining markets than had been expected), Alumina (large capital raising went a long way towards fixing its balance sheet), Austar (its business has to date shown itself to be resistant to the recessionary pressures being felt around the globe) and Brambles (had been sold off heavily the previous quarter). On the negative side Nufarm suffered as its earnings outlook came under pressure as US farmers cut back on inputs due to commodity price pressures and funding constraints, AGL (simply failed to move with the market rise having outperformed during the market's fall) and Tattersalls (market worries about the longevity of profitability in its wagering business) also weakened.

Having underperformed during the falling market, small caps stocks outperformed during the June quarter recovery. In particular small cap miners rose dramatically on the reflation theme, as did mining services companies. We would expect this sector to find the going tougher from this point as prices have now moved to a point from which in order to go further earnings improvement will be needed – something not yet in sight.

Over the quarter we participated in the recapitalizations of both Alumina and Asciano. In addition we have increased the fund's exposure to IAG and Nufarm on stock price weakness.

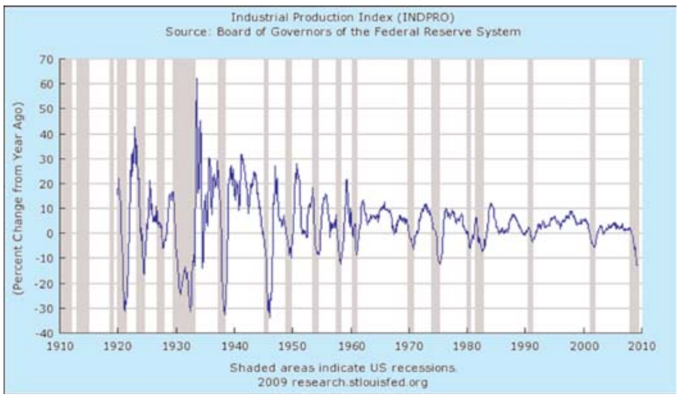
The Fund has the following structural characteristics:

- Cash and hybrids account for around 2% of the portfolio
- Australian bank stocks represent 14% of the portfolio vs. the ASX 200 weighting of 22%. Bank stocks have outperformed the market by 16% over the last 12 months.
- Commodity stocks 21% (miners, gold and oil stocks) but focused in the
- Healthcare companies (14% of portfolio) representing activities including blood fractionation, cochlear implants; acute care, humidification and sleep apnoea devices; pathology testing services and hospital assets. One "headwind" that this sector has encountered has been the rise from 70¢ against the US dollar on the 1/4/2009 to 81¢ on the 30/06/2009 (+15.7%).
- In summary the Fund holds 36 stocks with the following approximate exposures (expressed as a % of Fund value): 90% Australian big cap stocks; 8% small caps; and 2% in cash.

VoF OBSERVATIONS ~ INDUSTRY TRENDS & BEHAVIOUR

Green shoots – what green shoots?? Media commentators and equity investors are looking intently for the so called "green shoots" of economic recovery. In our travels and company contact we have to date found precious little which would satisfy this desire. Anecdotally the inventory destocking has finished in the USA, but the resulting level of activity is anemic and lower than was the previous equilibrium level. Europe has seen a much longer and slower drift down in activity levels and has not yet stabilized. Parts of Asia are the best performed in this regard.

Source: Voxeu, June 2009, Mr Swing



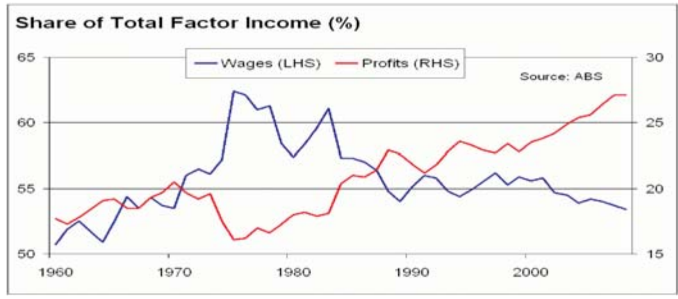
Source: Mr Swing, June 2009

World industrial output has been as poor in the last twelve months as in the initial period of the Great Depression – at best we might be able to say it has stabilized but that is by no means certain. Industrial production in the USA is contracting at its fastest pace for 30 years and similarly there is no sign of improvement as yet. The volume of world trade has plummeted and the extent of the fall to date far exceeds that occurring in the Great Depression over a similar time frame – albeit that with far greater global integration and ease of movement of goods today that is perhaps not surprising . The green shoots cited by economists consist mostly of indicators which are declining at a slower pace than was the case six months ago – but they are still declining on the levels of a year ago.

Both imports to and exports from the USA and China continue to decline. In the USA Fannie Mae has recently reported a sharp rise in the number of overdue mortgage payments. The British economy in the first quarter of this year had the largest decline since 1958, while in Japan, the 16 country Eurozone and the USA unemployment continues to rise (now at 9.5% in both Europe and USA) with no sign yet of any stabilization in this trend.

In light of the excess capacity in the global system, the deleveraging taking place at both a corporate and individual level, and pressure on revenues with which cost cutting will find it hard to keep pace (ie. margin decline), it would appear unlikely that the recovery, when it comes, will drive corporate return on equity back to its levels of two and three years ago. In addition the proportion of the overall income pie going to corporate profits has risen substantially over the last 15 years as can be seen from the chart below. We anticipate some reversion of this trend. It is little wonder that with a Labor government back in power we are hearing more noise from the unions.

FACTOR INCOME CHART



Source: Diogenes Research

Australia is a stand out in the Western world to date – one of the very few countries not to have recorded a quarter of negative growth. For this we can thank the banking system which entered the crisis in far better shape than its peers elsewhere and the enormous stimulus applied to the consumer – two government hand out packages, tax cuts, first home owner incentives, and the timely fall in petrol prices and interest rates. In addition house prices have not fallen as vigorously in Australia as in the USA or Europe. However we have witnessed a two tier market as consumers have benefited from these factors, but the industrial part of the economy has found the going much tougher, particularly in the last three months. It will be difficult for consumers to maintain their demand profile as the stimulus fades. At some point the level of household indebtedness will have to decline as we have started to witness in the USA where the personal savings rate reached 5.7% in April (up from 0 a year ago). We remain cautious, but not pessimistic, about the short term outlook - a leveling out in global activity (even at low levels) would be very positive and we are now much closer to this point.

While listed property trusts have been a disaster zone in Australia, the property market itself has kept relatively intact. We believe this is the result of a high degree of control being exercised by the banks who can, over a two to three year period, let asset values down slowly – at a pace which allows bank profits, small capital raisings and dividend reinvestment plans to cover the loan losses incurred. This is in contrast to the early 1990s when large losses in a short period of time almost led to the insolvency of part of the banking sector. This process, together with low levels of loan growth, will cap growth in bank earnings for the next eighteen months.

The infrastructure and property trust sectors were the two sectors most highly geared as we entered the downturn and not surprisingly these parts of the market have been the most active in recapitalising balance sheets and reshaping corporate structures. Almost without exception the listed property trusts have raised equity, and in some cases more than once. Stock prices generally now trade well below stated NTA as the market waits for the inevitable pull back in property values. Infrastructure companies have also come to the market, the latest being Asciano which has now put the worst of its debt problems behind it with a very large equity raising and has stated an intention to change its current stapled security structure into a “normal” corporate entity. There will no doubt be more capital raisings to fix stressed balance sheets (Trans Pacific Industries being one that has flagged a large raising in the near future) but we believe we are now a long way through this process. What we have not yet seen on any scale are capital raisings to fund acquisitions – we suspect this too will pick up pace over the coming year as more companies are forced to focus on core businesses and private equity sells out of assets bought at or close to the peak of the cycle with large dollops of now unaffordable debt.

Government debt is soaring everywhere as intervention in industry is going up around the world, and this is especially the case in Australia. In the USA and the UK the finance industries are coming under enormous scrutiny, as is the healthcare industry in the USA, as governments are no longer prepared to let companies who are beneficiaries of the public purse make high margins. Taxes are inevitably going up as the struggle to finance large deficits intensifies. Thus, as well as (and at the same time as) having to cope with the economic impact of the global downturn, many companies are facing margin pressure from their own countries' governing bodies. In Australia the list is already long:

- Telstra and the NBN
- Pathology funding is being cut
- In Western Australia the government will be looking for its pound of flesh from the RIO/BHP iron ore merger
- Constant government politically inspired sniping at the banks
- The now aborted Grocery Watch and ineffective Fuel Watch
- Alcopops tax
- Employee share plan fiasco

It is now the case that in almost every investment decision we make the impact of government intervention must be considered. The cost of capital for companies rises as a result.

And life will only get tougher for government coffers over the medium term – as they take on massive borrowing to head off the global financial crisis, governments around the world will have to turn their minds towards the inevitable demographic changes taking place which will, in a relatively short period of time, impose healthcare and pension costs the likes of which are today unimaginable. According to the Economist "the demographic bill is likely to be ten times bigger than the fiscal cost of the financial crisis." According to the Centre for Retirement Research at Boston College, public pensions in the USA are underfunded by more than one trillion dollars. This is no surprise when one considers that of the 3.5 million jobs created in the USA in the last ten years, 2.4 million were in the public sector. One can envisage some very difficult, even unpalatable, choices facing our decision makers in the not too distant future. And this will bring into the picture long term bond yields (not a positive outlook) and the spectre of governments defaulting on debt or, more likely, inducing inflation to cut the real cost of their debts. Somewhere along the line today's fiscal generosity will have to be reined in, potentially sharply.

In Australia, thanks to the fact that most of our pension schemes are now Defined Contribution, our listed companies do not have, for the most part the pension noose hung around their necks. Companies in the USA and the UK are in a different position – defined benefit schemes imply big corporate liabilities which have not been helped by the market downturn. According to Merrill Lynch (report dated October 24 2008) the top 40 companies which have defined pension liabilities are cumulatively exposed to $100B in pension underfunding, a position which has probably deteriorated given market moves since then. Ultimately, in the absence of major equity market gains, this must lead to an impact on future earnings as the funding of the deficit is expensed. Large, well known companies including Lockheed Martin, Johnson & Johnson, Alcoa, Verizon, Honeywell, Dow Chemicals and Fedex are amongst those most exposed to this issue.