CI AUSTRALIAN EQUITIES FUND
QUARTERLY REPORT

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

June 2011

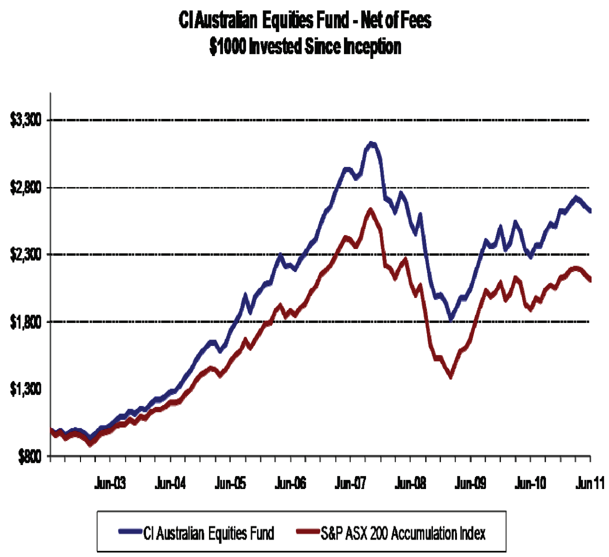
"*If one does not know to which port one is sailing, no wind is favorable." Lucius Annaeus Seneca.*

"The farther backward you can look, the farther forward you can see." Winston Churchill.

***"Some people regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Not enough people see it as a healthy horse, pulling a sturdy wagon." Winston Churchill*.**

Market and Fund Performance

	****FUND**	**BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	-3.40%	-4.02%	0.62%
ROLLING 1 YEAR	15.60%	11.73%	3.87%
ROLLING 2 YEAR	14.15%	12.44%	1.71%
ROLLING 3 YEAR	2.12%	0.32%	1.80%
ROLLING 5 YEAR	4.42%	2.38%	2.04%
ROLLING 7 YEAR	12.05%	8.43%	3.62%
SINCE INCEPTION	12.51%	8.66%	3.85%
SINCE INCEPTION^	188.68%	111.00%	77.68%



*Annualised

^Cumulative (04 July 2002)

**Before fees and expenses

The ASX200 Accumulation Index fell by -4.02% over the quarter but rose by 11.73% over the past year. The AUD continued its seemingly inexorable rise, peaking at $1.09 before falling back to $1.06, having risen from $0.84 over the twelve months.

The path taken by commodity prices mirrored that of the AUD, both over the full year (copper and oil both rose strongly, +23% and +38% respectively) peaking in March and then falling back over the last quarter. The best performers in the portfolio over the quarter included Woolworths, GPT (continuing to take shareholder friendly actions) Tattersalls and Orica. The poorer performers over the quarter included Worley (falling in line with the drop in the oil price), Alumina (falling aluminium price) and Cochlear.

The Portfolio

During the quarter we bought back in to Brambles. Despite facing tough underlying economic conditions in most of its markets around the world, management is making good headway in turning the company around. Now back on an even keel, Brambles is able to explore a number of growth options.

Brambles own CHEP, the global leader in wooden pallet pooling, and recently acquired IFCO, the global leader in reusable plastic container (RPC) pooling. In addition, Brambles is a significant global player in the storage and destruction of physical and digital information through its Recall business. The investment case for Brambles centers on high quality core businesses, with improving operating trends, multiple growth options, a strong balance sheet and a management team that has refocused Brambles on its core pooling businesses and customers.

In recent years, Brambles' disappointing operational performance has stemmed directly from CHEP US. However, we are starting to see evidence that the investment in product quality and customer focus by CHEP US over the past two years is paying dividends. During the quarter, CHEP US regained a contract with ConAgra Foods which it had lost to plastic pallet pooler iGPS last year. We view this contract win as further evidence of CHEP's strengthening competitive position in the US as its main competitor iGPS continues to struggle. With a roll-off in pallet quality improvement costs and new business wins, we expect CHEP US's operating margins to return to the mid-20's percent over the next two years, even with a benign macroeconomic outlook. Substantial leverage exists within the global CHEP business as volumes return and when prices, which have been flat in recent years, are increased.

The latent value potential we see in Brambles stems from:

- CHEP US expanding its product offering (RPCs, auto, other containers) and increasing penetration in its core wooden pallet pooling through a focus on SME customers;
- Leveraging existing networks and relationships to increase international pooling opportunities, especially in auto;
- Increasing palletisation in emerging markets where CHEP has a solid footprint. CHEP is seeing ~20% growth and has first-mover advantages;
- Upside to current market expectations on potential IFCO synergies which are yet to be quantified by management; and
- A value-accretive outcome of the strategic review underway on Recall, which now contributes less than 15% to Bramble's earnings.

Stock News

GPT management continued to take positive actions to reduce the share price discount to NTA. Having completed the sale of its US Seniors Housing portfolio late last quarter, the company sold the Ayers Rock resort for $300m, thereby reducing gearing and allowing for a share buy back of 5% of the issued capital.

Coca-Cola Amatil (CCL) has been a core holding in the fund for several years. CCL bottles, sells and distributes, under licence from The Coca-Cola Company (TCCC), a range of Cola-Cola Trademark products in Australia, New Zealand, Indonesia, PNG & Fiji. It also has a distribution agreement with Beam Global Spirits & Wines for its spirits and ready-to-drink (RTD) portfolio and a joint venture with SAB Miller to manufacture and distribute premium beer in Australia. CCL purchased SPC Ardmona, a manufacturer and distributer of packaged food, in 2004. CCL's core Australian and New Zealand businesses (~80% of group EBIT) operate in mature markets with volume growth likely to be, on average, at or below GDP growth (with variability due to seasonal weather conditions). The brand power of Coke in Australia / New Zealand is amongst the highest in any market globally with Coke commanding a price premium of ~40% to competitors and it has ~60% market share in its core categories. Its operation in Indonesia, together with increasing penetration of alcoholic and non alcoholic markets via distribution agreements, provides the majority of upside latent potential for CCL.

During June SAB Miller announced a takeover bid for Fosters. The terms of CCL's JV with SAB Miller were recently amended in order to facilitate SAB Miller's bid for Foster's. We believe the amendments are favorable for CCL which, should the takeover proceed, see CCL receive a payment of $305-$380m from SAB for their 50% share of the JV (against a book value of $95m), for a business that is still immaterial to CCL earnings.

June 2011

The amendments also give CCL the right to acquire Foster's spirits, RTD and non-alcoholic beverage businesses. If SAB's bid is successful we would anticipate a boost to CCL earnings.

Amcor acquired Alcan Packaging from RIO late in 2009 for approximately $2B. It paid a multiple of 5.1X EBITDA. The company made two further smaller acquisitions in 2010 at multiples under 5X. During the last six months there have been four packaging acquisitions in the global packaging market for sums ranging between $3.9B and $4.9B. Multiples paid ranged from 5.6X to 9.5X EBITDA. When one brings to account both the $200m+ of synergies Amcor is expecting over the first three years of its ownership of the Alcan assets and its change in market position, it is apparent that Amcor has bought very well. In addition, the company sold its non core glass tubing business at an EBITDA multiple of 11X. Management continues to undertake shareholder friendly actions.

The ASX under-performed the market over the quarter as the Treasurer indicated he was inclined against the takeover by the Singapore Stock exchange, and then followed with his rejection of the deal outright as being contrary to the national interest. We find it puzzling that:

- The Treasurer rejected the deal so vehemently while at the same time the Government is espousing the need for Australia to integrate further into Asia.
- If the ASX is indeed such an important national icon, why is another start up (Chi Ex) being encouraged to enter the market.
- If regulatory oversight was to remain with Australian authorities, how was the national interest prejudiced by the takeover?
- The Australian Government has taken this stance in the face of a global trend of stock exchange consolidation.

QR National made two announcements of note during the quarter, the company continuing to stay on track with our expectations.

- The announcement in April of QRN's voluntary redundancy program resulting in 600 plus voluntary redundancies. The majority of the redundancies have been in head office, corporate and administrative roles, workshops and the freight business.
- The signing in June of a long term rail haulage agreement with Gindalbie Metals Ltd that, with escalation, is expected to generate $900 million in revenue over 10 years.

Market Observations

Australia is facing what appears to be a two speed economy – resources and the rest. But is the resources boom really a curse in the long run? Are we faced with so called Dutch Disease whereby the strength of one sector leads to a decline in other sectors of the economy as the currency adjusts? Most companies we speak to in the resources or resource service industries are very confident about the short and medium term future, driven by China's (and Asia in general) ongoing voracious appetite for minerals which Australia has in abundance. On the other hand, almost without exception, all the other companies we have spoken to recently are facing economic headwinds and finding it tough to increase volumes and profits. Indeed we have spoken recently to one company with operations in all parts of the world who told us that its toughest market is here in Australia. Broker forecasts for EPS growth for 2012 are +14-16% for the industrial sector – we believe that this will be very difficult to achieve.

In Australia we have witnessed a number of resource booms over the past 160 years, most of which have been associated with a rise in inflation in an environment where the exchange rate was fixed or managed. On this occasion the currency has adjusted to take the pressure off inflation, its rise exacerbated by the interest rate differential to the rest of the world. The rest of the Australian economy feels the impact of the resources boom via a higher currency, difficulty in finding labour, higher wage costs and generally higher input costs (higher commodity prices). The benefits of the resources boom to the rest of the economy are yet to materialize – there have been no tax cuts, government spending is falling away and the government remains intent on turning the budget deficit into surplus over the next two years.

June 2011

However it is also clear there is more than a resources boom affecting the industrial economy. Most parts of the Western world are still in the recovery phase from the GFC, and that recovery is far from the usual strong bounce back witnessed after a recession. On this occasion deleveraging is playing a large part. The consumer has started to save more. Household interest payments rose from 6% of disposable income in the mid 1990s to close to14% three years ago. With the advent of the GFC and a loss of consumer confidence this ratio has now fallen to 11-12% and the household savings ratio has risen from a negative number in 2005 to 10% today. The same phenomenon is impacting on companies as stretched balance sheets pre GFC have been put into better shape via equity raisings and lower borrowing rates. The consumer is also faced with rising energy prices, rising petrol and food prices and the daily haranguing in the press about the impact of the forthcoming carbon tax.

The AUD has risen sharply in line with commodity prices, making non resource exports more difficult to achieve while maintaining profit margins, thereby lowering the value of offshore earnings. As a result most non resource sectors in the economy face not insubstantial difficulties in growing earnings at the rate achieved from 1993-2007. During this period industrial companies grew EPS by 8.1%pa and non bank industrials grew EPS by 6.7%pa. Adding further to the maelstrom, the government continues to make life more expensive for companies by imposing itself in all areas of the economy – healthcare, financial services, banking, telecoms, gaming and resources have all suffered. The only sector of size to have been the beneficiary of a government policy has been the TV media sector (halving of licence fees) which makes the cynics smile!!

Banks volume growth is subdued, and they are now under constant pressure to cut fees. Retailers face a number of challenges – rising prices in China, unwilling consumers, rising AUD putting pressure on prices, and the risk of being bypassed by the internet. Although we are yet to see store closures on a large scale in Australia, in the UK this week the fashion chain Jane Norman went into administration and the 57 store discount department chain TJ Hughes filed an intention to appoint an administrator – apparently the fourth national chain to fail in a week. Healthcare companies whose main payer is the government face tougher times as governments seek to cut outlays in order to balance budgets. Transport companies face higher fuel and carbon imposts, as well as a slower economy.

As the Governor of the Reserve Bank says “firms in the traded sector outside of resources are facing a period of adjustment…. there is going to be a nontrivial degree of structural change in the economy as a result of the large change in relative prices.” In these circumstances management and stewardship of industrial companies, and the ability to access growth alternatives not reliant on economic growth/recovery alone, become even more important in the stock selection process. We believe companies such as Brambles, Amcor, and QR National fit this profile.

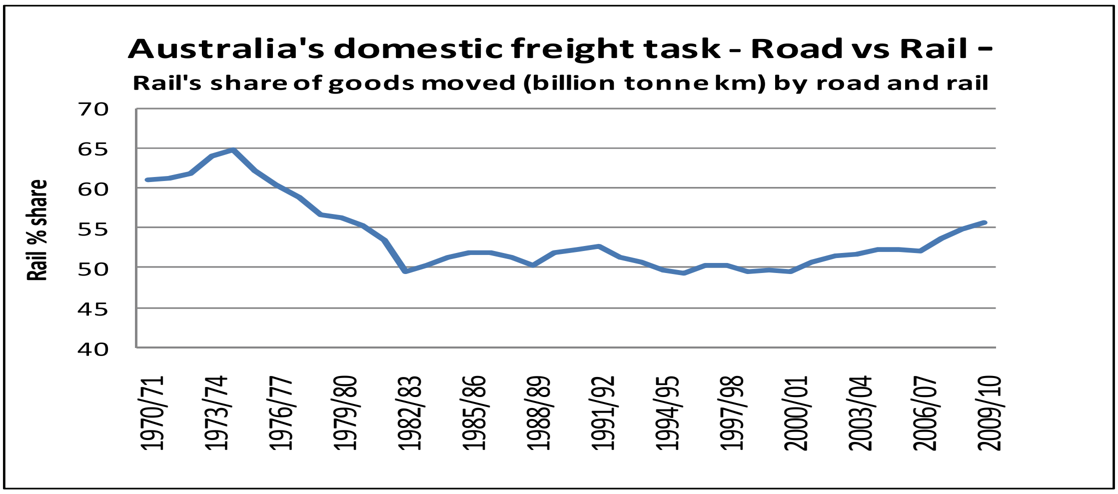
The Rail Freight Industry

During the quarter we continued to build on insights into the rail freight industry generally, and more specifically around the medium to long term growth opportunities around commodities (in particular iron ore) and interstate markets (mainly WA).

We make the following observations.

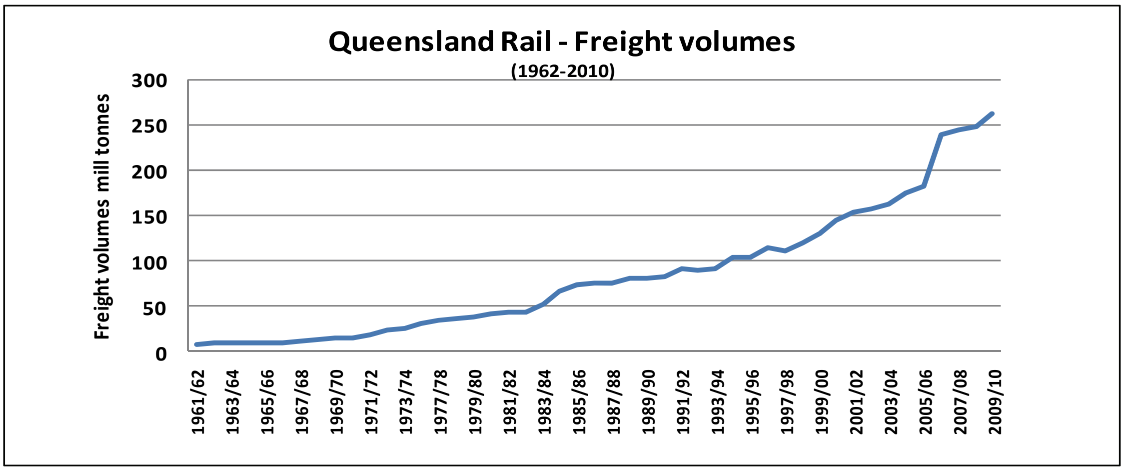
- The rail industry globally is enjoying a renaissance around a number of social, environmental and economic factors. Key factors for rail freight include better fuel efficiency, accelerating demand for bulk freight and better environmental outcomes.
- During the second half of the 20th century rail in Australia consistently lost share of the nation’s freight task to road. Over the last decade this trend has reversed. Rail’s share of freight moved (billion tonne kilometers) has increased from a long term low of 49.5% in 2000/01 to 55.7% in 2009/10. This shift is illustrated in the first chart overleaf.

June 2011



Source – Bureau of Transport & Regional Economics (BITRE)

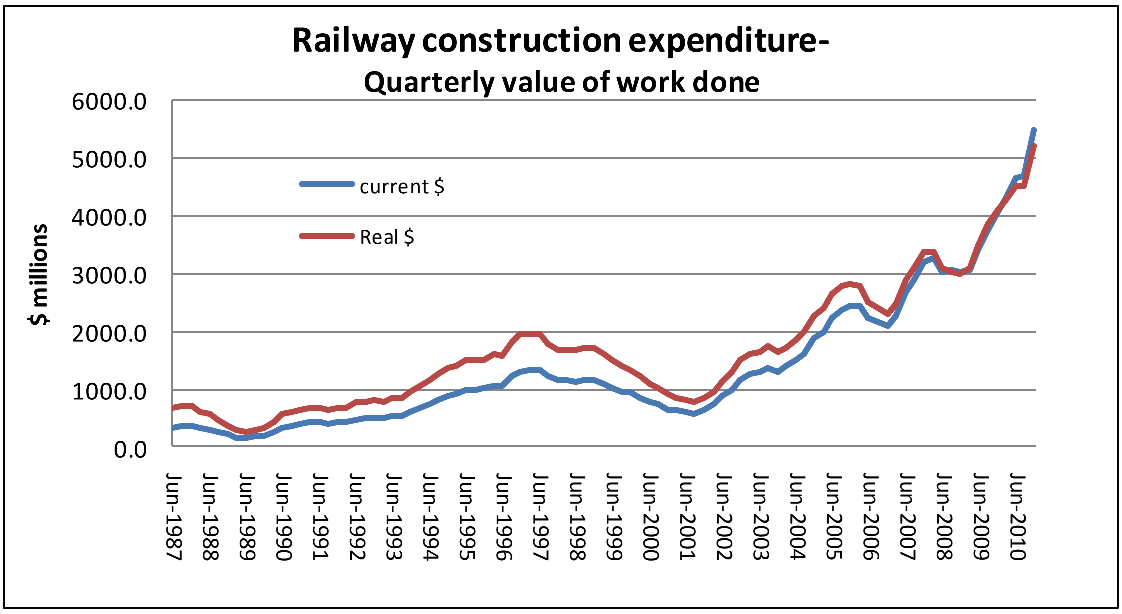
- The resilience in freight growth over the long term. Total freight tonnes moved by Queensland Rail increased from 8.3 million tonnes in 1961/62 to 262.2 million tonnes in 2009/10. This represents an average annual growth rate of about 7.5% over the last 50 years. Over the last five years the average annual growth rate has increased to 8.4%. Based on consensus forecasts for coal and iron ore exports, growth rates above the long term average are expected to continue over the next five plus years.



Source – Queensland year book, Queensland Rail annual reports

- One of the strongest indicators supporting the long term growth in rail is the increase in the capital expenditure on both railway locomotives and rolling stock and railway construction. In Australia, quarterly railway construction expenditure has increased from less than $1 billion in 2001 to an all time high of $5 billion for the December quarter 2010. Spending on railway construction has therefore increased fivefold over the decade with annual expenditure for CY 2010 at $19.1 billion.

June 2011



Source – ABS, Engineering Construction Expenditure

Our analysis at the macro, industry and company level continues to support our original thesis that there is significant latent value in the QRN franchise.

Terms and Conditions