CI AUSTRALIAN EQUITIES FUND
QUARTERLY REPORT

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

December 2011

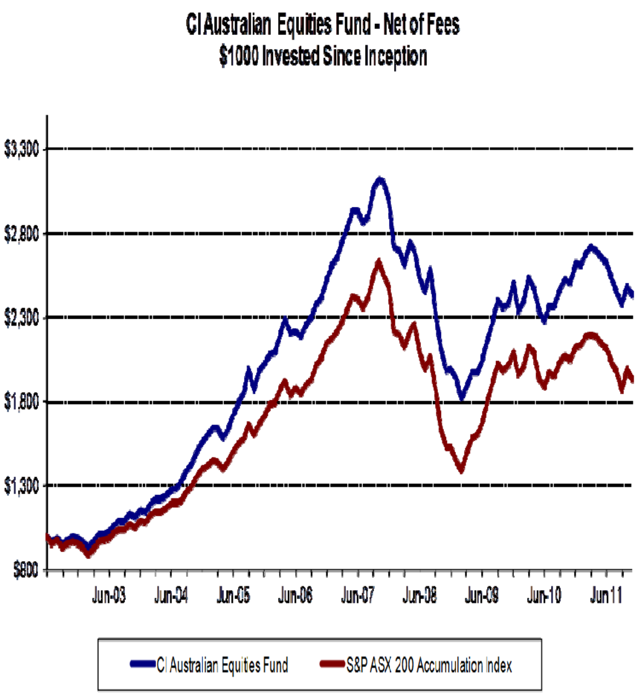
"Keep in mind always the present you are constructing. It should be the future you want." Alice Walker

"A business that makes nothing but money is a poor kind of business" Henry Ford

"Only buy something that you'd be happy to hold if the market shut down for ten years." Warren Buffett

Market and Portfolio Performance

	****FUND**	**BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	2.67%	2.12%	0.55%
ROLLING 1 YEAR	-6.34%	-10.54%	4.20%
ROLLING 2 YEAR	-0.71%	-4.68%	3.97%
ROLLING 3 YEAR	7.76%	7.59%	0.17%
ROLLING 5 YEAR	0.18%	-2.31%	2.49%
ROLLING 7 YEAR	7.60%	4.46%	3.14%
SINCE INCEPTION*	10.98%	7.02%	3.96%
SINCE INCEPTION^	168.90%	90.51%	78.39%



*Annualised
^Cumulative (04 July 2002)
**Before fees and expenses

The ASX200 Accumulation index increased by 2.12% over the quarter and the portfolio 2.67%. For the year the ASX200 was down by 10.54%. Investors continued to stay on the sidelines and increase their cash positions in the wake of ongoing fiddling and policy paralysis in Europe and market volatility. One bright spot was some signs of recovery in the USA and a number of US companies we spoke with during the quarter commented that 'the micro feels better than the macro.'

The best performers in the portfolio over the quarter included Campbell Brothers, Brambles, Oil Search, Tatts Group, News Corp, QR National, CBA, CSL and Telstra. The poorer performers over the quarter were Alumina, Fisher and Paykel Healthcare and Coca Cola. Alumina continued to be impacted by sluggish demand in the OECD and falling prices.

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The Portfolio

There were minimal changes to the portfolio this quarter. The main change was the inclusion of Telstra in the portfolio. We also acquired a small position in Asciano.

Telstra- For the first time in many years we established a position in Telstra during the quarter. Telstra's share price has performed well during the past 12 months due to the bedding down of the National Broadband Network (NBN) deal with the Government, relatively good financial performance, a trend towards better customer service and an improved business culture.

We believe the NBN deal Telstra managed to negotiate with the government is attractive and provides regulatory certainty for the first time since being privatized. The vertical integration of telecommunication companies (i.e. owning natural monopoly network assets and having a retail business) has been a key point of contention for incumbent telecommunication companies globally and this deal will largely resolve this issue. The final piece of the puzzle to be completed before the deal proceeds is for the Australian Competition & Consumer Commission (ACCC) to approve Telstra's Structural Separation Undertaking (SSU) which we believe will be achieved early in 2012.

The negotiated deal, in addition to improved customer service and business culture metrics, is testament to a sound management team who have a strong understanding of the key drivers of the business and are focused on shareholder value creation.

While the telecommunications industry is highly technical and complex, the investment thesis for Telstra is relatively simple. We have become comfortable that the underlying cash flows of the business, in addition to the NBN cash flows, will support the current dividend of 28 cents for the next several years, placing the stock on a fully franked yield of over 8%. Telstra also has a strong balance sheet with net debt/EBITDA at ~1.1x. Given the large contribution of dividends to total returns and the de-leveraging environment that we currently find ourselves in, we believe that Telstra provides a solid defensive position in an industry that supplies an essential service.

While it is difficult to accurately forecast the revenue and margins for all of Telstra's products, at a high level the decline in fixed line services and directories should be offset by continued growth in mobiles and network application services resulting in relatively flat top line growth. There are still considerable cost-cut opportunities for Telstra which could deliver incremental EBITDA over the next few years. Unlike a lot of other large listed companies with large capex programs, Telstra is likely to produce free cash flow in excess of profit over the coming years due to its capex being below depreciation.

A key risk we see for Telstra moving forward is a potential change in Government during 2013 and an associated change in broadband policy. The Opposition has displayed strong resistance to the NBN and they appear adamant that they will stop funding it if they get into Government. While this potentially creates further unwanted uncertainty, we have confidence management will be able to come to an agreement with the Opposition that does not materially impact the business.

Asciano- During the quarter we bought back into Asciano. Greater confidence in the new management team, the size of the opportunity set and attractive valuation metrics following further price weakness early in the quarter were the reasons behind moving back into the stock. Asciano is undergoing a corporate and cultural turnaround under John Mullen (CEO since February 2011) and Chairman, Malcolm Broomhead, who has a proven track record in company turnarounds as evidenced by his time as CEO of Orica in the early 2000's. We believe Asciano is in the best shape of its short existence since demerging from Toll from a balance sheet and focused management perspective and it has real growth opportunities.

Asciano operates in three largely unregulated duopoly/oligopoly industries with high barriers to entry (coal haulage, container ports, intermodal rail freight) and is exposed to two attractive growth stories – coal export volumes and container imports. In September, management outlined a five-year 15% p.a. EBIT growth target for the company. Whilst we view this target as optimistic, it highlights the attractive growth potential and latent value in the stock if these targets can be delivered.

The largest headwind facing AIO is competition in its Ports division with the introduction of a third port operator (Hutchison) at Brisbane and Sydney in 2012 and potentially Melbourne later in the decade. As it establishes itself, Hutchison will likely take all market growth volumes but should be rational on prices. Should it be irrational on price, we believe that this risk is captured at current stock price levels. The recent five-year enterprise agreement reached between AIO and the Maritime Union of Australia provides a degree of certainty for AIO's customers and is a commendable outcome in the current industrial relations climate in Australia.

Stock News

IAG- IAG has been on the acquisition trail in recent months, announcing 3 deals since August 2011 in countries including China (20% of Bohai Insurance, A$100m), New Zealand (100% of AMI, A$288m) and Malaysia (100% of Kurnia Insurans (Malaysia) Berhad, via IAG's 49% interest in JV partner AmG Insurance). The Bohai and AMI deals are subject to regulatory approval and are expected to be completed in early calendar 2012. IAG's 49% Malaysian joint venture partner, AmG Insurance Berhad, has submitted for local regulatory approval to acquire Kurnia, but at this stage no transaction details have been disclosed.

Bohai was licensed in 2005 and has annualised GWP in excess of A$200m, small in the context of the Chinese general insurance market which wrote over US$60bn in premiums in 2010, and Bohai is not expected to make an operating profit until FY14. IAG notes that the Chinese general insurance market is expected to grow at 10%-15% p.a. over the next decade; however, we understand there have been at least 40 new entrants since 2005 and that the market is likely to remain highly competitive as new entrants target the 70%+ market share of the four larger incumbents. Irrational pricing by competitors is a risk to the business.

AMI is the second largest direct personal lines insurer in New Zealand and will add 30% to IAG's New Zealand premium base. The deal will increase IAG's market share in the New Zealand general insurance market to 40%, with a combined market share of 61% in Motor and 56% in Home & Contents, making IAG the leading player in personal lines.

Kurnia is a Malaysian general insurer that writes approximately A$320m in premiums, with greater than 80% of premiums written in motor insurance and an estimated 8% market share in the Malaysian motor insurance market. If the Kurnia transaction is approved and completed, IAG expects that the merged business would have the leading position in the Malaysian motor insurance market.

All deals are expected to be internally funded leaving IAG's regulatory position, on a pro-forma 30 June 2011 basis, above its long-term target of 1.45x-1.50x the minimal capital requirement (1.58x as at 30 June 2011). We do not expect any capital returns in the near-term and there is limited capacity for further acquisitions. These deals are unlikely to be material in the context of the Group and, given the acquisition prices were not cheap, the economics of the deals rely heavily upon IAG achieving expected synergies in order to meet return hurdles (i.e. execution risk). Internally, the debate is around the merits of IAG allocating so much capital to acquisitions (particularly in Asia) given their track record in the UK, compared with other capital management options such as increasing the dividend payout ratio. We also have reservations around entering three new geographies concurrently.

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CSL- CSL held its annual R&D day on 8 December 2011, which focused on the perioperative bleeding (POB) opportunities within their specialty critical care product portfolio and next-generation recombinant haemophilia products. Pleasingly, the R&D day had a commercial focus, providing greater detail around financials, timeframes and the market opportunities for new products. R&D spend in FY11 was weighted towards new product developments at 49% (FY09: 38%) reflecting reduced spend on market development and progress of therapies through clinical trials. Going forward, CSL gave guidance of growth in R&D spend of 7-8% per annum. There are a number of new haemophilia products in the pipeline.

Campbell Brothers- Campbell Brothers announced their half year results on the 29th November 2011. Campbell Brothers reported a record profit of $102.3 million for the half year to September. This was just above the revised increase in guidance from $90-$95 million to $100 million announced in September 2011. The company continued to deliver on its stated strategy and objectives.

The ALS minerals division produced a stellar result with organic growth of over 50%. Strong mineral exploration spending was the main contributor to growth along with strong market share gains. The Environmental division also delivered a very strong result across all regions.

The company announced two bolt on acquisitions during the quarter:

- US based environmental and food analytical group Columbia Analytical Services for US$33m. The group operates 6 laboratories in the USA employing 330 staff.
- Australian based Austpower Engineering for A$28m. Austpower operates in the industrial inspection market focussing mainly on the power generation industry.

The Kelso acquisition takes Campbell Brothers to the number two position in environmental testing in the USA as well as providing a small foothold in food and pharmaceutical testing. Campbell Brothers have stated this is the next vertical within the Testing space where the intention is to develop a global business.

The Austpower acquisition further consolidates ALS Industrial's position in the industrial testing and inspection market in Australia.

Origin- Origin's Australian Pacific LNG (APLNG) project and Sinopec announced the signing of a non-binding Heads of Agreement for further LNG supply and additional equity taking Sinopec to 25% ownership of the project. This completes marketing of the second LNG train for the project with Final Investment Decision expected in early 2012. While Origin has taken a very sensible approach to de-risking its position in APLNG, we still believe the project faces considerable risks such as environmental issues, gas reserves and potential for project over-runs. We have a valuation of Origin's stake in APLNG of over $4 per share but we do not factor this into our base case valuation due to our concerns with the project.

BHP & RIO- During the quarter, BHP Billiton (BHP) and Rio Tinto (RIO) both undertook further action to streamline and high-grade their asset portfolios. RIO announced a significant restructure of its Aluminium division which will result in the divestment of thirteen non-core assets that account for approximately one-third of its aluminium production. These divestments continue RIO's rationalisation of its Aluminium portfolio post the Alcan acquisition to focus on its high quality bauxite and alumina assets in Queensland and its low-cost smelters that utilise hydropower in Canada, with the aim of achieving a 40% EBITDA margin in its Aluminium division by 2015 (1H 2011: 18%).

BHP is in the process of divesting its non-Tier 1 Diamonds business and has moved responsibility for its Aluminium and Stainless Steel Materials (Nickel) divisions away from its Non-ferrous division to the company's Chief Commercial Officer. Although BHP has not stated that it intends to divest these divisions, it is a clear indication of its plans for capital allocation across its portfolio as it continues with its 'five commodities, six hubs' strategy. We view the announcements by both companies positively as both indicate a continued focus on their large, low-cost assets that contribute the majority of earnings and potentially provide an avenue to unlock value from other assets not currently being valued at current share price levels.

Market Observations

Retailing

2011 will be remembered as the year the interrelated forces of globalisation and online shopping provided a major wake up call for the listed Australian discretionary retail sector.

In December the Commonwealth Bank reported estimated online retail sales data for the year ended October 2011 of $12.3 billion, up 36.5%. This data is based on the online spending activities of 1.7 million of CBA's customers through the bank's credit and debit card facilities. The data suggests that sales by traditional bricks and mortar discretionary retailers actually declined year on year. Online sales now represent about 4.9% of total retail sales but over 8% of discretionary retail sales (i.e. ex food and liquor).

As expected the fastest and largest penetration of online has been in product categories where the price differential is the largest. The largest variation from in-store to online (including delivery costs) is in books with an average price differential of 50-58% followed by computer software (>40% price differential), (cosmetics and beauty products (>35%), music, DVD's and video games (>25%) and clothing and footwear(>20%). The highest share of online purchases is in computer hardware and software (>55%) followed by books (about 35-40%) music, DVD's and video games (15-20%), sporting goods (>10%) and clothing and footwear (5-7%).

At the other end of the spectrum categories where online penetration has been the lowest include food, groceries and liquor, hardware, garden, furniture and floor coverings. In a number of these sectors the online offering has similar or higher pricing with consumers often paying a delivery or handling fee.

As is the case with most major disruptive technologies (and the accompanying rise in new business models) many Australian retailers have been reluctant to acknowledge online as an irreversible structural shift that will continue to transform the retail sector.

Perhaps the most interesting observation is the failure of the incumbents to recognise that the shift to online is not solely about price and is part of a much more profound shift in consumer shopping behaviour that cannot be divorced from the rise in social media and changing lifestyles as we continue to move from a 9 to 5 to a 24/7 global world. Indeed the latest trends on online shopping show the fastest growth is occurring after 8 pm.

Most disappointing has been the cry from respected retailers such as Harvey Norman and Graham Turner for protection from these pesky online challengers. Both these entrepreneurs transformed their respective industries (Electrical good retailing and Travel Agencies) with new business models but now object to a new generation doing the same. Also disappointing has been the failure to respond earlier to the accelerating trend toward online retail browsing, research and ultimately purchase online.

But respond they must. The Harvey Norman timeline provides for some interesting reading. In 2008 Gerry Harvey claimed the world had been conned by online retailing and it was a complete waste of time. In 2010 Gerry Harvey demanded the government place GST on all overseas online purchases. Last month (December 2011) Gerry Harvey set up an online website to directly import video games claiming if you can't beat them, join them.

From a portfolio perspective our retail exposure is in the non-discretionary area via Woolworths. Supermarket and hardware retailing are the retail sectors least impacted by online to date and we would expect this to continue. However, no sector can be complacent as online specialists continue to emerge in all product segments including food from groceries to specialist online fruit and vegetable retailers. We would expect multichannel to increasingly be a key success factor for most retailers and as such we continue to monitor the progress, performance and innovation of Woolworths in developing their online applications and multichannel strategy. Consumers across all sectors will increasingly demand a range of choices on when, where and how they shop.

Inflation

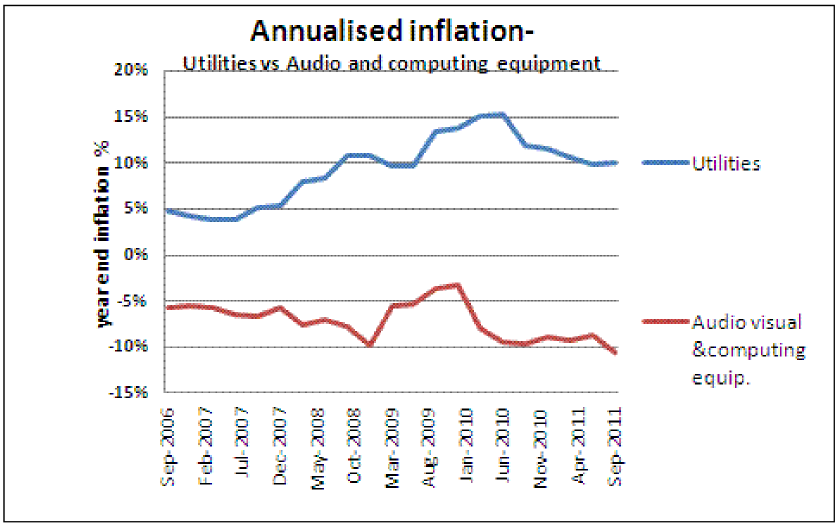
Mirroring the two speed economy, there has been significant divergence in inflation rates across the sub-groups that make up the Consumer Price Index (CPI) and between the tradeable and non tradeable goods and services sectors.

September quarter data released on the 26 November 2011 showed that CPI rose 0.6%, down from a rise of 0.9% in the June quarter. The annual rate of inflation from the September 2010 to September 2011 was 3.5%, above the Reserve Bank's medium to long term target of 2-3%.

Across the sub groups comprising the CPI, inflation varied from a high of 8.6% for Water and Sewerage services to a low of -5.0% for pharmaceutical products during the quarter. Other significant price increases in the September quarter were electricity (+7.8%), gas and other household fuels (+3.9%), property rates and charges (+5.2%), maintenance and repair of motor vehicles (+3.8%) and International holiday travel and accommodation (+5.1%). Other offsetting price falls included audio visual and computing equipment (-3.3%), automotive fuel (-1.4%), motor vehicles (-1%), vegetables (-2.5%) and fruit (-1.2%).

A noteworthy observation on inflation over the last five years is the increasing divergence between the price of the goods (food, clothing and footwear and consumer durables) we bring into the household versus the household operating costs (electricity, gas and water, rates etc). This trend is illustrated in the first chart. The chart below, shows the annual inflation rate for utilities (electricity, gas and water) versus the annual inflation rate for audio visual and computing equipment over the last five years.

The annual price rise for utilities has increased from around 5% in 2007 to a peak of 15.4% for the year ended June 2010 and was 10.1% over the year to September 2011. This stands in sharp contrast to audio, visual and computing equipment which have experienced annual price declines of between 5-10% over the last five years. For the year to September 2011 audio, visual and computing equipment experienced deflation or a price decline of - 10.6%. The price decline over the last 12 months is the highest to date.



Source: ABS consumer price Index Cat no: 6401.0

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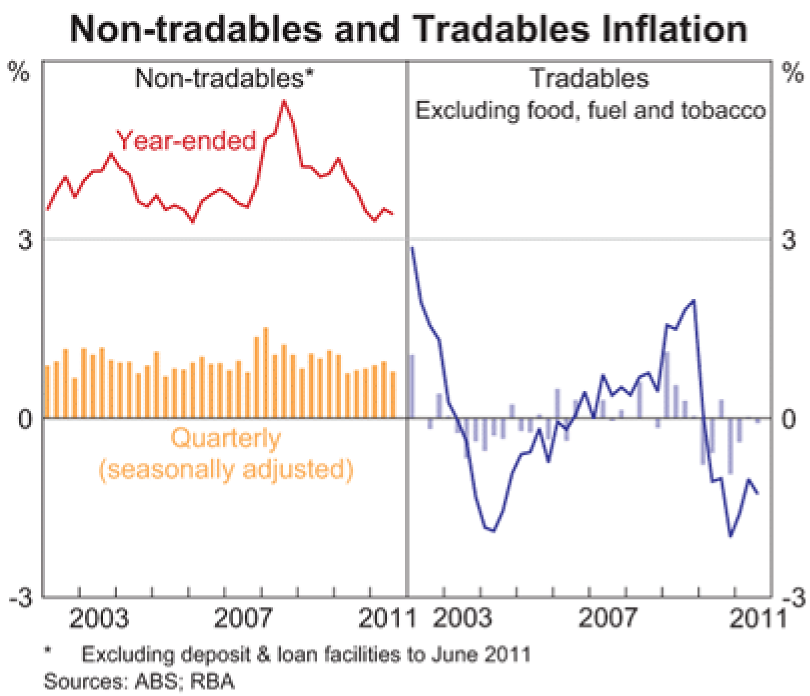
Most households intuitively feel inflation is much higher than the official data because of the sharp increase in utility costs. The size and infrequent nature of utility bills means we feel more pain relative to the much smaller but cumulative daily gains of a 10.5% fall in the price of milk over the past year or the 50% plus fall in the cost of infrequent purchases such as a computer or TV in recent years. But the facts are that consumer inflation has remained within the Reserve Bank's target range of 2-3% (albeit at the top end) averaging 2.9 percent over the last five years. High and consistent price increases in CPI sub groups such as utilities and education have been offset by flat or declining prices in clothing and footwear, household appliances, toys and sporting goods, cars, TV's and computers and, more recently, declines in basic everyday needs such as bread and milk. Price inflation has also been benign in a range of other categories including domestic and international travel and telecommunications in recent years.

Reasons for high inflation in utilities include the trend toward cost-based pricing, rising input costs and capital expenditure demands. Underspend on utilities infrastructure in the 1990s and early 2000s is compounding current capital expenditure demands. Conversely in the traded goods sector, lower manufacturing costs in Asia, increasing competition (buying groups, global procurement etc) where the best deal globally is only a click away and a strong A$ have resulted in price deflation or benign inflation across many consumer and business goods.

The difference in inflation between the traded and non traded sector is shown in the second chart below. Again the trend has been for consistently higher inflation in non traded, mainly services sectors, such as: utilities, education and health versus deflation across the full range of traded consumer goods over the last 2 years.



It is also worth noting the CPI measures consumer price inflation only. Inflation across the whole economy as measured by the GDP deflator has been over 1% higher than the CPI over the last five years. This mainly reflects the impact of strong export/commodity prices. Conversely the price index for total domestic based spending or Gross National Expenditure (ie excluding export prices) has been below the CPI over the last five years. Australian businesses have also benefitted from price deflation across a broad range of business inputs, both consumables and plant & equipment.

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Key takeouts from a portfolio and investment perspective -

- The inflation data provides further evidence of just how tough 2012 is likely to be for retailing, particularly discretionary retailing. Even the possibility of some exchange rate relief feels unlikely to halt the increasing competitive intensity and pricing pressure in a globalising retail market.
- The rising cost of operating households is an underrated factor in housing affordability and is likely to provide further downward pressure on housing prices along with reversing, at least temporarily, the trend toward larger dwellings.
- Rising housing operating costs will temper an already cautious consumer.
- Pricing and margins should be more resilient in the services and non-tradeable sectors of the economy.
- Pricing and margins should be more resilient in the Business to Business market compared with the Business to Consumer markets.

Portfolio changes and weightings over the last 12 months have been made with these trends in mind.

Updated Information Memorandum

On 1 January 2012 CI issued an updated Information Memorandum for the Fund. The investment philosophy and process used by us, and the investment strategy and guidelines for the Fund are both unchanged. However details of our investment team have been updated, as has the Fund performance, and there are some administrative changes in the Additional Information section. Included amongst these are a change in the buy/sell spread applied to applications for units and redemptions of units in the Fund. The spread has been reduced from 0.50% to 0.30% which we believe is an accurate estimate of transaction costs in the current market.

Please contact our client support team at info@cooperinvestors.com if you would like us to post or email you a copy of the new Information Memorandum. Alternatively, it may be downloaded from our website at www.cooperinvestors.com