

CI BRUNSWICK FUND QUARTERLY REPORT



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

DECEMBER 2006

"So when I start to climb, especially when I am on a big wall, whatever difficulties I am so concentrated that there is nothing else existing: there is only a few meters of wall where I am hanging. In this concentration, every thing seems quite logical. The danger is gone. But the concentration is absolute."

"I am only interested in our experiences and not in the mountains - I'm not a naturalist. I'm interested in what's going on in the human beings."

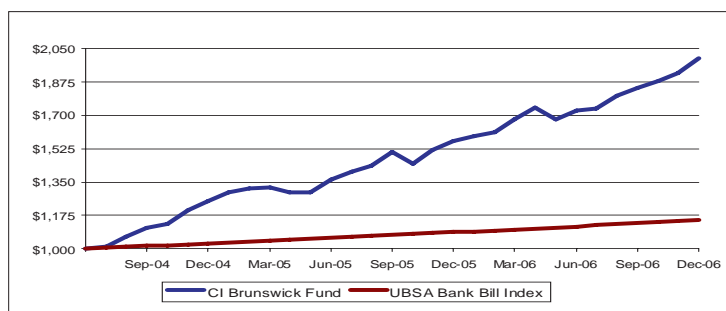
"If you have a highway on Everest, you don't meet the mountain. If everything is prepared and you have a guide who is responsible for your security, you cannot meet the mountain. Meeting Mountains is only possible if you are out there in self sufficiency."

Reinhold Messner ~ World famous mountaineer

PORTFOLIO PERFORMANCE

	PORTFOLIO
ROLLING 1 YEAR	27.73%
ROLLING 2 YEAR*	26.51%
SINCE INCEPTION*	31.86%
SINCE INCEPTION^	99.79%

* Annualised net of fees
^ Cumulative (1 July 2004)



The December quarter produced very strong returns for sharemarkets around the world. The Australian market rose by 10% and global markets rose by 8%. Cash rates rose in a number of countries and long term bond yields also rose in response to signs of increasing inflation. The Australian dollar Trade Weighted Index rose by nearly 4% and a number of commodity prices fell over the quarter.

The portfolio returned 8.44% over the quarter and over the year rose by 27.73%. Among the stocks that performed well for the portfolio were CSL, QBE, T3 and Trinity Group. The short positions were a minor drag on performance as there were virtually no large cap stocks in Australia whose price fell over the quarter.

Over the quarter the net exposures to stocks rose from around 85% to 95% of the portfolio value. The long positions in the portfolio are around 100% and the short positions are around 6% resulting in a net cash position of 6%. There is no fixed interest exposure in the portfolio at present.

During the quarter the portfolios weighting in overseas stocks rose to 7% through the purchase of three bank stocks in Asia and two utility/infrastructure stocks in New Zealand.

The exposure to the electricity generation industry was increased through the purchase of a number of stocks with power generating assets. We anticipate that the price of electricity in Australia and New Zealand will increase over the next few years. Factors we are considering are the increasing amounts of electricity generated from non coal sources, the tightening of the overall supply demand balance in the electricity markets and the diminishing supply of domestic gas in New Zealand. The stocks we have purchased are trading on high yields and have the potential to invest in new power generation plants at attractive rates of return.

The idea to invest in Asian banks centers around our expectation that their balance sheets and profits will grow at a faster rate than the regions economic growth due to the increasing use of banking products by consumers as per capita incomes grow.

Our research into the validity of this proposition included:

- previous trips to Asia researching Australian companies with Asian operations such as AXA Asia Pacific and ANZ
- macro economic research utilizing internal and external resources
- a specific trip in November to Singapore, Kuala Lumpur and Bangkok to visit twelve banks and the Thailand central bank
- a number of previous trips to Asia that included visits to banks

Loan growth in these countries in the past year has actually been relatively low at about 6-8%, which compares to Australian loan growth at about 12%. The reasons for this modest loan growth include the sale and writing off of non performing loans, next to no increase in house prices over many years, rising interest rates, modest consumer confidence and slower than average economic growth rates. We expect loan growth to accelerate over the next few years as income levels rise and the consumer becomes more confident to borrow. We also expect that as the negative effect of non performing loans reduces both the banks themselves and the Central banks and Governments will be more supportive of increasing lending. In Thailand for instance the Bank Of Thailand is working on the next five year financial roadmap, the current roadmap was designed to fix the banking system following the financial crisis of the late 1990's and the next roadmap will be much more about growth which of course depends on strong banks. We also concluded that in the consumer and SME sectors the domestic banks will continue to dominate deposits and loans with foreign banks having a limited role. The desire to have strong domestic banks is a feature right around the world, including Australia where the domestic banks dominate the market.

Net interest margins range between 3.5 and 4% for the stronger banks and we would expect these to be broadly stable to slightly rising in the future.

Cost to income ratios vary between 38% and 52%, the higher ratios reflect high levels of investment in future growth as opposed to high current operating costs. Almost all banks are opening large numbers of new branches. For example Siam Commercial Bank is Thailand's leading retail bank and in 2007 is planning to grow branch numbers from 730 to over 800. If the revenues grow strongly the cost to income ratios will naturally decline.

The bad debt charges in the profit and loss statements are now down to levels of 0.5% of average assets or lower. A critical point in our analysis is that the still large levels of non performing loans on some banks balance sheets are properly provided for and that the non performing loans will be a reducing drag on banks profit performance. We are encouraged that the ANZ has come to this conclusion with respect to at least some banks in Asia as evidenced by their increasing investment in banks in the Asian region, most recently their decision to invest A\$833m in AMMB in Malaysia.

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The banks are now generally well capitalized with Tier 1 capital ratios generally above 10% and some up to 15%. These ratios are well above levels required by regulators and therefore the banks can internally fund the expected growth in their loan books without requiring new equity or having constraints on dividend payout ratios.

As to valuations our primary method is using a discounted cash flow approach augmented by PE and price to book measures. It seems the markets primary valuation method in Asia is price to book however we feel reliance on this method will diminish as it did in Australia as time passed from the banking crisis of the early 1990's.

All the banks we have invested in are trading well below the DCF valuation and are around 1.2-1.8 times book value and around 10-12 times on a PE basis.

If the banking markets in Asia develop as we expect there will be significant positive earnings and valuation leverage as loan growth increases, cost to income ratios improve, bad debt charges stabilize or improve and capital ratios tighten up. The contrast with the investment case for Australian banks is extreme because all these positive developments have already occurred in Australia. Consequently the fund's bank exposure is in Asia rather than Australia.

INDUSTRY AND COMPANY VoF TREND OBSERVATIONS

"It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change." Charles Darwin

"Example is not the main thing in influencing others. It is the only thing." Albert Schweitzer

"With over a 100m online resumes and growing, employers don't matter anymore employees have the power." Andrew Banks

"I have an intuitive understanding of technical people, whether they are engineers or accountants or market researchers. I don't really resonate with generalists". Peter Drucker

"Your readers are our shop lifters" Macy CEO to Rupert Murdoch

Superannuation Industry ~ Australia's superannuation legislated growth continues to underpin the growth plans of the wealth management and advice industries. Firms such as Perpetual, AXA and AMP, the local stock market and many listed smaller financial services companies will continue to benefit from the demand profile of this industry.

Energy ~ There are some real issues emerging with the green energy alternatives. Some of the problems include: Nuclear reactors are uninsurable and need governments to underwrite their commercial viability; Wind power generators kills an estimated 12-15m birds each year in the USA; Solar requires vast land mass to generate energy and is unreliable; Hydro damming causes upstream problems particularly in areas with water shortage; Biomass requires the cultivation of vast acres of food based agriculture. Ethanol studies in the USA show that producing from corn kernels creates almost as much green house gas (Scientific American) as gasoline production does due to the fact that some stages of the ethanol production are highly energy intensive. Political support for ethanol fuel is driven as much from the economic interests of the farm based states as concern for the environment. The US\$23b farm subsidies paid by the US government to support local agriculture is likely to become increasingly part of the global trade negotiations.

Controversy with Russia continues with the poisoning of Alexander Litvinenko and Shell's pressured sell down of the Sakhalin II project to Gazprom. European and Japanese customers would be highly concerned with the dependency on Russian energy given the increasing influence of the Russian government on energy policy.

Most recently Russia has imposed an export duty of \$180.7 per tonne on oil exports to Belarus from 2007. Previously these were tax-exempt. Russia has been losing out on billions of dollars annually by allowing oil firms to send oil to Belarus's refineries, which were then re-exporting refined products to European markets.

China ~ With the second-largest network of roads in the world after the United States in 2007, China is expected to build or upgrade 300,000 kilometres of roads. USA energy consumption remains 10x China's on a per capita basis.

Asia and China remains the most advantaged cost centre for manufacturing in the world. The cost of labour in US\$ per hour is: Korea 10.71, Singapore 7.63, Hong Kong 5.54, Mexico 2.37, China 0.75, India 0.60 and the cheapest Vietnam 0.58 is shaping up as an alternative to some Chinese manufacturing facilities.

Leveraged Structures ~ Listed company boards are reviewing their responses to potential PE offers. We believe that some companies demonstrate that they have all the capability of PE firms. E.g. the Seven and PBL boards have demonstrated that they are particularly savvy in negotiating with PE by extracting good prices and structuring the deals and they retain management control.

In the building sector, Lafarge Group has also decided to sell their global tile business to PE in what appears to be a difficult USA market. The key lesson from the PE model is to link management performance to actual long term delivered returns. We are attracted to companies that have re-gearing opportunities and companies with some of the disciplines found in PE firms i.e. focused operating management, management incentives that align shareholders and management, M&A capability, capital discipline, e.g. QBE

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