

CI BRUNSWICK FUND QUARTERLY REPORT



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

DECEMBER 2008

"While we can't underestimate the challenges that we face, we also can't underestimate our capacity to overcome them". President Elect Barack Obama, November 24, 2008 Press Conference

"People are not buying cars and people are not buying houses, and when it stops, it travels backwards all the way back to the mine". Andreas Vergottis Research Director at Tufton Oceanic

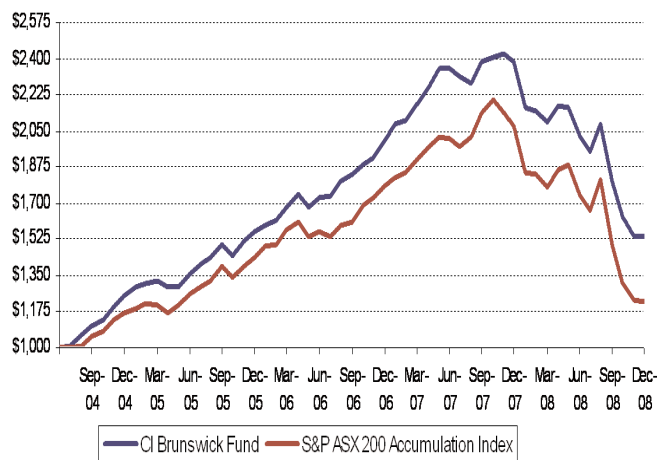
PORTFOLIO PERFORMANCE - GROSS

	BRUNSWICK FUND	S&P ASX 200	VALUE ADDED
ROLLING 3 MONTHS	-15.16%	-18.25%	3.09%
ROLLING 6 MONTHS	-22.01%	-26.79%	4.78%
ROLLING 1 YEAR	-33.24%	-38.44%	5.20%
ROLLING 2 YEAR	-8.94%	-15.46%	6.52%
ROLLING 3 YEAR	3.96%	-3.90%	7.86%
SINCE INCEPTION ⁰	16.33%	5.58%	10.75%
SINCE INCEPTION ^A	97.62%	27.73%	69.89%

⁰ Annualised

^A Cumulative since the CI Brunswick Fund was launched on 1st July 2004

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



Over the quarter the Brunswick Fund was down 15.2% compared with the ASX 200 down -18.3%. At the time of writing the Fund had the following characteristics:

- The Fund holds cash and bank bills of around 13%. Faced with the backdrop of a continuing global slowdown in industrial production, rising unemployment and relatively high profit margins we continue to retain a historically high level of cash. Specifically, we would contend that current business conditions will ensure substantial challenges still lie ahead for the Australian equity market.
- We hold around 7% of the Fund in preference shares in several companies we believe are fundamentally sound and offer attractive dividend yields.
- Around 80% of the Fund is invested in ordinary equity of 25 Australian companies. The portfolio is characterized by large company exposures that are industry leaders with strong balance

sheets across a wide diversity of industries including diagnostic services, hospital operators, utilities, energy producers, logistics and consumer staples.

- We remain less sanguine towards sectors that have been supported by high levels of debt and as such the Fund has limited exposure to the banking sector and holds no property stocks.
- Following recent visits to Asia we have taken a small investment in two Singapore listed companies which have strong franchises and balance sheets.
- Outperforming stocks for the quarter included Tatts Group, Coca Cola, AGL and Metcash. These stocks were representative of the market's bias toward more defensive stocks over the quarter. Underperforming stocks included Commonwealth Bank, Incitec Pivot and Alumina.
- The ASX 200 over the past 12 months returned -38.44% compared with the MSCI World Index in local currency of -39.53% and Asia Pac ex Japan -39.46%. BRIC economies did particularly badly, led by China which was down approximately 70% for the calendar year 2008. Calendar year 2008, with a fall of -38.49% joins 1931 as the worst year since 1825 for the US S&P 500 Index. World bond markets did well returning 13% for the year. The other positive returning asset was the \$US which appreciated 27% against the \$AUD. The \$AUD depreciation will pose a challenge for some Australian corporations in 2009 via imported cost inflation and the impact on debt covenants due to the translation effect on overseas debt.
- Over the last 7 years the ASX 200 has returned a modest 5.54% p.a. Whilst market PE's now look attractive, future returns in the Australian market face further reversion to the mean as the profit pool is shared between the competing forces of labour, government, community and shareholders. A number of sectors including banking, telecommunications and gaming are experiencing the pressures of greater Government interference. The banking sector, which accounts for 20% of the ASX 200, has a real challenge to maintain profit levels given:

1) the fact that the Reserve Bank has guaranteed their deposit base;

2) they are 20/1 leveraged to asset values and economic growth, both of which are contracting. Glenn Stevens (Governor of the RBA) recently reminded us "if asset prices continue to decline, the capital of the banks will continue to deteriorate";

Applying Cooper Investor's VoF investment philosophy without reference to indices, benchmarks, institutional style descriptors or portfolio construction rules that apply to institutional equity funds.

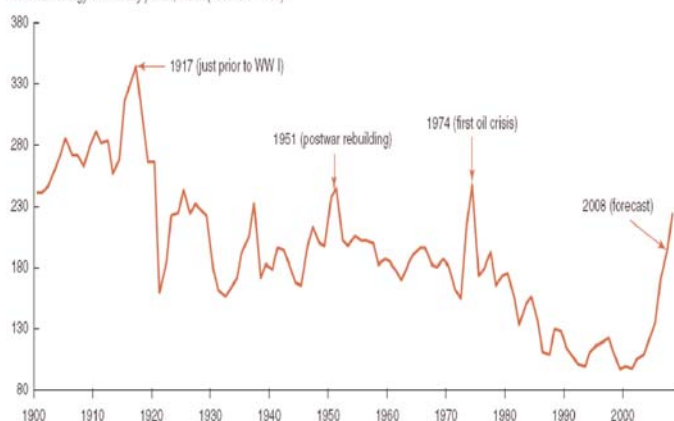
We accept volatility as being the cost of participating in investment markets that we expect to deliver long run returns.

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3) the non interest income generated by banks, namely fees and commissions, are heavily correlated to real estate and capital markets activity which is also experiencing negative trends.

- The commodity boom we have witnessed in recent years was the largest and longest in a century. This has stimulated significant expansion in supply, for example iron ore, which will in turn present a more challenging pricing environment for resource companies.

Real non-energy commodity prices, index (1977-79 =100)



Source: Grilli and Yang (1988) for 1900 to 1947; World Bank for 1948 to 2008.

The divergence of the composition of the US and Chinese economies is startling. For China their GDP can almost be equally divided between capital spending, internal consumption and GDP which is exported. (Source - GMO Quarterly Letter, Jeremy Grantham, October 2008.) By marked contrast, around 70% of US GDP is internal consumption.

China has been contributing around a quarter of global gross domestic product growth. But China's recent economic data marks a sharp deceleration. The premise that the Chinese economy has so much momentum that it has "decoupled" from the US looks grossly unfounded. China's exports fell in November, its first monthly decline in seven years.

It has become evident that the current economic slowdown in both the US and Europe is affecting Chinese exports and this trend appears to be accelerating. Over the past couple of years shipping container volumes from Asia to the rest of the world have grown dramatically. With Europe and the US accounting for a high percentage of this throughput, that growth is expected to slow materially in 2009. Notwithstanding this, Asian countries over the last 5 years have become less dependent on Europe and North America as their own economies have grown rapidly. Indeed, China's exports are almost split evenly between intra Asia and the rest of the world.

To cope with the credit crisis and the subsequent slowing of world economic commerce, budget deficits are expanding to levels previously unimaginable and the Federal Reserve has cut interest rates to virtually zero. Moreover faced with a deeper and more prolonged recession the Bank of England appears close to cutting interest rates to their lowest point in 300 years. There has, however,

been evidence that the impact of the credit crisis may have moderated with some signs of an improvement in the interbank lending rate. Yet the cost of borrowing by even the most pristine companies remains stubbornly high. Increasingly, companies facing onerous debt levels and the prospect of higher interest expenses are turning to the equity markets to raise capital. Despite the massive stimulus provided by Governments and Central Banks we remain mindful that the headwinds which buffeted the global economy and financial system remain firmly entrenched. Interestingly, the breadth of the decline in demand has even spread to private hospital admission numbers, which in the US have fallen to a six year low.

With the US in the midst of a secular credit contraction, this environment is conducive to a sustained period of sub-par economic activity. Undoubtedly, we are not only grappling with the credit crisis but with an across-the-board decline in demand all over the world. The full brunt of the effect on the real world of economic output is starting to emerge. A portent of the current problems besetting the global economy has been the Economist Nouriel Roubini, who aptly summarized that "the largest leveraged asset bubble and credit bubble in history is hitting real economies increasingly hard". A key positive to emerge from the sustained decline in housing and equity prices should be an uptrend in the personal savings rate.

The slide in US housing continues to weigh heavily on building material companies, in particular Boral. Boral are the largest brick manufacturer in the US with around 20% market share. US housing starts annualised have fallen from 2.3m in January 2006 to 0.6m in November 2008. New building permits declined 15% in November and the median price of a new home fell 11.5% to USD\$220,400 compared with the same period last year. In response to this contraction Boral have mothballed 10 out of 24 of their brick plants in the US.

VoF OBSERVATIONS ~ INDUSTRY TRENDS & BEHAVIOUR

Observations from our recent visits to Asia:

- In October when we visited Toll's Global Freight Forwarding operations in Hong Kong and China there were signs of unease with the emerging global economic slowdown. A contraction was evident but it was not yet acutely difficult. By the time we returned to the region in December there was a marked darkening in the economic mood.
- There was tangible evidence that customers across global forwarding were switching away from pure express freight to using a combination of express/sea or sea only, as the urgency of delivery has diminished with declining consumer demand.
- While the operational trends for Global Freight Forwarding are presently challenging, overlaying these current constraints is an overwhelming trend by multinationals in Asia towards outsourcing their logistics which ultimately should benefit the likes of DHL and Toll.
- The overwhelming tone of the executives we spoke to can be summed up by the word 'kiasu' which is widely used in Singapore and broadly means "fear of losing". The financial crisis which had engulfed the US and Europe is now abruptly affecting the real

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economies of Asia. Each company executive we spoke with was at best cautious and they were deeply worried that the rapid descent in the downturn experienced in 4Q08 would carry through for the entire 2009 calendar year. While we cannot predict what will eventuate this year, we will remain avid observers.

- A most dramatic example of the magnitude of this decline was reflected by Keppel Corp and Sembcorp Marine, which together build around 90% of the world's offshore semi-submersible production platforms for the oil and gas industries. Pregnant with record order books earlier this year, neither company was awarded a single rig building contract in the last quarter of 2008.
- What is most interesting is that Singapore and much of Asia is debt free. Household saving rates are high, corporations have little in the way of gearing or they are in a net cash position and Governments have large cash reserves. Juxtaposed against this is the overleveraged Western Economies in which the foundation stones of society (households, corporations and government) are bedevilled with debt.

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