

CI BRUNSWICK FUND QUARTERLY REPORT



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

JUNE 2007

“Question every premise, challenge conventional wisdom and never accept the truth of something merely because everyone else views it as obvious. Resist being credulous.” Albert Einstein

“The softest things in the world overcome the hardest things in the world. Through this I know the advantage of taking no action.” Lao-Tzu

“Thus it is that in war the victorious strategist only seeks battle after the victory has been won, whereas he who is destined to defeat first fights and afterwards looks for victory.” The Art of War, Sun-Tzu

“When the people of the world all know beauty as beauty, there arises the recognition of ugliness. When they all know the good as good, there arises the recognition of evil.” Lao Tzu

The table below sets out the portfolio returns and returns from various asset classes as a point of reference

	BRUNSWICK FUND	UBSA BANK BILL INDEX	UBS COMP BOND INDEX	S&P ASX 200	MSCI HEDGED#	HEDGE FUND INDEX*
2007*	36.6%	6.4%	4.0%	28.7%	22.9%	12.7%
2006*	26.6%	5.7%	3.4%	23.9%	16.3%	7.8%
2005*	36.1%	5.6%	7.8%	26.3%	10.9%	1.1%
SINCE INCEPTION ⁰	33.0%	5.9%	5.0%	26.3%	16.6%	7.1%
SINCE INCEPTION [^]	135.3%	18.9%	15.9%	101.5%	58.5%	22.9%

* Financial year to 30 June
 * Net performance - after management and performance fees and expenses
 0 Annualised
 ^ Cumulative since the CI Brunswick Fund was launched on 1st July 2004
 x HFRX - Hedge Fund Research Index (representing returns from hedge funds)
 # MSCI hedged to AS (representing returns on international equity markets)

The portfolio rose by 7.9% over the June quarter and 36.6% for the year ending 30 June 2007. The rise in equity markets was broad based and most stocks in the portfolio performed strongly.

Major contributors to the portfolio return included the resource stocks (BHP, RIO and Oil Search) and a number of smaller stocks including Talent Two, Transfield Services and Slater and Gordon. We established a position in Lion Selection Limited, an investor in promising junior resource companies. The purchase price was a 20% discount to NTA, there is an excellent management team in place and there is significant potential upside in some of the investee companies.

The overall construction of the portfolio did not change substantially over the quarter. The portfolio remains fully invested with cash of around 2%. There is a minor short position of 1.5% and the overseas stocks are around 8% of the portfolio.

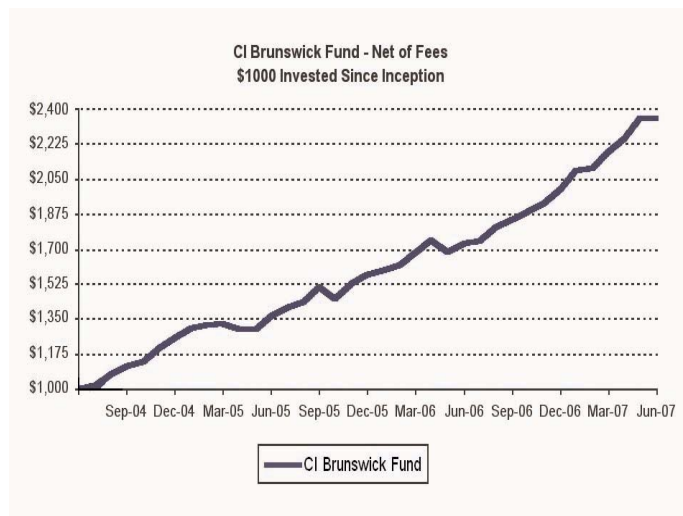
The Fund has been operating for over 3 years. During this period the Fund has:

- had cash levels up to 20% of the portfolio;
- been geared up to 5%;
- had up to 8% in international stocks;
- had shorts up to 8% of the portfolio;
- invested in bank bills but not longer dated fixed interest; and
- had a maximum single stock position of 11%.

The last three years have seen very strong equity markets returns and the portfolio has fully participated in the equity markets.

The Fund may invest in a wide range of assets and use a variety of investment tools. Major changes to the portfolio construction are expected to be infrequent and will be based on new opportunities or extreme differences between our view and the markets pricing and perception of risk.

At present we still view stocks as more attractive than bonds and feel that the Australian stock market should still provide reasonable returns.



The June quarter was a very strong period for equity markets with the global MSCI index rising over 5%, the S & P 500 index in the US rising by over 6% and the emerging market index rising by over 11%.

Bond markets in contrast were very weak with yields rising substantially. In Australia yields on 10 year bonds rose to 6.25% and this caused a drop in prices over the quarter of 2%. The Australian dollar also continued rising and finished the quarter at 85 cents, this rise is starting to have an effect on Australian companies with significant overseas based earnings.

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.

CI BRUNSWICK FUND QUARTERLY REPORT



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

JUNE 2007

VoF OBSERVATIONS & IDEAS ~ TRENDS & BEHAVIOUR

"The stocks you can't see are more important than the stocks you can see." Vivek Tulpule RIO Tinto Economist

"We are not the new James Packer. We are institutional investors. We sit around a board table not the executive table". Adrian McKenzie, Head of CVC Asia Pacific - Private Equity firm

"The ultimate goal of marketing is to match a company's products and related services to the customers who need and value them the most. This maximizes the value of the company's products. It's not just about extracting tonnes. It's about being canny enough to sell tonnes at the most advantageous price so that we make the most of the products' intrinsic value". Gordon Hamilton, Head of marketing, Rio Tinto

"It's liquidity that is driving the world. It will continue to be strong as long as real long term interest rates stay low. This is not a permanent feature. It's an intermediate term period in world economic history that has never occurred before." Alan Greenspan

"One World One Dream ~ I participate, I contribute and I enjoy." Beijing Olympics Games official message

"Boards are no longer willing to go the knuckle; no guts no glory." Anonymous

UK Visit ~ In May 07 we visited the UK and saw a number of company's including HBOS, Lloyds TSB, HSBC, Netcare, General Healthcare, Bupa, RIO, Xtrata, Anglo American, Olympic Development Authority, BSKyB, Wolsley, BP, Diageo. Some observations:

- Beer margins in Australia are the best in the world and now have attracted competition from one of the world's biggest brewers, SA Brewing, who is in a joint venture with Coke Cola Amatil. Initially they will target the premium end of the \$1.2b beer profit pool. Fosters also find themselves competing against companies like Diageo, a world class brand focused company. Global brands are tending to cannibalize local brands in the premium alcoholic beverage space.
- The NHS has grown from £35b to £95b over the last 10 years. Only 5% is outsourced. NHS seems highly political, capital intensive and it is premature to be called a low risk opportunity for Australian healthcare operators.
- BSKyB are using telephony as a commodity to be bundled with pay TV. By bundling they reduce churn. BSB price below British Telecom margins (which are high due to their incumbent & historical position).
- Iron ore and uranium are secular growth industries.
- Resource supply side still looks very constrained.
- Xtrata has a tax advantage that allows them to squeeze 3%-5% more income out of each deal due to their Swiss resident tax status.
- "Predator" and "prey" behavior is a primary driver in the resource sector now i.e. get big or get out. Size in the resource industry is critical because it provides project risk mitigation, technology, market access to scarce resource such as technology, people and suppliers. Large projects also provide better long term optionality.
- There is huge upside for big resource companies in infrastructure, services, knowledge sharing and co-operation between the big players.
- From now on new project decisions have become more risky because the

first 4 years of cashflow determine project economics. Given high costs any price declines would really hurt project returns.

- The last time we had high energy prices, diversification strategies were a disaster so oil company managements (who lived thru the 70's experience), especially BP and Exxon, are very conscious of not repeating that mistake.
- It is virtually impossible for the US to wean themselves off Middle East oil as conservation and alternative fuels are too small a part of the total pie in the short term (next 20 years).
- Big resource companies vs. Big Oil ~ generally the large resource companies have longer resource lives; higher returns on capital; better control on costs because large oil is more susceptible to being captive to outside contractors; the oil industry has more regressive tax regimes; the energy supply chain is more difficult to manage.
- In the last 12 months there have been 22 PE bids in Europe and only 6 were successful.
- HSBC will make more out of China than Hong Kong in 12-15 years time.
- Corporate lending couldn't be better, it can only get worse. Incumbent banks are doing comparatively well in UK with little inroad being made by new entrants. ING entered with an aggressive pricing strategy but have now pulled back from discounting. They are now more focused on making money. In addition the regulator has cemented the incumbent's position and made it more difficult for new entrants; there has been quite a big change in consumer attitudes with regard to social responsibility to repaying loans. Younger Brits are less concerned with the stigma of being a bankrupt.
- Large consumer good companies are saying that the TV medium is less effective at the margin as teenagers don't watch as much TV. They will gradually redeploy advertising toward non media like in store, direct mail and internet advertising.

Asian Visit ~ highlighted 3 key points

- 1) Australia's banking sector continues to grow faster than most e.g. Hong Kong's banking growing at 6% p.a. vs. 14% in Australia
- 2) Asian household borrowers and regulators are more cautious than Australians which is reflected in their lower gearing levels
- 3) Wealth management is the key growth market in Asia. Furthermore, foreign wealth management companies (AIG, AXA and ManuLife) have been much more successful entering savings markets in Asia compared with foreign banks entering banking markets. The banks have needed to enter the market by taking minority interest positions in local banks e.g. ANZ and GE Money. Local customer loyalty makes greenfield operations difficult for foreign banks in consumer and SME banking.

BP statistical summary (www.bp.com/statistical review) ~

- Over the past 12 months energy has experienced above average growth in world consumption despite higher prices. Oil and gas reserves were unchanged and remain above 40 years for oil and 60 years for gas.
- Energy consumption continues to move away from the OECD countries and becoming more carbon intensive.
- China is now 15% of world energy consumption. China accounted for 70% of global growth in coal demand. China's coal consumption growth was 8.7% in 2006 down from double digit growth rates.
- The USA reduced energy consumption by 1% (mainly coal and oil).
- Russian gas grew by 7% and represents about the same as the Asia Pac region in terms of demand.

CI BRUNSWICK FUND QUARTERLY REPORT



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

JUNE 2007

- OECD accounted for most of the increase in nuclear.
- Renewables grew at 25% but is still heavily government subsidized and represents less than 1% of world electricity production.
- Over the last 25 years US refineries have fallen by 50% in number. Due to upgrades in capacity the overall capacity has only fallen 10%. Over same period gasoline consumption is up 45%. The increased attention on promoting alternative fuels e.g. ethanol is a disincentive for refiners to build more capacity.

Australian energy ~ Australia needs to add 8,000MW to the installed base of 40,000 MW by 2015. Currently 85% of our power is supplied by coal fired power stations, whereas gas and renewables will supply the growth. Recent electricity price volatility has highlighted the benefit of the integrated model. The retailer industry has become a 3 player market with Origin, AGL and TRU being the only big integrated players that can handle the volatility and cost of hedging.

China ~ On current forecasts the absolute working population of China begins to shrink from 2015 when it reaches a peak of 1 billion workers. Will China grow old before it grows rich? China's factories are experiencing high worker turnover as workers look to upgrade their jobs and living conditions. Wage inflation is running 3-5%. Yue Yuen, one of the worlds largest OEM sports wear manufacturers, has experienced falling selling prices of 3% pa (1998 – 2003) but increasing prices in 2004 (+3%), 2005 (+4%) 2006 (+5%). They are expecting a flat outcome in 2007. Yue Yuen are diversifying to Vietnam and Indonesia where manufacturing costs are 30% less with lower staff turnover. The next phase of the Chinese economy is the rise of the domestic consumer which will make the world less reliant on the US consumer. The Chinese consumer will look to buy local brands as well as being attracted to the premium foreign brands (Chanel, Heineken, Kentucky Fried Chicken and Porsche).

Agriculture ~ 90% of water is consumed by agriculture or industry, not by households. The cost in Australia of a desalination plant needs \$3/kilolitre vs. current prices of 20c to be economic.

Modigliani-Miller Theorem ~ in an efficient market the value of a firm is unaffected by how the firm is financed i.e. the asset value reflects its debt carrying capacity and tax advantages from structuring e.g. Coles and Sydney house land prices. Even with the benefit of leverage and their tax advantaged position as foreign tax payers (which means that they do not have to pay capital gains tax) private equity firms could not make Coles stack up at \$17.

Bank lending practices ~ Some banks are doing leveraged finance lending at 10% p.a. interest rates with light covenants and/or on a non recourse basis. This means the equity investors gets all of the upside and the bank gets 10% p.a. if all goes well. If the project goes badly the bank gets between 0 and their loan amount back. Lending at low interest rates into highly leveraged structures with downside and no upside does not make sense to us. We also believe a lot of banking deals are being driven by short term kpi's and bonus structures to banking executives that don't include enough long term risk kpi's.

Listed equity capital markets ~ We take heart that there is a role for listed

equity markets given the decision by large PE firms to list themselves e.g. Blackstone and KKR (indicative intent at this stage). Although this may say more about their exit strategies and the liquidity and value on offer in equity markets.

Environment and Climate Change ~ There are 43 bills going through congress at present; Euro carbon prices are down 70% because they issued or grandfathered too many credits to incumbents; USA sulphur abatement credits have gone from US\$1600/t to US\$450/t due to the switch to natural gas by the power sector. Sugar prices are below the theoretical 12c required to make ethanol fuel economically. Globally coal fired power is still the fastest (volume basis) growing electricity source.

Risks ranks ~ 1) Global diseases not terrorism e.g. malaria is endemic in 106 nations affecting 500m and a million people die p.a. 2) Regulation not debt.

Absolute vs. relative ~ In considering the importance of comparisons consider what is more important (the absolute or the relative answer) in the following questions:

- 1) On grand final day your football teams score vs. the opposition team's score?
- 2) Your pay vs. your peer group?
- 3) In a commodity business your position on the cost curve?
- 4) The height of a plant seeking sunlight in the forest?
- 5) Your insurance company's exposure to a catastrophic event like S11?

Competitive advantage is derived from the relativity between you and the competitor assuming you survive. CI's VoF investment framework is about understanding the comparative positions, performance and optionality of companies. We look at value compared with other investment opportunities including low risk fixed interest investments like government bonds.

Corporate governance ~ We disagree with the claims by some that the likes of QBE, Macquarie Bank, Westfield and Wesfarmers do not meet best practice because their boards/Chairman don't have sufficient independence. We believe these are excellent boards of world class companies. They are experienced in their respective industries; board members have excellent business acumen; the board understands the management; they have significant invested capital in the companies they are overseeing. We prefer substance over prescriptive formulae.

TERMS AND CONDITIONS

Information contained in this publication

The opinions, advice, recommendations and other information contained in this publication, whether express or implied, are published or made by Cooper Investors Pty Limited (ABN 26 100 409 890), Australian Financial Services Licence (221794), and by its officers and employees (collectively "Cooper Investors") in good faith in relation to the facts known to it at the time of preparation. Cooper Investors has prepared this publication without consideration of the investment objectives, financial situation or particular needs of any individual investor, and you should not rely on the opinions, advice, recommendations and other information contained in this publication alone. This publication contains general financial product advice only.

To whom this information is provided

This publication is only made available to persons who are wholesale clients within the meaning of section 761G of the Corporations Act 2001. This publication is supplied on the condition that it is not passed on to any person who is a retail client within the meaning of section 761G of the Corporations Act 2001.

Disclaimer and limitation of liability

To the maximum extent permitted by law, Cooper Investors will not be liable in any way for any loss or damage suffered by you through use or reliance on this information. Cooper Investors' liability for negligence, breach of contract or contravention of any law, which cannot be lawfully excluded, is limited, at Cooper Investors' option and to the maximum extent permitted by law, to resupplying this information or any part of it to you, or to paying for the resupply of this information or any part of it to you.

Copyright

Copyright in this publication is owned by Cooper Investors. You may use the information in this publication for your own personal use, but you must not (without Cooper Investors' consent) alter, reproduce or distribute any part of this publication, transmit it to any other person or incorporate the information into any other document.