

CI BRUNSWICK FUND QUARTERLY REPORT



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

JUNE 2009

"The foolish reject what they see, not what they think, the wise reject what they think, not what they see" Huang Po

"He who learns but does not think is lost! He who thinks but does not learn is in great danger ...Confucius

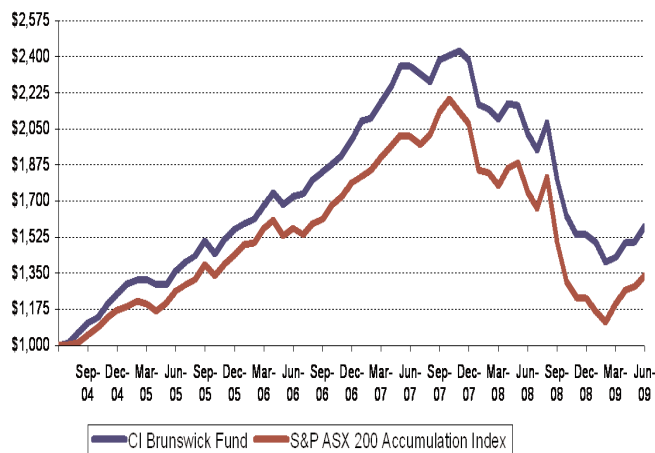
PORTFOLIO PERFORMANCE - GROSS

	BRUNSWICK FUND	S&P ASX 200	VALUE ADDED
ROLLING 3 MONTHS	10.99%	11.29%	-0.30%
ROLLING 1 YEAR	-19.37%	-20.14%	0.77%
ROLLING 2 YEAR	-16.20%	-16.83%	0.63%
ROLLING 3 YEAR	0.76%	-3.82%	4.58%
ROLLING 5 YEAR	15.36%	6.86%	8.50%
SINCE INCEPTION ⁰	15.36%	6.86%	8.50%
SINCE INCEPTION ^A	104.31%	39.33%	64.98%

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



The Fund returned +10.99% for the quarter, -19.37% for 12 months and 15.36% p.a for the last 5 years. The main contributors to the absolute decline over the past 12 months have been BHP, AXA Asia Pacific, Alumina CSL, Brambles, QBE, Austar and Ansell.

The last quarter of the fiscal year saw some relief from the downward trend established in the market from its peak in October 2007. From its lows in early March the index rose 25%, to end the fiscal year down 20.1%. The March quarter was the worst for the Australian equity market since 1982, the June quarter was its best since 1984.

The portfolio is a low beta portfolio with defensive characteristics, and so it comes as no surprise that it has not matched the index in the upturn in the market since March 09. Our cautious stance on the financial sector and the economy in general meant that we "missed the turn" as the cyclical parts of the market led the upward charge.

Over the quarter we have started building positions in a number of Australian

small cap stocks as well as participating in the recapitalization of some companies such as Alumina, Australian Infrastructure and Asciano.

The Fund has the following structural characteristics:

- Cash and hybrids account for around 13% of the portfolio
- Australian bank stocks represent 12% of the portfolio vs. the ASX 200 weighting of 22%. Bank stocks have outperformed the market by 16% over the last 12 months.
- Commodity stocks 14% (miners, gold and oil stocks)
- We hold around 7% of the Fund in 6 Asian listed securities. We are seeking to identify conservatively managed exposures to the world's best growth region. Asian countries have large populations with rising living standards and underpenetrated markets. The region also has the world's best saving record. Our investments in Asia provide an exposure to a variety of industries including consumer goods, media, convenience retailing (Dairy Farm), banking (Standard Chartered Bank), real estate (Hong Kong Land) and hotels (Mandarin Oriental). These stocks are also held in the CI Asian Tiger Fund. We have had several visits to the management of these companies and by and large they are lowly geared or debt free. In the case of our Asian bank exposure Standard and Chartered it is well capitalized and importantly has > 100% retail deposit to loan ratio compared with the wholesale dependent Australian Banks which are about 70%.
- Healthcare companies (10% of portfolio) representing activities including blood fractionation, cochlear implants, acute care, humidification and sleep apnoea devices, pathology testing services and hospital assets. One "headwind" that this sector has encountered has been the rise from 70¢ against the US dollar on the 1/4/2009 to 81¢ on the 30/06/2009 (+15.7%).
- In summary the Fund holds 33 stocks with the following approximate exposures (expressed as a % of Fund value): 62% Australian big cap stocks; 25% emerging growth stocks; 6% Asian listed stocks and 7% in cash.

MARKET COMMENTARY AND OUTLOOK

"It is not the knowing that is difficult, but the doing" ...Chinese Proverb

"It is always wise to look ahead, but difficult to look further than you can see" Winston Churchill

While not purporting to be economists, we believe that from an economic perspective, the worst of the global recession may well be behind us. What is considerably more uncertain is the timing and extent of any recovery and whether we will return to the levels of growth seen earlier this decade, which seems highly unlikely. Australia has a positive long term outlook due to its

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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relative financial strength; strongly governed financial and government institutions; growing population; and most importantly our proximity to Asia (note China now accounts for 20% of our exports up from 4% since 1990). One of the great challenges facing China (and other parts of Asia) is the adjustment process relating to lower levels of consumer expenditure in the West and, in particular, the USA. China's household consumption is only around 33% of GDP compared with 55% in Japan and 67% in the USA. Clearly more must be done to increase consumption in China e.g. expenditure on health, education, pensions, rural reforms (700m people impacted) etc. We believe the Chinese Government is aware of this and, indeed, many of the measures in its stimulus package are aimed at these initiatives. However, the adjustment process will take 10-15 years to have a meaningful impact.

As the table below illustrates, stock markets around the world have continued to recover rapidly over the June quarter, fueled by substantial global liquidity and falling risk aversion. The CBOE Market Volatility Index (VIX), which is one measure of risk aversion, fell below 30 in the quarter before closing at 26.35, a level not previously seen since last September. Markets, at current levels, arguably seem to be indicating something of a "V shaped" recovery.

COUNTRY	PERFORMANCE OVER THE JUNE QUARTER IN US DOLLARS
Australia	32.46%
China	33.19%
Hong Kong	34.15%
India	66.91%
Indonesia	59.60%
Japan	18.09%
Malaysia	28.86%
New Zealand	20.33%
Philippines	22.00%
Singapore	48.89%
South Korea	27.39%
Taiwan	27.54%
Thailand	45.09%
MSCI World	22.26%

In contrast, the prospect of huge debt issuance programs by governments around the world, higher commodity prices (oil is up 44% in the June quarter), and fears that "loose monetary policy" may rekindle inflation, as well as arguably some shift away from "safe assets" into riskier ones, have adversely impacted on bond markets over the last three months:-

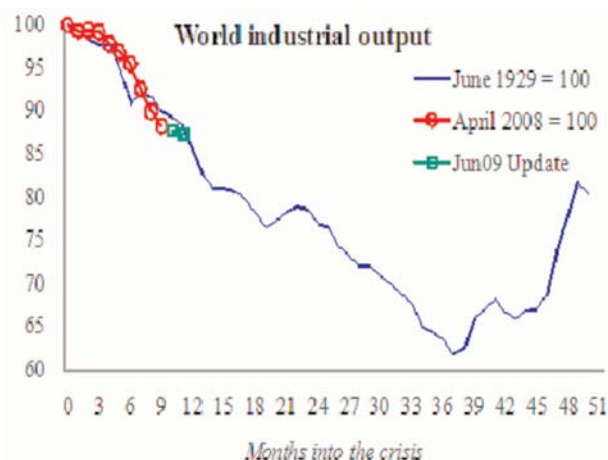
YIELD ON 10 YEAR GOVERNMENT BONDS

	1/4/2009	30/6/2009
Germany	2.99%	3.32%
United Kingdom	3.13%	3.67%
USA	2.66%	3.53%
Japan	1.34%	1.36%
Australia	4.40%	5.64%

While the economic recovery in countries like China appears genuine, its market, like so many emerging markets, is still dependent on exports to the West. The same recovery cannot be said for other more export orientated Asian countries, such as Hong Kong, Japan, Singapore and Korea. Many developed markets around the world have significant issues such as large fiscal deficits, under-capitalised financial sectors, over indebted borrowers, low saving rates and rising unemployment. This implies to us that there is unlikely to be a 'quick fix' and that global growth could remain 'sub trend' for a number of years. This will undoubtedly have flow through implications on the Asian region, by nature of trade flows, both external and intra-region. While prospects for Asia clearly look preferable to other parts of the world, we would not subscribe to the decoupling theory, though the recent economic resilience of the Chinese, Indian and Indonesian economies has been remarkable.

Worth highlighting at this juncture are Professor Nouriel Roubini's comments made in an article in Forbes magazine recently that: "Finally concerns about medium-term fiscal sustainability, and about the risk that monetization of fiscal deficits will eventually lead to inflationary pressures after two years of deflationary pressures, could lead to increases in nominal and real interest rates on government bonds, thus crowding out consumption, capital expenditure and a tentative housing recovery." We have some sympathy with this view.

This "begs the question" whether the current bounce in world equity markets could be just a "rally in a bear market" and that the recovery or durability of any economic recovery may be short lived. Candidly we don't profess to know other than to observe that Japan is still "grappling with problems associated with the 1990's" today, but then again perhaps things will be "different this time!"



Source: Voxeu, June 2009, Mr Swing

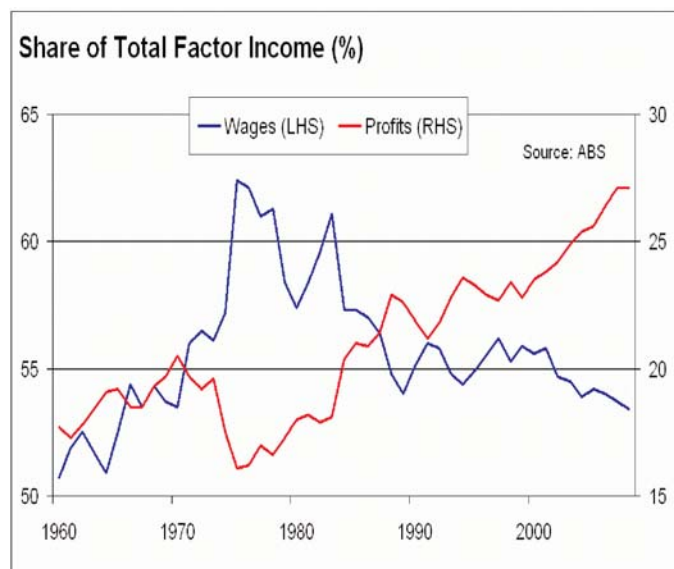
In light of the excess capacity in the global system, the deleveraging taking place at both a corporate and individual level, and pressure on revenues with which cost cutting will find it hard to keep pace (i.e. margin decline), it would appear unlikely that the recovery, when it comes, will drive corporate return on equity back to its levels of two and three years ago. In addition the proportion of the overall income pie going to corporate profits has risen substantially over the last 15 years as can be seen from the chart below. We anticipate some reversion of this trend.

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Australia is a stand out in the Western world to date – one of the very few countries not to have recorded a quarter of negative growth. For this we can thank the banking system which entered the crisis in far better shape than its peers elsewhere and the enormous stimulus applied to the consumer – two government hand out packages, tax cuts, first home owner incentives, and the timely fall in petrol prices and interest rates. In addition house prices have not fallen as vigorously in Australia as in the USA or Europe. However we have witnessed a two tier market as consumers have benefited from these factors, but the industrial part of the economy has found the going much tougher, particularly in the last three months. It will be difficult for consumers to maintain their demand profile as the stimulus fades. At some point the level of household indebtedness will have to decline as we have started to witness in the USA where the personal savings rate reached 5.7% in April (up from 0 a year ago). We remain cautious, but not pessimistic, about the short term outlook - a leveling out in global activity (even at low levels) would be very positive and we are now much closer to this point.

While listed property trusts have been a disaster zone in Australia, the property market itself has kept relatively intact. We believe this is the result of a high degree of control being exercised by the banks who can, over a two to three year period, let asset values down slowly – at a pace which allows bank profits, small capital raisings and dividend reinvestment plans to cover the loan losses incurred. This is in contrast to the early 1990s when large losses in a short period of time almost led to the insolvency of part of the banking sector. This process, together with low levels of loan growth, will cap growth in bank earnings for the next eighteen months.

The infrastructure and property trust sectors were the two sectors most highly geared as we entered the downturn and not surprisingly these parts of the market have been the most active in recapitalising balance sheets and reshaping corporate structures. Almost without exception the listed property trusts have raised equity, and in some cases more than once. Stock prices generally now trade well below stated NTA as the market waits for the inevitable pull back in property values. Infrastructure companies have also come to the market, the latest being Asciano which has now put the worst of its debt problems behind it with a very large equity raising and has stated an intention to change its current stapled security structure into a “normal”

corporate entity. There will no doubt be more capital raisings to fix stressed balance sheets (Trans Pacific Industries being one that has flagged a large raising in the near future) but we believe we are now a long way through this process. What we have not yet seen on any scale are capital raisings to fund acquisitions – we suspect this too will pick up pace over the coming year as more companies are forced to focus on core businesses and private equity sells out of assets bought at or close to the peak of the cycle with large dollops of now unaffordable debt.

Government debt is soaring everywhere as intervention in industry is going up around the world, and this is especially the case in Australia. In the USA and the UK the finance industries are coming under enormous scrutiny, as is the healthcare industry in the USA, as governments are no longer prepared to let companies who are beneficiaries of the public purse make high margins. Taxes are inevitably going up as the struggle to finance large deficits intensifies. Thus, as well as (and at the same time as) having to cope with the economic impact of the global downturn, many companies are facing margin pressure from their own countries' governing bodies. In Australia the list is already long:

- Telstra and the NBN
- Pathology funding is being cut
- In Western Australia the government will be looking for its pound of flesh from the RIO/BHP iron ore merger
- Constant government politically inspired sniping at the banks
- The now aborted Grocery Watch and ineffective Fuel Watch
- Alcopops tax
- Employee share plan fiasco

It is now the case that in almost every investment decision we make the impact of government intervention must be considered.

And life will only get tougher for government coffers over the medium term – as they take on massive borrowing to head off the global financial crisis, governments around the world will have to turn their minds towards the inevitable demographic changes taking place which will, in a relatively short period of time, impose healthcare and pension costs the likes of which are today unimaginable. According to the Economist “the demographic bill is likely to be ten times bigger than the fiscal cost of the financial crisis.” According to the Centre for Retirement Research at Boston College, public pensions in the USA are underfunded by more than one trillion dollars. This is no surprise given public sector employment growth continues to outpace private sector employment growth. One can envisage some very difficult, even unpalatable, choices facing our decision makers in the not too distant future. And this will bring into the picture long term bond yields (not a positive outlook) and the spectre of governments defaulting on debt or, more likely, inducing inflation to cut the real cost of their debts. Somewhere along the line today's fiscal generosity will have to be reined in, potentially sharply.

In Australia, thanks to the fact that most of our pension schemes are now Defined Contribution, our listed companies do not have, for the most part the pension noose hung around their necks. Companies in the USA and the UK are in a different position – defined benefit schemes imply big corporate liabilities which have not been helped by the market downturn. According to Merrill Lynch (report dated October 24 2008) the top 40 companies which have defined pension liabilities are cumulatively exposed to \$100B in pension underfunding.

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Stock Feature: We visited Brambles in Europe during the quarter where we attended briefings on Recall and the Chep EMEA (Europe Middle East and Africa) business. Chep pallets are a logistics services business and Recall is an Information storage and destruction business. The stock trades on a 14x forward pe; 4% yield and 5x interest cover.

RECALL contributes around 18% of Brambles revenue. On face value, Recall looks to be a business with many favourable attributes: 1) Recall is either #1 or #2 in 90% of the markets in which it operates). Two thirds of the market is unvented, namely document storage and destruction is undertaken internally by businesses. As businesses become more conscious of cost and the growing level of compliance, outsourcing these functions to a dedicated provider i.e. Recall could have merit. 3) 50% of Recall's revenue is annuitized with >40% margin. 4) The business does not appear to be over earning at around 12% ROA. 5) There is scope to increase the penetration of new services with existing client base. The underperforming business for Recall has been the USA, where they have grappled with a higher cost structure and have been materially affected by the commodity pricing of shredded paper halving since 2Q09. Prices have fallen at a far greater pace than the US business has been able to reduce cost. This will impact revenue in the vicinity of US\$15m in FY09. Recall has also been affected by fewer transactions by financial institutions, for example fewer loans are being written, which is impacting document levels.

CHEP EMEA represents 36% of Group EBIT and it is an enduring and compelling franchise. Despite challenging economic headwinds, it is presently the jewel division of Brambles. It appears that the European management team is disciplined with clear financial and operational targets. Undoubtedly CHEP EMEA is a complex business with operations across 23 countries, 35k manufacturers and recovering pallets from 300k locations across Europe. CHEP has a large customer base with no individual customer accounting for more than 4% of revenue. The top 5 European customers account for 15% of revenue. A central advantage of CHEP is its geographic footprint. The density of the network provides a key attraction for customers - 65% of their customer base move goods cross border. Tom Gorman (President of CHEP EMEA) has acquired a detailed understanding of the businesses since joining a year ago. With a background in the automotive industry he has galvanized thinking around operational and customer focus. He is an impressive leader. Sales for ten months to 2nd May were up 1% on the prior corresponding period. Organic growth was down 3% to 4% mainly affected by weakness in the automotive sector. As a rule of thumb organic growth generally = GDP growth. Year to date revenue growth was supplemented by new business contracts. Net new sales were up US\$30m for CHEP EMEA. Current sales revenue for EMEA is broken into: 87% pallets; 6% RPC (plastic crates for fruit & veg); and 7% automotive. CHEP pallets are winning market share from white exchange pallets in all geographies. However, the largest penetration of white exchange pallets is Germany, where the likes of Aldi have used this system since the 1960's. Aldi do use CHEP display pallets but convincing them to use a standard 1208 pallet over a white pallet has been difficult as the transport companies have absorbed the cost of the white pallet making it seemingly very attractive for the key German retailers. Overall, CHEP has only a 7% market share in Germany. RPC competes with cardboard boxes and has lower margins than pallets. While automotive is presently the weakest sector, management are keenly focused on growing this segment given historically higher margins. The objective is to develop new channels of business in existing markets, targeting the building and pharmaceutical industries and establishing new markets in emerging European Union. CHEP have been in

Poland for 9 years and have built a 5% market share in pallets. It has only been in the last eighteen months that growth has taken off under new management. Currently Poland is growing at annualized rate of 30% benefiting as multi nationals and local retailers change from white exchange pallets to CHEP. Historically, Poland has been dominated by white and counterfeited white pallets but under stricter legislation companies are required to meet stricter requirements in relation to pallet quality. Moreover, as multi nationals use more automated storage facilities pallet quality becomes more important as a broken pallet in an automated production or storage facility can cause major disruptions in productivity. Poland is a model case study for CHEP to expand into new regions in emerging Europe. There has been an adjustment in capital expenditure to reflect lower economic activity. Operationally, there has been an improvement in transport costs with 80% of pallet collections undertaken by CHEP managed transport (up from 60%). The other key metrics for CHEP have either been stable such as damage ratios or improving, namely leakage ratios and audit completions. The relatively new CFO (Europe) appeared to be hard nut in driving cost and efficiency. A key goal for CHEP is to improve the ease of doing business with its customers. As Tom Gorman has met with key customers a frequent complaint has been the complexity of invoicing CHEP provides to customers. A key initiative for CHEP is to provide a much simpler invoicing system to clients by year end. The operating trends across each region remain difficult. In the US the economy is "bumping along the bottom", there are no "green shoots" and any improvement is still months away. In Europe, there still some way to go before their economies show any sign of stabilization. And in Australia, there is now some slowing in economic activity.

It would appear that the USA management have been more reactive in dealing with the challenges of economic contraction and customer contact i.e. Walmart. There is recognition that the new President of the US (Tim Ritchie) needs to work much harder on getting closer to their customer base. Across the group there appears to be an urgency to improve cash generation through the accelerating of scrapping 7m pallets in the US and rationalising facilities and operations across the globe. The operational review in the US has been brought forward 3 months to September to determine the most appropriate level of service offering to customers.

Brambles is a good business but to be truly a commanding global business, the rigour which has been applied to the European business needs to be replicated in the USA. It was evident that there are marked differences in the CHEP operations in Europe and the USA. Structurally EMEA is a more complex business covering more countries and products. The USA overheads are 300bps lower reflecting one country and one product. Hence, EBIT margins are 27% and 24% respectively.

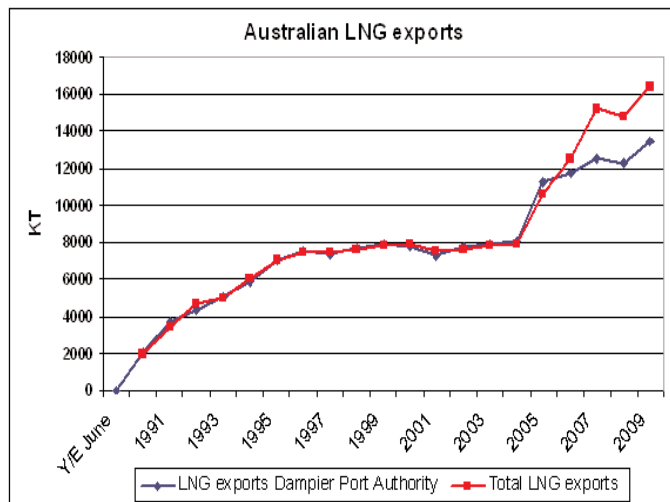
Industry Chart of the month - LNG exports. The chart below shows the history of LNG exports from Australia. The chart shows exports from the Port of Dampier (i.e. NW shelf exports) and total exports. The chart highlights the step change in 2005 with the completion of train 4 on the NW Shelf and the commencement of exports from the Darwin LNG plant in Feb 2006. Current proposals could see exports double over the five years (2010-2015) and double again through to 2020.

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Source: Dampier Port Authority and Abare

CHANGE TO PERFORMANCE FEE

As advised in the previous quarterly report we are making the following changes effective from the 1st July 2010:

1. The performance fee will change to 15% (currently 20%) of the Fund's out-performance of the benchmark.
2. The benchmark will change from the UBSA Bank Bill Index to the S&P/ASX 200 Accumulation Index. The use of an equity index benchmark rather than a bank bill index benchmark is a better measure of the Manager's long term performance because it reflects the fact that the Fund is managed as a long only equity fund.
3. The rolling 3 year high water mark remains in place. (Note the last performance fee taken was for the month ended 31st May 2007).

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