

CI BRUNSWICK FUND QUARTERLY REPORT



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

MARCH 2006

"Believe nothing, no matter where you read it, or who said it, even if I have said it, unless it agrees with your own reason and your own common sense". Guatama Buddha

"The real message of the Weather Makers is not that global warming is real... the point that he (Tim Flannery) drives home is that it is an issue that we must address today if we are going to avert cataclysmic changes that could affect us all by 2050. He points out that 70% of all people alive today will still be alive in 2050. "Paul Anderson, CEO and Chairman Duke Energy, former MD BHP Billiton Ltd

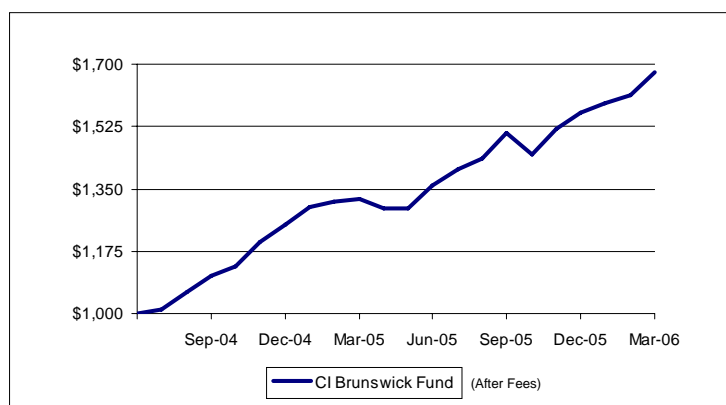
"A principle cannot be compromised but only adhered to or surrendered. Honesty is abandoned as much by theft of a dime as of a dollar." Leonard E. Read (1898-1983)

"Pessimists about China have been wrong for 25 years" Ambassador Roy, Former US Ambassador to China

PORTFOLIO PERFORMANCE

	PORTFOLIO#
ROLLING 1 YEAR	26.71%
SINCE INCEPTION*	34.38%
SINCE INCEPTION^	67.68%

Performance after fees
* Annualised
^ Cumulative (1 July 2004)



Over the March quarter and the year the portfolio returned 7.21% and 26.71% respectively.

The significant contributors to the portfolio return included CSL, the major resource stocks and the insurance stocks.

The major negative contributor to the return was Healthscope. The company experienced acquisition indigestion with the Gribbles Pathology business. The hospital division remains the key value driver as it represents over 70% of the earnings of Healthscope. The "for profit" private hospital industry has an excellent structure as it is dominated by two groups (Ramsay and Healthscope). We have added to the position since the 2006 profit downgrade that was announced during the quarter.

There was little structural change to the portfolio composition during the quarter. The portfolio is fully invested, mainly in Australian stocks.

The portfolio has a moderate short position in a small number of stocks, however, there have been few stocks that have actually declined over the year and we do not structurally maintain downside protection in the portfolio.

We have added a couple of positions that are involved in the agricultural sector of the economy however we are yet to identify with confidence stocks that justify a large portfolio weighting.

The main feature in markets was the continued very strong rise in commodity prices. Whilst US cash rates continued to rise the Australian bond yields rose only moderately although the A\$ fell against most currencies except for the NZ\$.

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.

OBSERVATIONS AND INSIGHTS

"Enron stands on the foundation of its vision and values. Every employee is educated about the Company's vision and values and is expected to conduct business with other employees, partners, contractors, suppliers, vendors and customers keeping in mind respect, integrity, communication and excellence. Everything we do evolves from Enron's vision and values statement." Extract from Enron's Code of Ethics Guide

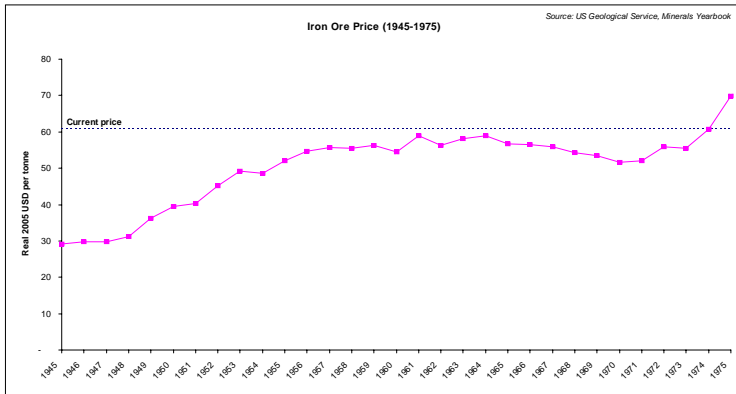
"Nothing will carry on as swimmingly as it has. It is illogical to assume things could continue as they have been, but from so lofty a level as to be almost unbelievable." Stephen Schwarzman Chairman of Blackstone Private Equity

"Make everything as simple as possible, but no simpler." Albert Einstein

Resource Sector ~ the graph below illustrates that commodities can experience long periods of above normal prices. The period 1945-75 was such a period where prices broadly trended up to higher prices than we are seeing in today's environment. The discounted cash flows of producing resource companies with large in the ground reserves and resources (BHP, RIO and Woodside) appreciate considerably if one assumes a repeat of the post WWII pricing experience. Woodside Petroleum for example, has 1000m bands of oil reserves and 2400m barrels of oil equivalent in contingent resources. At US\$65/bbl that is an in situ value of US\$221b. Recently Chip Goodyear was quoted as saying that greenfield projects take 8-10 years to bring to market compared to 5 years previously due to environmental concerns and supply chain constraints. However, there are lots of examples of capital expenditure plans that are responding to the better price environment e.g. notwithstanding the greenhouse gas issue, coal is a beneficiary of higher energy prices in a world that will see the use of energy rise by 70% by 2030 and treble over the next 100 years. New coal fired power stations are being commissioned at the rate of 1 a week. 1400 new power plants are on the drawing boards to be built between now and 2030 of which 600 are in China. The International Energy Agency estimates that the Middle East will spend \$89b on refining between 2004 and 2030. Environmental

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regulation and poor returns have constrained the desire of oil companies to build refineries in the US over the past 30 years.

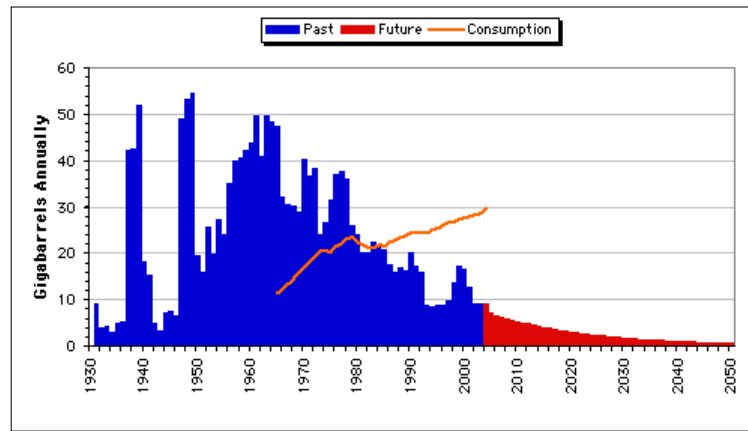


Source: Factset

We remain positive on the energy sector (WPL, AGL, OSH, RIO, BHP). World production from existing oil fields of 85m bbl per day is forecast to decline by around 5% per annum so that by 2020 there is a 71m b/d deficiency between existing production and consumption that needs to be met by new discoveries and alternative fuels. China has an energy problem that needs to be solved through a broad set of options, not just one solution, which augurs well for all non oil based fuels (wind, coal, solar, hydro, nuclear, bio fuels). The difficulty with oil is that new discoveries have been falling for the last 20 years, you have to go back to the 1970's (25 years ago) before you can find a period when discoveries exceeded consumption.

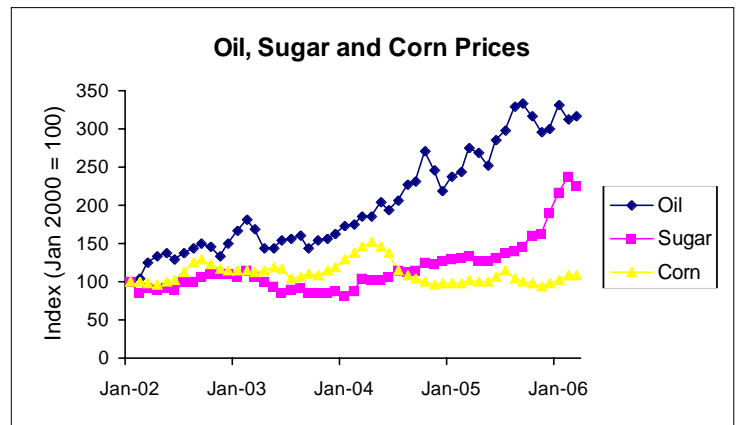
We recently attended the ABARE commodities conference in Canberra. Australia's pre-eminent commodity forecasters are expecting commodity exports to rise by 7% to A\$134b in 2006/7. Total winter crop in Australia for 2005/6 is estimated at 40.1m tones, the second highest on record. Exports of minerals and energy products account for 80% of the increase. There remains export opportunities to India given that India represents 5% of Australia's merchandise exports compared to China at 10%. China consumes 27% of the world steel and 34% of thermal coal but 4% of dairy products; 9% of sugar; 1% of wine and 7% of gold. In 2005 world sugar price doubled from US10c a pound to a high of 22c at the beginning of February. Commodity prices have been appreciating rapidly for the past two years, but until recently price appreciation has been restricted to oil, gas and base metals. Sugar though, can be refined into ethanol, and in sugar-rich Brazil, 70% of new small cars, and a significant portion of the existing fleet, are 'flex-fuel', able to run on either ethanol or gasoline, or any mix of the two. As a result, the sugar price has become linked to the oil price. What is most interesting to us though, is the effect of price movement in one commodity on other commodities. Delicate equilibriums exist in world markets for our most basic goods and sustained high prices in energy markets are breaking down long-held norms elsewhere. Oilseeds like canola may be used to produce bio diesel and EU production of bio diesel has increased twofold from 1.9 million tonnes in 2002 to 3.8 million tonnes last year. Like sugar, corn can also be refined into ethanol, and forms a large part of US agricultural output. The twin forces of renewable energy and energy security are driving US investment into corn-based ethanol production, for use as a fuel extender and octane enhancer. Eight new ethanol plants were built in 2005, and thirty more are planned or proposed for 2006. Moreover, ethanol production from corn removes starch from the grain, making the residual corn a more attractive feed for US livestock than unprocessed corn.

Oil Discovery (3 year average - past and projected) 1930 - 2050



Source: Association for The Study of Peak Oil & Gas (ASPO)

In Australia, where wheat is used in growing quantities for cattle feedlots, beef is currently enjoying a Japanese moratorium on US imports. High oil prices, by way of ethanol and corn to corn-fed beef, may eventually drive the cost-competitiveness of Australian beef in Japan, and with it a large component of local demand for wheat. Incidentally, cotton and wool become more cost-competitive relative to oil dependent synthetic fabrics.



Source: Factset

The more general question of whether soft commodity prices (grains, meat, dairy etc) will follow metals and energy prices is exercising our minds also. Key drivers for base metals were historical underinvestment in productive capacity and rapid demand growth from Chinese industrialization, in particular the Chinese switch from net exporter to net importer. It is not obvious that these drivers apply to wheat, cotton, or sugar. Agricultural commodity supply is influenced by seasons rather than long term investment decisions, and decisions are dispersed amongst a large number of individual growers, rather than within large resource companies. On the demand side, emerging growth driven by the new Chinese and Indian middle classes is made harder to foresee because of differing diets. Beef may present opportunities, particularly if bird flu effects chicken meat sales the way mad-cow disease affected beef sales. There is evidence that there is some switching from rice to wheat based diets (and protein) in India and China. AWB recently has made new sales to both these countries.

With constraints on land and water availability in developing countries like China and India, science & technology will play a big part in improving crop yields. GM foods are already significantly improving yields and reducing the

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affect of pestilence. The production of artificial sweeteners through advanced chemistry as an alternative to natural sugars is another example of science impacting food production. One note of caution for those expecting a big increase in food demand in China - there are few hungry people in China. Composition changes will be the big driver of change rather than overall quantum increases.

Unfortunately many of the agri-stocks in Australia have poor organizational and governance structures. AWB is potentially an interesting stock that has fallen from \$6.30 to \$3.90 due to the Cole inquiry into whether AWB has broken the law and talk of single desk reviews. The Australian Wheat Board was created during World War 1 in 1915. Today AWB is a company with \$9b revenue, 2700 employees, 100,000 customers, shareholder funds of \$1b and net profit in 2005 of \$157m. We ask ourselves the following questions:

- Has AWB broken the law? Who's law?
- What are the positives and opportunities that can come out of the Cole inquiry? What are the costs of an adverse finding?
- Does the AWB management have the talent, clarity, vision and passion to go after the opportunity?
- How can directors operating under the A and B class share structure deliver benefits to all shareholders?

Telecommunications sectors ~ Telstra and incumbent telecoms face a threat to their broadband strategies from WiMax. WiMax is an acronym that stands for Worldwide Interoperability for Microwave Access. Wimax is a standards-based technology that enables the delivery of last mile wireless broadband access as an alternative to cable and DSL. WiMax will provide fixed, nomadic, portable, and eventually, mobile wireless broadband connectivity without the need for direct line-of-sight to a base station, at equivalent data speeds to DSL. The benefits of WiMax are its mobility; its relatively cheap network cost. For example, Unwired has rolled out pre-WiMax technology in Sydney for just A\$32m, Austar is to rollout WiMax to 500,000 regional homes for A\$50m. In contrast, the cost of Telstra rolling out Cable to the bush has been recently estimated at A\$7b by the National Party (and that it is a globally certified standard). The global certification should not only create global economies of scale, which it is hoped will mean a fast take-up of the technology, it has also allowed Intel and other manufacturers to design WiMAX compatibility into their products, which will make WiMAX an easy to use network for consumers. The WiMax standard is based around two different sections of radio spectrum. In Australia these two sections are owned by Austar (regionally), and Unwired (in the cities). It is possible to run WiMAX on unlicensed higher bandwidth; however the potential lack of exclusivity makes commercialising this spectrum risky for potential competitors.

Mckinsey recently released a study on the return on invested capital (ROIC) performance of 7000 listed US entities from 1963 to 2004. The findings were a good reminder of the fact that DCF valuation models are dependent upon margin assumptions that are volatile due to changes in economic conditions and/or business performance. Paying for a cash flow stream based on cyclically high margins is completely different to paying for cyclically low profit streams. Key points of the Mckinsey study:

- There is significant variance between industry performance e.g. from 1963 to 2004 pharmaceuticals averaged 23% ROIC whereas utilities averaged 10%
- There are big differences between the top & bottom quartiles within an industry e.g. the top quartile in media delivered 30% ROIC vs. 7% for the

bottom quartile

- Through time performance varied substantially e.g. the top quartile of companies for all industry participants ROIC varied from 20% to 10% with an average ROIC of 15.7%.

New Listings ~ with the listing of Dyno the majority of the worlds listed explosives players will be Australian domiciled. The global commercial explosives industry is around US\$6-8b of which North America is around US\$1.6-\$2b and Australia is around US\$600m. Strong end user demand in metals and coal mining indicate 6%-8% growth in Australia, Asia, and Latin America for the medium term and 2%-4% for North America. The combined market share of Orica and Dyno in the Australian market is over 95% and around 70% in North America. Increasing technological and regulatory demands such as low maximum quantities to travel in a single shipment are driving consolidation in the industry and increasing benefits to integrated players such as Orica and Dyno. The reason we like both Orica and Dyno is that the listing of Dyno will give the industry real market disciplines and transparency; a two player industry has no need for unhealthy price competition; both have strong management; the first response of a miner to a down turn is to produce more volume; margin expansion in these companies has not been as steep as some of the miners and therefore margin contraction risk should be smaller; the cost of ammonia nitrate is 5 % of the cost of mining but influences 40% of total mine cost.

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