CI BRUNSWICK FUND
QUARTERLY REPORT

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

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"Commitment is what transforms a promise into reality" Abraham Lincoln

"There is genius in persistence. It conquers all opposers. It gives confidence. It annihilates obstacles. Everyone believes in a determined man. People know that when he undertakes a thing the battle is half won, for his rule is to accomplish whatever he sets out to do" Orison Swett Marden

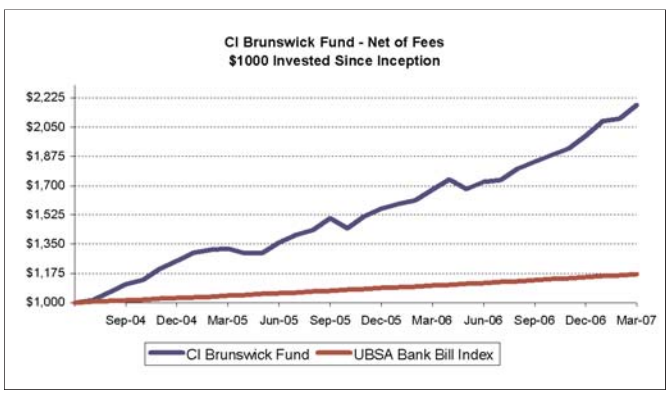
"Those who have knowledge, don't predict. Those who predict, don't have knowledge" Lao Tzu, sixth century Chinese poet

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

The table shows clearly that over the past 3 years equity returns have been far higher than fixed interest returns and that Australian equities have performed much better than global equities.

	BRUNSWICK FUND	UBS BANK BILL INDEX	UBS COMP BOND INDEX	S&P ASX 200	MSCI	HEDGE FUND INDEX[x]
ROLLING 1 YEAR	30.1%	6.2%	3.7%	21.8%	12.4%	6.9%
ROLLING 2 YEAR*	28.4%	6.0%	5.2%	26.0%	18.1%	7.3%
SINCE INCEPTION*	32.8%	5.9%	5.4%	26.6%	16.1%	6.0%
SINCE INCEPTION^	118.2%	17.0%	15.6%	91.1%	50.7%	17.3%

* Annualised net of fees
^ Cumulative net of fees (1 July 2004)
x HFRX - Hedge Fund Research Index



Global stock markets delivered positive but modest returns over the March quarter with the MSCI index, which represents global markets, rising by 2%. Asian markets excluding Shanghai were flat and the US and UK markets rose by 0.2% and 1.4% respectively. The Australian market rose by 6.9% continuing the recent trend of performing well ahead of most other markets.

Cash rates in Australia were steady at 6.25% and bond yields were virtually unchanged. The Australian dollar rose over the quarter from 79c to 81c against the US$ and has continued rising since the end of March. Commodity prices overall were stronger.

The portfolio returned 9.6% over the quarter and rose by 30.1% over the year. Stocks that added significantly to the portfolio return included CSL, QBE, Trinity, Telstra, Coles and the Asian banks.

Over the quarter the net exposure of stocks to portfolio value increased from 95% to 100%. Short positions were cut from 6% to 2%. Around 8% of the portfolio was invested in international stocks including three Asian banks and a New Zealand electricity generator. There is no exposure to fixed interest.

Exposure to stocks has increased as we found attractive opportunities to invest in. We continue to feel that it is better to be invested in stocks rather than having significant exposures to cash or fixed interest. Over the past couple of years there have been virtually no large cap companies in Australia where it would have been profitable to short sell.

When constructing the portfolio the following points are included amongst our considerations:

- There seem to be no major imbalances evident in the Australian economy. While one can worry about the potential for inflation to rise or wage rises to damage profit margins we take the view at present these are signs of a strong economy.
- Australias resource and skill base and proximity to Asia gives many Australian companies a great advantage over US and European rivals.
- Government bond markets are generally not attractive and corporate bond markets are even less attractive given the narrow spreads at which they trade at.
- The cost of protecting the portfolio from share price drops is currently too expensive, whether that protection is from holding high cash levels, shorts or option or futures overlays.
- Our company and industry contact indicates that profit forecasts are robust.
- Australian Boards and management are by and large running companies well and doing a good job for shareholders.
- Many Australian companies are more expensive than overseas equivalents however the Australian tax system and higher levels of corporate transparency gives the Australian companies an advantage from an overall investment assessment.

We try to have a reasonable portion of the portfolio in stocks that have defensive characteristics but also have some definable upside, either in valuation or in growth options. It has become increasingly hard to find stocks that fit these characteristics. In some cases valuations are quite high even if the assets are defensive. In other cases the assets are defensive but they are owned in stapled structures which are less desirable than company structures.

The major themes that are evident in stocks in the portfolio include:

- The worldwide need for massive spending on infrastructure
- The opportunity Australian companies have to provide resources and skills to the Asian region.
- The robust outlook for the major resource based companies.
- The likelihood that the price of many essential products such as food, electricity, gas and water will rise.
- Aeging Western populations and young and productive Asian populations

We discuss some of these issues in more depth below.

Resources

In the short term, global economic growth is expected to remain solid led by China, Japan and Europe. As demand for commodities in this environment continues to be robust, and inventories remain relatively low, commodity prices are expected to stay above long term trend. Whilst we acknowledgethat in the medium to long term, prices must revert to their economically justified level as capacity is expanded to meet demand (global exploration expenditure has risen from USD$2B in 2002 to USD$7B in 2006), we also believe that it will take some time for this adjustment to occur. It is inevitable that trend prices have been set at structurally higher levels due to recent industry cost inflation.

According to Vivek Tulpule, RIO chief economist, it has historically taken five years for iron ore prices, and less than three years for copper and aluminium prices, to return to trend once a peak has been reached. However in the current cycle, "production and capacity growth is being hindered by the availability of inputs, engineering resources are being stretched, suppliers' production lines are also being tested, leading to quality issues and the cost of construction materials have increased…………since 2003 the price of structural steel has risen by 60%, the price of piping has nearly doubled and electrical equipment has risen by about 25%....".

We have in previous reports made mention of the ongoing "westernization" of the Chinese population and its resulting impact on demand for commodities. But will it have a similar long term impact on the Chinese stock market? The Shanghai Composite Index trades at lofty multiples (some 30X forward earnings) but its composition has a bearing in that the top 3 companies account for 40% of the index – namely Bank of China, ICBC, Sinopec. No doubt Chinese exchanges will be deepened over coming years (note the plans of China Telecom and China Netcom to list, and the planned introduction of Chinese stock index futures by Shanghai's new derivatives exchange). In addition, according to Huang Yiping (Citigroup chief Asian economist) the levels of Chinese savings ($4TR) exceeds the market capitalizations of the Shanghai and Shenzhen exchanges combined ($1.2TR). Add to this the ageing demographic (China will supposedly have 200m retirees in 2015, climbing to 400m in 2050) and the need for an investment return greater than the 2.5% available from cash is obvious.

Infrastructure

According to Booz Allen Hamilton, global urban infrastructure will require spending of $40TR on refurbishment, modernization and expansion in order to cope with demand. History shows years of neglect and under-spending by governments too concerned with budgets, finance and the politics of staying in power to look for long term, potentially costly solutions to the various infrastructure crises which have been witnessed around the world in both developed as well as third world countries. It is not being too alarmist to characterize a lot of major infrastructure today as "technologicallyoutdated, woefully inadequate, increasingly fragile or all of the above".[1] Drivers of ongoing demand for bigger and better critical urban infrastructure include a growing global population (projected to increase by 30% to 8 billion people in 2050), an increasingly mobile and global workforce, and competition for human and other forms of capital (which is likely to migrate to areas where there is sufficient supporting infrastructure). Note that in 2006 China expanded its power capacity by 102GW, more than double the existing installed capacity in Australia.

Water, power, transport, and social infrastructure are all on the hit list. The International Energy Agency's World energy Outlook 2004 estimated that $4TR in power sector infrastructure improvements will be needed in OECD countries over the next 30 years. In the USA the US Department of Transportation estimated in 2006 that freight bottlenecks and delayed deliveries due to congested highways and inefficient rail and deep water transportation systems cost the US $200B annually.[2] It is estimated in Detroit that due to leakages from the system, residents pay $23m each year for water which never reaches its destination.

In Australia water has assumed a prominent position in the infrastructure debate, predominantly due to the current drought. However the area which has caught our attention is power. Electricity spot prices are rising on the east Coast, including a spike to $10,000/mwh during the hot spell in January. The forward price is also rising. In addition gas prices are showing a rising trend. The price in the newly created Victorian spot market has risen, and the cost of gas acquired by some resource companies on the West coast has doubled on recent contract expiries. There are a number of reasons why it is likely the price of electricity will rise at rates higher than CPI:

a) the reserve capacity in the National Electricity Market has reduced over the past few years and this has altered the supply/ demand dynamic in favour of the generators;
b) the drought (low water levels) has limited the ability of hydro to generate and has also had an impact on the ability of the Tarong coal fired power station in Qld to run;
c) it will take three years for dams to fill up even with reasonable rainfall;
d) market participants are maturing and this is improving the market dynamic for generators;
e) new entrant pricing has risen quite sharply over the past year because of the increase in plant costs (plus 25-30%) and the lack of confidence in being able to finish new projects on time and on budget;
f) the price of electricity in Australia is the second lowest among OECD countries, only Greece has cheaper power. Electricity in the UK and USA is twice the price of Australia; and
g) to date there has been virtually no linkage between international oil and gas prices and the price of gas in Australia. By contrast, in overseas markets the rise in oil price has led directly to a rise in gas price and which has in turn led to an increase in the price of electricity in both the wholesale and retail markets. There are early signs that linkages between international oil and gas prices and Australian gas prices are developing. Firstly some gas fired power stations are running at much higher levels than expected and the extra gas they are buying is at rising spot prices. Secondly the PNG gas that was expected to be piped into Australia at low prices is now likely to be developed into LNG at higher international prices.

The other main factor causing uncertainty for generators is the possible introduction of an emissions trading scheme, making it very difficult to commit to a large capex spend on generating plant, as well as implying uncertain outcomes for the electricity price. The price of electricity does not include an allowance for a carbon cost as yet. Therefore when a carbon cost is introduced the electricity price will have to rise to a level where a gas fired plant is economic. Assuming existing coal fired plants have some aspect of grandfathering they will make windfall profits until the point where the level of "free" credits reduces to say 70% of base line production. If credits can be sold internationally Australian producers will arbitrage between the Australian and overseas markets and therefore lift the electricity price closer to prices achieved in international markets.

[1] Lights! Water! Motion! Viren Doshi, Gary Schulman, Daniel Gabaldon from Strategy & Business issue 46 Spring 2007

[2] As per 1 above

There would seem little doubt that the Australian consumer will over time pay more for the electricity and gas consumed.

Global Opportunities

Fast growing companies in Australia rapidly run out of options in their home market and need to look offshore to continue their growth aspirations. But the opportunities available in overseas markets are huge. Very often these markets are fragmented, have had underinvestment or have legacy issues arising due to size and potential for disruption in the event of change, and thus Australian companies can bring to bear expertise in systems flexibility and innovation learnt at home.

In the USA road expenditure amounts to $45B annually, of which 95% is done in the public sector. A number of States in the USA with large budget deficits are looking at selling off roads (toll roads). In the UK the NHS has the aim of moving the amount of surgery done in the private sector from 15% to 50% by 2009 – almost certainly unachievable but nevertheless indicative of the ongoing trend. Each of these offers opportunities for Australian companies operating the relevant sectors.

Food or Fuel

"Faced with ….shortages of basic foods like beef, chicken and milk Venezuela's president Hugo Chavez has threatened to jail grocery store owners…..if they violate the country's expanding price controls" (the New York Times, February 2007). India, the world's second largest producer of wheat and rice, last month banned trading in the two commodities to curb inflation – wheat prices in India have risen 20% since September. The prices of red beans, green peas and yellow lentils have soared. According to the BBC the price of onions has gone up five fold. China too must maintain a careful vigil on its food supplies in order to ensure social stability. According to the US Department of Agriculture, the area sown to wheat in China dropped 27% with a consequent decline of similar proportions in production. The same has occurred in rice production. In the USA the 5B gallons of ethanol produced in 2006 used nearly 20% of the corn crop. If all the ethanol plants under construction and planned go into operation, by 2008/9 this will increase to half the corn crop.

Agricultural commodity prices have historically been affected in the main by climactic factors and shorter term water shortages. More latterly, with the rise in the oil price and the US requirement for energy security, the use of land for biofuel has become a major driver of increasing commodity prices. In Brazil, 77% of new cars now run on ethanol. In the USA President Bush has determined that 35 billion gallons of transport fuel must come from bio fuel, seven times more than is currently the case. Brazil can produce ethanol for 22c/l using sugar cane as the main input, compared to 30c/l using corn as the main input in USA. The USA raises a 54c/l tariff on imported ethanol yet does not have sufficient spare land to grow the necessary feedstock to meet the 35Bl requirement.

Thus there is now for the first time real competition for crops – feeding a growing global population and expanding bio/alternative fuels in the face of a higher expected long term oil price. The supply of arable land will not change (if anything it may decrease as soil quality deteriorates, global warming takes effect and the developing world sees increased urbanisation and industrialization – right now the supply of arable land in China is falling at 1-2% pa) but how it is used will be different. Thus better yields and productivity will be essential, requiring increased use of technology and inputs. The nature of what is grown in different parts of the world will change. In the USA, close to 10m additional acres of corn are being planted for ethanol production. This is coming predominantly from the conversion of land previously used for soy, to the benefit of Brazil and Argentina, both major producers of soy. China, a big food importer, is attempting to change to become more of a processed food producer and may therefore use land for these types of foods (tomatoes, carrots) at the expense of soy/corn/broad acre. Thus other parts of the world will need to take up the slack in these products, most likely Eastern Europe.

One effect of this global dynamic is the rise in price of agricultural land. According to Bloomberg news, the value of crop land in Indiana has increased 16% and in Idaho 35% in 2006, and similar appreciation has been seen in corn land in Argentina. In Australia we have witnessed a similar if not more marked phenomenen over the last 3-5 years. Agriculture funds such as Hancock AIG in Boston have been purchasing agricultural land in the last twelve months.

We may well be witnessing a once off change in farm economics as the price of corn takes a structural lurch higher. This in turn will lift prices for other crops and their resultant base products, and thereafter meat and poultry as the impact of increased input prices rolls through our system. Or this may be a temporary change as the use of corn for bio fuel is inefficient, and more environmentally friendly and higher yielding sources will become available - such as agricultural waste or cellulose from trees or switchgrass. Or the oil price may drop sharply bringing the trend towards biofuels to a halt. Perhaps the oil will become the pricing mechanism for farm products, forming a linkage between different commodities that has not been evident to date. One thing is for certain - in the near term, the world agricultural community will find it increasingly difficult to cope with feeding the world's 6.5B inhabitants.