

CI BRUNSWICK FUND QUARTERLY REPORT



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

MARCH 2008

"Success is not final, failure is not fatal; it is the courage to continue that counts" Winston Churchill

"Truly, the most powerful thing in the world is the right decision, made at the right time" Sheikh Mohammed bin Rashid Al Maktoum, Ruler of Dubai

"Truth alone will endure; all the rest will be swept away before the tide of time" Mahatma Gandhi

PORTFOLIO & MARKET PERFORMANCE

	BRUNSWICK FUND**	S&P ASX 200	MSCI HEDGED#
3 MONTHS	-11.94%	-14.39%	-11.13%
FYTD	-10.89%	-11.83%	-13.05%
2007*	36.6%	28.7%	22.9%
2006*	26.6%	23.9%	16.3%
2005*	36.1%	26.3%	10.9%
SINCE INCEPTION ⁰	21.82%	16.56%	8.93%
SINCE INCEPTION [^]	109.68%	77.64%	37.82%

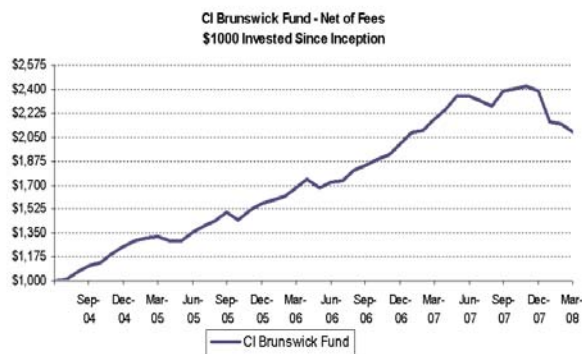
* Financial year to 30 June

** Net performance - after management and performance fees and expenses

⁰ Annualised

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

MSCI hedged to AS (representing returns on international equity markets)



Over the March quarter all major stock markets fell sharply. The global stock market index fell by 11% and the Australian market fell by 14%. The major sectoral falls in Australia were financials and property down by 23% and 18% respectively. The decline in the property stocks followed on from the fall of 13% in the December 2007 quarter.

The fixed interest markets were mixed. Government bond prices rose by 3% in response to expectations of economic slowdown and increased demand for low risk assets. Corporate debt prices fell as investors pushed out the spreads at which non Government paper traded over benchmark rates. In Australia the cash rate increased from 6.75% to 7.25% and bank bills returned 1.75% for the quarter.

The Australian Dollar was broadly flat as measured by the Trade Weighted Index but rose by 4% against the US Dollar.

The portfolio returned -12% for the quarter and -4% for the calendar year to March 2008.

Only a few stocks in the portfolio rose over the quarter, these included a couple of the Asian banks, BG and CSL.

The portfolio held a combined cash and bank bill weighting of around 20% over the quarter, this portion of the portfolio returned 1.75% for the quarter.

The portfolio currently has an equity exposure of around 80%, of which 18% is in overseas stocks and the balance in Australian stocks. Cash equivalents are 20% of which 12% is held in Australian bank bills. Around two thirds of the foreign exchange exposure is hedged back to the Australian Dollar.

Clearly the fundamentals for global stock markets deteriorated over the quarter with the credit crisis worsening. In Australia, a number of issues developed that have had a negative effect on the stock market and led to the sharp falls in the overall market index level.

The most important is that the banking sector has started to experience a rise in the level of provisions for bad debts and this has led to the first substantial downgrades to bank earnings forecasts for many years.

The second was that the Reserve Bank increased the cash rate twice and the spread between bank bills and the cash rate also widened, the higher rates had a number of flow on affects that are negative for share prices in the short term.

Many of the most successful Australian companies have significant offshore businesses and the rising Australian Dollar is having a negative effect on the companies profit levels as reported in Australian Dollars.

The other factor that has continued to develop is the rise in the rate of inflation. The minutes of the Reserve Bank March Monetary Policy Meeting state that consumer price index is expected to be a little above 4% in the short term with the rate falling to a little below 3% by 2010. The meeting did note this forecast was subject to a high degree of uncertainty.

Debt, inflation and interest rates:

Given that levels of debt, inflation and interest rates are central to outcomes in the stock market we discuss these issues in some detail below.

The starting point is that in aggregate the level of debt in Australia has reached an unsustainably high level. The starkest evidence is that some aspects of the Australian financial system have proven to be very stressed following the sub prime crisis in the US.

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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If as we believe, the economy has too much debt, the banks will be at the centre of any consequential problems that develop. Firstly, they provided most of the debt so stress will show up in increasing bad debts. Secondly, because the level of loans provided by banks is so much greater than their levels of deposits they have very large borrowing programs of their own. The large increase in the cost of this non deposit funding for banks is quickly flowing through into their net interest margins and shortly will flow through to net interest income revenues. Thirdly, as the level of loan growth slows, the demand for assets will slow, which will put downward pressure on asset prices and lower the level of security that banks hold against their lending. The clearest example of this sequence of events is in the property market.

The level of gearing is too high in the property sector (particularly residential property). If a property trust (or any entity) concludes that it's gearing ratio is too high there are only three ways to reduce gearing: lower or cut distributions, sell assets or raise new equity.

Altering distributions has only a marginal impact on gearing levels in the short term and will not be enough to lower gearing levels substantially. Already quite a few trusts have announced that distributions either will not be growing or will be reduced or eliminated entirely.

Selling property is the next alternative and there have been many announcements of plans to reduce gearing by selling properties. The trouble is that this selling can only be done at prices well below recent valuations. When this occurs it will provide evidence to valuers that prices are falling and lead to reductions in asset valuations that will cause gearing to rise and therefore cause additional selling. Potential buyers of property know this clearly and will be looking for bargains.

The cleanest way to cut gearing levels therefore is to raise new equity. Most organizations will be reluctant to raise new equity because they will not want to absorb a dilution to earnings per share. However, in many cases the reality is that if highly geared companies do not raise new equity they will be locked into a period of steadily declining share prices as they hope that interest rates fall or asset prices rise. We think there will be a number of opportunities to invest in attractively priced equity raisings later this year that will fix the excess gearing problem.

Inflation and interest rates in Australia are clearly linked given the Reserve Bank's mandate is to use monetary policy to achieve low and stable inflation over the medium term, low and stable is assessed as an average rate of CPI inflation of between 2 and 3 per cent.

On the 11th of March this year The Governor of the Reserve Bank gave a speech titled "Monetary Policy and Inflation: How Does it Work?" The Governor argued that excessive domestic demand has led to sustained increases in the CPI and that higher interest rates is the single best way to reduce demand and future inflation. He also noted the many ways that higher interest rates work to slow the economy. It seems obvious that the RBA wants demand to reduce, that it would be normal for asset prices to fall as interest rates rise and that there will be pain felt by those who are over geared. The RBA also feels that the Australian economy is fundamentally strong so unlike the situation in the US, interest rates have been rising rather than falling.

We feel that the RBA is taking the right actions to slow the economy, set policies in place that will lead to lower gearing levels and take the heat out of

both the equity market and the residential property market. We would be surprised if the markets have a strong and sustainable rally this year given the level of excesses that are washing out of the system.

There are a number of stocks that are reasonably priced now and we expect that some very attractive investment opportunities are emerging. Areas of particular interest include equity raising (to fix excessive gearing levels), preferred equity where selling from fixed interest portfolios has created cheap prices, overseas stocks particularly in Japan and Asia and energy and infrastructure stocks. We expect the banking and property sectors to continue to struggle this year.

Even if the overall market index is weak or flat there will be many stocks in the top 100 in the Australian market that will rise substantially over the next year.

As a point of reference, from March 2000 to September 2002 the S&P500 Index in the US fell by 45% however approximately half of the stocks in the index rose in price.

So despite the gloom we are confident that there are and will be plenty of opportunities to make money in the next year.

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