CI BRUNSWICK FUND
QUARTERLY REPORT

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

MARCH 2009

"All advice is perfectly useless and yet the temptation to give advice is almost irresistible… the state of the world doesn't offer much evidence of each generation having benefited from the wise words of their elders …all that could be said of a book that told the author's grandchildren how to live their lives is that it would be singularly ineffective" John Mortimer author of "Where there is a Will" and "Rumpole of the Bailey"

"Each new species is produced and maintained by having some advantage over those with which it comes into competition…it is not the strongest species that survive, nor the most intelligent, but the ones who are most responsive to change", Charles Darwin.

"Don't look into crystal balls as you might eat glass" Andrew Reitzer, Metcash.

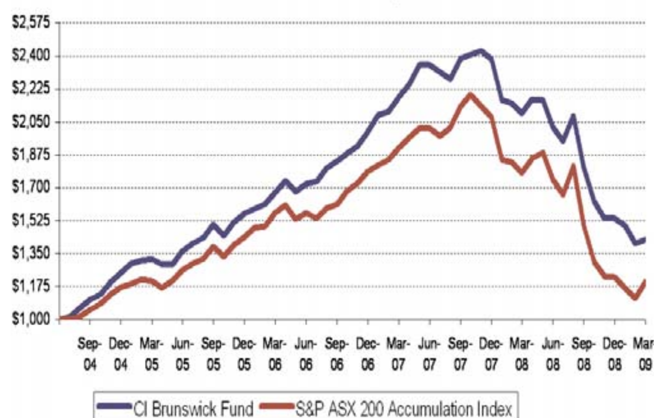
"The 19th century belonged to England, the 20th century belonged to the US, and the 21st century belongs to China. Invest accordingly" Warren Buffet

PORTFOLIO PERFORMANCE - GROSS

	BRUNSWICK FUND	S&P ASX 200	VALUE ADDED
ROLLING 3 MONTHS	-6.85%	-1.98%	-4.87%
ROLLING 6 MONTHS	-20.98%	-19.87%	-1.11%
ROLLING 1 YEAR	-29.52%	-29.52%	0.00%
ROLLING 2 YEAR	-16.74%	-19.04%	2.30%
ROLLING 3 YEAR	-1.40%	-7.25%	5.85%
SINCE INCEPTION0	13.71%	4.84%	8.87%
SINCE INCEPTION^	84.08%	25.20%	58.88%

0 Annualised

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



The CI Brunswick Fund returned -6.85% vs. the ASX 200 -1.98% for the quarter ending 31 March 2009. For the financial year to date, the Fund is down 27.4% vs. 28.2% for the ASX 200. The individual positions which contributed to the Fund's underperformance included:

- Our underweight position in the banking sector (see below for our rationale for this position) – all the major banks outperformed the ASX 200, Westpac (+12.5%) and Commonwealth (+24 %) banks by quite a margin.
- Underweight the resource sector
- Brambles fell 33 % as a slowing US economy impacted earnings, and more worryingly the company committed to a review of the entire Chep pallet operations and the spending of large sums of capital on pallet quality. Late in the quarter Brambles lost a high profile client in the USA which has focused investors on whether the business model remains sound. We believe that does remain the case albeit that we expect margins to come under a little more pressure in the short term.
- QBE fell as the insurance margin reported for the 2008 year and that forecast for the 2009 year came in under analyst expectations. We remain of the view that the company is well managed and well positioned to take advantage of a hardening insurance market and any opportunities thrown up by the current global "crisis".
- AXA share price was down by 29% over the quarter as the market fretted over the likelihood of a capital raising to maintain a sufficient margin above the regulatory capital requirements. Late in the quarter the company did indeed raise equity.
- The combined healthcare positions underperformed. One of the issues facing the sector is the possibility of the government changing reimbursement levels for pathology in Australia. While that may yet prove to be the course of action adopted by the government in its efforts to reduce healthcare spending, the likelihood is that the three major providers in the pathology market will then raise co-pay levels to compensate for the lost revenue. Further the strengthening in the AUD has impacted the translation of overseas earnings which is significant for portfolio stocks such as CSL and Cochlear.

As at the 31st March we hold 27 stocks with the following exposures expressed as % of assets:

Australian/NZ equities	84%
Asian equities	7%
Cash	3%
Hybrids	6%
Total	100%

Over the quarter the Fund has increased its exposure to a number of Asian stocks. Our investments are based on research and company visits conducted by our portfolio managers. There are a number of value opportunities in the region and CI believes that Asia has a bright future for the following reasons:

1) Asia accounts for 50.1% of the world's population, 26.4% of its GDP, but accounts for only 19.3% of the MSCI global index, compared with figures respectively for Australia of 0.3%, 1.6% and 2.4%. For example, Malaysia's market value is US$186bn, Thailand's US$102bn, and markets' like Indonesia and the Philippines even smaller. In contrast, the market capitalization of Exxon Mobil is US$415bn, whilst Wal-Marts is US$221bn.

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.

2) Population and GDP growth in Asia generally exceeds that of Australia and the Western world. For example Malaysia (1.74%) and India (1.58%), remain well above the world average of 1.19% according to the CIA World Factbook. Note, Australia's population growth is 1.22%.
3) Asian markets have fallen as far or further than those in the West and currencies are cheap.

We welcome Lyn Foo who recently joined our Asian investment team. In the last 3 years we have built our international investment team which includes 4 portfolio manager/analysts, an industry analyst and a quantitative programmer/ analyst complimented by administration and information technology support staff & systems.

GENERAL COMMENTARY

The question we are consistently being asked by clients is whether we are witnessing the end of the bear market – we can only answer that we do not know. History is littered with both large negative moves in up-trending markets as well as serious upticks in down markets – the US market bounced 70% over two months (July and August) in 1932 before falling back 30% over the next six months, and the UK went up 115% from November 1974 to May 1975 just a year prior to the IMF being asked for a bail out in 1976. Therefore there remains the possibility the stock market could rise further while still remaining in a longer term downtrend. What we can say is that economically the globe is struggling and anecdotally (our most recent company visits both in Australia and abroad) conditions are still deteriorating. Eighteen months ago we could not find a lot of value in the market but earnings and industry trends were (apparently!) positive. Today that position is reversed – valuations are, at face value, more attractive as price earnings ratios have fallen and dividend yields have risen, but earnings and industry trends have turned decidedly negative in many areas. We have yet to see the full impact of current global conditions reflected in corporate earnings so today's "value" may be less than perceived. However the inventory overhang of the last six months which has caused the most recent angst will be cleared and underlying demand will re-assert itself over the next 3-6 months. In the medium term we would expect some reversion of corporate profitability - the last decade has seen the share of profits in the national economy rise in line with rising debt levels – and as deleveraging takes place at both a corporate and consumer level the ability to aggressively grow net profits will reduce.

The Brunswick Fund differs from the ASX 200 Accumulation index in four major ways:

1. We have around 12% of the Fund in banking stocks compared with the ASX 200 which is 22% bank stocks. We remain firmly of the belief that the drivers of the earnings growth for the banks over the 5-10 years to 2008 are diminishing and will continue to hold back earnings growth for a while yet. Asset growth is still slowing (note the stock of credit in Australia - housing owner occupier 36%, housing investor 16%, other personal 8% and business 40% - contracted in December 2008 by 0.3%). Overall credit growth has slowed from +15% p.a. last year to be running in low single digits today. Average loans/deposits ratio for the major banks is amongst the highest in the world at 160% and with funding more difficult and expensive to obtain today than has historically been the case at the wholesale and international level, in order for this ratio to fall loan growth must slow. Provisioning was benign for many years and has started to rise, and looks set to rise further. Commercial property exposures are reasonably well documented and known, the big unknown for the banks is the extent of further housing price falls and unemployment, deterioration in either of which could lead to bad debts on the SME and consumer front. The banks have very few levers to pull to take further costs out of their businesses after the restructuring of the last 10 years. And last but by no means least is the implicit "social contract" – the recently provided support of the government will come at a price which we believe will be to constrain return on equity to mid teens rather than the 20-25% witnessed up until 18 months ago.

   Offsetting these negative factors are some very real positives – most of the non bank competition has now vanished and foreign banks are reducing their presence in Australia, leaving the larger domestic banks in a far stronger competitive position. Interest margins have stopped falling and are in fact starting to rise. The banks maintain that their housing books are running on conservative loan to valuation ratios and the higher LVR pieces are mortgage insured in any event. Banks have increased their Tier 1 capital ratios to around 8.5%. And it is quite possible that with dividend reinvestment plans and small capital raisings the banks can manage the fall in commercial property values over a 2-3 year period. The demands of government are likely to be some time in coming given that to emerge from the "crisis" in the best possible shape the government needs a healthy banking sector. Finally, having already cut their dividend pay outs, fully franked yields of 6-7% remain attractive in a low interest rate environment.
2. We hold a number of stocks exposed to different parts of the healthcare arena (pathology, plasma products, cochlear implants, private hospitals), each of the companies benefits from the long term ageing demographic providing volume growth, most of them benefit from surety of receivables (payers are for the most part the government or an insurance fund) and all operate in consolidated industries where they are each among the market leaders. However each is also exposed to government reimbursement which, in the current global fiscal environment, is at some risk of being impacted adversely by policy decisions taken to constrain expenditure. There can be no doubt, given the levels of government expenditure on healthcare today, that the future healthcare system must involve more user pay. This will have both benefits (pricing power) and more adverse consequences (potential one off volume rebasing, bad debt profile shifts) but over the medium and long term these companies all have solid growth prospects. To categorize these stocks as "defensives" and sell them merely to add so called "risk" or "beta" to the portfolio is both misguided and very short term.
3. We do not hold any listed property trusts in the portfolio. Our concerns around LPTs have principally been that there has been too much debt in the sector. Almost every LPT has massively increased its gearing over the last 5-8 years.

LPT Gearing Ratio: Total Debt/Equity

Source: Endeavour Equity

4. The Fund has around 15% exposure to resource companies which compares with the ASX 200 which is around 29% resource stocks.
5. 7% in Asian stocks as previously discussed and 6% in hybrid securities.

VoF OBSERVATIONS ~ INDUSTRY TRENDS & BEHAVIOUR

"If you want happiness, for an hour, take a nap, if you want happiness for a day, go fishing, if you want happiness for a year inherit a fortune, if you want happiness for a lifetime, help somebody". Chinese proverb.

"Our money will not be spent on dealing with bubbles or clearing up trash like Western countries. Our money will be spent exclusively on promoting economic growth". Li Deshui, China's former Director of the National Bureau of Statistics.

Probably the biggest unknown which will have a major impact on the Australian economy, bank balance sheets and the stock market is house prices. House prices in Australia, the UK and the USA have risen sharply over twenty years. In Australia prices have risen further over the last twenty years than in either the UK or the USA. And taken over 100 years the bubble can be put into its true perspective.

Prices in the UK and USA have fallen substantially of late – both down 18% yoy in Q4 2008[1] . Various real estate articles published while we were in the UK in March contend that the drop in the UK has continued into the first quarter of 2009. And while some parts of the USA have suffered larger falls (Las Vegas -32%, Phoenix -35%) in adjusted terms there remains an argument that there may yet be further to go - in relation to average earnings house prices are still 40% above the long term average[2] albeit that there may be the first tentative signs of stabilisation now appearing.

In Australia the ratio of house prices to household income has risen from 3X to 6X since 1981 and over the same time frame the ratio of household interest payments to household disposable income has risen from 5% to 13%. And in contrast to the more vicious price declines in UK and USA, the same report shows house prices down by only 3% in Australia. The RBA in its March 2009 Financial Stability Review shows a slightly higher decline in the most expensive 20 per cent of suburbs. The arguments against a collapse in house prices in Australia centre around:

- low interest rates and increasing affordability,
- the fact that Australia did not see the decline in mortgage lending standards that occurred elsewhere and resultant negative impact on prices from large foreclosures bringing stock onto the market,
- the current trend that our unemployment rate is not rising as fast as elsewhere, and
- the possibility that demand for new housing has outstripped new builds indicates excess underlying demand.

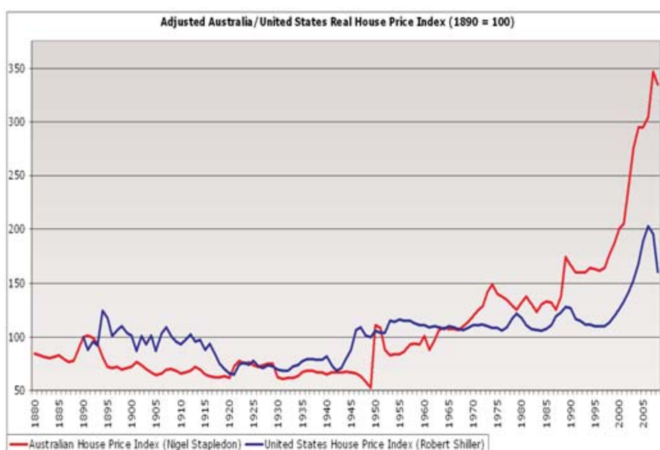
We cannot predict what will happen in Australia - but we remain cautious because of what we can observe - what has happened elsewhere, high prices relative to earnings and assets, and steadily rising unemployment.

In Australia we have to date been spared the rises in unemployment seen in the USA and the UK and other parts of Europe. Unemployment is running at 8% in the UK and 8.5% in the USA compared with 5% here. And in China 20 million rural migrant workers have lost their jobs and returned to their villages. In Spain unemployment has reached almost 15%. The Rudd government seems to have conceded that unemployment will rise to 7% in Australia - if that does prove to be the full extent of this issue then we will be able to consider ourselves lucky and it may be sufficient to forestall any major falls in house prices.

We can observe that governments around the world are intent on spending their way out of the "crisis". As we write this report the G20 has just committed $5TR to rescuing us all. Unquestionably this amount of spending will have a positive impact as it works its way through the system. In Australia we have had the spectre of the government guaranteeing retail bank deposits, guaranteeing bank borrowing, proposing to bolster the property developers via the Rudd bank, pushing money to first home buyers, supporting the auto sector and twice giving handouts to a large swathe of the population. In doing so it is running the very serious risk of turning a very healthy surplus into a major, long term structural deficit. One might well ask why the tax payer should be responsible for such a wide array of beneficiaries.

The "crisis", when all is said and done, was caused by too much debt. Yes – fraud, greed, lack of regulation, complexity and a myriad of other factors contributed – but the root cause of the problems we are facing stem from the indebtedness assumed over the last ten years by consumers and some corporates. Changing accounting rules will not make banks any more solvent. It would appear that governments (particularly here in Australia and the USA) are intent on solving the problem by incurring even more debt, (encouraging people to spend more in Australia, leveraging public funds in the USA to buy "toxic" assets), and leaving our children and grandchildren with a major adverse legacy. How will this money be repaid? Given average wages in this country, tax hikes, although now inevitable in time, will not be nearly sufficient. Given the fact that a lot of major Federal assets have already been privatised (Qantas, Commonwealth Bank, CSL, Telstra) one wonders what there is left to sell. Investors have not yet thought about these long term issues in any depth but it is interesting to note that in the UK the government failed for the first time in seven years to fully sell a $3.7B gilt auction and last week the Governor of the Bank of England warned against increasing debt by spending

USA and Australian Housing Bubbles Compared



Source: Endeavour Equity

[1] The Economist 21/3/09

[2] S&P Case Shiller Index

more on stimulus packages. In the long term the potential of the Australian economy is being hamstrung by current short sighted government actions designed for short term re-election purposes.

There is no doubt that company balance sheets will need to be stronger than has been the case during the last ten years. More regulatory capital will need to be held by financial companies, banks will demand far more stringent lending terms of their “customers”, and working capital demands will rise – we have heard from at least two retailers indicating that they will need to support their suppliers and indeed their customers through tough times. The plain implication is that the strong will get stronger – well capitalised incumbents will do relatively better than their competitors. Consolidated industries in Australia will benefit - the banks in Australia, private hospitals, supermarkets and BHP are prime candidates to be long term winners on this score.

China is very clearly becoming more voracious in acquiring long term strategic commodity assets and positions. Four years ago they failed with an attempt to acquire Unocal in 2005, and Minmetals has recently been rebuffed, on spurious grounds, in buying Oz Minerals. In the meantime the China Development Bank has lent $39B to two Russian oil and gas companies OAO Rosneft and OAO Transneft in return for 15mt of crude a year, Anshan Iron and Steel has acquired a stake in Gindalbie Mines, China Petrochemical Corporation has acquired a stake in the Puffin oil field, CITIC has acquired a stake in McCarthur Coal, and Sinosteel has acquired Midwest Corporation just to name a few transactions in Australia. The big prize remains the proposed deal with RIO. The “crisis” has played into the hands of China as they are able to play lender/saviour of last resort on a grand scale. The longer commodity prices stay down the more such actions we are likely to see.

TRIP FILE

We have just returned from two weeks spent in Continental Europe and the UK. The overriding impression is one of still deteriorating economies and much more pessimism than exists in Australia. In the UK unemployment sits at 8% and rising, interest rates have fallen to their lowest point in 300 years and can go no lower. House prices have fallen and show no signs of arresting the decline, while the banking sector is now half owned by the government. Not surprisingly retail sales are in the doldrums and the building industry is in sharp contraction. The light at the end of the tunnel there is not yet evident.

We attended a global agriculture conference while in London at which all the major ag participants (fertiliser, ag chemicals, seeds, traders and biotechnology) presented. The overwhelming view was that 2008 was a freak year in terms of commodity and farm input prices and thus there was great uncertainty about the short term moves in demand (curtailed in late 2008 by high prices in the USA and by lack of credit in Brazil) and price. Equally however there was unanimity in the belief that the long term fundamentals of the agricultural sector remain strong – increasing per capita income and a large emerging middle class in India and China will drive improving diets, global population growth and ongoing demand for biofuels will underpin demand, and a lack of arable land will mean strong requirements for fertiliser, herbicides, and biotech in order to maintain and increase yields. The farmer in the USA remains reasonably well off having had a couple of good seasons and still seeing profitable commodity prices – by way of example the corn price of $4+ available for the next two years compares very favourably with the average of the last twelve years. We have sympathy for this view – our exposure to this sector is via our holding in Nufarm, a global manufacturer and distributor of branded generic ag chemicals.

Ramsay Healthcare has become the fourth largest private hospital operator in the UK over the last twelve months so we were interested to learn more about that sector. It is very different to Australia, but we came away with the belief that, although it will not be an easy path, the opportunity does exist for Ramsay to continue to grow profitably in that market. Only 13% of the population have private health cover in the UK, compared with 44% in Australia, and the majority of private insurance comes from the corporate sector. In addition there is a private pay segment, most of which is cosmetic surgery. Two private insurers hold 75% market share. Hospitals (average 40-50 beds) are generally much smaller than in Australia (80-100 beds plus), insurers pay higher fees than in Australia and so private hospitals are able to run at lower occupancy rates (50% compared with 80% in Australia) and hospitals do a large amount of diagnostic work. The growth in the sector is being driven by a government push to reduce waiting times by driving public patients into private hospitals. This is now being done predominantly by the “choose and book” system whereby the patient can choose which hospital to go to (private or public) when booking on line. There is, not surprisingly, a difference between what the government pays the hospital for a public patient and what the insurer will pay for a private patient, so the hospital must be able to differentiate between the service offering to the two types of patient (eg. single or multiple occupancy room, choice of doctor), as well as run efficiently enough to make a profit from both revenue streams. In this regard we would expect Ramsay to put to good effect the lessons learned in the lower price environment in Australia, and to benefit from economies of scale as volumes grow and capacity utilisation increases.

In closing we leave you with some reflections from Richard Bernstein, the Merrill Lynch quant strategist based in New York. Richard is someone we have admired and respected. He is leaving ML after 20 years.

1. Income is as important as capital gains. Because most investors ignore income opportunities, income may be more important than capital gains.
2. Most stock market indicators have never actually been tested. Most don’t work.
3. Most investors’ time horizons are much too short. Statistics indicate that day trading is largely based on luck.
4. Bull markets are made of risk aversion and undervalued assets. They are not made of cheering and a rush to buy.
5. Diversification doesn’t depend on the number of asset classes in a portfolio. Rather, it depends on the correlations between the asset classes in a portfolio.
6. Balance sheets are generally more important than are income or cash flow statements.
7. Investors should focus strongly on GAAP accounting, and should pay little attention to “pro forma” or “unaudited” financial statements.
8. Investors should be providers of scarce capital. Return on capital is typically highest where capital is scarce.
9. Investors should research financial history as much as possible.
10. Leverage gives the illusion of wealth. Saving is wealth.

CHANGE TO PERFORMANCE FEE

The current performance fee is 20% of the Fund's out-performance of the UBSA Bank Bill Index (calculated and paid monthly in arrears directly from the Fund). From 1st July 2010, the Manager will change the performance fee to 15% of the Fund's out-performance of the S&P/ASX 200 Accumulation Index.

MARCH 2009

A rolling 3 year high water mark remains in place. We have taken the decision to use an equity index benchmark rather than a bank bill index benchmark as it is a better measure of the Manager's performance because it reflects the fact that the Fund is managed as a long only equity fund. Further details of the change are set out in the Fund's current Information Memorandum which is available on our website.

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