CI BRUNSWICK FUND
QUARTERLY REPORT

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

MARCH 2011

"The biggest threat to Western civilization is posed not by other civilizations, but by our own pusillanimity – and by the historical ignorance that feeds it." Niall Ferguson

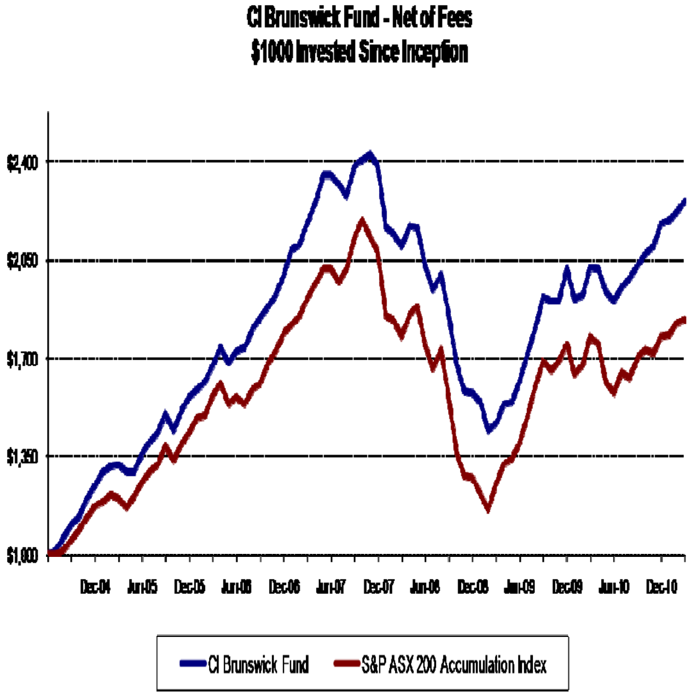
"As you wander through life, whatever be your goal, keep your eye upon the donut and not upon the hole." Allan Rennie

"The key to success is having the ability to assess the complex issues and to take decisive action." Allan Rennie

Market and Fund Performance

	**FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	4.16%	3.23%	0.93%
ROLLING 1 YEAR	13.00%	3.44%	9.56%
ROLLING 2 YEAR	25.67%	21.08%	4.59%
ROLLING 3 YEAR	3.63%	1.09%	2.54%
ROLLING 5 YEAR	8.64%	3.18%	5.46%
SINCE INCEPTION*	17.13%	9.41%	7.72%
SINCE INCEPTION^	190.62%	83.51%	107.11%

*Annualised
^Cumulative (1 July 2004)
**Before fees and expenses



The ASX200 Accumulation Index returned a positive 3.2% over the quarter and has managed to recover most of the losses that resulted from the Japanese tsunami and Fukushima nuclear plant incident. Interestingly over the last decade there have been 7 fatalities in nuclear plant incidents and 44 associated with winds farms. The Brunswick Fund has no Japanese holdings. Japan, as a whole, accounts for about 3% of Asian intra regional trade. The two biggest markets in Asia, being China and India, have relatively low dependency on Japan from a trade perspective.

The situation in the Middle East has the potential to disrupt oil supplies which would benefit our main energy stock, Oil Search, but little else, as higher oil prices would hurt the Australian and Asian importing economies.

The Brunswick Fund has managed to out-perform despite missing the spectacular run in gold, iron ore and the resource sector. The best stock performers were Campbell Brothers (CPB) and QR National (QRN). Both stocks are driven by resource volumes. QRN surprised the market with their 1H11 result by extracting more efficiency gains to partially offset the negative impact of the Queensland floods on volumes. The company has also offered voluntary redundancy to 3000 employees (a third of the workforce) and signals the base latent value inherent in QRN by improving productivity whilst continuing to execute on the many growth opportunities in the coal and rail Industries.

CPB operates predominately in the testing segment of the Testing, Inspection and Certification industry. Its two main businesses are minerals testing and environmental testing. There were a number of catalysts increasing investor interest in the stock this quarter. First and foremost was the continued strong recovery and upward revisions to forward estimates of mineral exploration expenditure and, in turn, upward revisions to the volumes and margins CPB is achieving and is likely to achieve in the minerals testing space in the short to medium term. The second catalyst was the inclusion of CPB into the S&P ASX 300. CPB is currently ranked 78th by market capitalization in the ASX 300 but, until the latest rebalance, was excluded from the S&P indices on liquidity grounds. The third catalyst was the acquisition of Analytical Laboratory Services Inc, a mid-sized environmental laboratory group in the North East of the USA. CPB has an excellent record of value accretive acquisitions and continues to build a strong market position in environmental testing services in North America.

Under-performing stocks in the portfolio over the quarter included CSL (currency pressures), Alumina (concerns over growth in Asia) and Amalgamated Holdings (AHD). AHD's 1H2011 result was down 35% pcp which, whilst not unexpected, disappointed some investors. The main issue was the reduction in box office takings following the bumper season in 2010 around the world due to Avatar. Hotels saw growth in the corporate sector but weakness in the tourism sector. Management commented that opportunities are evident as banks tighten credit. The interim dividend was maintained and we continue to hold the stock as it has nil debt, NAV of $8+ vs. $5 share price and a 6% fully franked yield and a forward PE of 12x. Whilst the cinema business is mature they have a number of growth initiatives in hotels, resorts and property redevelopment.

The first half reporting period for the six months to Dec 2011 featured strong profit growth in the resource sector accompanied by rising cost and capital expenditure pressures. The rising AUD proved to be a headwind for a number of industrial sectors, e.g. insurance and health care stocks. The consumer sectors are also challenged as households respond to rising utility costs, government charges and interest rates by reducing debt and discretionary spending. A number of companies commented that whilst headline GDP growth in the USA appears healthy and recovery is well under way, underlying demand remains insipid and fragile.

Whilst profits were up it was notable that free cash flow was well down in a number of stocks due to increased capital expenditures. Capex is being spent on renewing and upgrading existing assets (utility sector) and/or in pursuit of growth, particularly in the resources and energy sectors. Pleasingly, the ultimate cashflow back to investors via average dividends per share across the market were up by around 6%, compared with the 11.5% increase last reporting season and a 5.9% decline in February 2010.

Following last year's failed takeover bid for Transurban (TCL), management have delivered a very strong interim result. TCL 1H11 underlying ebitda was up 17% on a continuing portfolio basis to $362m and free cash flow up 16%. Citylink delivered a 15% revenue uplift following the recent upgrade works.

The large resource companies in the iron ore and coal industries appear to have averted a heavy tax liability under the now defunct RSPT (resources super profits tax) by negotiating a much better deal under the now proposed MMRT (Mineral and Mining Rent Tax). The government has agreed to all of the 98 recommendations by the Minerals Resources Rent Tax policy transition group. In the case of BHP, we estimate that the MRRT tax represents less than 2.5% of BHP's value and will not result in cash payment to the ATO for a number of years. This is an excellent result considering that Rio and BHP's latest return on nets assets employed in the iron business are 160% and 80% respectively.

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The Portfolio Strategy and Structure

Our strategy is to focus on stocks with VoF attributes ~ value latency; favourable operational industry & strategic positioning & focused management behaviour. Stocks in the portfolio can be divided into 4 broad categories.

1. Yields that are above market supported by free cash flow and well funded balance sheets. Dividends have historically made up over 50% of total returns and we believe this is going to be a key theme over the next decade.
2. Discounts to asset or replacement value, e.g. Jardine Strategic and Washington Soul Pattison trade at 20%-40% discounts to net asset value with net cash on balance sheet.
3. Growing businesses underpinned by structurally sound industry and economic drivers such as demographics, regulatory changes or changing customer behavior. Portfolio examples include companies with exposure to under-penetrated Asian consumer markets; airports; gas pipelines; and Australian east coast thermal coal producers.
4. Restructurings ~ particularly in the OECD where both governments and private industry face low growth and over-capacity. In the pursuit of efficiency and returns we expect governments to enter another privatisation cycle (NSW power retailers and generators; QR National); and further corporate spin offs (Westfield, Dulux, Alcan Packaging, Fosters).

Portfolio attributes are summarized below .

	Portfolio
PE	15x
Beta	0.83
Yield	4.3%
P/Book	1.9x
Roe	12.6%
Tracking error vs ASX 200	7.2%
Stock numbers	29

Major Sector exposures are:

Sector	**Portfolio Weight**	**Stock Example**
Energy	8%	Oil Search
Materials	12%	Coal & Allied
Consumer	14%	Vitasoy
Health & Aged Care	10%	Cochlear
Banks	12%	CBA
Utility & Infrastructure	20%	Envestra
Foreign Equities	13%	Jardine Strategic
Cash and Equivalents	5%	Bank deposits & Cash accruals

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The portfolio remains exposed to commodity volumes and resource supporting infrastructure rather than commodity prices. We have also positioned the portfolio to favour Asian rather than Australian consumers. Over the quarter we added to our QR National and Catalpa holdings and reduced our weighting in Envestra.

Industry and Market Observations

From our visits to industry over the past quarter we observed some major trends that represent both opportunity and risk.

1. ***Energy ~*** price rises are being driven by concerns over supply disruption due to the Middle East conflicts, as well as increases in domestic transmission and distribution costs, higher cost sources of energy (wind) and increasing carbon penalties (albeit small at this point). Interestingly the 20% renewable targets set for 2020 favour and stimulate investment in wind and solar energy generation and act as a disincentive to invest in gas, Australia's most abundant and economically viable carbon efficient energy source. Furthermore, there is an oversupply of gas on the east coast spot market due to the expansion of the Queensland coal methane markets.

2. ***The Asian Opportunity ~*** the disparity between West and East (excluding Japan) appears to have widened in the three years following the GFC. For example, the level of GDP, in real terms, in China and India, is more than 20% higher than pre-crisis levels today. In contrast, real GDP in the US has only recently reached pre-crisis levels. In Europe, the UK and Japan it remains lower. Unemployment in the West also remains high, and we believe that further balance sheet de-leveraging (with its resultant consequences on growth) is required. GDP is forecast to grow (in real terms) at 2.4% this year and next for the G7 countries, which is below trend. Economic growth in Asia (ex Japan) this year is expected to grow at 7.1% in 2011 and 7.3% in 2012. This divergence in outlook means the shifting of economic importance from the West to the East. Today, Asia's share of global GDP is 23%. By 2015 this is expected to increase to almost 30%. Approximately half of the future expected growth in global GDP will come from Asia. The continued rise of Asia has significant ramifications for Australia. Over 60% of Australia's trade today is with Asia, and Asian countries now make up 4 of our top 5, and 6 of our top 10 trading partners. The longevity of Australia's resources boom and sustainability of our record high terms of trade may be debateable given the expected increases in new capacity over the medium-term. We note that in the short-term, neither appears to be abating. Regardless, it is hard to imagine a change to Asia's position as Australia's major trading partner, and hence how inextricably linked our fortunes are. Australia remains relatively well-positioned, so long as the Asian growth story remains intact. Conversely, the rise of economies such as China and India's would not be possible (or at least made significantly harder) without our goods and services. Besides linkages within the resources sector, there are other linkages amongst services, financial, healthcare, consumer and industrial stocks.

At present, we have three direct investments in Asian stocks. One of these holdings is Vitasoy, which is a leading manufacturer of soymilk beverages. The Fund has been a shareholder in Vitasoy for a number of years now. Vitasoy has been manufacturing soybean beverages since 1940 and regards itself as a "soy expert". The company has operations in Hong Kong, Australia, China, the US and Singapore. In Australia, Vitasoy is a market leader in the soymilk market and operates in a 51% joint venture with National Foods. The company recently announced that it is targeting a doubling in capacity in Australia, a reflection of the company's view about future prospects. The prospects for soymilk consumption in China should also be good. This reflects rising affluence (soymilk is a "nutritional protein beverage") and trading up (40% of the market is sold in "bulk" rather than packaged format). Today, China represents 27% of group sales, compared with just 6% in 2005, an indication of how strongly this market is growing. At present Vitasoy's operations in China are predominantly focused in Southern China and around Shanghai. Overtime, we would expect the company's scope of operations to expand which should also mean a greater proportion of earnings from China. We believe Vitasoy is a well-managed company, with a conservative balance sheet. As an example of the strong linkages between Australia and Asia, we note the CEO of Vitasoy is an Australian who joined the company in 2002 and had previously been the General Manager of its Australian & New Zealand operations.

As supporting insight to the abovementioned Asian opportunity, we commend to you the book **'Civilizations ~ The West and the Rest'** by historian Niall Ferguson. He explains the six apps (or attributes) that explain the success of western civilization over the last 400 years - Competition, Science, The Rule of Law, Medicine, Consumerism, and The Work Ethic. His other observations:

- The dominance by the minority West is also partially explained by the failure of the East to adopt some of the success factors above-mentioned as well as exogenous events such as weather, disease etc.
- The decline of the West has been accelerated by the GFC.
- The West has avoided depression because of the huge government deficits, monetary expansion and China's monetary and government expansion.
- We are now in the hangover phase.
- Timing the decline in complex systems (political, economic and social systems) is inherently unpredictable. They spend a indeterminate amount of time prospering and apparently in equilibrium and then often suddenly, without notice, enter rapid decline or collapse, e.g. Japanese, Ottoman, Roman, British Empires; the breakup of the Soviet Union
- The USA already has a greater debt to GDP than Greece. Including state government liabilities of public employee pension schemes, debt to revenue is 358% in the USA vs. Greece at 312%. This excludes the US $100 trillion in unrefunded Medicare and social security schemes. The USA is able to continue its deficit spending due to investor confidence in the US $ which remains the world's reserve currency.
- Most declines are associated with wars and fiscal crisis's (sharp imbalances of revenues and expenditures)