CI BRUNSWICK FUND
QUARTERLY REPORT

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

SEPTEMBER 2009

"What the caterpillar calls the end, the rest of the world calls a butterfly." Lao Tzu.

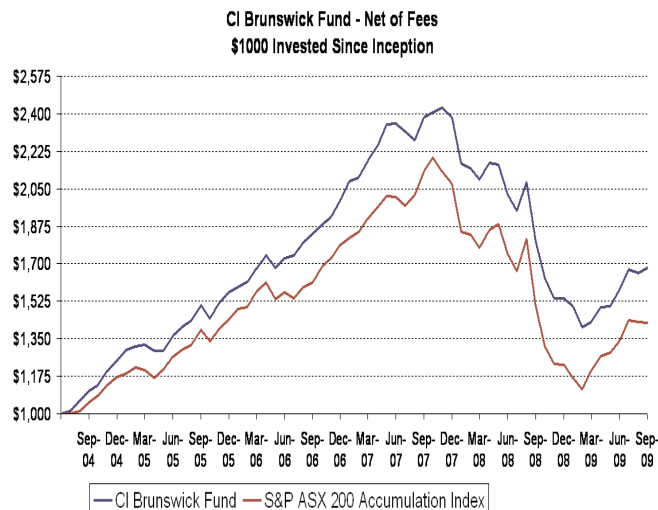
"Pessimism never won any battle." Dwight D. Eisenhower.

"Positive thinking won't let you do anything but it will let you do everything better than negative thinking will." Zig Ziglar.

Fund Performance

	**FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	18.71%	21.50%	-2.79%
ROLLING 1 YEAR	4.12%	8.34%	-4.22%
ROLLING 2 YEAR	-9.42%	-10.91%	1.49%
ROLLING 3 YEAR	3.98%	1.66%	2.32%
ROLLING 5 YEAR	16.33%	9.99%	6.34%
SINCE INCEPTION*	18.38%	10.54%	7.84%
SINCE INCEPTION^	142.54%	69.29%	73.25%

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



The CI Brunswick Fund returned 18.71% over the quarter. Since inception the Fund has returned 18.38% p.a.

The best performing stocks in the Fund were Austar, Brambles, Alumina, Oil Search and CBA, all of which returned more than 20% over the quarter. Metcash, Vitasoy, CSL and Trust Power showed modest positive returns over the quarter (albeit less than the market) whilst Clear Media and Telstra had negative returns of around 3%.

It is worth re-stating that we are long term investors and that we construct the portfolio with limited reference to the benchmark. We construct the portfolio based on the merits of the stocks using CI's VoF investment criteria. We remain conservatively structured as we believe volatility in stock markets world wide will remain high. Notably the average annual portfolio turnover in America has gone from around 20% in the 1950s to nearly 100% today!

In the past 3 and 6 months the Fund has had positive returns but not kept pace with broader market indices since the commencement of the market recovery (March 09). The reasons for this are as follows. 1) The Fund's holdings in bank stocks are less than the benchmark weighting (14% vs. the benchmark at 26%). Banks have materially out-performed as concerns over financial market dislocation and asset deflation have abated. 2) The Fund's holdings in healthcare stocks have not participated in the market rally due to their stable earnings (i.e. lack of cyclical recovery potential); concerns over regulatory risks; and the impact of a rising Australian dollar which hurts overseas generated earnings, which for the healthcare sector are substantial. 3) Consumer stocks such as Metcash and Coca-Cola Amatil have performed below market returns. 4) We didn't participate in a number of strongly performing sectors where we held nil positions or less than benchmark weightings e.g. REITS, Media, Retail and Insurance. 5) The cash and hybrid weighting in the portfolio delivered positive returns but below market.

We remain confident that the portfolio is comprised of quality companies which are good long term investments based on their financial indicators, industry/operating trends and focused management.

The Portfolio

At the end of the quarter, the Fund held 32 stocks (85% of the portfolio in Australian & NZ equities and 5% in Asian equities) and 10% of the portfolio in cash. We hold a number of Asian stocks because we believe that the region has superior growth prospects compared with many western markets which face structurally lower growth associated with the de-leveraging process. For example, China,

India and Indonesia are expected to see real GDP growth in 2009 of over 8%, 6% and 4% respectively.

Over the quarter we sold our remaining hybrid convertible preference shares. Sector exposures at the end of the quarter were as follows:

Financials	17%	(QBE, Westpac, Commonwealth Bank, Standard Chartered)
Healthcare	14%	(CSL, Sonic, Cochlear, Fisher & Paykel Healthcare, Healthscope)
Materials	14%	(Alumina, BHP)
Consumer	22%	(Coca-Cola Amatil, Metcash, Austar)
Industrials	10%	(Brambles, Toll Holdings, Campbell Bros)
Energy	7%	(Oil Search, Woodside Petroleum)

Below are four stocks that feature in our portfolio.

Trustpower Limited (TPW) (listed in N.Z.) is an integrated energy company focused on renewable energy generation (geothermal, hydro and wind generation) and energy retailing. They have recently commenced a telecommunication service to their NZ customer base. The company is a beneficiary of the push by governments to support renewable energy projects through the introduction of carbon pricing schemes in Australia and New Zealand. The retail strategy has targeted rural communities where TPW has been highly successful in building customer loyalty through community support programs. TPW entered the Australian market with completion of the stage 1 of the 98mw Snowtown wind farm project in South Australia. Further penetration into the Australian wind and electricity market is expected. TPW have a pipeline of 50 growth projects, notionally worth several billion dollars, that will underpin growth over the next decade. Management's track record has been second to none in terms of project identification, design and management. This has resulted in projects coming in "on time and on budget" which drives superior project returns. The stock trades on a forward PE of 18x and yield of 4.5%.

Arb Corporation is a branded product manufacturer with a leading position in the commercial and leisure accessory market focused on 4WD, utility and pick- up trucks. Their products include bumpers, bull bars, lights, springs, suspension, camping fridges, canopies, roof racking, winches suspension systems. Arb products are generally the brand leader amongst the community of off-roaders desiring quality and innovative accessory products. The Arb sales staff are also 4WD "enthusiasts". Industry drivers are demographics, mining, agriculture, local leisure & tourism (e.g. camping), mining and rural activity. The largest part of the business is the Australian accessory aftermarket. Distribution is via Arb stores, independent 4wd specialist and new vehicle dealers throughout each state. Profits have grown by 18% p.a. for the past 10 years. We expect the company to grow through further store roll out in Australia, increasing their presence in Asian markets and other export markets consisting of 100 countries. The stock trades on a 14x PE and 4% fully franked yield with a debt free balance sheet.

Healthscope is one of the largest private operators of hospitals and pathology clinics in Australia. The company owns or manages 44 hospitals in Australia and 44 laboratories in Australia, New Zealand and SE Asia. In Australia the company has grown over the last ten years, mainly by acquisition. Due to the now largely consolidated nature of both the hospital and the pathology markets, acquisitive growth is likely to slow into the future. Private hospitals contribute 75% of the company's profits.

Demographics (mainly the ageing population) driving increasing demand for hospital services, market share gains (predominantly from smaller operators) and outsourcing by the public sector should continue to ensure a robust business going forward. Approximately 45% of Australia's population has health insurance (up 2% from this time last year despite the change to the MLS in the 2008 federal budget), and we would not anticipate a large impact if the 2009 budget initiatives (means test the rebate along with an increased Medicare levy) are implemented. Today 57% of all Australian surgery is undertaken in private hospitals, underscoring the task facing public hospitals were the government to change our current dual public/private system.

Healthscope is undertaking expansions at ten of its hospitals which should provide attractive returns over the next three years. In addition, we believe Healthscope will be able to continue to grow its pathology business as underlying volumes grow at 5-6% per annum, albeit at a slower rate than would have been the case in the absence of the recent government mandated fee cut.

Healthscope trades at a sub market PE multiple of 13.7x and a fully franked dividend yield of 4.7%.

Standard Chartered (listed in the U.K.) along with HSBC and Citibank are the international banks with most exposure to the Asia Pacific region. This bank has strong franchises and has "operated uninterrupted" in China for almost 150 years and opened its first branch in Calcutta, India in 1858. Standard Chartered also has a strong presence in the middle east and Africa where Asia and, in particular, China sources substantial quantities of raw materials. In 2008 Asia accounted for 70% of Standard Chartered's group income and over 80% of its operating profit. Indeed 2008 was a record year (operating profit + 13%) for the bank, demonstrating its resilience in the face of the global financial crisis. The bank has both wholesale banking (2008 operating profit US $3 billion) and consumer banking (2008 operating profit US $1.1 billion) divisions and operates in some 75 countries around the world. The loan to deposit ratio was 75% at the end of 2008 and the bank remains well capitalized. Standard Chartered's position in Asian growth markets will be hard to replicate by other banks (e.g. the ANZ) and growth prospects look favourable. The largest shareholder in Standard Chartered is Temasek with a share of around 18.5%.

Market Outlook

"Capitalism without failure is like religion without hell." Warren Buffet.

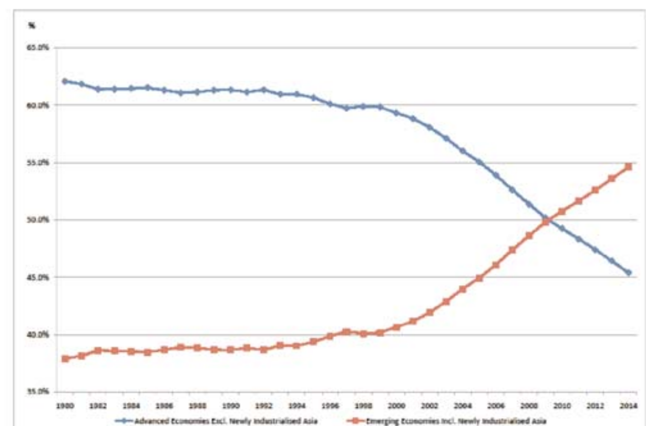
Although there are some tentative signs of stabilization emerging, we are yet to see any concrete earnings recovery in the industrial western world. The Australian market is now trading at close to record high PE ratios compared with the rest of the world and well above its long term average. We will need to see earnings growth into the second half of the current fiscal year to drive the market substantially higher. In the short term the big question remains what happens when governments withdraw stimulus packages and monetary settings normalise both in the West and BRIC economies, especially China.

While we remain cautious in the short term, in the long run we expect equities to deliver real positive returns as Australia reclaims its title as the "lucky country" (see chart 2 below). Australia's relative advantage can be summed up as follows: 1) proximity to Asia, the world's growth engine with 27% of world GDP and 60% of the world's population; 2) population growth; 3) abundant mineral, energy, agricultural and other natural resources 4) a superior starting balance sheet position without the encumbrances of pension, medical, defense & security liabilities faced by many other countries; 5) public and private world class institutions that regulate, supervise and monitor our finance sectors; and 6) tax advantages with our superannuation and franking credit system.

MSCI Australia/MSCI World - Relative PER (12mth forward)

Source: Thomson Financial, GSJBW Research Estimates

From an equity market perspective it is easy to underestimate the importance of our regional status as part of the Asia Pacific region, combined with our mineral and other natural resource wealth. Warren Buffett recently stated "The 19th century belonged to England, the 20th century to the US and the 21st century to China. Invest accordingly." We would substitute Asia for China and include Australia in the mix. The magnitude and speed of this shift in wealth creation is highlighted in Chart 2. In 2010 the GDP of emerging economies and, most notably, newly industrialized Asia is forecast to pass the GDP of advanced economies. Equally noteworthy is the forecast move of newly industrialized economies to over 50% of global GDP in 2010.



Source: Evans and Partners

Just over one hundred years ago our agricultural and mineral wealth took us to the top of the world standard of living table. With the right policy settings we can regain this position. Poor government policy, most notably protectionism, eroded our competitiveness for much of the 20th century and sadly saw our ranking fall to a low of 18th in the 1980s. History reminds us the nature of governments is to interfere more rather than less with the workings of the economy, particularly after a major economic shock such as the GFC. It would be tragic to see the benefits of reforms over the last two decades removed by new regulations that do little to foster, and possibly hinder, the long term competitiveness of our economy. Examples of regulatory reviews that are cause for concern include:

- Telecommunications – Telstra and the NBN. The Australian public deserves far more rigorous economic/cost benefit analysis of a $43B proposal than has been presented to date.
- The Henry tax review in Australia – there will almost certainly be changes to our tax system and we would anticipate the overall tax burden to rise (possibly substantially).
- The never ending reviews (currently the Cooper review) of and changes to superannuation which is undermining confidence in one of the best retirement savings systems in the world.
- Workplace legislation which is now giving rise to greater union activity in a number of sectors in Australia.
- FIRB changes and Australian government interference in bids by foreign companies for Australian companies and assets.
- Emissions trading and renewable energy legislation and its increasing complexity and uncertainties.

We are concerned about the volume and complexity of new regulation and will continue to monitor the impact on industries and companies in the portfolio.

Renewable Energy/the CPRS

Renewable energy and the CPRS are hot topics at the moment. We make the following observations:

- If the requirement to have 20% of our energy consumed from renewable sources by 2020 is to come to fruition, given technology today, the bulk of the new forms of energy required will come mainly from wind. This would entail up to $25 billion of capital expenditure on wind alone and substantially more on gas (as a back up given that wind does not blow all the time) and on transmission infrastructure. Investors will want to make an adequate return on this capital. In addition, this form of energy is more expensive (by a factor of 3 times) to put in place than traditional coal fired power, implying that we are likely to face rising electricity prices as the years go by. AGL and Origin, as integrated energy suppliers, are the best placed to profit in this environment, although it is not riskless as well known oil and gas executives and legendary entrepreneur T.Boone Pickens has found in the USA – he is now the owner of 687 unwanted wind turbines costing $2 – 3m each after a wind project was cancelled due to funding and transmission problems.
- The government seems keen to legislate for our own CPRS environment in advance of the Copenhagen conference in December. There are two issues worthy of consideration. 1) What is the cost and competitive disadvantage to export industries? 2) What is the likelihood of the CPRS pushing the emission offshore, not in curbing overall global emissions? In the long run, the determination to reduce emissions will reduce the value of a number of our commodity and industrial companies.
- Even in the absence of wind and other new forms of renewable energy, the price of electricity in Australia seems destined to rise as gas would be the major source of energy. Gas prices in Western Australia have risen dramatically over the last 5 years as domestic buyers have had to compete with LNG exports. If the coal seam gas players are successful in converting coal seam gas to LNG in Queensland a similar phenomenon could happen there.
- The privatization of parts of the NSW energy industry will increase consolidation in the industry further entrenching the positions of AGL and Origin in an expanding market.

Reporting Season - A thank you

CI and other fund managers enjoy a privileged position in being able to meet with CEOs and senior management teams to discuss the latest results and the medium to long term strategy and outlook for the company. Assessing the quality of management teams is a core component of the CI investment philosophy and we appreciate the valuable time CEOs and CFOs provide to us. We had a number of very productive and enjoyable meetings this reporting season and thank all concerned.

SEPTEMBER 2009

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