

CI BRUNSWICK FUND QUARTERLY REPORT



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

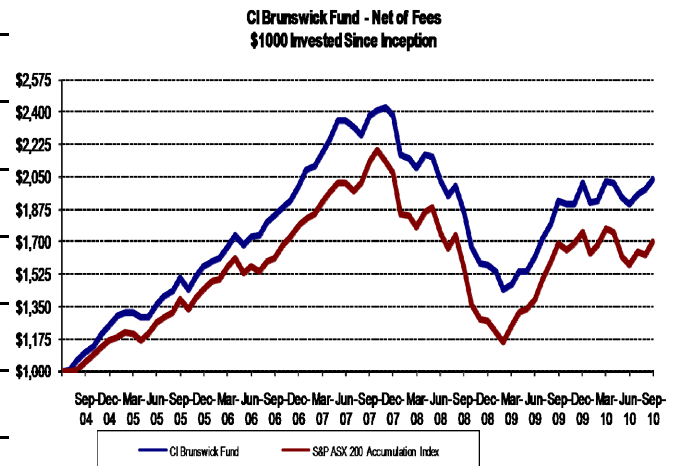
SEPTEMBER 2010

"The budget should be balanced; the Treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled, and the assistance to foreign lands should be curtailed lest Rome become bankrupt. People must again learn to work, instead of living on public assistance." Cicero - 55 BC

"All know the way, few actually walk it." Bodhidharma

Market and Fund Performance

	**FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	7.09%	8.04%	-0.95%
ROLLING 1 YEAR	7.09%	0.61%	6.48%
ROLLING 2 YEAR	5.60%	4.41%	1.19%
ROLLING 3 YEAR	-4.22%	-7.23%	3.01%
ROLLING 5 YEAR	9.20%	4.15%	5.05%
SINCE INCEPTION*	16.50%	8.89%	7.61%
SINCE INCEPTION^	159.73%	70.32	89.41%



*Annualised

^Cumulative (1 July 2004)

**Before fees and expenses

Following negative returns in the June quarter, the market has staged a strong recovery led by commodities, including the gold, energy, metal and mining sectors. In the last 12 months gold in USD has risen 25%, metals 19% and oil 2%. Food based agriculture appreciated 20% and non food agriculture 53%. Notwithstanding positive returns in the September quarter, Australia and other markets have faced headwinds as demonstrated by the table below which shows indicative local currency returns for selective markets since 1st January 2010. Overseas bond and fixed interest markets continue to attract strong investor flows due to their out-performance of equities in the past 20 years. Notably, US stock market returns have been flat to negative for the past 12 years.

Australia	-4.3%
Canada	3.4%
USA	1.7%
UK	2.6%
Euro area	-5.0%
Japan Nikkei	-9.0%
China SSEA Index	-21.0%
India	14.2%
Brazil	-0.4%
Emerging Markets	5.9%
World Bonds	5.7%

Retail and transport stocks also performed well over the quarter, whereas many of the other industrial stocks with a high proportion of overseas earnings (e.g. News Corp, Healthcare stocks) were constrained by the rising AUD, which currently stands at 99c.

The Fund returned 7.09% over the quarter compared with the benchmark return of 8.04%. Over the last 12 months the Fund returned 7.09% vs the benchmark return of 0.61%. Whilst the Fund's returns were positive over the quarter, holdings in stocks such as Cochlear, QBE and Fisher & Paykel Healthcare under-performed general market returns. Positive contributors to the quarterly performance included Healthscope, Transurban, Alumina, ARB and Catalpa. A number of portfolio stocks are being negatively impacted (notwithstanding their strong operational

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performance) by the headwinds of the rising Australian dollar which has appreciated 51% since the beginning of 2009 and 15% in the last quarter against the \$US. The strength of the AUD is explained by the boom in commodities, driven by emerging market demand and weakness in the \$US. The US government's high spend strategy and the money printing that is called unconventional monetary policy or quantitative easing (QE) has markets believing they will depreciate their way to growth. Markets are foreshadowing a second round of QE, known as QE2, which is acting to further weaken the USD. Our view is that QE2 adds to volatility and increases the risk of inflation.

The Portfolio

We have accepted the private equity offer for our stake in hospital operator Healthscope. We found the results season to be generally good for our stocks. Comments on specific portfolio stocks are as follows.

Australian Infrastructure Fund (AIX) ~ AIX has investments in a number of airports mostly in Australia (Melbourne, Perth, Gold Coast, Darwin and Sydney) and a small position in Europe (Athens and Brussels). AIX reported proportionate EBITDA of \$198m providing growth of 14% in constant currency. Growth has been driven by the new Gold Coast terminal and the growth in passenger numbers at Perth and Melbourne airports. In the June quarter, Perth International had passenger growth of +13.7% in international and 6.7% in domestic; Gold Coast +22.3% international and +11.9% domestic; Melbourne +10.4% international and 9.6% domestic. The company has a number of expansion opportunities in Melbourne and Perth (which is benefitting from the strong growth in the resource sector).

Alumina (AWC) ~ AWC has a 40% investment in the AWAC, a world class low cost long life producer of Alumina. The other 60% is owned by Alcoa. Cash generation in the 1H10 was US\$154m (after capex) and compares with negative cash generation in 2009. The most pleasing thing for us was the "leadership" shown by management in moving the alumina pricing structure toward an index linked price which will reflect spot prices, rather than linked to the aluminum price. This is a highly significant move likely to increase returns for the owners of the resource. Other companies in the industry are also making similar soundings. The current differential between spot and composite linked prices is around US\$45/t.

ARB Corporation Limited (ARP) ~ ARP supplies parts and accessories to the 4WD industry (bullbars, towbars, lights, air lockers and storage systems). NPAT of \$32.6 million for the year to June represents an increase of 44.8% on 2009. The balance sheet is pristine with net cash of \$21m. The result was driven by high growth in the domestic market combined with favorable exchange movements with the Thai Baht, where ARP has a manufacturing facility. We expect the company to grow at 10% p.a. for the next few years compared with 18% p.a. growth over the past 10 years. Its results were assisted by the Government's stimulus package, which will not be repeated. The growth in the next year or two will be driven by four new store openings, new products and increased market share and export sales, although exports do face currency headwinds.

Transurban ~ Transurban reported a \$607m proportional earnings before interest, tax and depreciation and amortization, an increase of 13%. The company also announced an increase in distribution per share to 26c which is 8% higher than last year's distributions. It has strong growth prospects as it brings on new road projects such as the Capital Beltway HOT lanes in Washington DC (45% completed) and reaps the benefits of brownfield expansions in Melbourne (CityLink) and Sydney (Hill M2 upgrades and the M5 widening).

The portfolio attributes (approx.) compared with the broader market are summarised below.

	Portfolio	ASX 200
PEX	15.6	11.7
Beta	0.8	1.0
Yield %	4.7%	4.9%
ROE %	13.2%	15.8%
Stock Numbers	29	200

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Major sector exposures are:

Sector	Portfolio Weight (approx.)	Stock Example
Energy	8%	Oil Search
Materials	10%	Coal and Allied
Consumer sectors	16%	Coca-Cola Amatil
Health & Aged Care	11%	Ryman, Cochlear
Financials	18%	Standard Chartered, Westpac
Utility & Infrastructure	15%	Transurban, Australian Infrastructure Fund
Foreign equities	11%	Asian & NZ domiciled stocks
Cash & equivalents	10%	Bank deposits and accrued cash

Industry and Market Observations

We see five broad themes affecting industry:

Industrial and urbanisation cycle ~ fixed capital investment in the east (urbanisation and infrastructure) and west (renewal and under spend) of social and energy infrastructure and investment in alternative energy. This continues to have a positive impact on a broad range of industries. Jeff Immelt, CEO of GE, recently said “There is no reason why our revenues can’t grow in Australia by 20% a year”. GE’s businesses in Australia include financial services (credit card processing and fleet and equipment financing), power generation, gas refrigeration equipment, compression and carbon dioxide injection equipment for carbon dioxide and carbon capture and storage equipment.

Leaders with integrated operational business models ~ Reputation, size, balance sheet strength and the ability to provide a full service offering via strategic alliances, consortia, and/or control of the supply chains are increasingly important to government and private companies. As specialisation and outsourcing increases, both the public and private sector will prefer to work with larger operators with these characteristics.

Margin and monopoly busters ~ A number of industries continue to see margin pressure due to new lower cost and/or low margin entrants, e.g. Telecom and media (NBN); News publishing and broadcasting (internet and internet aggregators); Beer (Coca-Cola Amatil); Investment management services (MySuper); Retail (Costco).

Government regulation and intervention ~ The ongoing exit of government from direct participation in industry (the latest round including QLD Rail and NSW electricity retailers) is being countered by increasing interference and regulation and, in some cases such as the NBN, a return to direct ownership. Examples include carbon taxes, MRRT, Cooper Review, Banking, Housing Affordability and healthcare delivery infrastructure.

Deleveraging ~ more capital, more collateral, less debt and more savings. Under this backdrop we see consumers demanding more value for money and focusing on essential goods and services.

CI Research – Iron Ore Perspectives

This quarter CI has been studying the history of the global iron and steel manufacturing industry and its impact on the demand, supply, structure and competitive dynamics of the iron ore mining industry. We detail below some interesting facts and observations that provide useful input and context for companies in the iron ore industry.

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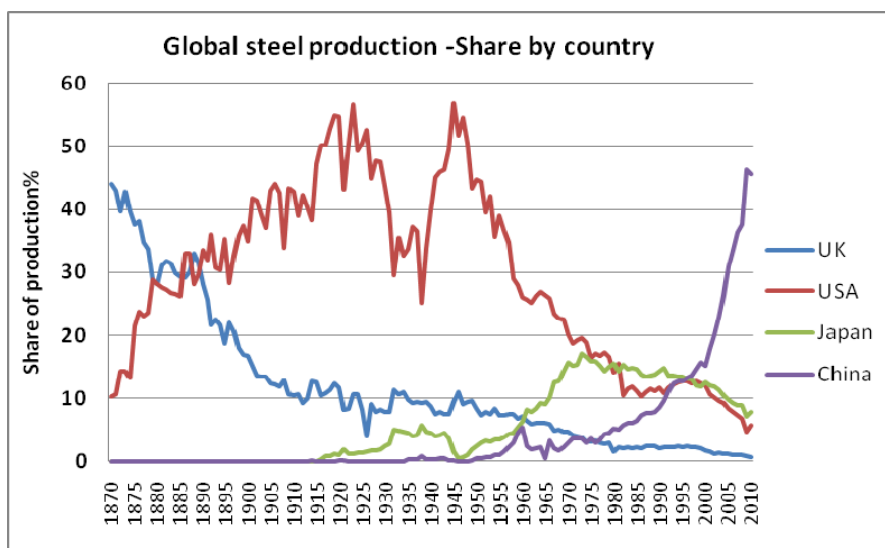


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- Crude steel production for the eight months to August 2010 was 934.5 million tonnes, an increase of 22.1% on the corresponding eight months to August 2009. This suggests crude steel production in 2010 should surpass the 2007 pre GFC record of 1.35 billion tonnes.
- Global production of iron and steel and, in turn, iron ore has increased at an average annual rate of 3.25% per annum since the start of the modern industrial age in Britain around 1840.
- It took 67 years for global iron and steel production to increase 10 fold from 10 million tonnes to 100 million tonnes (1860-1927) and 77 years for steel production to increase from 100 million tonnes to 1 billion tonnes (1927-2004).
- Steel rapidly replaced pig iron as the main product of the iron and steel industry from the 1870s, following the invention of the Bessemer process in the late 1850s and Siemens's open hearth process in the late 1860s. These new technologies dramatically improved the economies of scale for steel manufacture.
- Prior to the introduction of the above mentioned technologies steel was very much a niche product within the iron and steel industry, used in such specialised applications as clock springs and swords.
- Average annual growth in global steel production has been positive in every decade over the last 150 years.
- The slowest growth decade for global steel production was the 1980s, closely followed by the 1990s. Growth averaged 0.73% per annum in the 1980s and 1% per annum in the 1990s.
- The last two decades of the 20th century represent the only period over the last 150 years of iron and steel production where per capita consumption declined.
- Periods of above average growth for the iron and steel manufacturing industry included the 1840s and 1850s, the 1890s and 1900s, the 1950s and 1960s and the 2000s. Steel production rebounded strongly in the 2000s, largely due to China.
- Global production has grown at an average annual rate of 5.1% per annum over the last decade (based on an estimated production of 1.4 billion tonnes for 2010). Global per capita consumption increased by 3.9% per annum.
- The long term ebbs and flows in global production suggest the growth phase of the current cycle still has some way to run.

Many commentators question the ability of China to continue to increase its share of global steel production, under the assumption such a dominant world position has no precedent. This is incorrect as shown in the chart below. Britain's first mover advantage in the industrial age saw its share of global pig iron production rise to over 50%, and possibly over 60%, in the 1840s and 1850s. Today Britain accounts for less than 1% of global steel production.



Source: Data compiled from various sources including Treasury, World Steel Institute and Abare.

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The next major growth phase in global steel production was associated with the rapid emergence of the USA as a major global power. The USA rose from 10.3% of global iron and steel production in 1870 to a high of 56.5% in 1923. The USA retested this record peak in 1945, rising to an all time peak of 56.7% of global steel production. Today the USA accounts for 5.8% of global steel production.

Post WW2, and particularly from the mid 1950s to the mid 1970s, the Japanese steel industry enjoyed the strongest growth globally. However, the dominance of Japan in steel manufacturing remained well below the peaks achieved by the UK and USA. Japan rose from 2.4% of global steel production in 1950 to a peak of 17.1% in 1973. Today Japan accounts for 7.8% of global steel production.

In the current cycle China is the main contributor to global steel growth. Over the last decade China's steel production has increased from 128.5 million tonnes in 2000 to an estimated 600 million tonnes for calendar 2010. This represents an average annual growth rate of 16.7%. Over the same period China has increased its share of global steel production from 15.2% to 46%.

It is the speed and scale of the expansion in Chinese steel production that is without precedent, rather than its share of global production. It serves as a useful reminder that China can do things that simply would not be possible in a capitalist and democratic economy.

The industrialisation of Asia that began with Japan, followed by Korea and Taiwan, and now China and India, and the shift in manufacturing from west to east has changed the modus operandi of the steel industry. This shift has led to the demise of the integrated model that characterised the previous steel eras during Western industrialisation. Steel mills were traditionally located close to the raw materials (coal and /or iron ore). Operations were vertically integrated with the resources owned or controlled by the mills.

At least for now, declining or nonexistent reserves of high quality iron ore and coking coal in emerging markets, combined with a small number of iron ore suppliers, has significantly improved the competitive dynamics of the iron ore industry.

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