CI BRUNSWICK FUND
QUARTERLY REPORT

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

JUNE 2010

"What you have to do and the way you have to do it is incredibly simple. Whether you are willing to do it is another matter." Peter Drucker.

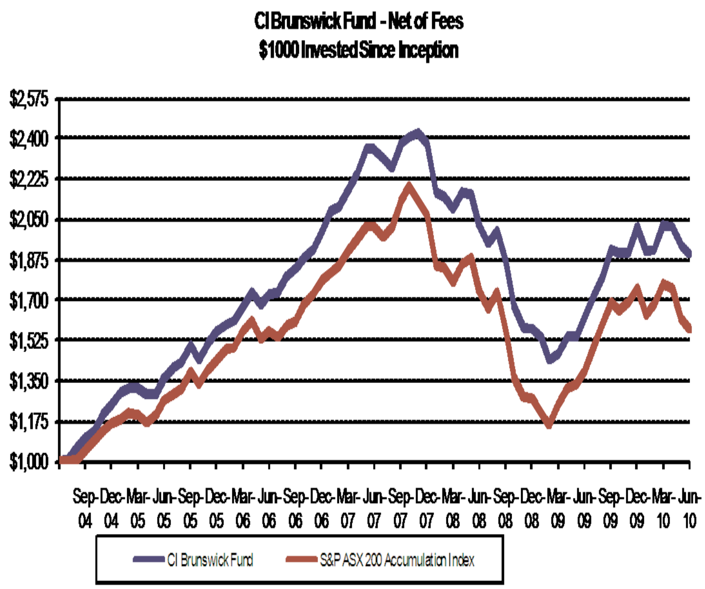
"Capitalism without failure is like religion without sin". Allan Meltzer, Economics Professor, Carnegie Mellon University.

"When national debts have once been accumulated to a certain degree, there is scarce, I believe, a single instance of their having been fairly and completely paid." Adam Smith, The Wealth of Nations.

Market and Fund Performance

	**FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	-5.70%	-11.14%	5.44%
ROLLING 1 YEAR	18.71%	13.15%	5.56%
ROLLING 2 YEAR	-2.17%	-4.95%	2.78%
ROLLING 3 YEAR	-5.89%	-7.85%	1.96%
ROLLING 5 YEAR	10.45%	4.53%	5.92%
SINCE INCEPTION*	15.92%	7.88%	8.04%
SINCE INCEPTION^	142.54%	57.65%	84.89%

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



The Brunswick Fund returned -5.7% over the quarter compared with the market decline of -11.14%. Over the last 12 months the Fund returned 18.7% vs. the index of 13.1%. Notably, over the quarter, Australia was the worst performing market in the Asian Pacific region (including Japan) down 19.8% in US$. Similarly commodity prices moved in unison with copper, oil and gold all falling in value in US$.

The main positive contributors to the quarterly performance were Coke Cola Amatil, Healthscope, Oil Search and Coal & Allied as well as our cash holdings. Under-performers included Westpac, QBE and Wotif.

Markets have been affected by the general shift toward tighter fiscal and/or monetary policy. On last count several central banks in Asia had begun to tighten monetary policy (India, China Singapore, Malaysia and Australia). European governments are starting the long journey of fiscal discipline with budget savings and some "talk" of reforms to their retirement and pension schemes. The 375 basis point decrease in Australian cash rates in 2008/9 was the largest reduction in debt servicing costs for Australian households in modern history. However, the cash rate has now risen 125bpts over the last 10 months (about 1/3rd of the decline) which has lead to slowing activity in some segments of retail, banking & housing.

The Portfolio

Our strategy is to identify stocks with VoF attributes (value latency, operational performance, industry/strategic positioning & focused management). The portfolio can be divided into 5 broad categories.

1. Stocks with above market dividend yields backed by strong balance sheets and businesses ~ dividends have historically made up over 50% of total returns and we believe this is going to be a key theme over next decade.
2. Stocks with strong balance sheets trading at discounts to net asset value.
3. Growing industries and companies, e.g. education; internet based travel business models; resources and engineering services.
4. Asian geographic exposure ~ Australia's prospects are inextricably linked to the Asian region.
5. Consolidations ~ particularly in OECD countries where economies are mature and face global competition. Firms will need to drive value from consolidation.

The portfolio attributes compared with the broader market are summarized below.

	Portfolio	**ASX 200**
PE x	14.5	11.3
Beta	0.79	1.0
Yield %	4.7%	4.9%
Roe %	15.2%	15.8%
Stock numbers	31	200

Major sector exposures are:

Sector	**Portfolio Weight**	**Stock examples**
Energy	8%	Oil Search
Materials	10%	Coal & Allied
Consumer sectors	16%	Coke Cola Amatil
Health & Aged Care	18%	Healthscope, Ryman, Cochlear
Financials	18%	Standard Chartered, Westpac,
Utility & Infrastructure	15%	Transurban, Australian Infrastructure
Foreign equities	11%	Asian & NZ domiciled stocks
Cash & equivalents	7%	Bank deposits

The most significant change to the portfolio over the quarter was the accumulation of a significant position in Transurban. We were able to acquire shares significantly below the recent (but failed) bid price of $5.50 as one of the bidders (Ontario Teachers) sold out of their position. Furthermore, Transurban's stock price has been pressured by the stock overhang from the retail portion of the recent rights issue not taken up (due to the current price being below the $4.60 issue price).

The rationale behind taking a position in Transurban is as follows.

- The economics of toll roads provides equity owners with a low beta cash return driven by traffic growth and toll price increases.
- Road economics are favourable – the better the road the greater the demand. The Transurban portfolio is dominated by metropolitan roads.
- Transurban has a world class track record and reference sites in Sydney, Melbourne and Washington DC.
- Opportunities will flow from incumbency in difficult capital markets which, in addition to constrained government funds, will favour long term owner operator models over the financier model. It was pleasing to hear recently that the Brumby government plans to invest further in road infrastructure whilst saying that there is no intention to increase government borrowings. This bodes well for private sector operators such as TCL.

- New management has decisively done the right things in cutting debt, reducing distributions to a sustainable level and aggressively cutting costs.
- We anticipate substantial increases in the cash yield as new projects come on stream in Melbourne, Sydney and Washington over the next three years.

Another of the stocks in the portfolio received a takeover proposal – the Board of Healthscope was initially approached by a private equity group with a non binding proposal to acquire the company for $5.50 per share. Within a week this group increased its proposal to $5.75, and was joined by a second bidder at $5.80. Both groups are currently undertaking formal due diligence, with a conclusion expected in the next few weeks.

Company Trips/Visits ~ Europe and Singapore

In April we attended Toll Holdings investor day held in Singapore. The emphasis of the briefing was to provide an overview of their businesses in Asia. Given its high market share in a now consolidated Australian market, in recent years Toll has looked to augment its growth via actively expanding its operations into Asia. This has primarily been achieved through acquisitions.

As part of the investor day we visited Toll's Offshore Petroleum Services facility which is a supply base to the offshore oil and gas industry in Southeast Asia. Toll has entered into a 42 year lease with the Singaporean Government to operate this facility. Under the terms of the agreement, Toll is obliged to spend S$360m in capital expenditure to upgrade the facility by 2014. Whilst the oil and gas industry has a significant growth profile in the region (supported by our visit to Worley in Singapore), Toll's investment risk is to ensure that they attract sufficient tenants to utilise the facilities and generate an adequate return on the S$360m capital they are required to invest. Intuitively Toll's newly formed Global Resources Division should have the potential to become a central growth platform for the Group. Its core operations will provide logistic services to mining, oil and gas operations throughout Australia and Southeast Asia. By way of example, providing logistic and barge services into Indonesia's coal operations (the largest thermal deposit base in the world) has much appeal. Indonesian coal production is expected to rise from 225mtpa to 370mpta by 2025. A significant amount of coal tonnage is transported by barge. Industry studies contend that, based on current production estimates, there will be a shortage of 300 barges in Indonesia in coming years. Toll has a market share of approximately 5% of the coal haulage (by barge) market in Indonesia, where it currently has 80 vessels in its fleet. The market is fragmented with the bulk of the market made up of small local barge operators. Toll also provides barges to transport sand into Singapore. Singapore imports up to 100m tonnes of sand per annum for reclamation and a further 10m tonnes of sand and aggregate for the building industry.

A key focus of Toll's offshore expansion has centered on building a global freight forwarding business. In theory, being based in Asia and providing freight forwarding services in a burgeoning market place has many appealing attributes. However, the industry is dominated by global giants such as Fed Ex Corp and UPS, as well as niche local operators. It has also proven to be highly cyclical with revenue down almost 60% at the height of the global financial crisis. For Toll, EBIT margins were also not immune to the downturn as they contracted around 200bps to 1%-2%. Over time Toll is targeting margins of around 3.5%-4%. Toll is endeavoring to build sufficient scale to effectively compete in this sector. To date, through a number of acquisitions, Toll has built up circa $1.3bn in global freight forwarding revenue. Management has made it abundantly clear that they intend, principally by way of acquisition (involving substantial goodwill payments), to target $3bn in global freight forwarding revenue within the next 2 years.

Notwithstanding the large market size (and therefore potential opportunity) in Asia, Toll have yet to generate an adequate return on capital invested in the region to date. Presently, the Brunswick Fund does not own the stock.

We also made a trip to the UK and Europe in mid June. There is no doubt the mood prevailing in this part of the world is generally somber, particularly when compared with Asia. Asia remains upbeat an confident of ongoing growth. On the other hand, in light of the high levels of public debt and large budget deficits, European governments are starting to look to cuts in spending and tax increases to bolster their finances. The UK and Spanish governments have both spelled out where they are going in this regard, while Hungary and France have both announced measures to tax banks, business and the wealthy, and Greece has been forced to accept austerity measures to secure the recent bailout package. And all of this is happening while economic conditions are, at best, subdued. As witnessed at last week end's G20 meeting, the USA is currently on a different tack to solve the same problem – namely to encourage growth via spending and expanding the government balance sheet. While stimulus may be slowly withdrawn, they are yet to start down the path of real austerity which must surely come in the not too distant future – you cannot solve the problem of too much debt by adding more and more debt into the system!! In the last few months, all of the companies we have spoken to, who are exposed to USA and European economic activity, have told us that volumes are flat. In the USA, after a brief spurt two months ago, the air has come out of the balloon and while not falling (and a little above the lows experienced a year ago), activity remains flat. In Europe there was no similar short term increase and the most commonly expressed sentiment was that there is, as yet, no light at the end of the tunnel.

It is apparent that in the western world the consumer has grown more cautious – facing higher taxes and likely fewer benefits, as well as turgid house prices, this is no surprise. Retail sales are struggling to grow everywhere – in Australia we are cycling the effects of the stimulus packages of a year and eighteen months ago and interest rates have risen over that period. In the US consumer spending represents 70% of GDP. There, consumer credit has risen from $5.7B in 1945 to $1TR in 1994 to $2.6TR in 2008, when household debt came close to 100% of GDP. In the UK household debt rose from 105% of disposable income in 2000 to 160% in 2008, and in Spain from 69% to 130% over the same period. A period of deleveraging is required, and coming on top of rising taxes and other austerity measures, our base case view is that this will lead to a prolonged period of, on average, lower global growth than witnessed during the decade 1998-2008.

One of the implications stemming from this view is that companies must find ways of growing profits through productivity and rationalisation rather than relying on high rates of economic growth. Amcor has been a case in point through the acquisition of Alcan packaging (their biggest competitor in Europe). Amcor has stated that synergies from the acquisition will amount to circa AUD$270m. Our visits to Europe indicate that the level of synergies alluded to by Amcor management should be achieved in addition to big working capital benefits.

Market Observations & Outlook

The official government outlook for the Australian economy is expecting circa 3% growth for 2010/11 supported by a 23% increase in Australian commodity exports to around A$205b (2010/11) largely driven by volume and price increases in coal, iron ore and gold. Australia is partially insulated from the European woes as only 12% of resource exports are destined for Europe. The over arching question for Australian and world growth is what happens when government reign in their budgets expenditures?

World Steel production increased by 32% in the first 4 months of 2010 and is currently forecast to be around 1300m tpa this year which was the level 4 years ago in 2007. The recovery in world steel production is a result of government stimulus programs targeted at steel intensive industries, i.e. infrastructure and construction projects. Notably, in previous recessions, it has taken much longer to get production back to previous highs. For example, in the 1990/91 recession it took 7 years, and 9 years in 1980-82. The stimulus has pulled forward demand. Australia is well positioned as a supplier of raw materials to these industries - low cost, high quality within close proximity of the growth regions. Prices, however, are more uncertain as current spot prices are significantly above costs (copper, iron ore, coal and oil) which are incenting new capacity investment.

In the last quarterly report we mentioned regulatory changes as they are impacting on the ASX. In what is becoming a worrying trend, this last quarter has seen further government interference on a grand enough scale to affect both stock prices and offshore views on risk involved in investing in Australia. Although, as we write the tax has been substantially changed, the initial Resource Super Profits Tax appeared to us to be poorly designed and announced without sufficient forethought or consultation, and only to fill a budgetary hole caused by prior government stimulus efforts. In the short space of three years, under a new government, we have now seen increased regulatory impost on companies (to their cost) in large parts of the Australian economy – resources, telecommunications, utilities, healthcare and the stock exchange. Almost inevitably there will be more to come where profits are being made – the banking sector should be on notice!

CHANGE TO PERFORMANCE FEE CALCULATION

As advised in previous quarterly reports and Information Memoranda the following changes come into effect from 1st July 2010:

1. The performance fee changes to 15% (previously 20%) of the Fund's out-performance of the benchmark.
2. The benchmark changes from the UBSA Bank Bill Index to the S&P/ASX 200 Accumulation Index.