

# CI GLOBAL EQUITIES FUND QUARTERLY REPORT



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

DECEMBER 2007

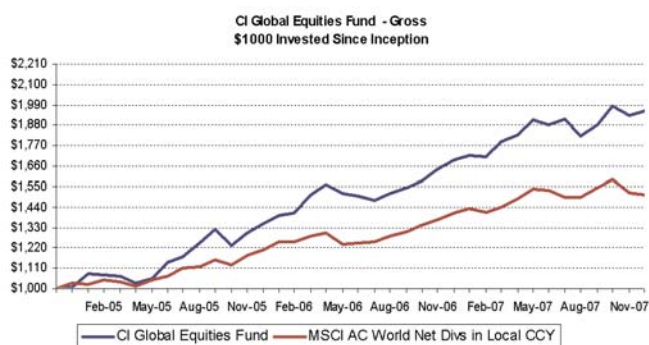
*"Nature does not hurry, yet everything is accomplished" Lao Tzu*

*"The superior man does not waste himself on what is distant, on what is absent. He stands in the here and now, in the real situation" Confucius*

## PORTFOLIO PERFORMANCE

	PORTFOLIO	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	3.79%	-2.41%	6.20%
ROLLING 6 MONTHS	3.69%	-1.47%	5.16%
ROLLING 1 YEAR	15.42%	7.18%	8.24%
ROLLING 2 YEAR	20.15%	11.74%	8.41%
ROLLING 3 YEAR	24.86%	13.43%	11.43%
SINCE INCEPTION*	24.30%	14.25%	10.05%
SINCE INCEPTION^	95.52%	50.79%	44.73%

\* Annualised  
^ Cumulative (1 December 2004)



The CI Global Equities Fund finished the year off strongly. The absolute performance for the quarter was up +3.8% compared to the MSCI All Countries World Net Divs in Local Currency which was down -2.4%. This is an outperformance of +6.2%. Overall for the 12 months of 2007 the fund was 8.2% above the benchmark with a return of 15.4% compared to 7.2%.

The fund's performance in this period has generally come about from our positions in the Energy and Utilities sectors. However more specifically stocks such as Petrobras, BG Group, Israel Chemicals, Red Electrica, Standard Chartered, Suncor and FPL Group. Conversely there was not one overall sector that contributed to underperformance however these following stocks failed to deliver, Aker Kvaerner, Cameco, Shin-Etsu, General Electric, Inbev, China Overseas Land & Investment and Porsche.

The largest positions currently are Tesco (4.7%), Veolia, FPL Group, BG Group, Reckitt Benkiser, SGS, QBE, Red Electrica de Espana, Covidien and Porsche (2.7%). We currently hold 47 stocks and our smallest position is Banco Itau at 0.9%. By sector the portfolio is overweight Energy, Materials, Industrials, Consumer Staples, Healthcare and Utilities; while being underweight Consumer Discretionary, Financials, Information Technology and Telecommunication Services. In composition the portfolio has not changed significantly from the previous quarter. Weightings of the individual positions have been driven primarily by stock performance. The only major new addition is Constellation Energy which will be discussed below.

Our deviations from the benchmark in terms of countries are as follows. We

have a U.S. weight of 23%, compared to 42% in the index. We are also underweight Japan with 3% against 9%. Our significant overweights are U.K. with 17% versus 10%, Switzerland with 11% and 3%, and Brazil with 4% and 1%. We have 8.5% of the portfolio in emerging market equities.

This quarter the two stocks under the spotlight are U.S. power generators FPL Group [FPL-US] and Constellation Energy Group [CEG-US]. Both operate in very attractive markets with highly constrained capacity that will necessarily see electricity price increases over the coming years. They are both very strategically focused with a view to a carbon constrained environment, and under most scenarios will be comparative beneficiaries once legislation is eventually enacted. CEG have long term price hedges rolling over the next couple of years, whereas FPL are due for the rate reset in 2009, both will benefit due to the rise in average electricity prices across America the last 3 years of around 20%. The attraction to this particular industry is because the U.S. utilities state regulators have to create an environment that encourages capital investment by the generators and transmission owners, this means the companies will be allowed a higher rate of return on assets and therefore profits. The alternative - the lights going out, is politically unacceptable.

The U.S. power network has suffered from years of underinvestment, this includes both the generation and also the transmission network – investment has steadily fallen in real terms each year since 1975. This has all taken place in an environment of increased demand per capita and also increased population in total, roughly doubling overall demand on the network since 1980. It is forecasted that the U.S. needs an additional 50% of new capacity by 2025, this is a massive 300,000MW. The strains are apparent in several of the major deregulated generation pools such as New England, Texas, and regional parts of PJM (Pennsylvania-Jersey-Maryland). Since deregulation pricing signals have effectively failed to create an efficient environment for capital spend on new or upgraded sources of power generation. Retail exposure to price fluctuations has proved politically undesirable and rates have been kept flat by capping the electricity spot market. In specific markets constraints such as transmission limitations, congestion, fuel supply and local barriers have driven costs for new entrants up. In 2007 PJM instigated their first annual forward capacity auction, which saw increases in the price of electricity going through to 2010. This was the first attempt to address the need for new generation entrants into the market by giving visibility on prices for participants. Other markets are expected to follow soon.

The issue surrounding additional generation capacity is complex enough without the current uncertainty on future carbon legislation. There is no federal legislation to date that addresses the issue of carbon emissions in the U.S. today. There has grown a patchwork of controls at state levels such as the Regional Greenhouse Gas Initiative, however this seems unlikely to go much further given the U.S. Environmental Protection Agency's recent rejection of California's attempt at a car emissions state law. The incumbent government refuses to address the issue directly and the legislation that seems inevitable is in limbo waiting for a change of tack that would be the result of a new government. Currently many new coal generation projects have been abandoned or postponed due to concern by state regulators. It is far easier to receive regulatory approval for new nuclear generation than coal, however this does not solve the medium term capacity shortage due to long lead times on nuclear plant builds.

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FPL Group are an integrated utility operating in the regulated Florida market with a merchant generation division called FPL Energy which operates in the attractive Texas, New England and PJM markets. Their regulated business benefits from Florida having one of the highest population growth profiles of any state. They enjoy a constructive relationship with their regulator which sees them allowed a relatively higher range on their potential ROE than most regulated utilities, in part a reflection of their necessary growth profile. FPL Energy is the second largest wind powered generator globally, after the Spanish Iberdrola Renovables. This constitutes over 30% of their capacity in MW with gas at 43% and nuclear 17%. The growth drivers of their capacity are the wind and nuclear facilities. They expect the wind capacity to roughly triple by 2012 to around 15,000MW and are highly acquisitive on nuclear assets along with filing for new construction. FPL benefit from Production Tax Credits bestowed on their wind generation. These are an integral part of the economics of the generation and apply to the first 10 years of a farms life, encouraging capital spend on new capacity.

Constellation Energy Group comprise of a merchant generation division, Baltimore Gas & Electricity utility (BGE), and a Competitive Electricity Supply division. The merchant generation owns assets around the mid-Atlantic region where capacity is relatively constrained such as New York and PJM, but in particular Maryland where the market is expected to be around 1500MW short by 2011. The Maryland region is particularly attractive, having the most restrictive air quality regulation in the US, very high density of population, poor external transmission links and a high tax on generation assets, all incredibly prohibitive to new build. As a consequence BGE were allowed to raise rates 50% in 2007. 60% of CEG's generation is from zero emissions sources, the majority being nuclear. Constellation is the largest supplier of electricity to business in the US and a provider of energy procurement services to help customers manage their energy supply. This is a valuable necessity for business in the face of rising power prices and the desire for emissions and power usage reduction.

The valuations for both companies remain unstretched in our opinion given their strategic options and growth profiles over the medium term. They reside on PE's of around 17x with EV/EBITDA of about 9x. Their defensive nature, valuations, growth options, constructive regulatory environments and clear, focused strategies should warrant strong positions in the portfolio, especially given the current turbulent markets.

### **"Allan says... Bigger snacks mean bigger slacks!"**

#### **How increased level of obesity is contributing to the prevalence of diabetes.**

Allan says is a section dedicated to the research we have conducted in the previous three months. It will be used as an opportunity to provide an insight into some interesting findings or trends that relate to the portfolio.

Never eat more than you can lift –Miss Piggy

Once again we cannot doubt Miss Piggy's wisdom as the harsh realities of our lifestyle catch up with our waistlines. Classified as a disease which is defined as any deviation from the normal structure of any body part, obesity diminishes both quality of life and life expectancy. It is also a common risk factor for a number of diseases from diabetes to heart disease and some types of cancer. This Allan says will focus on the impact that rising obesity levels are having on the prevalence of diabetes, in particular type 2 diabetes. Type 2 diabetes comprises 90% of the diabetes population and is described as a 'lifestyle disease' compared to type 1 diabetes, or juvenile diabetes which

is commonly thought to be a genetic disease.

According the International Diabetes Federation obesity and type 2 diabetes are causally linked. Weight gain leads to insulin resistance through several mechanisms. Insulin resistance places a greater demand on the pancreatic capacity to produce insulin, which also declines with age, leading to the development of clinical diabetes. Physical inactivity, both a cause and consequence of weight gain, also contributes to insulin resistance.

The increase in obesity is a global problem, with the spread of western lifestyles impacting all regions, particularly Asia-Pacific. It is expected that 70% of new diabetes patients will come from developing countries as increasing income and urbanization leads to rising obesity levels. China has recently overtaken the U.S. as the fastest growing diabetic population.

Globally more than 1.1 billion people are overweight where overweight is defined as having a body mass index between 25 and 30 for an adult, while 400 million people are obese which means having a body mass index greater than 30. That is approx 20% of the global population is overweight and more than 6% are clinically obese. Currently the number of diabetics is at 250 million people which means that 60% of obese people end up contracting diabetes. More than 1/3 of the U.S. population is clinically obese!

There are several reasons for the fast progression of obesity and diabetes. However, increased calorie intake and/or lowered energy expenditure are the key aspects. Fat consumption per capita in the U.S. has increased by 25% in the last 50 years to 145 grams fat consumed per capita per day. This compares to the FDA recommended daily fat intake for a typical adult which should not exceed 65 grams. Compounding the situation is a less active lifestyle driven by an electronics age. Consequently the number of diabetics has grown from 110 million in 1994 to almost 250 million in 2007, a growth rate of 6.4% p.a.

With such strong evidence of increasing levels of obesity and diabetes, and given that the problem is clearly visible as we walk down the street, the Global Fund has established a position in Danish specialty pharmaceutical company Novo Nordisk. Novo Nordisk is a world leader in diabetes care, it has a 53% share of the global insulin market and has the broadest diabetes product portfolio. Novo is highly focused on diabetes care with 75% of revenue coming from diabetes care products. The remaining 25% of revenue is generated by Novo's specialized biopharmaceuticals division where they have leading positions in coagulation disorders, growth hormone disorders and hormone therapy for women.

There is a time lag of 5-7 years from when a patient is diagnosed with diabetes to becoming a Novo patient. When a type 2 diabetic patient is diagnosed, the normal procedure is a tablet treatment that helps insulin production or sensitivity. This type of treatment goes on for several years, but with unchanged habits in terms of diet and exercise, the body will slowly be unable to produce insulin by itself and insulin injections are needed instead. Current Novo patients are mostly those who had diabetes diagnosed in 2000 and earlier. Novo expect to see an increasing number of insulin patients over the next 5 to 10 years as the patients diagnosed with diabetes post 2000 will move from the tablet to Novo's leading insulin injections.

With a clear visibility of additional patients coming on plus pricing benefits gained from the transfer of patients onto new premium products, Novo is experiencing consistent double digit revenue growth. Novo is currently trading

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at a 2008 consensus PE of 22x which is a premium to the pharmaceutical sector. We believe this premium is justified as Novo is uniquely positioned to benefit from attractive industry fundamentals supported by its strong market position. We expect Novo to deliver consistent earnings growth above the industry average. Along with little threat from generic competition, low debt levels and no reliance on the business cycle Novo is an attractive long term investment.

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