

CI GLOBAL EQUITIES FUND QUARTERLY REPORT



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

DECEMBER 2009

“Try not to become a man of success but rather try to become a man of value”. **Albert Einstein**

Market and Fund Performance

CI Global Fund - Hedged

	**FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	6.63%	4.83%	1.80%
ROLLING 1 YEAR	23.27%	29.22%	-5.95%
ROLLING 2 YEAR	-12.05%	-11.60%	-0.45%
ROLLING 3 YEAR	-3.72%	-5.74%	2.02%
ROLLING 5 YEAR	8.52%	2.66%	5.86%
SINCE INCEPTION*	8.47%	3.28%	5.19%
SINCE INCEPTION^	51.20%	17.83%	33.37%

*Annualised

^Cumulative (1 December 2004)

** Before fees and expenses

CI Global Fund - Unhedged

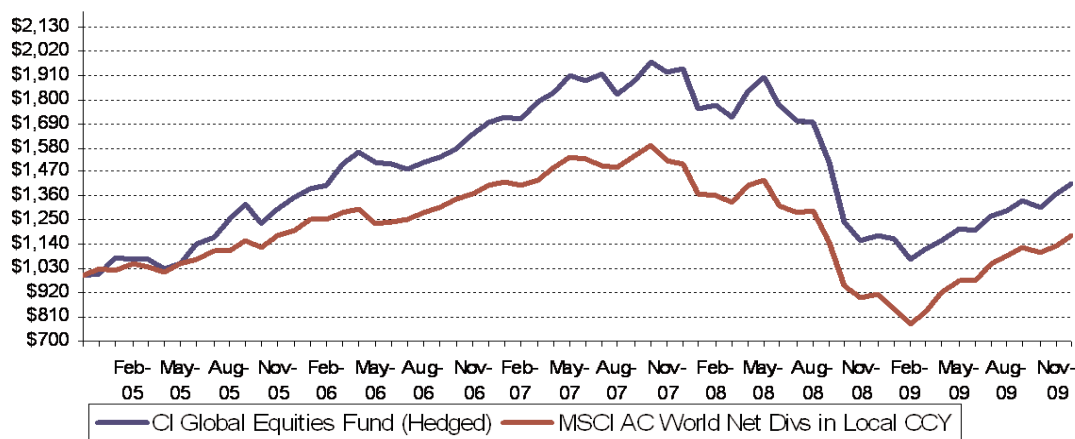
	**FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	3.73%	2.67%	1.06%
ROLLING 6 MONTHS	7.89%	10.85%	-2.96%
ROLLING 1 YEAR	1.47%	4.37%	-2.90%
SINCE INCEPTION*	-10.00%	-9.47%	-0.53%
SINCE INCEPTION^	-13.11%	-12.43%	-0.68%

*Annualised

^Cumulative (1 September 2008)

** Before fees and expenses

CI Global Equities Fund (Hedged) - Net of Fees
\$1000 Invested Since Inception



The CI Global Equities Fund (Unhedged) returned 3.73% for the quarter to December 2009. This is compared with 2.67% for the MSCI AC World Net Dividends in AUD. The CI Global Equities Fund (Hedged) returned 6.63% compared with the MSCI AC World Net Dividends in Local Currency which returned 4.83%. Our best performing countries were UK, US and Brazil with the worst being Japan, even though the Nikkei itself had an excellent quarter. Individual stock performances were generally excellent with the majority registering positive performance, however the highest came from the materials sector in general and in particular agricultural commodities – in our case the fertiliser manufacturers Agrium and Mosaic. Information Technology was again this year an out-performing sector, with Oracle and Hewlett-Packard the leaders.

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The Portfolio

We hold 38 stocks in the portfolio, we are fully invested and cash is just over 2%. Currently the top ten largest positions in descending order are BG Group (4.2%), Tesco PLC, FPL Group, SGS S.A., Wells Fargo & Co, Hewlett-Packard, Reckitt Benckiser PLC, Itau Unibanco Banco Multiplo, Standard Chartered PLC and Holcim Ltd (3.1%). Our smallest position is Cenovus Energy (0.6%) which came about as a result of the EnCana Corp split. During the quarter the Fund has exited four positions, and a substantial position has been taken in Shoprite Holdings Ltd. Shoprite is the leading food retailer in South Africa with 34% of the modern format market. Penetration of “mom & pop” stores is still 40%, private labels are low compared with developed market levels and inflation has generally been high in the last decade and is expected to pick up again – benefiting the retailer. Shoprite is also the largest pan-African retailer where in many locations they literally have no competition within the modern format. Retailers are among the primary beneficiaries from increasing consumption patterns in emerging markets.

Both Hewlett-Packard (HP) and Oracle reported strong numbers in the quarter. HP is starting to benefit from a confluence of events. As a result of the downturn, many CIOs have extended their refresh cycle of hardware, primarily as a result of budget cuts. This has to reverse at some point though. Servers reach the end of their warranties after 3 years, and by industry estimates the refresh cycle has been extended by 18-24 months this time, so many companies are running on servers that are either off warranty or coming to the end. Add to this the increasing use of cloud computing and virtualisation software driving productivity gains, and the impetus to upgrade old machines has not been as great for a decade. The refresh cycle has also been extended with desktops and mobile devices, though with these there is another impetus with the launch of the new version of Windows and Office 2010. Gartner now estimate 2009 PC shipments to be around 3% up on 2008 and expect next year to be even higher. HP is #1 globally in PCs and #2 in servers. Oracle has seen licensing growth resume, albeit on softer numbers from 2008. Regardless though, Oracle will be a primary beneficiary of the resumption of software spending among enterprises due to their leading position in databases and middleware. There is no getting away from the fact that Information Technology is a cyclical business, yet the global leading businesses in this sector remain on multiples lower than their averages since the tech bubble, while arguably at the bottom of the business cycle. They have pristine balance sheets, defensible market positions, quality management and still they are growing at a healthy clip - above both the economy in general and also the majority of their peers.

Outlook - Healthcare reform in the United States

Given that healthcare is our largest sector overweight, we would like to discuss healthcare reform in the U.S. and its impacts on the portfolio. After an arduous process, there are currently two versions of the healthcare reform bill in the U.S. - the House version and the Senate version. The bills will now go to a conference committee where representatives of the House and Senate must combine them. The bills share similar ideals in that both intend to expand healthcare coverage and reduce costs. The main difference is that the House bill contains a government run insurance plan whilst this was dropped from the Senate bill.

The estimated cost of the House bill is \$1.052 trillion and is expected to reduce deficits by \$139 billion. This bill would allow 36 million people to gain insurance coverage while 18 million will remain uninsured. On the other hand, the senate version is expected to cost \$871 billion and to reduce the deficit by \$132 billion giving 31 million people insurance coverage and leaving 23 million people still uninsured.

Both bills have similar proposals for paying for reform with payment mostly coming from taxing wealthy individuals and squeezing out over \$400bn of savings from Medicare and other programs. The healthcare industry will also be taxed, but quite insignificantly given the profits generated by the sector. The House bill plans to raise \$20bn over a 8 year period from the medical devices industry whilst the Senate proposes collecting \$100bn from the whole sector over a 10 year period.

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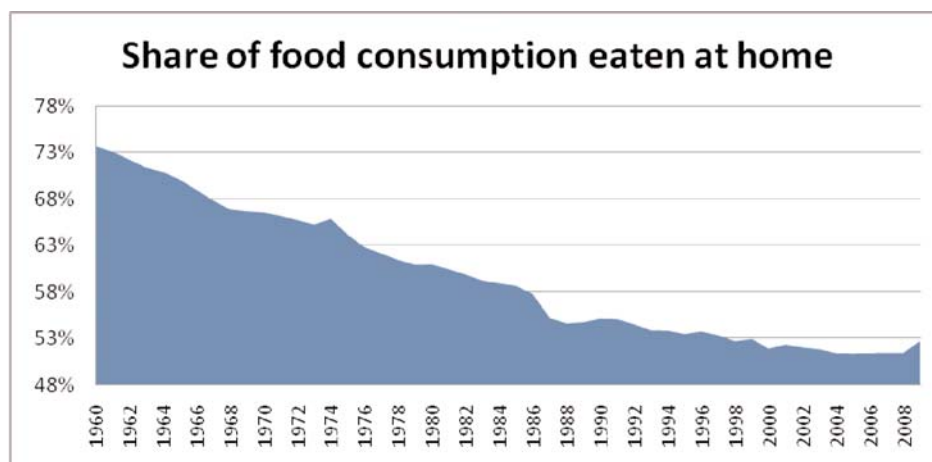
A concern, and unknown, is where the savings in Medicare will come from. Healthcare companies will certainly bear some of the costs, but the proposals will also increase the insured population by 30 million people, which will increase volumes for many businesses. The companies in the Fund are confident that any proposal will not materially impact their financials given the additional business. Furthermore, the companies in the Fund are global businesses with reform only impacting their U.S. operations. We are confident in our positions in the portfolio as the healthcare sector is trading at 15 year low valuations and demographics are driving a secular growth profile.

Allan says...General Mills - sometimes you can have your cake and eat it too

An out-performer for the Fund this quarter was General Mills Inc. General Mills is a leading food manufacturer and marketer of branded consumer foods generating almost USD\$15bn of sales annually. It can trace its origins back 150 years when it operated two flour mills. General Mills sells a broad range of products including ready to eat cereal, refrigerated yoghurt, ready to serve soup, dry dinners, shelf and frozen vegetables and many more products that are important categories for retailers. General Mills has a strong brand portfolio with a leading position (either first or second “category captain”) in key categories. They are second in cereals in the U.S. with 31% market share led by its Cheerios brand and its Progresso brand has a 35% share in the ready to eat soup market. Its portfolio of leading meal brands also includes names such as Hamburger Helper, Old El Paso, Green Giant, Betty Crocker and Yoplait.

General Mills is still a U.S. centric company with more than 75% of sales generated domestically. With the conglomerate boom in the 1960s and 1970s, General Mills lost focus and moved into toys, restaurants and retailing. Subsequently, General Mills spent the following decades selling off these businesses rather than expanding globally. 2001 was a significant year as General Mills greatly expanded its international operations with the acquisition of Pillsbury and has since grown international sales more than three-fold, generating more than USD\$2.5b annually. General Mills sells its cereals internationally through a joint venture with Nestle called Cereal Partners Worldwide (CPW). CPW was established in 1991 and it combines the strengths of General Mills’ brands and Nestlé’s global distribution network. CPW has sales of approximately USD\$1.4bn and is an important growth driver as per capita consumption of cereal is low in many parts of the world compared with the U.S. and Australian levels. For example, annual per capita consumption in France is 1.9kg and Brazil 0.1kg compared with the U.S. which consumes 4.2kg per year.

In the U.S. food consumption outside the home has grown from 30% of dollars spent on food to almost 50% over the last 50 years as depicted in the graph below. We believe that the recession has stabilised this trend as consumers seek value and as unemployment continues to trend upwards. General Mills has benefited already and will continue to benefit with its range of affordable foods, for example, a bowl of cereal with milk costs 50c and a serving of Progresso soup costs \$1.17.



Source: U.S Department of Agriculture Economic Research

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In 2005 the General Mills' management team was quick to identify the need to manage costs as emerging market demand was growing rapidly which resulted in higher agricultural commodity prices. The management team developed Holistic Margin Management (HMM) which is a way of managing the cost structure more holistically as the supply chain operation was not going to be able to carry total responsibility for lowering the cost structure. Examples of HMM practices include moving away from multicoloured Yoplait lids which saved \$2m a year and saving \$5m a year from mixing chocolate chips in with cookie dough rather than sprinkling chocolate chips on top. There are many more examples, such as using smaller packaging, centralising product development and raw material purchasing, which have reduced the cost base. General Mills have used the savings generated from HMM practices to offset cost inflation and protect margins as seen by EBIT margins declining less than 4% off its peak in 2005, despite facing 30% plus input cost inflation over the same period.

General Mills has rebounded 50% off its lows in March driven by strong results. Whilst we are bullish about agricultural commodities long term, General Mills is the "best in class" operator and has shown that it can manage through an inflationary environment. General Mills trades on a forward PE of 15x, generates almost \$1.4bn of FCF and has consensus EPS growth of 18% for 2010.

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