

CI GLOBAL EQUITIES FUND QUARTERLY REPORT



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

JUNE 2008

"Not everything that can be counted counts, not everything that counts can be counted" Einstein

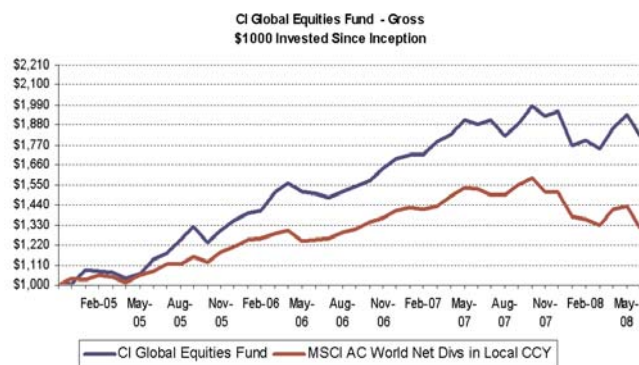
"To every human problem there is an easy solution that is neat, plausible and wrong" HL Menchen

"As I grow older, I pay less attention to what men say. I just watch what they do". Andrew Carnegie

PORTFOLIO PERFORMANCE

	PORTFOLIO	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	4.41%	-1.09%	5.50%
ROLLING 6 MONTHS	-6.76%	-12.76%	6.00%
ROLLING 1 YEAR	-3.32%	-14.04%	10.72%
ROLLING 2 YEAR	10.15%	2.78%	7.37%
ROLLING 3 YEAR	16.94%	7.11%	9.83%
SINCE INCEPTION*	18.26%	7.96%	10.30%
SINCE INCEPTION^	82.30%	31.55%	50.75%

* Annualised
^ Cumulative (1 December 2004)



The CI Global Equities Fund has returned 4.41% for the last quarter this fiscal year, against the MSCI All Countries World Net Dividends in Local Currency which was down -1.09%. The return for the 2008 financial year was -3.32% which was a +10.72% outperformance of the MSCI which sank -14.04%.

At present there are 41 stocks in the portfolio and we have a cash position of 7.5%. The top 10 positions are BG Group 4.7%, Agrium 4.2%, EnCana Corp 4.2%, SGS 3.9%, FPL Group 3.9%, Reckitt Benckiser 3.6%, Covidien 3.4%, Tesco 3.3%, Israel Chemicals Ltd 3.2%, Suncor Energy 2.9%. Our smallest position is Esprit at 0.7%. By virtue of their relative performance both Energy and Materials are our biggest overweights, followed by Healthcare and Utilities. We are still significantly underweight Financials and Information Technology. Our larger stock weightings have only changed as a result of BG Group, Agrium, EnCana, ICL and Suncor's excellent performances during this quarter. We have not changed the core of the portfolio materially over the last quarter, although we have trimmed and changed some of the peripheral holdings to reflect the environment we see in the markets currently.

CI portfolio managers have travelled to China, Hong Kong and Thailand this quarter. Although we have not traded as a result of these trips, they have confirmed existing positions and aided our knowledge on the region and the macro economic issues facing it, the major ones of course being inflation and the downturn in the U.S. economy.

This month's stock discussion will draw attention to the Testing, Inspection and Certification industry. The CI Global Equities Fund has a long term position in SGS Société Générale de Surveillance SA, a Swiss company that is the global leader in this area.

The TIC industry has over the past few years benefitted from the convergence of various macro economic trends. Although generally aligned to global economic growth, the driver of the industry is international trade and to be precise the globalisation of supply chains. Finished products are often comprised of materials and parts sourced from manufacturers and suppliers from around the world. Managing a myriad of suppliers and products across a global supply chain is a hugely complex task. Companies are obviously exposed to hiccups and problems along the chain and the quality of the end products is only as good as those that comprise them. The materials that are used in the manufacturing, the provenance of the goods, the correct quantities of items all need to be assured particularly if trust is not prevalent. This is where a TIC company with a global footprint like SGS can excel in the management of risk involved in supply chains.

On a similar issue, companies are perpetually forced to adhere to constantly evolving regulations as part of their day to day business. This can be to standardise across countries, respond to new issues such as pollution or environmental concerns, or to create certifications for standards such as health and safety. For example in Europe REACH - Registration, Evaluation and Authorisation of Chemicals Directive was designed to manage the movement of chemicals across its borders. Similarly WEEE (Waste Electrical and Electronic directive) was created to limit electronic waste's impact on the environment. Compliance with numerous local and international regulations and standards is necessary to avoid incidents such as that which befell Mattel (a major U.S. toy manufacturer) in 2007 when large batches of products had to be recalled when it was found the Chinese manufacturer had used a lead-based paint. Public mistakes such as this one are very bad for the brand and reputation. At the time of the incident Mattel performed their own testing.

The services on offer range from the lower margin, labour intensive on-site certification and inspection through to the high value added analysis of substances in laboratories (see Allan Says... below). A global supply chain has various points along it which needs checks and validation of cargoes, requiring inspectors. Many governments outsource their inspecting, for example container scanning at trade borders, or forestry management and timber validation. The automotive industry is beset by safety regulations involving their products which again have to be managed on a global level. Many pharmaceutical drug manufacturers in North America source their Active Pharmaceutical Ingredients from Latin America or Asia and these have to be verified as part of the trade. The agricultural industry needs services such as testing seeds and quality controlling of produce. Anti-contamination and chemical analysis are examples of necessary services required by the oil and gas industry and miners need geochemical analysis on deposits.

SGS themselves are very well placed in their industry to benefit from trends in TIC. Although not necessarily the leader in any particular country, they are the largest globally and by far the most diverse. The main attraction to SGS as an investment is their long list of growth options. Technological

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change in the way analysis is performed or increased complexity due to regulatory change allow them to offer a greater array of services per client. Technology from one sector can cross-pollinate to another, for example analytical processes originally designed for the Oil & Gas industry are now being used in cosmetics in Consumer Testing. As the TIC outsourcing model becomes globally accepted, more industries and government departments choose to embrace their services giving more client opportunities, they already have around 90,000. For example the US Department of Agriculture may choose to outsource their mandatory inspecting, this would be a huge opportunity. As their clients globalise it gives SGS the ability to globalise with them, establish a greater geographical footprint and therefore service more clients. As SGS become more integrated into the supply chain it allows them to obviously offer services along the entire length, however the key target is to move up the value chain into the decision making of the client, before any commercial transactions have been enacted. An important point is TIC is a tiny fraction of the overall cost of a supply chain, this is not to suggest they have strong pricing power, it means though that they are better able to offer more services.

The TIC market is extremely fragmented globally, the top three companies (SGS, Intertek, Bureau Veritas) account for only around 20%. The larger players have huge scope to bring consolidation to the industry as many players are small, geographically narrow, offering niche services for clients. SGS are in a net cash position and have only a relatively tiny amount of debt. By being diverse across several industries, they are able to take advantage of the high growth areas for TIC, which unsurprisingly are in Oil Gas & Chemicals, Minerals Services and Consumer Testing. Balance sheet strength, global footprint, latent growth optionality, diversity of client base and prominent market position in a growth industry make SGS typical of the type of company in which we seek to invest.

Allan says... Analyse this

The Life Sciences testing times

An industry that is also benefiting from increasing testing practices as well as greater healthcare spend is the life science tools and services industry. This group of companies supplies equipment, consumables, software and services to labs all over the world. The life science industry essentially serves pharmaceutical companies, biotech companies and university labs to aid biology research and drug development. The equipment providers benefit from investment in drug research as well as growth in drug sales without having the product and reimbursement risks that comes with selling drugs to the public.

A key driver of the life science industry is the heavy research & development budgets of drug manufacturers. R&D spending is estimated at 15% of the \$600 billion global drug market, creating a \$90 billion R&D market to sell into. With total drug sales growing at 6% year on year and R&D estimated to remain at least 15% of drug sales, the equipment providers will be a stable beneficiary. Pharmaceutical companies face a period of patent expirations on key drugs and are investing heavily to develop their next blockbuster and growth driver. In addition, the cost of developing a new drug is growing as biotech's become the core focus for drug manufacturers. Biotech's differ from traditional pharmaceuticals in that they are produced using living organisms rather than chemical compounds. They are more complex and difficult to develop and require more R&D than the traditional pharmaceutical.

Innovation is also a key component of demand for life science products. Complex research requires advanced and expensive equipment. Improvements in stem cell research, cancer research and human genome projects continue to expand the market size. Other drivers include growth in generic manufacturers, new labs opening up in the emerging world and continued outsourcing of biopharma services also support a positive environment for the equipment manufacturers. So too, tougher FDA regulations require greater testing requirements to ensure the efficacy of drugs which has resulted in further demand for equipment.

An important note is that a significant portion of revenues for companies in the life science industry comes from consumables and services. This provides stable and recurring cash flows based on their customers operating costs. The biotech and pharma sectors are spending big to build up their drug pipelines in the face of slower sales and looming patent expirations on key blockbuster drugs. Innovation combined with a stricter regulatory environment which demands greater proof of drug efficacy and safety creates additional testing requirements and consumption of consumables.

More recently the end markets have expanded to include food and beverage companies, petrochemical companies, hospitals and many others as key customers. The equipment providers have been able to take instruments used in labs and apply them in the industrial sector. Expanding current instruments into food, water, carbon, product quality and forensic testing has added other attractive growth areas.

Analyse That!

The CI Global Equities Fund has taken a position in Thermo Fisher Scientific, the leader in the life sciences industry. With \$10bn of sales Thermo Fisher Scientific is the market leader with the broadest portfolio of tools and equipment to serve their customers needs. Created through the merger of Thermo Electron and Fisher Scientific in 2006, the merger combined Thermo's analytical capabilities with Fisher's global distribution network to create a leading one stop shop for customers. Thermo is well placed with its excellent free cash flow generation and strong balance sheet to build up its portfolio of products and geographic presence through organic investments and acquisitions. With the continued growth in healthcare and research spending and little dependence on the overall economy, we believe that Thermo and its peers have a promising future ahead.

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