

CI GLOBAL EQUITIES FUND QUARTERLY REPORT



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

MARCH 2009

"When prosperity comes, do not use all of it". Confucius

"Owners of capital will stimulate working class to buy more and more of expensive goods, houses and technology, pushing them to take more and more expensive credits, until their debt becomes unbearable. The unpaid debt will lead to bankruptcy of banks which will have to be nationalised and State will have to take the road which will eventually lead to communism" Karl Marx 1867

"Our money will not be spent on dealing with bubbles or clearing up trash like Western countries. Our money will be spent exclusively on promoting economic growth" Li Deshui, China's former Director of the National Bureau of Statistics

PORTFOLIO PERFORMANCE - GROSS

	PORTFOLIO	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	-4.74%	-8.72%	3.98%
ROLLING 6 MONTHS	-25.16%	-27.69%	2.53%
ROLLING 1 YEAR	-33.08%	-37.42%	4.34%
ROLLING 2 YEAR	-19.17%	-23.88%	4.71%
ROLLING 3 YEAR	-8.12%	-13.46%	5.34%
SINCE INCEPTION*	3.66%	-4.15%	7.81%
SINCE INCEPTION^	16.85%	-16.77%	33.62%

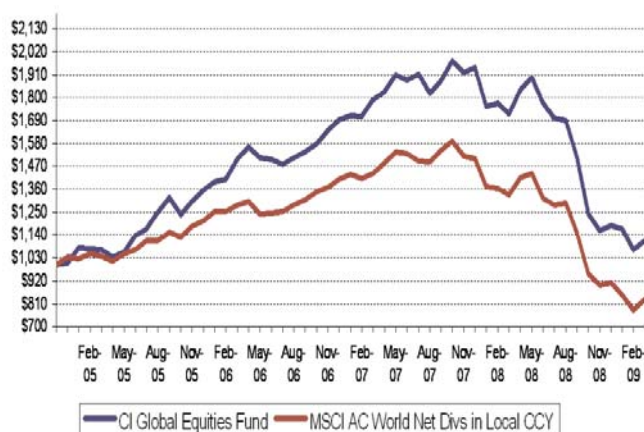
* Annualised

^ Cumulative (1 December 2004)

For the first calendar quarter of 2009, the CI Global Equities Fund (Hedged) returned -4.74% while its benchmark, the MSCI AC World Net Divs in Local Currency, returned -8.72%. The CI Global Equities Fund (Un-Hedged) returned -6.41% while its benchmark, the MSCI AC World Net Divs AUD, returned -10.39%.

We currently hold 41 stocks in the portfolio and the largest ten positions are FPL Group, Standard Chartered, BG Group, Tesco, Reckitt Benckiser, Roche, QBE, SGS, Red Electrica and Exxon Mobil. From an industry point of view, the portfolio is structured the same as it was three months ago. The only changes we have made are to dip our toes into Information Technology and further cement our positions in Telecommunications. The I.T. industry, particularly from an enterprise solutions point of view, is consolidating rapidly. The major players – IBM, Hewlett Packard, Oracle, Microsoft and Google all have very strong balance sheets and are sitting on valuations not seen for decades in some cases. We have taken positions in IBM and HP and will add further if the situation allows.

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



The top contributors to out-performance were BG Group, Israel Chemicals, SGS, Reckitt Benckiser and FPL Group. The bottom contributors to under-performance were QBE, Procter & Gamble, Nippon Telegraph & Telephone Corp, Red Electrica, Lockheed Martin and Johnson & Johnson.

Reckitt Benckiser –“ In labour-saving homes, with care”

As usual, our main topic is not the state of macroeconomic affairs and the doom and gloom that currently goes hand in hand with it, but rather a focus on one of the companies that underpin the core holdings in the portfolio. This quarter we are discussing the UK based fast moving consumer goods company Reckitt Benckiser (pronounced Benck-ee-zer). Reckitt operates in two general categories – Home Care and Health & Personal Care providing 64% and 26% of sales respectively.

The Home Care and Health & Personal Care categories are enticing from an investment perspective for several reasons. The long term historical average growth rate for Reckitt's markets is 4%, currently this splits between Europe and North America at 2% and emerging markets at +10%. The market is mature in developed regions, which has meant that operators there have had the cash flow to finance purchases and move into developing regions in search of growth. There is a high degree of brand loyalty to the space, unlike other fast moving categories such as food and beverages. This is shown by private label penetration of only around 13% in Europe and about 6% in North America. On average only 5-6% of the weekly household budget is spent on the sectors in which Reckitt operates, meaning costs can be passed through more easily in times of inflation without detrimentally affecting consumer behaviour. Furthermore, historically the demand for the products has been particularly less cyclical in nature than many others due to their every day needs aspect.

UNHEDGED PORTFOLIO PERFORMANCE - GROSS

	PORTFOLIO	BENCHMARK	VALUE ADDED
1 MONTH	-1.98%	-0.48%	-1.50%
ROLLING 3 MONTHS	-6.41%	-10.39%	3.98%
ROLLING 6 MONTHS	-15.84%	-21.30%	5.46%
SINCE INCEPTION*	-19.86%	-24.81%	4.95%
SINCE INCEPTION^	-19.86%	-24.81%	4.95%

* Annualised

^ Cumulative (1 September 2008)

We have previously written at length about the Health and Personal Care sector and it is a long term favourite of Cooper Investors. A highly

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fragmented industry, populated by monolithic pharmaceutical companies and fast moving consumer goods companies such as Reckitt, provides those that are focused the opportunity to reap big rewards. Reckitt has made a number of excellent acquisitions in this space such as Adams Respiratory Therapeutics (Mucinex) last year and Boots Healthcare International (Nurofen & Strepsils) in 2005. This industry is symbolised by the Over-The-Counter healthcare products that are benefiting globally by a retrenchment of regulations and therefore liberalising of markets and distribution channels. Along with ongoing productivity improvements, the move towards the OTC market has improved Reckitt's operating margin around 10 points in this decade alone.

Barry Scott appeal

Reckitt have a simple strategy, focus on a handful of core brands and sell them well. This has proved remarkably successful. These 17 "Power Brands" accounted for 62% of the 2008 revenue and likewise, the lion's share of media and advertising spend. These brands are all either first or second globally in their specific categories and most are globally recognisable such as Vanish (Napisan), Dettol, Harpic, Finish, Air Wick, Mortein, Strepsils, Nurofen and Gaviscon. The key to Reckitt's portfolio of brands is functionality rather than beauty, differentiating it from a number of peers who in recent years have moved head-long into the latter category. As is the nature of the fast moving consumer goods industry, investment in the brands is critical and Reckitt invests heavily, over 12% of revenue last year went on media and advertising, which is one of the highest relative ratios amongst peers.

The clear driver of Reckitt's success has been the management team, led by Bart Becht. Becht has been at the company about twenty years and CEO for ten. The majority of the team were together before the merger between Reckitt & Colman and Benckiser NV in 1999 and have significant equity stakes in the company. Reckitt operates with small and nimble teams, using a flat management structure that encourages innovation, entrepreneurialism and is not afraid of failure – the Harpic battery powered toilet brush that was pulled just before it got to the shelves being a prime example of this. Becht describes the culture as "constructive conflict" meaning opinions and ideas are fought for and debated openly in the quest for continued innovation. Ultimately Reckitt are a marketing machine – one of the best. They have based their success on a strong portfolio of brands which they have taken globally to achieve benefits of scale using their industry leading skills of innovation, marketing and financial control.

The Reckitt team are renowned for micro-management of their working capital, one of the three performance criteria for executive remuneration, along with revenue and profitability, so much so that other management teams have attempted to emulate their style to varying degrees of success. Excellent working capital management and good cash flow coupled with a strong balance sheet have enabled them to take advantage of opportunities as they have arisen to broaden the portfolio. The payout ratio is the highest amongst their peers at 50% and currently they are as cheap on a price multiple as they have been at any time in the last 15 years. Reckitt Benckiser has been in the portfolio for many years and judging by its latest excellent results – especially compared to the lacklustre results of their peers, will be for many years to come.

Allan Says... "Mama don't take my Vodafone away"

This quarter we decided to increase our holding in the UK based Vodafone Group.

Vodafone is a unique telecommunications company in that it mainly operates wireless networks across a broad range of countries and regions. Vodafone has 280 million proportionate subscribers in 25 countries across Europe, Asia Pacific and Africa, enjoying predominantly number one or two positions. It is the second largest telecom group in the world based on subscribers behind China Mobile.

We view the latest actions taken by new CEO Vittorio Colao to cut costs and refocus the company as positive moves. Colao took over the CEO role in July 2008 from Arun Sarun and set a new strategy of maximising free cash flow. Under Sarun, Vodafone prioritised new markets across the world in the drive for growth, with profits and efficiency taking a somewhat back-seat in terms of importance. Colao's commitment to rationalising the company's operations is demonstrated by recent measures such as cuts in capital expenditure and wage freezes. The most recent action taken was a pan European site sharing agreement with Telefonica which will save both companies hundreds of millions of pounds over the next 10 years.

There is no doubt that the slowdown in the global economy has slowed the growth profile for Vodafone and the telecommunications industry as a whole. However, at the same time, competition in Europe is easing and several emerging market competitors are facing financing issues. In Europe the major telco providers Telefonica, Deutsche Telecom and France Telecom are all making similar moves to cut costs and focus on cash flow. There is little irrational behaviour occurring (such as price under-cutting) which bodes well for Vodafone as they should be able to retain their huge customer base with little need for price discounting.

Vodafone currently generates free cash flow in excess of £5 billion and trades on a forward year price to earnings multiple of 8 times and dividend yield of 6.5%. We feel that Vodafone has significant value latency given that the market puts little, if any, value on their associate holdings in their United States and French operations. In the U.S., Vodafone has a 45% share of Verizon Wireless of which Verizon Communications holds the remaining 55%. Verizon Wireless is the number one wireless provider in the United States based on subscribers, with 83 million subscribers and US\$45 billion of sales. In France Vodafone has a 44% stake in SFR, the number two wireless player, with 20 million subscribers (almost double that of Telstra's). These associates are currently not generating much cash inflow for Vodafone as they have been on a growth profile and have prioritised debt repayments. The current valuation does not appear to consider that Vodafone has a proportionate stake in the retained earnings of these companies, with the added possibility of dividends being paid in the coming years.

The commitment by Vodafone to its new strategy gives us confidence in our position in Vodafone, particularly given the strong free cash flow generation from its majority owned operations and the value of its associate holdings.

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