CI GLOBAL EQUITIES FUND
QUARTERLY REPORT

COOPER INVESTORS

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

MARCH 2010

"New Jerseyans want Mercedes Benz-level services, and they don't even want to pay Kia prices. The basic reality is, both as a nation and as a state, we have been living a lifestyle we can no longer afford. There are going to be wrenching adjustments that have to take place." James W. Hughes, a Rutgers University dean and public policy expert.

"This means, also, that the government must never try to prop up unsound business situations; it must never bail out or lend money to business firms in trouble. Doing this will simply prolong the agony and convert a sharp and quick depression phase into a lingering and chronic disease." Ludwig von Mises 1881-1972).

Market and Fund Performance

CI Global Fund - Hedged

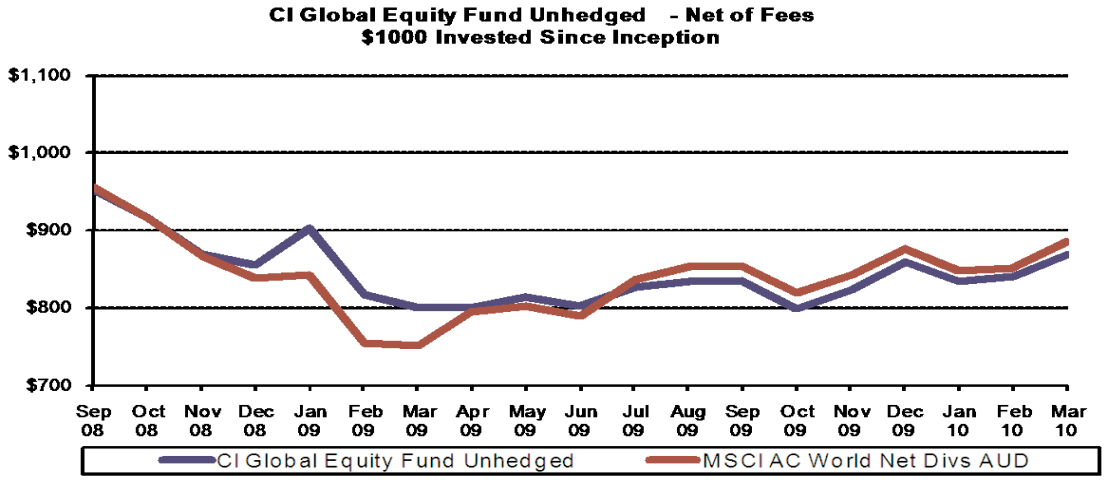
	**FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	5.16%	4.24%	0.92%
ROLLING 1 YEAR	36.07%	47.57%	-11.50%
ROLLING 2 YEAR	-4.58%	-3.91%	-0.67%
ROLLING 3 YEAR	-3.85%	-5.09%	1.24%
ROLLING 5 YEAR	8.24%	3.39%	4.85%
SINCE INCEPTION*	9.09%	3.93%	5.16%
SINCE INCEPTION^	58.99%	22.82%	36.17%

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

CI Global Fund - Unhedged

	**FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	1.30%	1.05%	0.25%
ROLLING 6 MONTHS	5.07%	3.75%	1.32%
ROLLING 1 YEAR	9.83%	17.70%	-7.87%
SINCE INCEPTION*	-7.76%	-7.45%	-0.31%
SINCE INCEPTION^	-11.98%	-11.51%	-0.47%

*Annualised
^Cumulative (1 September 2008)
** Before fees and expenses



The CI Global Equities Fund (Unhedged) returned 1.30% for the first quarter of 2010. This is compared with 1.05% for the MSCI AC World Net Dividends in AUD. The CI Global Equities Fund (Hedged) returned 5.16% compared with the MSCI AC World Net Dividends in Local Currency which returned 4.24%. The largest contributors to the portfolio's performance were Novo Nordisk, Shoprite, Standard Chartered, Wells Fargo and Reckitt Benckiser. In general the top performing industries and countries for the portfolio were a mix, however energy and non-base metals commodities were clear under-performers.

MARCH 2010

We hold 39 stocks in the portfolio and are fully invested with just over 1% held in cash. Our top ten largest positions are Wells Fargo (4.9%), Novo Nordisk, Hewlett-Packard, Oracle Corp, BG Group, Tesco PLC, SGS S.A., IBM, Standard Chartered and, Reckitt Benckiser (3.5%). Our smallest position is EnCana Corp (with 0.7%), athough in general we seek to have minimum positions no less than 1%. During the quarter we sold out of two positions and added three. Our new positions are as a result of the trip to Brazil and South Africa that we made during the quarter, which will be discussed below.

Observations from CI Visit to Brazil

Petroleo Brasileiro or Petrobras as it is commonly known is the national oil company of Brazil. It permeates all aspects of the energy cycle in Brazilian life – from an almost monopoly on oil production, to ownership of the energy transportation and distribution network across the country, to the largest petrol products marketing franchise nationwide. Furthermore it is of massive importance to the government as it provides almost 10% of GDP by way of income taxes, oil royalties, production taxes and petrol taxes. It is impossible to overstate its importance to the country, so much so that the government maintains just over 50% of the share voting rights in the company, and the chosen successor for the PT party by Lula – Dilma Rousseff is the chairwoman for the company. The government is unmistakably engaged in everything that Petrobras does. On the face of it this would make most investors run a mile – the government has a large hand in the capital allocation decisions, subcontracts are forced to be awarded to local players, petrol prices are restricted at the pump so often the company has made an unavoidable loss downstream while making record profits upstream, flexifuel targets (see below) impact Petrobras petrol marketing division directly and most importantly it could be perceived as an unwieldy beast with many layers of bureaucracy that bears the hallmarks of the worst aspects of government intervention.

On the other hand though, Petrobras has a myriad of positives going for it. It is sitting on one of the largest oil finds in decades – so far, and this is potentially the tip of the iceberg, it calculates it has around 35 billion barrels of oil. Our analysis calculates that oil is sitting on the balance sheet for around US$7 per barrel – when taking into account the special transfer of rights (see below). That is less than half of Exxon's value – a comparable company which is also in the portfolio. Importantly, though, they are intending to at least double production in the next 10 years, there is no other publicly listed super major that comes near this. Petrobras is a well run company, it has the pick of engineers in Brazil due to its prestige employer status, its operating and developing efficiency metrics are on a par with the leading peers internationally of any scale, and it is widely regarded within the industry as the premier deep-water specialist oil operator anywhere. In 2009 profit from exploration and production was 2/3 of the total operating profit, and some years can be almost all of it. E&P drives the strategy for the company, and it is this where they are leaders in their field.

At this point we would like to explain a little about our investment process. The investment philosophy within Cooper Investors is for small teams of analysts, this follows through to the CI Global Equities Fund also. Therefore a result of this – as dictated by the laws of physics – is that a small team of analysts can't be everywhere at once. A second and no less important philosophy of the Global Equities Fund is that sitting in Melbourne decreases (and hopefully cuts out altogether) noise that otherwise would come from constant chatter within a local market. It makes it easier to think and plan long term when you are not "in the thick of it". We have to make constant appraisal of the comparative investment cases for companies the world over therefore, in the name of clarity of thought, we seek to avoid exposure to day to day gossip – it is unhelpful and also unnecessary. The other side of the coin, though, is that it is absolutely imperative that we go visit the companies face to face – there are two main reasons for this. The first is the touchy feely side of qualitative investing and literally owning something, is much harder to do without some sort of compartmentalisation of what the company at least "looks" like. The second is the upfront conversations that only happen when insitu. We have countless examples of meetings where we have uncovered something through diagramatic representation or from the company attendee being more frank than they would normally have been

on a telephone call. It is also surprising still how many companies, just as a matter of course, give more indepth presentations to investors that turn up at their door, than they publish on their websites. It was one of these meetings that we had with Petrobras. It was only through physically being in the room with the representative that we could belabour points and really get to grips with processes affecting Petrobras that were explained using the aid of diagrams. The single meeting went for two and a half hours, a record for the Global Equities Fund.

Petrobras have huge reserves of oil and gas. This is not new news in itself. We were lucky enough to own the stock a few years ago when they discovered them, however we subsequently sold out for a number of reasons and since then have followed closely. The one thing that has really prevented us returning to the company was the machinations of the government and the seemingly impenetrable discussions on what to do with the oil and who will benefit from it. Going to Brazil, and seeing how intricately linked to the economy Petrobras is, its impossible not to come to the conclusion that they are a major player in the future success or otherwise of the country. The country will be set for generations from the income derived from the pre-salt oil finds, the money will go into a fund and politicians will only be allowed to spend the interest. The country will become a serious net exporter of crude (2009 was the first year Brazil was a net exporter), and once the upgrading is complete the refining industry will be in a position to reduce high value imported petroleum products. The coastal states of Rio de Janeiro, São Paulo and Espírito Santo will receive huge incomes off the back of the production. Petrobras so far calculate they have around 25-30 billion barrels of reserves when including Tupi, Iara, Guará and Whale's Park. All indications from well tests so far are that this is correct and, if anything, conservative. The pre-salt area is vast and these wells are a small part of it. The government is to transfer an additional 5 billion barrels to Petrobras as part of a special transfer of rights, it is the capital raising for this that has put many investors off due to the complexity involved in the negotiation process between the government, Congress and Petrobras and the way in which the government has halted all other auctions on new exploration rights. Visiting Petrobras in Brazil helped us understand and get comfortable with both the government's position and the process around which these negotiations to deal with the oil are taking place. The government has devised a mechanism for ensuring Petrobras are at the front of all oil development in Brazil for years to come, and the visit made it clear to us that they are dependant on international investment to achieve this aim. We are comfortable that the government has to act in the interest of foreign investors on this issue and subsequently we have retaken a position in Petrobras. To us this vindicates our investment process and philosophy.

Allan says... Churrasco & Caipirinhas

Agriculture and agribusiness is central to the Brazilian economy. It employs 20% of the country's people and contributes 25% of the Brazilian GDP. Brazil is the number one producer of coffee, tropical fruits and sugar and a major producer of soybeans, beef, poultry, pork, corn and cotton. Brazil produces more than it consumes and is filling the role of global food provider. Brazil is currently the largest exporter of sugar, orange juice, coffee and chicken. According to the USDA Brazilian agricultural exports have grown at 7% per annum over last 15 years and reached USD$55.6bn in 2008, 28% of total Brazilian exports.

Brazil's low cost production and ability to increase yields and acreage serves it well as a food supplier. Brazil's vast water supply is a also a key advantage. Brazil has double the amount of available water as India and only 20% of its population, a great advantage as one executive of a food processor simply explained. "When you're exporting chickens you're exporting water and corn". With over 70% of global water used by agriculture, limited water supplies may limit nations ability to feed themselves. In a recent article for the BBC, Nestle Chairman Peter Brabeck-Letmanthe discusses the potential for water shortages, "the harsh fact is that we will probably run out of water long before we run out of fuel …. global water requirements will grow by over 50% over the next 20 years".

Observations regarding the Brazilian agricultural sector:

- Brazilian beef producers have a competitive advantage over Australian and US producers as Brazilian cattle is grass fed with grain making up only 20% of the cost of production. In the US and Australia cattle is grain fed with

contributing 70% of the production cost.

- Beef is not yet an emerging market story. Pork and chicken are what emerging market consumers are eating as beef is still too expensive.
- Ethanol using sugar cane costs USD$45/barrel to produce in Brazil. Brazilian ethanol production costs are 30% lower than the US.
- 90% of new car sales in Brazil are flex fuel. Petrol stations have both petrol and ethanol pumps. The petrol price is regulated while ethanol is a free market. Ethanol parity is at 70% the cost of petrol on an energy basis.
- India is the major swing factor in the sugar price as China is self sufficient. This year India saw a deficit of 8m tonnes of sugar which heavily increased the traded sugar price. Prices are already pulling back from highs of 30c per pound towards the marginal production cost of approximately 17-18c per pound.
- Vale is buying international fertiliser assets to secure fertiliser supply for Brazilian farmers as there is a lack of fertiliser assets in Brazil, especially potash.
- The strong Real is having a negative affect on Brazilian farmers.

The portfolio maintains a small exposure to the agricultural sector through fertiliser producers Agrium and Mosaic, who are selling more of their product to Brazilian farmers and other emerging markets such as India, China and South East Asia. After a difficult year in which sales volumes plummeted and prices dropped the fertiliser producers are beginning to see a more “normal” environment. As the year moves on demand should continue to improve as North American producers reload their stocks and the Asian and Brazilian customers return to the market.

Addendum

The astute reader will notice that we have only talked about Brazil when in fact we visited South Africa as well. We came away very happy with our positions in South Africa and visited many companies that are well run, have excellent transparency and corporate governance and also very strong market positions in growth industries. We talked about Shoprite in the last quarterly and intend to discuss at length our position in MTN next quarter.

Terms and Conditions

Information contained in this publication
The opinions, advice, recommendations and other information contained in this publication, whether express or implied, are published or made by Cooper Investors Pty Limited (ABN 26 100 409 890), Australian Financial Services Licence (221794), and by its officers and employees (collectively "Cooper Investors") in good faith in relation to the facts known to it at the time of preparation. Cooper Investors has prepared this publication without consideration of the investment objectives, financial situation or particular needs of any individual investor, and you should not rely on the opinions, advice, recommendations and other information contained in this publication alone.
This publication contains general financial product advice only.

To whom this information is provided
This publication is only made available to persons who are wholesale clients within the meaning of section 761G of the Corporations Act 2001. This publication is supplied on the condition that it is not passed on to any person who is a retail client within the meaning of section 761G of the Corporations Act 2001.

Disclaimer and limitation of liability
To the maximum extent permitted by law, Cooper Investors will not be liable in any way for any loss or damage suffered by you through use or reliance on this information. Cooper Investors' liability for negligence, breach of contract or contravention of any law, which cannot be lawfully excluded, is limited, at Cooper Investors' option and to the maximum extent permitted by law, to resupplying this information or any part of it to you, or to paying for the resupply of this information or any part of it to you.

Copyright
Copyright in this publication is owned by Cooper Investors. You may use the information in this publication for your own personal use, but you must not (without Cooper Investors' consent) alter, reproduce or distribute any part of this publication, transmit it to any other person or incorporate the information into any other document.