# CI GLOBAL EQUITIES FUND
# QUARTERLY REPORT

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

## SEPTEMBER 2011

***"Christmas is a time when kids tell Santa what they want and adults pay for it. Deficits are when adults tell the government what they want and their kids pay for it." Richard Lamm.***

***"Everyone is claiming to be a boy scout while accusing others of juvenile delinquency." Bank of Canada Governor, Mark Carney's response to an allegation of anti-Americanism by angry banker, Jamie Dimon.***

***"Among the finalists, he was the best of a very unattractive group." Hewlett-Packard board member's ringing endorsement of the soon-ousted CEO (who 8 out of 12 board members refused to interview during the selection process).***

***"Bryan, put it this way: if [Greece] were a private company, there'd be a fire there on Saturday at about four o'clock in the morning." John Clarke.***

## Market and Fund Performance

### CI Global Equities Fund - hedged

| | ****FUND** | **BENCHMARK** | **VALUE ADDED** |
|---|---|---|---|
| ROLLING 3 MONTHS | -8.67% | -14.82% | 6.15% |
| ROLLING 1 YEAR | 5.32% | -5.99% | 11.31% |
| ROLLING 2 YEAR | 8.98% | 0.46% | 8.52% |
| ROLLING 3 YEAR | 2.55% | -0.49% | 3.04% |
| ROLLING 5 YEAR | 1.80% | -2.81% | 4.61% |
| SINCE INCEPTION* | 7.93% | 1.86% | 6.07% |
| SINCE INCEPTION^ | 68.38% | 13.43% | 54.95% |

*Annualised

^Cumulative (1 December 2004)

**Before fees and expenses

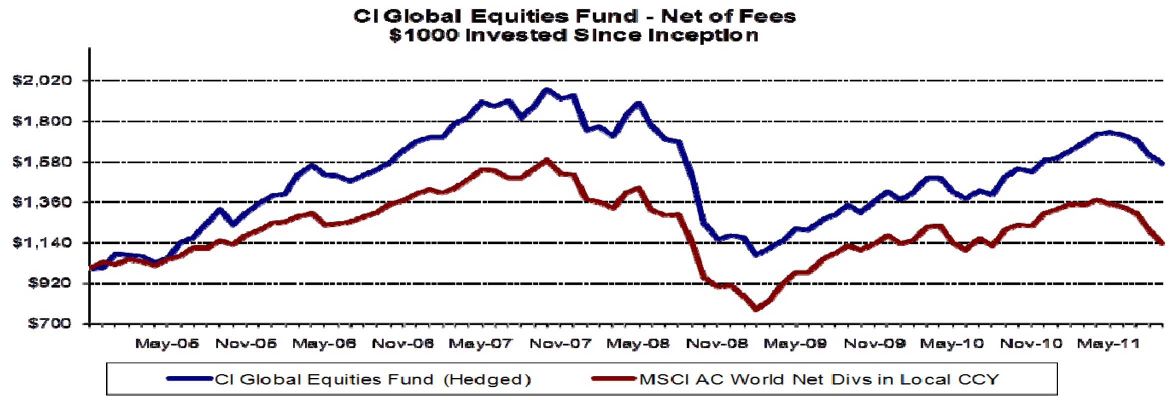
### CI Global Equities Fund - unhedged

| | ****FUND** | **BENCHMARK** | **VALUE ADDED** |
|---|---|---|---|
| ROLLING 3 MONTHS | -3.06% | -9.04% | 5.98% |
| ROLLING 1 YEAR | 1.92% | -6.37% | 8.29% |
| ROLLING 2 YEAR | 1.69% | -3.81% | 5.50% |
| ROLLING 3 YEAR | -3.11 | -6.17 | 3.06% |
| SINCE INCEPTION* | -4.56% | -7.40% | 2.84% |
| SINCE INCEPTION^ | -13.39% | -21.08% | 7.69% |

*Annualised

^Cumulative (1 September 2008)

**Before fees and expenses



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For the September quarter of 2011 the CI Global Equities Fund (Unhedged) returned –3.06% compared with the MSCI World All Countries Net Divs in AUD of –9.04% , an out-performance of 5.98%. The CI Global Equities Fund (Hedged) returned –8.67% compared with the MSCI World All Countries Net Divs in Local Currency of 14.82%, an out-performance of 6.15%. The largest contributors for the three months were Apple, Shoprite Holdings, General Mills, IBM and Ross Stores. The largest detractors were CSX Corp, Western Digital, Itau Unibanco, Thermo Fisher and Standard Chartered. Once again markets have been extremely volatile as fear abounds. We have been buying as opportunities have arisen. Several of our high conviction positions have been increased as we see low valuations on industry leading companies with robust business models, strong balance sheets and growth opportunities. We are confident that the reasonable valuations on the stocks within the portfolio will drive returns for some time.

## The Portfolio

The portfolio currently comprises 32 stocks and has a cash weighting of 3.2%. The Funds each have 53.7% invested in the United States, 14.6% in the U.K., 13.9% in EMEA ex-UK, 10.8% in Asia and 3.6% in South America. Largest over-weight industries remain Information Technology, Consumer Staples and Healthcare. Our largest under-weight industries are Telecommunications, Utilities and Consumer Discretionary. The largest position in the Funds is Oracle at 6.6% and the smallest is SGS at 0.7%. This quarter saw five stocks sold from the portfolio and two new positions.

Of the stocks exiting the portfolio, we sold Covidien, which has been in the portfolio since its spin-off from Tyco in 2007. We became concerned with the outlook for its business as funding for hospital and surgical supplies is under serious threat and accordingly sold as the stock approached our target price. Telefonica's resistance to lowering its debt levels after its acquisition of Vivo in Brazil forced us to sell our holding as we are uncomfortable with their balance sheet position. Tiger Brands was a small holding and we chose to deploy our capital elsewhere after the stock had risen.

Amore Pacific Group was sold due to good performance. It is a holding company for Amorepacific, which is a Korean cosmetics company, and had been trading at a discount to the listed shares of Amorepacific. Recently, this discount has narrowed significantly through strong performance of the holding stock, and given the rich multiple on Amorepacific, we felt it prudent to sell. We replaced Amore Pacific Group with Parkson Holdings from Malaysia. Parkson has been a leading department store owner in China, Malaysia and Vietnam for three decades and operate a concessionaire model. They are on a P/E of 13 with net cash on the balance sheet and growing revenues in double digits.

A new addition to the portfolio this quarter was UnitedHealth Group, the largest managed health care organisation in the United States. United have 40 million members who pay a monthly fee and, in return, United provide those members with a full range of health care services – access to doctors, hospitals, dentists and so forth. We have historically invested in the suppliers to the healthcare sector - the pharmaceutical and medical device manufacturers - as they have been the most profitable areas in healthcare. However, with our last few trips to the U.S. we are seeing healthcare funding come under serious questioning, spurred on by federal reform. We came away with a belief that the players that can increase productivity and reduce costs will be rewarded. The federal and state governments currently pay for the healthcare of 48 million Medicare (those over 65 years old) and 58 million Medicaid (low income) individuals. These governments are increasing the level of outsourcing of healthcare to managed care organisations to reduce the cost of providing healthcare for these individuals. As United reduce inefficiencies in the system, by more proactively managing an individual's care, they will be a beneficiary and continue to add members. United has a strong track record, low gearing and trades on a PE of 10x.

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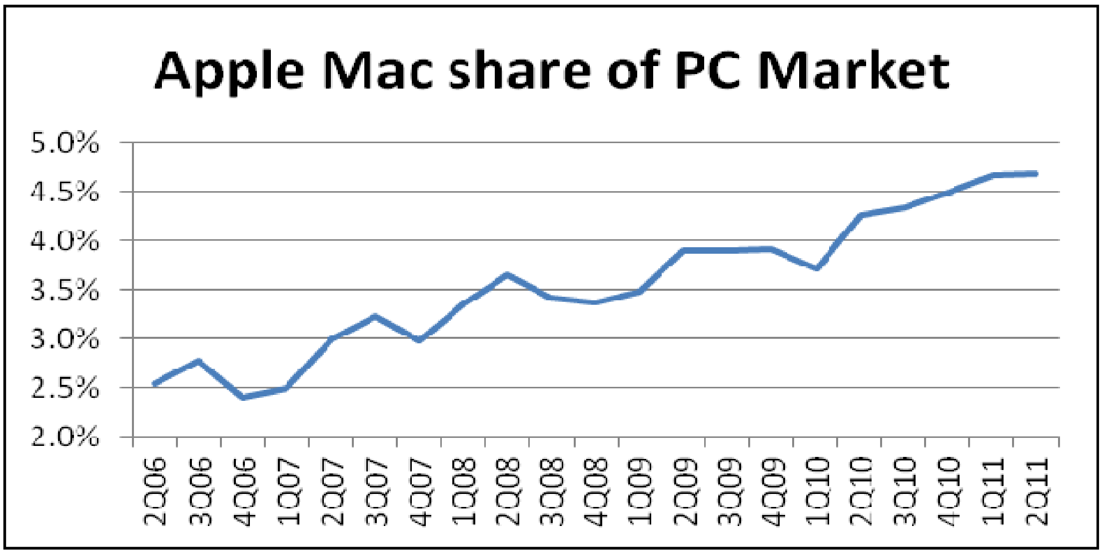
## Stock News

Like no other company Apple was the product of its co-founder Steve Jobs. There was sad news recently when he finally succumbed to illness. Subsequently there has been a lot written on what Apple will be like without him. One of our largest positions, Apple had been languishing for the first half of this year on reaction to health news on Jobs, while its sales of iPhones and iPads had sky-rocketed. This quarter has seen the stock rise 20% in a down market, to become the largest company in the world based on market capitalisation – overtaking Exxon Mobil.

For us to get comfortable with Apple as an investment initially we had to be comfortable with the talent that supported Jobs and to pierce through the fabled "reality distortion field" that accompanied him. It is quite clear that Apple's executive bench is incredibly strong and deep. As a result we were confident that Apple could prosper even without Jobs and over the course of the year have increased the weighting when the opportunity has arisen. There are several reasons why we like Apple, but one of our major reasons seems to have been overlooked by most commentators. While the hullabaloo is focused on phones and tablets growth, Apple have quietly doubled their share of the personal computer market with their Apple Mac.




*Source– IDC, Cooper Investors*

Apple is rapidly replacing Microsoft in the minds of the consumer, not just via phones and tablets – but at the heart of the home PC experience itself. This is likely to accelerate with the release of the Apple iCloud which is a hosted storage service that organises all Apple devices in the home. This will strengthen the Apple ecosystem to the detriment of Windows as it is likely that Microsoft will have no answer for at least 12 months (until Windows 8 is released). While Apple is conquering home computing, another often overlooked driver is the fact that a generation of school children are being raised on the Apple Mac (and not to mention a generation of toddlers on the iPad) as Apple has cemented its historically strong user base within schools. Apple has regained the ground it lost in the first half of last decade and is now around 50% of the US education market again. A generation that has grown up using Apple is good for the brand, but a generation that has grown up *relying* on Apple to organise and backup all their digital property is the hook that ensures loyalty. Another fact worth mentioning is that the largest telecommunications company in the world by subscribers with over 600m – China Mobile, is yet to sell the iPhone. If their customer base takes up the product the way every other wireless provider has done, it will surely be to the benefit of Apple. Apple is still on a 2011 P/E of 15, forecast to grow revenues double digits next year and has $76bn of cash and investments on the balance sheet with no debt.

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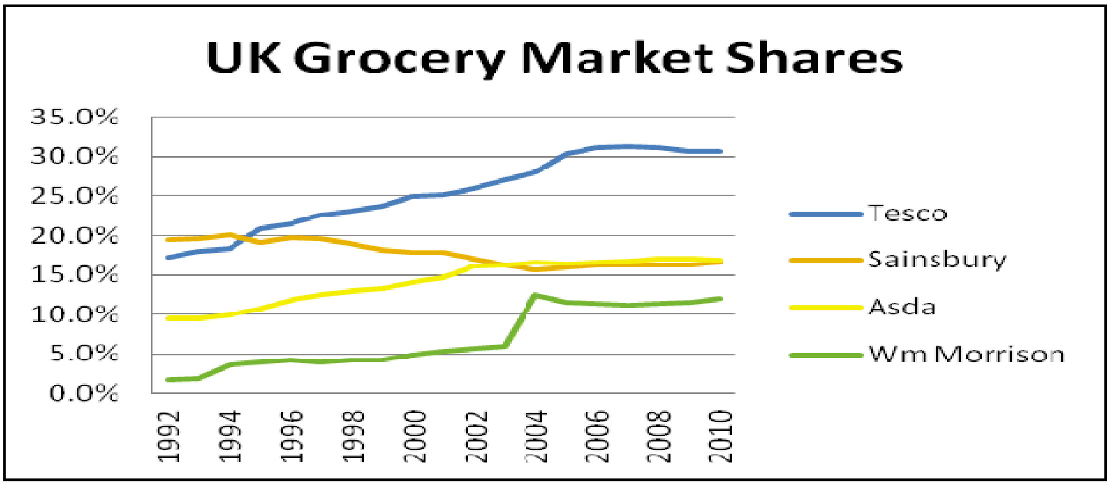
Dare we say it, but we have been buoyed by noises emanating from Tesco recently. The Funds have been a shareholder in Tesco for over 5 years now. The business has ticked along and, in our opinion, done all right considering the macro-economic circumstances of the period. The share price has, however, maintained a relentless march to nowhere and as a result the stock has de-rated. There have been plenty of questions over the strategy of the previous CEO, Sir Terry Leahy, the majority of which centred around a perceived over-stretching of Tesco's capabilities. A multi-faceted, international strategy seemingly became too complex to effectively run. One of the first things that the new CEO, Philip Clarke, did was to create a board to run the most important part of the business – the U.K. He brought several highly regarded executives back from international duties which immediately signified a change in focus within the organisation. This is important as the U.K., although less than a third of floor selling space, is 75% of profits. Tesco has recently announced that U.K. customer loyalty programs will be simplified, which will free up cash to invest back into prices – a clearly sensible strategic move.




*Source-TNS*

Encouragingly Tesco has simplified executive and director remuneration incentives, and noticeably embarked on a proactive, rather than the previously reactive, approach to both investors and the media. The most important thing that Clarke has done is to make it clear that there are no sacred cows. Leahy was criticised for his focus on growth for growth's sake. While clearly not in the mould of Carrefour in the 1990s, it was felt that there were certain things that Tesco probably didn't need to do. The unprofitable Japanese business was one of these, and now Clarke has decided it is to be sold. The effectiveness of the decisions taken on other areas of the business, such as Fresh & Easy in the U.S. or Tesco Direct, the catalogue business in the U.K., remains to be seen. Regardless though, these are the sort of moves that have pleased us as shareholders because simplification and clarity in corporate decision making are significant criteria for us as investors. We had moved to reduce the portfolio position in Tesco last year, however, with the confluence of events described and given the valuation, we have reaffirmed conviction on Tesco as an investment and it is again one of the largest positions in the portfolio. Tesco is currently trading on a forward P/E of 10 with a dividend yield of over 4% which we consider very attractive given its refocusing and longer term growth prospects.

## Market Observations and Outlook

This quarter we had a combined visit to the U.S. with members of the Cooper Investors Australian Equities team. We visited a wide range of companies, including stocks owned in the Global funds and the Australian equities funds, competitors to these companies and additional companies for new ideas and general research.

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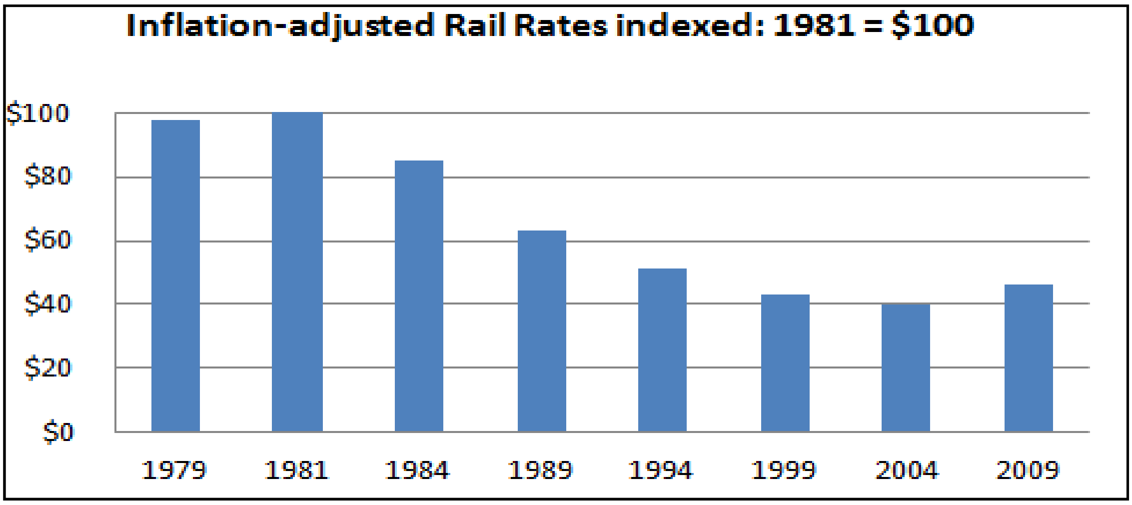
We visited CSX, a large position in the portfolio at their Jacksonville headquarters. CSX is one of two east coast railroads in the U.S. The U.S. highway system continues to be congested, allowing rail and CSX to take market share. Pricing has been the key to shareholder returns and with real rail prices still 50% below their 1980 price level, CSX can continue to take share and drive pricing simultaneously. Their share price has been hit hard on concerns of a double dip recession and it is one of our worst performing stocks for the quarter. We continue to see long term growth in the business and used the price drop as an opportunity to increase our stake as it trades on a single digit P/E and well below our DCF price.




*Source– Association of American Railroads*

Novo Nordisk, the leading manufacturer of insulin for diabetes, has been a core holding in the portfolio over the last four years. Management says that the short term competitive environment is the toughest in a decade as its main competitor, Eli Lilly, is being highly aggressive, on top of the burden of healthcare reform costs. However, the long term prospects for Novo Nordisk continue to look more and more favourable. In the U.S. the poorer population are most susceptible to diabetes while in the East it's the wealthier: two unfortunate but positive dynamics for their patient population. The emerging markets currently contribute 20% of sales but still pose an enormous opportunity as India alone has 90 million diabetics but constitutes less than 1% of Novo Nordisk's sales.

Other holdings we visited were Johnson & Johnson and Exxon Mobil. While big pharmaceutical companies are facing serious issues in upcoming patent expirations and an unsuccessful pipeline, JNJ has seen off the worst of its patent expirations and it has been successfully developing new drugs. JNJ trades on a P/E of 12 with $10 billion of cash on its balance sheet and a 3.8% dividend yield. Exxon Mobil has not had an asset impairment in the last decade, something unique in the industry. The XTO acquisition dilutes returns and the short term outlook for gas prices looks weak as there is an abundance of shale gas reserves in the U.S. However, Exxon is a disciplined long term investor and it is looking years ahead as it believes new power generation in the U.S. will be gas fired. The integration of XTO is a slow process but it appears to be on track. As people and technology are what Exxon acquired along with reserves, we are pleased that employee attrition has been minimal.

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