

CI GLOBAL EQUITIES FUND QUARTERLY REPORT



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

SEPTEMBER 2008

"Charlie Munger and I are of one mind in how we feel about derivatives and the trading activities that go with them: we view them as time bombs, both for the parties that deal in them and the economic system." Warren Buffett in the 2002 Berkshire Hathaway Annual Report

"There's no doubt that things feel better today, by a lot, than they did in March...the worst is likely to be behind us" 6th May 2008, Treasury Secretary Henry Paulson

"It's a safe banking system, a sound banking system. Our regulators are on top of it. This is a very manageable situation." 20th July 2008, Treasury Secretary Henry Paulson

Uncertainty is the only certainty there is, and knowing how to live with insecurity is the only security." John Allen Paulos

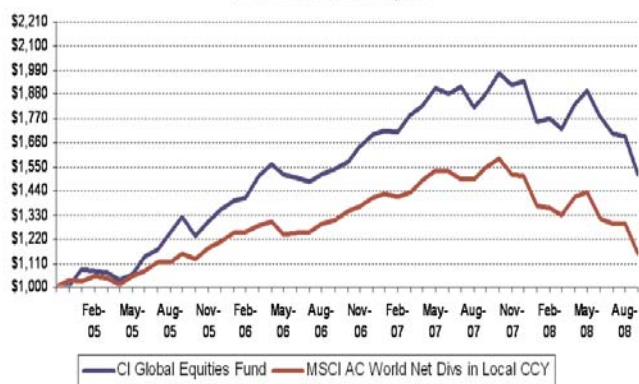
"And I sincerely believe, with you, that banking establishments are more dangerous than standing armies; and that the principle of spending money to be paid by posterity, under the name of funding, is but swindling futurity on a large scale." Thomas Jefferson in a letter to John Taylor (28 May 1816)

PORTFOLIO PERFORMANCE

	PORTFOLIO	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	-14.36%	-12.51%	-1.85%
ROLLING 6 MONTHS	-10.58%	-13.47%	2.89%
ROLLING 1 YEAR	-17.12%	-25.51%	8.39%
ROLLING 2 YEAR	0.68%	-6.18%	6.86%
ROLLING 3 YEAR	5.72%	-0.11%	5.83%
SINCE INCEPTION*	12.33%	3.74%	8.59%
SINCE INCEPTION^	56.13%	15.10%	41.03%

* Annualised
^ Cumulative (1 December 2004)

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



The CI Global Equity Fund has returned -14.36 for the first quarter this fiscal year, against the MSCI All Countries World Net Dividends in Local Currency which was down -12.51%. The fund suffered primarily because the sharp rise in the U.S. dollar had a negative effect on commodities and energy and also as a result of the deterioration of the global economy.

Currently, there are 36 stocks in the portfolio and we have a cash position of 8.7%. The top 10 positions are Reckitt Benckiser 6.0%, Tesco 5.8%, CME Group 5.8%, Covidien 5.7%, FPL Group 5.3%, SGS 5.2%, Procter & Gamble 4.7%, BG Group 4.7%, EnCana 4.5%, Red Electrica 4.0%. Our smallest position is Petrol Brasileiros (Petrobras) with 1.0%. We are overweight Healthcare, Consumer Staples and Utilities. We are significantly underweight Information Technology, Industrials and no surprises here, Financials. The

material changes to the portfolio have been to reduce our portfolio holdings in Energy due to the drastic nature of the changes in the global economy in the last 3 months and we have also reduced our Commodities exposures.

CI portfolio managers have travelled to North America, Singapore, Malaysia and Thailand this quarter. We discuss the North America trip this quarter in Allan Says... below.

Tesco PLC – Every Little Helps

It is relieving in these times to remember some stocks have actually gone up in the last 3 months. Hardy perennial of the fund, Tesco PLC, is a UK supermarket chain with significant international presence. They are currently the world's fourth largest retailer and have been a core holding since 2006.

Tesco dominate their home grocery market with 31.5% market share which is just under twice the size of their nearest competitors Asda and Sainsbury's. Like-for-like store sales have recently been growing around 3.5% per year which compare well with their peers, although they have conceded a little ground in market share in the last year. Tesco's store opening program in the UK however is bigger than all the competition combined. Tesco have been successful in all formats in the UK market, from 2,000ft² to over 100,000ft² and cater to all sections of customer from the lower price ranges such as Tesco Value that compete head to head with the discount stores such as Lidl and Aldi through to the higher quality range Tesco Finest which competes directly with Waitrose and Marks & Spencers. As a result of this Tesco is both a beneficiary and a loser of customers "trading down" during the weak retail environment currently in the UK.

Tesco has been a global leader in providing additional services around the basic model of the supermarket. They have been so dominant they have helped change the structure and competitive landscape of some industries, namely petrol retailing, music, video and bookselling. Tesco have pioneered the online grocery home delivery services along with their tesco.com portal. Tesco Personal Finance offers insurance, credit cards, loans and savings both online and in stores. The UK sales break down by 65% food, 4% clothing, 9% health & beauty, 8% other non-food, 13% petrol and 1% cafe, these above mentioned services comprise the other non-food.

The Toffee Men

Current CEO Sir Terry Leahy is regarded as a "tough and blunt" operator. He grew up in a maisonette in a council estate in Liverpool and was the only one of his siblings not to leave school at 16. He joined Tesco straight from university in 1979 as a marketing executive and worked his way up to become CEO in 1997. It has been said that trying to compete with Tesco under Leahy in the UK is like trying to fight a 500lb gorilla in a cage such is the nature of their domestic dominance. Tesco under Leahy have leveraged from this

SEPTEMBER 2008

position in their home market to compete on a global stage with retailing giants such as Wal-Mart, France's Carrefour and Germany's Metro. In 2000, 9.7% Tesco's sales were derived from outside the UK, by 2008 this was over 26%, in their interim results posted September 2008, 49% of their growth came from overseas.

Tesco have achieved a large successful footprint in high growth developing markets in Eastern Europe and Asia. The international business is aiming to achieve a like-for-like ROIC of over 15%, which is currently at 13%, however the three largest international operations Ireland, Thailand and Korea already enjoy this. Tesco have been so successful that where they have prospered at expense of locals, this has caused friction such as in Thailand. This growth has been both by acquisition and organic and Tesco have prospered in markets where their global peers have found the going hard, namely Korea and Japan. Tesco's strategy has been to enter new markets cautiously, attempting to offer a local variation rather than default store formats such as hypermarkets like others, this has generally translated well in the emerging markets. Last year Tesco entered the US retail market with their well publicised Fresh & Easy store format, which targets high density inner-city locations a format prevalent in Europe but less so across the Atlantic. It was the precision planning for these US stores that gained recognition when staff lived with American families for weeks to research their buying and eating habits. Tesco even built a full-scale store in a warehouse for consumer testing. Reaction to the new concept has been good so far, it has even prompted Wal-Mart to venture into unknown territory with a smaller store format to fight Tesco head-on. If Tesco succeeds in its format the rewards are potentially large, the US grocery retail market is huge and highly fragmented allowing them space to grow.

Liquidity, Liquidity, Liquidity

Tesco have almost £17 billion of real estate on their balance sheet, primarily in UK. Their emerging market property portfolio benefits from rising values and of course provides huge optionality if needed. The ability to pass through inflation costs has been a key benefit in the last year compared with other industries, and their large positive working capital contribution ensures short term liquidity support, vital in this current environment. Tesco have big plans, and their capex program is definitely skewed towards growth, with large commitments to their personal finance division and international expansion for example the Homever stores acquisition in Korea. Although personal finance is not something that attracts one to Tesco's strategy they have as usual approached this slowly over an extended period of time and it is still a small part of their non-food sales. They expect net debt to be around £8 billion at year end which gives them a Net Debt / EBITDA ratio of well under 2x, so we are very comfortable with this position considering their positive working capital liquidity. They are currently trading around 13 times price to forward earnings with a 3% dividend yield, and the fact that their future is at least far less cloudy than many industries keeps them a major position in the portfolio.

Allan says... "On the road"

For two weeks in September I travelled to Canada and the United States. The companies visited were primarily in the healthcare and oil & gas industries but also telecommunications, agriculture and defence.

Oil oil everywhere but not a drop to drink

In Canada we spent 4 days in Calgary meeting companies in the oil & gas industry ranging from producers to engineering companies and oilfield service companies. There are enormous deposits of oil in the Canadian oil sands but

it is costly and difficult to produce. The most common technique used so far is to mine the oil sands but 80-90% of total Canadian oil sands reserves are too deep to be mined which has led to the latest in-situ production techniques. Oil Sands production in Canada began when Suncor started production at its mine in 1967. Today there are 3 producers of significant size mining the Canadian oil sands: Suncor, Syncrude which is a consortium of 7 companies including Exxon and Conoco-Phillips and another consortium comprised of Shell, Chevron and Western oil Sands. The Canadian oil sands producers are in an excellent position as the US looks for alternatives to secure its oil supplies.

With the high price of oil up to a dozen oil companies have announced planned oil sands projects. However, costs have risen dramatically as labour and material demand outstrip supply. Cash costs for the Canadian oil sands now range from \$28-\$40 per barrel of oil up from \$12 earlier in the decade. The risks of cost blowouts for new projects have risen substantially, especially as the Canadian oil sands are an unfamiliar territory for these oil companies. Exacerbating the issue is the recent pullback in oil price and difficulties in gaining access to capital and debt making returns even lower. In September Petro-Canada announced that results of the feasibility work undertaken for its oil sands mine and bitumen extraction plant for its Fort Hills project indicates that capital costs have increased 50% from \$15bn to \$22bn since the project announcement in 2007. The 50% increase means that to achieve their approximately 9% cost of capital a WTI price above US\$80/bbl is required. Petro-Canada is now reviewing its options for the development of this project. Don't be surprised to see more announcements like this in the coming years.

The CI Global Equities Fund has sold its position in Suncor Energy for the above reason. Suncor is undertaking a \$20bn expansion to increase capacity from 260,000 barrels per day to 550,000 barrels per day by 2012. We believe there is a significant probability of Suncor raising its capex guidance as materials and labour costs continue to rise. With a rising cost base and lower oil price we have decided to exit this position.

"It's no longer a question of staying healthy. It's a question of finding a sickness you like" Jackie Mason

Having spent 4 days at a healthcare conference in New York it is clear that the healthcare sector will not be immune to the global financial issues.

- Very quickly discretionary healthcare such as dental and hearing aids has slowed down. According to Sonova the leader in hearing systems, hearing aid industry sales were down 3% in August against a backdrop of 3-4% yearly growth.
- Biotech venture capital and IPO's have slowed which has the potential to also slow down the growth of life science companies, contract research organizations and outsourced drug manufacturers. BioWorld Financial Watch a leading biotech newspaper claims that biotech funding was down 43% YOY in q1 2008.
- Uncertainty surrounding healthcare policy looms with the upcoming election and the financial crisis. US healthcare spend is 15% of GDP and rising while 45 million people still go uninsured. The current system simply isn't sustainable.
- Compounding these issues is that FDA drug approvals have been declining over the last 10 years, as 2007 approvals were less than half of those in 1997. Only 2 oncology drugs have been approved in the first 9 months of 2008 making life even more difficult for a pharmaceutical industry on the decline.

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An emerging trend is the concept of personalised medicines. Personalised medicine uses an individual's gene expression to tailor the medical care to the individual's needs. It is the re-definition of diseases so that diagnostics and therapeutics can be targeted to a specific patient population, offering the right treatment to the right patient. There are many drug reactions and the high cost of drug development makes today's one size fits all approach non-optimal. More than 100,000 patients die from adverse drug reactions in the US every year.

Roche, a holding in the CI Global Equities Fund is a pioneer in personalized healthcare. Along with its partner Genentech, Roche is a leading innovator with an oncology portfolio that generated more than CHF\$18bn of sales in 2007. Roche has combined its CHF\$36bn pharmaceutical and CHF\$9bn diagnostics franchises to provide more powerful diagnostic tools and targeted treatments based on new insights into how disease arises at the molecular level. Roche has made a number of significant acquisitions to add new technologies to its growing diagnostics division as well as supporting the core pharmaceutical competencies. With CHF\$10bn net cash Roche has the potential to add more acquisitions and technologies to its portfolio.

The link between diagnostics and pharmaceuticals takes place as Roche develops diagnostic markers (biomarkers) and diagnostic tests to help identify patient groups who are most likely to respond to a specific treatment. The focus for Roche is to identify the patient's needs and work backwards searching for the appropriate treatment rather than today's model of developing the treatment and then finding an applicable population. For example cancer is not just one disease but there are over 250 variations with each requiring its own treatment. In areas such as oncology and virology Roche is already treating patients in this more effective and safer manner. Personalised healthcare is still in its infancy and Roche is continuing along this path to provide better quality and safer healthcare.

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