CI GLOBAL EQUITIES FUND
QUARTERLY REPORT

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

SEPTEMBER 2009

"A theory must be tempered with reality" … Jawaharlal Nehru.

"All difficult things have their origins in that which is easy and great things in that which is small" … Lao-Tzu.

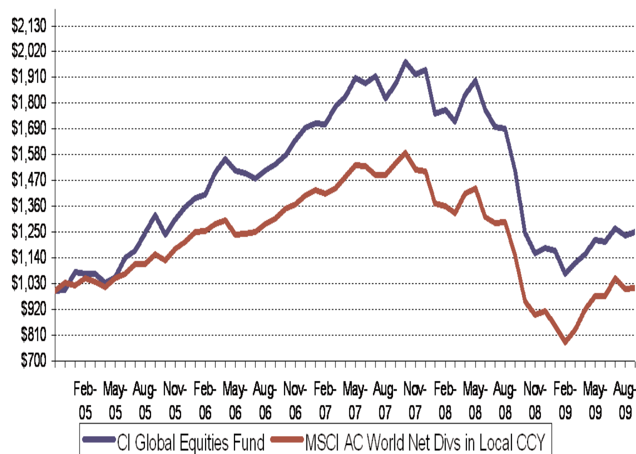
"Success is more a function of consistent common sense than is of genius" … An Wang.

"He who merely knows the right principles is not equal to him who loves them" … Confucious.

Fund Performance

	**FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	11.56%	15.08%	-3.52%
ROLLING 1 YEAR	-9.18%	-2.35%	-6.83%
ROLLING 2 YEAR	-13.23%	-14.70%	1.47%
ROLLING 3 YEAR	-2.72%	-4.92%	2.20%
SINCE INCEPTION*	7.49%	2.45%	5.04%
SINCE INCEPTION^	41.80%	12.40%	29.40%

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



Unhedged Fund Performance

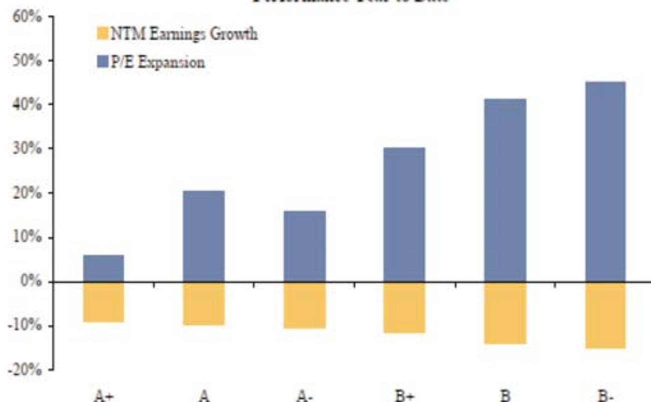
	FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	4.02%	7.97%	-3.95%
ROLLING 6 MONTHS	4.53%	13.44%	-8.91%
ROLLING 1 YEAR	-12.03%	-10.72%	-1.31%
SINCE INCEPTION*	-15.11%	-13.68%	-1.43%
SINCE INCEPTION^	-16.23%	-14.71%	-1.52%

* Annualised
^ Cumulative (1 September 2008)

The CI Global Equities Fund (Hedged) returned 11.6% for the July to September quarter 2009. This is compared with 15.1% for the MSCI AC World Net Dividends in Local Currency. The CI Global Equities Fund (Unhedged) returned 4.0% compared with the MSCI AC World Net Dividends in AUD which returned 8.0%. Again, the performance was disappointing. We hold 39 stocks in the Funds. Currently the top ten largest positions, in descending order, are: BG Group (4.2%), SGS S.A., Wells Fargo & Co, Tesco PLC, FPL Group, Novo Nordisk, Itau Unibanco Banco Multiplo, Standard Chartered PLC, Reckitt Benckiser PLC and Roche Holding AG (3.0%). Our smallest position is Television Broadcasts Ltd (0.9%). During the quarter the Funds have sold out of some minor positions and there has been substantial investment in Holcim, Itau Unibanco, Autonomy PLC and Oracle Corp.

Our fundamental investment thesis remains constant - invest for the long term in quality companies, utilising our proprietary VoF methodology which is based on observation not prediction. In the past these principles have proved very rewarding for the CI Global Equities Fund and we remain confident that, over the long term, they will continue to do so. We thought it interesting to share two charts with investors that illustrate how much, and on what basis, the stock market has risen this year. They show the stock performance for the year to date. The charts categorise companies based on credit rating – used as a proxy for "quality" - of the U.S. S & P 500 (which is 500 out of the 600 U.S. stocks in the MSCI and comprises just over 40% of the total index weightings). The first chart shows the performance of the S & P 500 by credit rating, a stark contrast between high and low "quality". The second chart shows the drivers of this performance, split between earnings and multiples. Clearly the lower grade companies have benefitted from high levels of anticipatory buying, as evidenced by the Next Twelve Months earnings forecasts diverging from the multiple placed on the stock. Both these charts highlight perfectly the disparity between what we are trying to achieve in the Funds and what has happened the last year. Namely, we seek to invest for the long term in "quality companies" using VoF.

Source: Morgan Stanley



Source: Morgan Stanley

The Portfolio

"I guess it's like my grandfather used to say: 'If we all thought the same way, we would all have married your grandmother.'"

Ron Hermance - Hudson City Bancorp, Chairman and CEO.

Hudson City Bancorp

Each quarter we try to enlighten the reader with our thought processes and the logic behind the major positions we take in companies within the Funds. In general the commentary is on companies that have held their places at the top of the weightings for an extended period of time. This quarter, however, we're going to break with tradition to talk about a company that has only recently found its way into the portfolio. Hudson City Bancorp is the listed holding company of the Hudson City Bank, a thrift that operates in and around the state of New Jersey in the United States. It has US$54b of assets, 129 branches as of March 2009 and its market cap is pushing US$7b. The standout aspects to HCB are its business model, and particularly its business model compared with the majority of the banking industry in the U.S.

Nice, Different, Unusual

It is worth delving into the mechanisms driving the banking, and therefore the mortgage, industry in the U.S. Principally, the bulk of mortgages originated by banks under a certain value (known as conforming loans) are sold on to one of the government sponsored enterprises (GSEs) where they are packaged up, securitised and then again sold to other financial institutions such as pension funds and other investors. Essentially these are companies chartered by the government to provide liquidity to the national mortgage industry. There are various political reasons for the existence of these entities, but for banks themselves they are primarily a conduit for enabling the vast quantities of mortgages to flow through the system. Without them the sheer size of volumes would necessitate far higher capital requirements for the origination banks than are kept currently, which would constrain growth and tie up capital. By virtue of the secondary market, the rates on a conforming loan tend to be lower than those of a non-conforming and most banks target these products. Secondly, another quirk of the U.S. mortgage industry is the nature of the mortgages themselves. Generally most U.S. mortgages have the interest rate fixed over the lifetime of the product. The borrowers are able to refinance, but this involves taking out an entirely new product at the expense of the existing one. Therefore the traditional business of a bank – offsetting interest rate risk in the loan book with its supply of deposits fundamentally changes. Thirdly, interest paid on a mortgage is tax-deductible for properties under one million dollars. The mortgage industry in the U.S has grown around these quirks to the extent that the business models of banks are quite dissimilar to those in most other countries in the world.

This is where HCB is quite different to the industry, particularly other companies of any significant scale. HCB has remained steadfastly traditional in its business model. They lend based on relationship and credit quality and seek to fund these assets through deposits. The locations of their branches (certain counties in New Jersey, Connecticut and New York states) are by design concentrated in areas with attractive demographics

such as high median household incomes. This means that house prices tend to be higher than the average as well. As many are over $1m the home owners are far more interest rate sensitive than the majority of those on conforming loans who can offset interest against their annual tax bill. It is exactly this upper end of the mortgage market that HCB target. To conclude the discussion on their product set, they offer only one other, a high yielding certificate of deposit. With both products they compete with the very biggest and best in their class and they are able to do it entirely as a result of their cost base.

George Bailey

HCB has a 150 year old tradition of conservative lending. They also have a business model that reaps efficiencies that are multiples, not percentages, greater than their peers. By virtue of only offering two products, that need little servicing, they have low staff costs. They operate from suburban branches that enjoy much cheaper rental expenses than downtown city sites. They have a decades old software platform that was co-developed with several other peer banks, and by virtue of being last man standing, have inherited it in its entirety. There is also a general culture of austerity right up to board level. All of these allow for a cost-to-income ratio of 21% compared with most peers that are lucky to break 50%. A second factor contributing to their profitability is their remarkably low mortgage delinquency rates and therefore bad debt provisions. HCB's focus on credit quality is fundamentally ingrained in the model, unlike many other banks that merely pay lip service to it before selling on the mortgage. As of 2Q 2009, HCB had a non-performing loan ratio of 1.4% and these loans have an average loan to value ratio of 68%, meaning expected final losses on the lending should be small. In comparison, the last quarterly survey of conforming mortgages in U.S. concluded that 1-in-10 were either delinquent or in a process of foreclosure. When you compare, for instance, that Wells Fargo will provision for bad debts in the region of $25billion this year alone, the competitive advantage of HCB becomes clear.

Hudson City Bank is benefitting greatly from peers retrenching both physically in terms of branches in their neighbourhood, but also in terms of business and competiveness. They are gaining customers at the expense of their peers, who generally do not see them as direct competition due to the niche aspect of their products. They expect to open branches in the number of high single digits each year on top of this. HCB have a clear and differentiating business model, plentiful room for organic growth and astute management. This in itself is enough reason to invest, however consensus also has them on a PE of around 13 x for 2009 earnings, which is more than reasonable given their prospects.

Observations from Trips/Company Visits

During the quarter we visited the United States and also Europe. The striking theme of the U.S. companies we saw was how well they were going relative to their valuations. Certainly times are harder than they were a year ago, but the companies were all fairly upbeat that the market had bottomed and things could only improve. It was a reminder that good companies and management teams will manage through the cycles and exploit the downturns. This confirmed our investment underpinnings in the larger blue-chip companies such as IBM, ExxonMobil and Johnson & Johnson. What the trip didn't show was that there had been any material uplift in the fundamental economic environment.

Our European and Israeli trip was earlier in the quarter when the direction of the global economy was very unclear. However, both trips cemented confidence in most of the companies in the portfolio, with only a couple of stocks sold subsequently. We are long-term shareholders and we remain confident in the quality of the portfolio.

Allan Says...Holcim cementing its leadership

This quarter we added Holcim Ltd of Switzerland to the Funds. Operating in over 70 countries, Holcim is the world's leading supplier of cement with capacity of 200m tonnes of cement per annum. Holcim's operations are geographically widespread but its range of products is concentrated with cement sales accounting for more than 80% of earnings, with aggregates and other construction materials making up the balance. Holcim has strong market positions, with a top 3 position in more than 90% of its markets, resulting in its high levels of profitability. With 75% of production located in emerging markets, Holcim is a clear beneficiary of emerging market growth, specifically from expanding levels of urbanisation and housing. Although sales have clearly come off in their mature markets, Holcim continues to focus on price and margin maintenance through capacity closures and mothballing where demand is currently soft but is expected to pick with the implementation of stimulus programs.

While Holcim's sales are diverse by geography,

India is the most important market contributing 23% of profits. Holcim operates in India with a 46% stake in each of ACC Ltd and Ambuja Cements, India's leading cement producers. Indian cement demand is highly dependant on rural demand as more than 72% of the population live in rural areas. Sales continue to grow as rural demand is less reliant on financial markets or monetary policy, but rather agricultural productivity, population growth, availability of water and power and household savings rates. Holcim also has a presence in China, the world's biggest cement market, through its 40% stake in Huaxin Cement (the 4th largest cement producer in China). Huaxin is the dominant producer in the Hubei province in Central China (along the Yangtze River Valley) where the market is booming due to heavy infrastructure investment. Huaxin has significantly expanded its cement capacity to 38m tonnes over the last 5 years and is expanding capacity by another 17m tonnes. Both the Indian and Chinese markets appear very attractive due to infrastructure and property investment and tight demand and supply fundamentals for cement.

Holcim's mature markets, such as Western Europe and the U.S,. have suffered a steep fall but still remain profitable due to speedy cost measures to maintain high capacity utilisation. These markets are supported by inelastic cement prices. Cement is only 2-3% of the final cost of a new building and is therefore not the decisive factor in the decision to proceed with a construction project. Despite the current soft operating environment, these markets provide future growth potential as their economies recover and stimulus programs begin to flow through and provide incremental demand. For example, 1km of concrete pavement highway (2x2 lanes) requires 3300 tones of cement and a 100m concrete bridge requires 900 tones of cement. Global stimulus measures are estimated at approx USD$2 trillion and USD$500bn alone for infrastructure and construction programs providing significant revenue potential.

Holcim has taken the opportunity in the downturn to add to its asset base as seen by the recent acquisition of Cemex Australia. This further strengthens its position in the Asia Pacific region. Cemex Australia has nationwide operations in aggregates, ready-mix concrete and concrete products. While peers are being forced into fire sales under debt burdens, Holcim's strength is seen by this acquisition at 6.5X projected 2009 EV/EBITDA. Funded through a rights issue, Holcim was able to make this attractive acquisition which should benefit from the Australian construction stimulus package, commodity resources and population growth while strengthening its balance sheet and without diluting shareholders' interests. With the acquisition of Cemex Australia, Holcim has also gained Cemex's 25% interest in Cement Australia (where Holcim already owns 50%) to takes its total stake to 75%. Holcim now has the leading position, with a 36% share of the Australian cement market, with the additional 5m tonnes of production capacity at Cement Australia.

Given the commodity nature of the cement business, Holcim's valuation plays a significant role in its addition to the Fund. Holcim is trading on a 15x PE multiple at bottom of the cycle earnings and returns. Holcim will continue to benefit from emerging market growth, a recovery in developed markets and a strong cash profile as a heavy capex period to expand capacity slows in the coming years. With these growth drivers and undemanding valuation, we see Holcim as an attractive addition to the Funds.

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