

CI GLOBAL EQUITIES FUND QUARTERLY REPORT



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

DECEMBER 2011

"In the building practices of ancient Rome, when scaffolding was removed from a completed Roman arch the Roman engineer stood beneath. If the arch came crashing down he was the first to know. Thus his concern for the quality of the arch was intensely personal." Paul Rosenstein-Rodan, Austrian Economist

"I never went into a tournament or round of golf thinking I had to beat a certain player. I had to beat the course." Jack Nicklaus

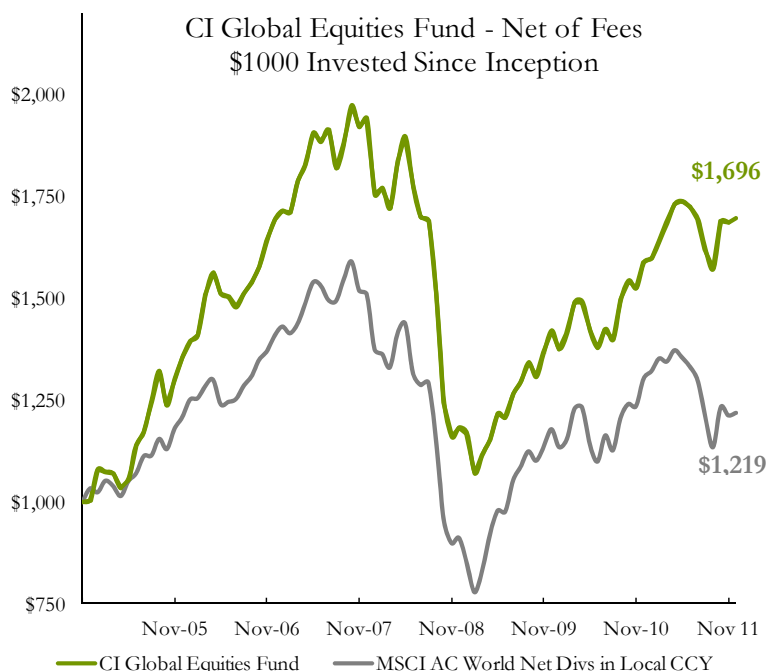
"You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right." Benjamin Graham

Market and Portfolio Performance

CI Global Equities Fund

	**FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	8.11%	7.42%	0.69%
ROLLING 1 YEAR	7.15%	-6.45%	13.60%
ROLLING 2 YEAR	9.73%	1.69%	8.04%
ROLLING 3 YEAR	14.08%	10.15%	3.93%
ROLLING 5 YEAR	1.45%	-2.84%	4.29%
ROLLING 7 YEAR	8.86%	2.38%	6.48%
SINCE INCEPTION*	8.83%	2.83%	6.00%
SINCE INCEPTION^	82.03%	21.84%	60.19%

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



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Over the quarter and the year the portfolio returned 8.11% and 7.15% respectively, compared with the Benchmark which returned 7.42% over the quarter and was down -6.45% over the year.

Our top three contributors during the quarter were Ross Stores, Shoprite Holdings and Novo Nordisk. Our bottom three contributors during the quarter were Thermo Fisher Scientific, Oracle and Reckitt Benckiser. Over the year the portfolio turnover was 34% which is consistent with our strategy of long term investment.

2011 was an incredibly volatile year for markets. The S&P500 ended the year unchanged yet oscillated in a 20% range over what turned out to be a particularly challenging period for investors and policy makers alike. Uncertainties around the Eurozone, the US consumer, China, the global banking system and the 'Arab Spring' have led the markets a merry dance between greed and fear over the last twelve months.

In this environment there has been substantial divergence in the performance of different asset classes, with bonds and traditional 'safe havens' like precious metals outperforming equities and commodities. Within equities themselves, larger cap stocks outperformed as 'quality' beat 'growth'; against a flat S&P and very poor European markets. The Dow Jones was actually up for the year.

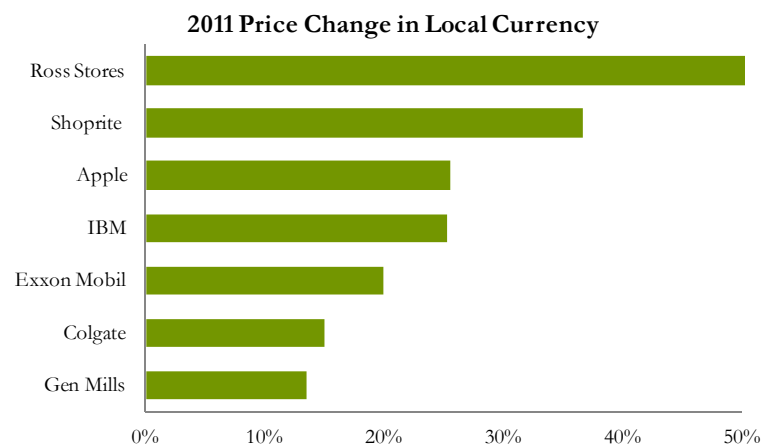
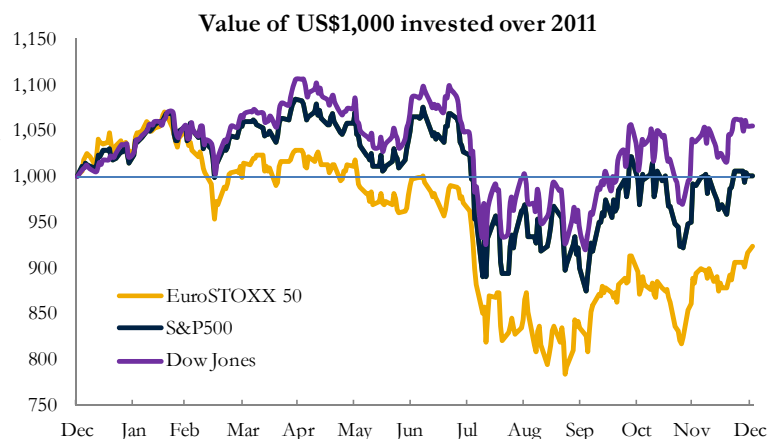
Despite the volatility, in challenging times there are often opportunities and there are always some stocks that go up. The challenge is for investors to shut out the noise and identify these companies. In our experience, running a concentrated portfolio of high quality companies is a rewarding strategy and 2011 was no exception as some of our largest positions (in particular Ross Stores, Shoprite, Apple and IBM) performed well against a flat market.

As long term investors concerned with underlying business value, periods of sustained volatility can play into our hands. With the herd concerned with various potential dooms during 2011, highly correlated markets have offered ample entry points to the patient and value-conscious in a variety of wonderful businesses across the globe.

The Portfolio

The portfolio is currently invested in 34 companies across 12 countries with a cash weighting of 5%. Our biggest regional weightings are: 54% United States, 25% Europe and 7% Asia Ex-Japan. Our largest overweight industries are Consumer Staples and Health Care, with our largest under weights in Telecommunications and Energy.

Our largest single position is IBM at 6%, and our smallest is SGS SA at 1%. In addition to IBM our top five positions include Wells Fargo, Ross Stores, Tesco and Apple.



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A new stock added this quarter was **Mattel Inc** following a visit to their Los Angeles headquarters in September. Mattel is the top toy manufacturer in the world with leading brands such as Barbie, Fisher Price and (following the recent acquisition of HIT Entertainment) Thomas the Tank Engine and Bob the Builder.

Mattel generates 20% of its sales from emerging markets where there is significant opportunity to grow. In the United States, Mattel has close to a 20% share of the US\$20bn toy market compared with China, where Mattel is the number one player, but in a market of just US\$1bn. As the market leader, Mattel is well placed to benefit from the expanding middle class as the toy industry continues to grow in China and other emerging markets.

The HIT entertainment deal highlighted the quality nature of Mattel and its capital discipline. The acquisition added world class brands to the existing portfolio at a purchase price of US\$680m, far lower than the US\$890m paid by private equity firm Apax Partners in 2005. Mattel shares trade at an attractive forward PE of 12x, 3.8% dividend yield, with net cash on the balance sheet and well below our discounted cash flow price given the opportunities that lie ahead.

We also took advantage of market volatility to add a small position in **United Technologies** ("UTC"). UTC is a U.S. based industrial manufacturer with global operations and 20% of sales into emerging markets. The company has leading positions in attractive industries such as escalators, elevators, jet engines, heating ventilation and cooling, and refrigeration systems amongst others. While all of their businesses are of good quality, the gem in the portfolio is their OTIS elevator business which generates one third of profits. It has a large recurring revenue stream with 60% of sales from maintenance and service, while new equipment sales are driven by ongoing urbanisation in the developing world.

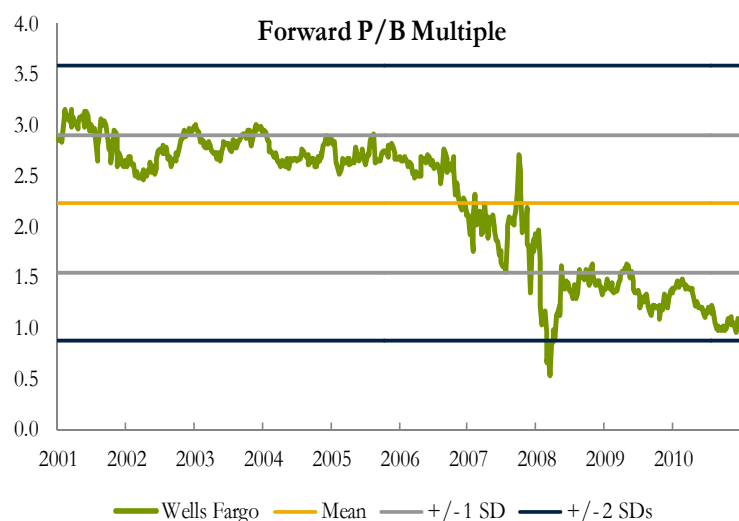
UTC made a large acquisition in the previous quarter of Goodrich Corp. Goodrich is a leading supplier of systems and services to the aerospace industry and is the leader in brakes, wheels and landing gear. This acquisition complements UTC's current aerospace operations such as Pratt & Whitney and Hamilton Sundstrand. The share price has been weak recently as the acquisition is dilutive to next year's earnings, however, as long term investors we see this as a good opportunity as the deal will ultimately be accretive and add to the company's strong free cash flow generation.

We did not exit any positions this quarter, however we did reduce our position in **Shoprite** as discussed in Trip News later on.

Stock News

We were heartened by news from **Wells Fargo** this quarter that the bank has finally completed its integration of Wachovia. At the three year anniversary of the merger in New York, CEO John Stumpf highlighted a few facts to drive home the point that this is the largest bank-merger conversion in history (36,000 signs, 40,000 gallons of paint, 125,000 yards of carpet) and to stress the opportunity to improve efficiency and cross-sell (only 5.4 products per person in the East versus 6.3 in traditional Wells territory in the West).

The company managed to grow its loan book by US\$8bn in Q3 (who says there is no credit growth in the U.S) improve its Tier 1 capital position to all time highs and report a far better Non-Performing Loans position than expected, particularly so soon after taking on Wachovia's mortgage assets.



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Wells Fargo, our largest bank position, is one of the clear winners of the financial crisis. We note that both the company itself and Berkshire Hathaway were purportedly buyers of the stock in the last quarter and with the bank trading at or even less than book value for brief moments during the period, who could blame them?

October saw the passing of **Apple** founder and CEO Steve Jobs. Many things have been written about Jobs but what we found most remarkable was his laser focus on developing a few simple but standout products. That this simple strategy generated US\$108bn of sales and US\$25bn of profits last year is an incredible achievement. We admired Jobs' passion for developing products and his love of the company, and while we are somewhat concerned about Apple's ability to continue developing superior products without him, it is clear he was surrounded by a strong and capable team that played a major part in Apple's success. We will be monitoring closely the strategy and culture of Apple going forward to see if there is any shift away from Jobs' successful strategy of making uncomplicated and innovative products.

Oracle saw a double digit drop in its share price after the Q2 earnings announcement in December missed guidance and consensus estimates. The quarter saw new software license revenues up 3% in constant currency, well below the 21% seen last year and the 5-15% guidance provided earlier in the year. The guidance provided for Q3 is both conservative and broad given the uncertain economic environment, and that Q3 last year saw EPS grow 40%. This lack of visibility weighed further on the share price, but for us the question is whether this set of results is a consequence of a weak economy or a lack of execution by the company itself. The majority of Oracle's profits are recurring from their approximately 370,000 customers who pay annual fees for licenses and services. After the recent price drop Oracle now trades on a forward PE of 10x with US\$16bn of net cash on the balance sheet. We feel the market's reaction was overdone given management's impeccable track record of delivering solid earnings (this was only the second 'miss' in over twenty quarters) and particularly as the current uncertainty is simply over the growth rate.

Trip News

This quarter we visited several companies in South Africa where we currently hold 2 investments; **Shoprite Holdings**, the leading supermarket chain and **Mr Price**, the leading discount apparel retailer. We very much like these businesses. The structure of the market is such that the local retailers have large market shares as the legacy of apartheid removed serious international competition, and over the last ten years multinationals have been too busy focusing on Asia and Latam with little concern for South Africa.

This has enabled the locals to establish themselves as significant players and generate high levels of profitability and returns. There is significant room to grow in South Africa and potentially more so into the rest of Africa where these companies have a fabulous platform on which to expand.

However, the market has recently jumped onboard the "Pan-African Growth Story" and elevated prices and multiples to all time highs. We feel the market may be getting overexcited by the growth potential, and current valuations are symptomatic of a story that 'cannot get any better', which can often be a warning signal. Given the low income and wealth levels in Africa it is going to take a long period of growth for continental African consumers to have a material impact on the South African retailers. Therefore we have reduced our investment in Shoprite as its share price has risen to levels we feel are approaching fair value.

Market Outlook

Looking forward to 2012 there is a temptation to make predictions about how this or that market will perform or how certain macro issues might be resolved. We will resist this temptation and instead take a view based on observation rather than prediction, looking through the prism of the companies in our portfolio and universe.

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From this perspective we have a number of reasons to feel optimistic about the future. First the rise of the middle class across the emerging markets continues unabated, despite ongoing fears around fluctuations in inflation and the money supply in many of those economies. Our portfolio is positioned nicely to benefit from the resulting foreign trade flows; on average 46% of all sales across our portfolio businesses come from outside the company's country of domicile.

Secondly, we do not consider the companies we look at to be expensive at this point; indeed the number of lingering crises floating around the world has depressed equities relative to bonds. One can still buy high quality businesses with durable competitive advantages, strong and compounding cash flow generation, 3+% dividend yields and proven capable management teams at price-to-earnings multiples of around 10.

Finally, corporate America has, in spite of numerous challenges, returned to record levels of profitability (corporate profits to GDP of around 13% represent 60 year highs) which demonstrates to us the flexibility and resilience of the world's largest economy. Although there is, of course, a risk that profit margins may mean revert to a lower level, we take comfort in the strong market positioning and economic moats of our portfolio companies which allows management to defend their margins in a declining environment. Furthermore, one of the 'surprises' of 2011 was the earlier-than-expected recovery of the embattled and still deleveraging US consumer. There is every reason to think that this story can quietly continue to improve in 2012 while the herd continues to fret about the Euro and Chinese inflation.

Updated Information Memorandum

On 1 January 2012 CI issued an updated Information Memorandum for the Fund. The investment philosophy and process used by us, and the investment strategy and guidelines for the Fund are both unchanged. However details of our investment team have been updated, as has the Fund performance, and there are some administrative changes in the Additional Information section. In addition, the performance fee has been reduced from 20% of out performance of the benchmark to 10% effective 1 January 2012.

Please contact our client support team at info@cooperinvestors.com if you would like us to post or email you a copy of the new Information Memorandum. Alternatively, it may be downloaded from our website at www.cooperinvestors.com.

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