CI GLOBAL EQUITIES FUND
QUARTERLY REPORT

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

JUNE 2013

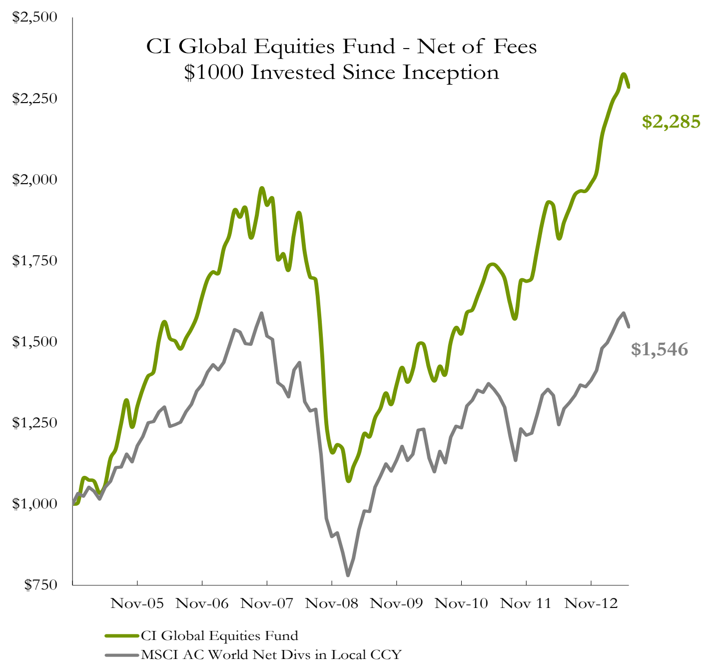
"Intensity is the price of excellence." Warren Buffett.

"You don't learn to walk by following rules. You learn by doing, and by falling over." Richard Branson.

"Anyone who stops learning is old, whether at twenty or eighty. Anyone who keeps learning stays young. The greatest thing in life is to keep your mind young." Henry Ford.

	****PORTFOLIO**	**BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTHS	2.00%	0.99%	1.01%
ROLLING 1 YEAR	22.66%	19.42%	3.24%
ROLLING 2 YEAR	15.59%	7.74%	7.85%
ROLLING 3 YEAR	18.74%	12.03%	6.71%
ROLLING 5 YEAR	6.21%	3.28%	2.93%
ROLLING 7 YEAR	7.32%	3.14%	4.18%
SINCE INCEPTION*	11.08%	5.21%	5.87%
SINCE INCEPTION^	146.40%	54.59%	91.81%

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



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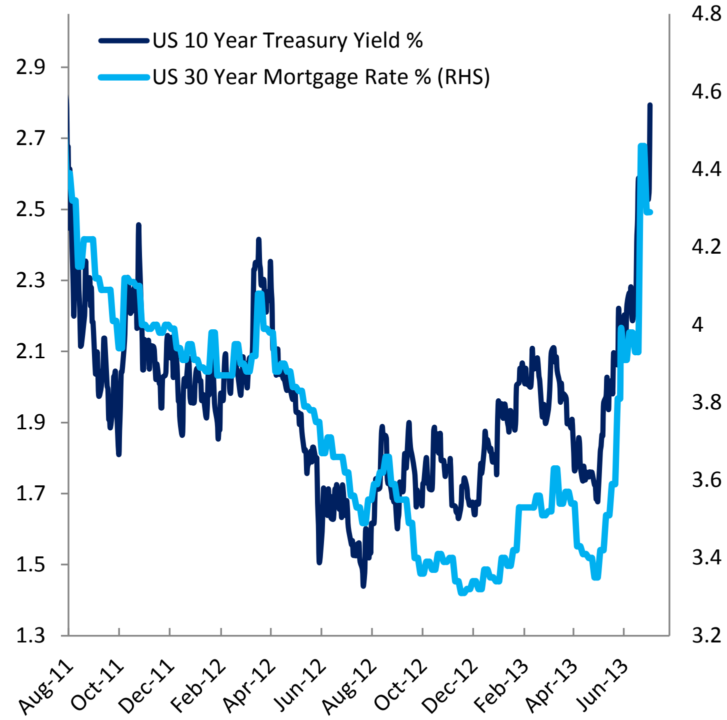
Market and portfolio performance

Over the last three months the portfolio returned 2.00% compared with the Benchmark which returned 0.99%. For the year to June 30 the portfolio has returned 22.66% compared with the Benchmark which has returned 19.42%.

In our previous newsletter we discussed the early signs of rising rates, a resurgent U.S. economy, and the implications for this in repositioning the portfolio by reducing expensive consumer stocks and increasing financials and cheap, U.S.-focused materials businesses.

This quarter those early signs rapidly developed into bright flashing signals with the use of the word 'tapering' by Fed Chairman Ben Bernanke, and sending global markets into a mild panic as asset managers considered an earlier-than-expected end to the liquidity era of zero interest rates.



Source: Factset

Changes in language from central bankers have been a source of volatility since the GFC began, and this time was no different, with substantial moves occurring in equities, fixed income, FX and commodity markets.

Emerging markets dramatically under-performed developed markets, while the AUD fell sharply and gold dropped 25% over the quarter. Income investors suffered as U.S. Treasury yields hit a 2 year high, and the worst performing sectors in the U.S. were Utilities and REITs.

We think it's important to remember that the fundamental reason for rising rates is that the world's largest economy is getting better. Household balance sheets have been considerably de-levered, and domestic U.S. banks are as strong as they have been in 25 years (more on this later). Unemployment remains too high, but we expect this will continue to improve given the huge opportunities that U.S. industry now has with a combination of cheap energy and cheap labour. For example, U.S. steelmakers are now among the lowest cost producers in the world thanks to a plentiful source of cheap natural gas for their blast furnaces.

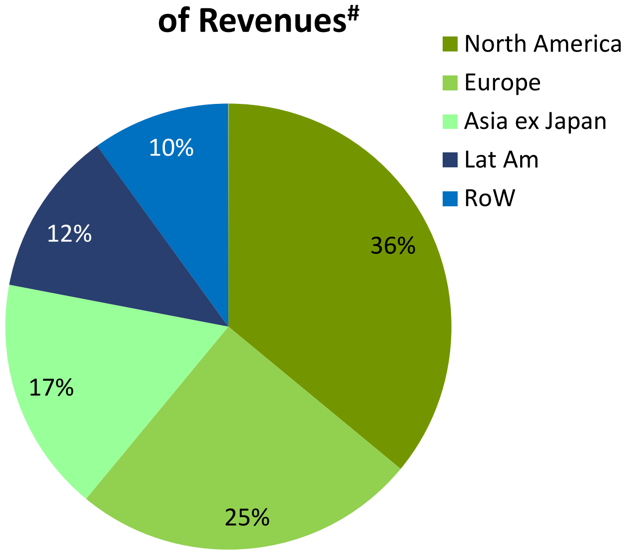
Japan warrants a mention this quarter with the Nikkei up 36% in AUD terms over the last 12 months. Prime Minister Shinzo Abe has launched the biggest monetary experiment in history by giving the Bank of Japan a blank cheque to do whatever it takes to hit 2% inflation, something Japan has not achieved in several decades. We have historically been under-weight Japan on the basis that Japanese companies are generally run for the benefit of management and employees rather than shareholders, and over time are poor investments on a total return basis. It remains to be seen whether 'Abenomics' will work, and while we continue to monitor developments, we have not yet observed any changes in attitudes towards shareholder returns, dividend policies or good corporate governance at the company level that would encourage us to invest more in Japan at this stage.

The Portfolio

The portfolio is diversified by both country and sector. In order to more appropriately represent from which countries the portfolio generates earnings, we derive the pie chart below from company accounts and disclosures.

No. of Stocks	**38**
Region Weights	**U.S. 58%** **Europe 22%** **Asia ex-Japan 7%**
Most OW Sectors	**Financials, Industrials**
Most UW Sectors	**Energy, Utilities**
Top 5 Positions	**Wells Fargo (6%)** **Oracle** **Mattel** **Time Warner Cable** **Google**
Cash	**4%**

Geographical Exposure by Source of Revenues#



#Derived on a look-through basis using underlying revenue exposure of individual portfolio stocks

The top three performing stocks this quarter were Makita, Time Warner Cable and Wells Fargo, rising 28%, 18% and 12% in local currency respectively. Makita is benefitting from a cheaper Japanese yen as its exported power tools become more competitive - the stock has risen 74% this year in AUD terms. Time Warner Cable is a new stock which appreciated sharply after purchase due to merger talks with Charter Communications.

The bottom three performing stocks were Itau Unibanco, Bank Rakyat Indonesia and IBM, each falling around 10%. In a quarter where risk aversion hit most emerging stock markets, the Bovespa Index fell 16% as Brazilians hit the streets across the country to protest against the government with their economy facing a struggle against stagflation.

While this has been a fine year for investors in U.S. equities – the S&P 500 is up 32% in AUD terms – we continue to see value and opportunity in American companies - thus we have invested in three new domestic U.S. stocks this quarter: **U.S. Bancorp** (MCap US$67bn), **Time Warner Cable** (MCap $33bn) and **Time Warner Inc.** (MCap US$54bn). We also initiated a position in **HSBC** (Mcap US$193bn) in Hong Kong.

U.S. Bancorp ("USB") is, by return on assets, the best big banking franchise in the U.S . It is the 5th largest by assets and 4th largest by number of branches, operating across 25 states and servicing over

16 million customers. Like Wells Fargo, USB is domestically focused with no international operations and it is a traditional lender and deposit-taker, focussing on retail and corporate customers rather than investment banking and deal-making. It has an extremely strong balance sheet and capital position, and a conservative management style and risk culture that resonates with us. The bank also has a unique payments business that provides stability in times of crisis and is less rates sensitive than the lending businesses – the payments division has grown 8% annually over the last ten years and is highly profitable with an efficiency ratio around 40% and very little balance sheet usage. Our recent visit (more on that later) left a very positive impression of the state of U.S. financials – as management put it to us - "You make your best loans in times of crisis".

We see the space approaching a sweet spot of low provisions, increasing loan growth, rising rates and a regulatory environment that is past the worst. Banks like USB, with strong balance sheets, will be in a position to scale up shareholder returns through buybacks and increased dividends, and with a loan-to-deposit ratio now down to 85%, we see plenty of scope for credit growth as the U.S. economy accelerates. USB trades on price to forward book of 1.6 and has a dividend yield of 3%.

Early in the quarter we added **Time Warner Cable** ("TWC") to the portfolio. TWC is the second largest cable network operator in the U.S. Traditionally the network has been used to deliver television services to residential customers, however TWC are leveraging the asset into the higher margin and faster growing business of providing high speed broadband for both residential and business customers.

FY13 will be somewhat of a reset year for earnings with a handful of factors likely to abate, including higher programming costs in the television business, drop off in advertising revenues in a post-election year, elevated pension expense, and churn in the TV business flowing from a strong promotional period. The market appears to be focussing on these issues, whilst not giving as much credit to attractiveness of the High Speed Data business which will drive earnings growth in FY13 and beyond.

Our value proposition is compounded by the fact that the group is highly cash generative and has a strong culture of returning this cash to shareholders - TWC will return ~10% of its market capitalisation in dividends and buybacks in 2013.

Our initial thesis was based on a stable cash generative business with under-appreciated earnings power trading at a compelling price. We also acknowledged that the cable industry was undergoing continued consolidation and that TWC was trading below recent transaction multiples, though given its size, we saw TWC more likely as a consolidator. Recent takeover rumours of TWC by U.S. peer Charter Communications have seen a strong appreciation of the TWC share price. As the stock is trading close to our discounted cash flow valuation, we are monitoring these developments closely.

In addition to buying Time Warner Cable, we also bought its former parent **Time Warner Inc.**, a leading cable network business with channels HBO, CNN, TBS and TNT, as well as the Warner Brothers studio. The listed entity today represents the media and entertainment assets of the once sprawling Time Warner and AOL empire, which was created by a merger in 2000 and subsequently broken up.

Over the five years since CEO Jeff Bewkes took control, Time Warner Inc. has spun off AOL and TWC, while recently announcing its intention to spin off its publishing assets. We think that creating a "pure play" cable network and entertainment production company is an excellent way of delivering shareholder value. We believe the company is under-valued as it has been held back by its under-performing publishing and film assets. As a pure play we can now expect a faster growth rate at Time Warner Inc. as the cable networks continue to expand into more homes around the world. Despite a shift in business with TV moving to 90% of earnings as opposed to 50% five years ago, the multiple hasn't moved and still sits at an undemanding 14 times earnings. Given the growth rates and inherent operating leverage in the business, along with a top class management team, we believe the shares are an attractive investment.

Finally, we also added a position in **HSBC** this quarter. The 'World's Local Bank' has been through a tremendous amount of restructuring since CEO Stuart Gulliver took over at the beginning of 2011, and now represents a compelling opportunity.

Despite a long and proud history as a leading and well run emerging market bank, when the financial crisis arrived HSBC had lost focus with massive investments in markets outside its circle of competence (like the U.S. and dozens of tiny retail outposts in far-flung countries that made no money). The Group had become a sprawling beast with operations all over the world run as regional fiefdoms by local CEOs and systems that were grossly inefficient. For example, there were once over 50 personal online banking platforms, with processes differing vastly by region. The straw that broke the camel's back came with the disastrous U.S. acquisition of Household Finance Corp in 2003, a deal which resulted in years of write-offs.

Though many mistakes were made, HSBC was profitable at group level throughout the crisis, and never needed bailing out by any government. Five years on, HSBC has cleaned up its balance sheet and undergone major internal changes to simplify the bank, reduce management layers, modernise systems and processes, and dispose of non-core businesses where critical mass was lacking. 2013 will mark a return to 'classic HSBC', whereby the majority of risk-weighted assets are once again deployed into faster growth markets.

The core ingredients for a successful and high returning bank have always been there – HSBC has leading deposit taking franchises in the U.K. and Hong Kong (9 out of 10 of people in Hong Kong have a HSBC account), a well-diversified and good quality loan book, a conservative risk culture, and the scale and know-how to benefit from the growth in international trade. With the balance sheet now repaired - the bank already meets Basel III capital requirements - we expect to see HSBC increasing dividends over the next few years, whilst still delivering growth in the asset base with loan growth in the 5-6% range.

With the bank trading at book value with a 5% dividend yield and bright prospects when global interest rates eventually do rise, we think HSBC represents good value at this price.

We sold out of six positions entirely this quarter to fund new opportunities, including **Thermo Fisher Scientific, Tesco, Exxon Mobil, Standard Chartered, Amphenol** and **National Oilwell Varco**.

Thermo Fisher Scientific was first added to the portfolio in 2008. The stock has enjoyed a positive run over the last 3 years, seeing a 60% return as our thesis played out. Thermo was moving from a serial acquirer to focusing on organic growth and improving its cost base while returning more cash to shareholders. However, during the quarter Thermo announced a major acquisition of Life Technologies; a company half its size. We see this as a negative move which greatly increases the risk profile of the stock.

We first invested in **Amphenol** at $54 a share in May 2012 after visiting management in Connecticut and found it to be a high quality niche technology manufacturer with great cultural values and exposure to the fast growing electronics proliferation trend. We felt it deserved a higher multiple than 14 time earnings given its strong market position and history of stellar execution. The stock has since risen to

$80 a share and on a multiple close to 20 times we now consider it fully valued and have moved capital to alternatives with more upside.

Stock News

This quarter **BG Group** provided their first Capital Markets Day since the arrival of new CEO Chris Finlayson. The company had a torrid 2012 with increased costs at the Queensland LNG project ("QCLNG") and production problems in Egypt and the North Sea among a number of issues dogging the stock. Things are, however, looking up with the balance sheet now substantially de-risked from a year ago (post the monetisation of non-core assets and a further partial equity sale of QCLNG to CNOOC in China).

There has been good progress on the two largest projects – key milestones during the quarter include the on time start-up of the 3rd FPSO in Brazil and the safe completion of the pipe-pull across the Curtis Island narrows crossing in Queensland. A significant amount of the earnings and cash flow for BG is now starting to crystallise to within a 12-18 month time horizon and we believe that the current c40% discount to NAV at which the stock is trading will narrow as the new management team regains the market's trust with further milestone execution throughout this year.

Trip News

This quarter we travelled to the U.S. again, visiting the cities of Memphis, Chicago, Minneapolis, Los Angeles and San Francisco.

We continue to believe that the U.S. economy is slowly improving off a low base. It was an opportune time to be in the middle of the action as the global markets fell 8% in a four week period. There is no doubt growth is still sluggish in the U.S. but it is moving in the right direction and, moreover, there are a lot of good companies going well. In this environment we see market drops like the one recently as opportunities, rather than cause for major concern.

The portfolio has a sizeable position in the U.S. banking industry through Wells Fargo, American Express and, more recently, U.S. Bancorp. These are the highest quality names in an industry which we believe is now in a very strong position. Capital has been built up and anything lent since the crisis has been of the highest credit standards, which means charge offs should stay low for several years to come.

Meanwhile consumer confidence is mixed and we remain a long way away from exuberant – credit card balances are declining, so the consumer is still in deleveraging mode. Credit card losses come in 18-30 months after origination (per our meeting with Discover Financial) so we are still in the very early stages of a new credit cycle.

It is now consensus that U.S. house prices have bottomed, a very recent phenomenon, and the psychology of appreciating house prices and rising mortgage rates should have a positive effect on home lending. In terms of corporates, commitments and lines are growing but there is minimal growth in actual utilisation, which is close to its lowest ever level according to Wells Fargo and U.S. Bancorp.

Finally, in addition to being a positive for banks with big liquidity piles (Wells Fargo has US$175bn at the Fed earning 0.25%) rates creeping higher will be a game changer for any company with a float business e.g. insurance and asset servicing companies.

JUNE 2013

Investment observations, trends and themes

The trend of U.S. companies returning cash to shareholders continues to gain traction. Chicago Mercantile Exchange (CME Group) has stopped its acquisitions spree, Apple is now returning all profits to shareholders and Kraft has moved to a 70% dividend payout ratio. Companies in general are taking a blended approach of both dividends and buybacks because there is a mixture of investors that prefer one or the other.

After a five year period of volatility in demand and inflation, we are hearing that it is back to a "normal" world according to General Mills, Kraft and Target. However it is clear that U.S. consumption was rebased during the crisis – food volumes stepped down and haven't recovered since. So too apparel spending has been moved lower, with consumers developing a sharp eye for value - discount stores like Ross Stores and Nordstrom Rack are thriving. Whilst a few department stores are not going well (e.g. JC Penney and Sears) the rest continue to grow and succeed (e.g. Nordstrom, Macy's and Neiman Marcus) and still represent good anchor tenants for malls. The cycle of retail store closures is mostly through.

U.S. corporates are turning the clock back on inventory management and moving away from 'Just-in-Time' to save money on logistics. Fedex is seeing business move from priority 24-hour delivery to 4 day deliveries due to the lower prices. Many industries are still operating below pre-crisis levels - cardboard box volumes are 8% below their peak after being down 12% during the crisis, and home furnishing spending is also down from its high. However, according to Mosaic the fertiliser market is now in equilibrium - supply responded nicely to demand and price hikes from the pre-crisis period.