CI GLOBAL EQUITIES FUND
QUARTERLY REPORT

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

SEPTEMBER 2013

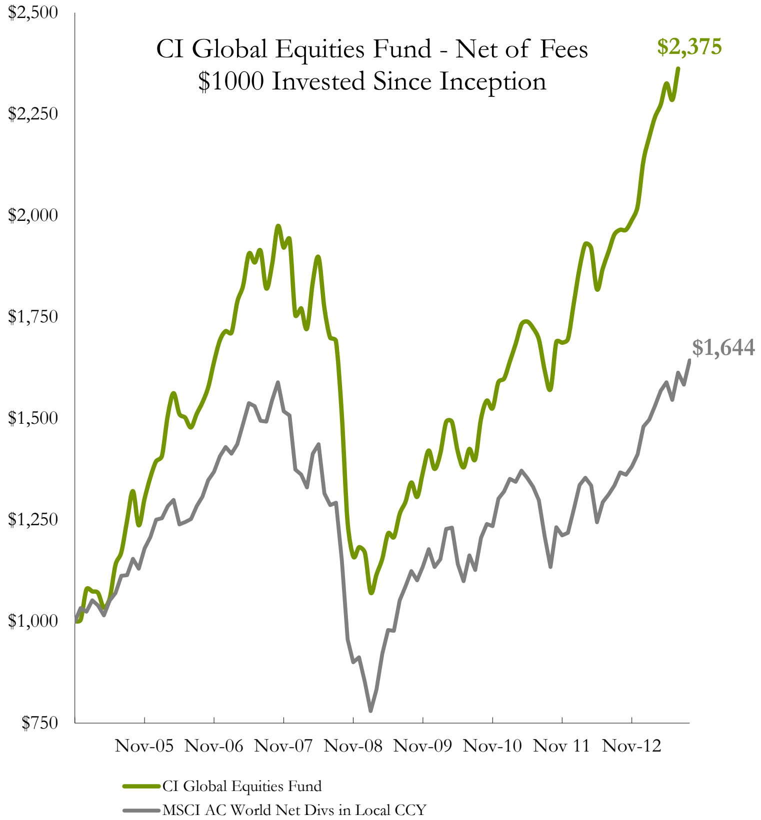
"Most people, including myself, keep repeating the same mistakes." William Shatner.

"History is a vast early warning system." Norman Cousins.

"What has been done will be done again; there is nothing new under the sun." Ecclesiastes 1:9.

	****PORTFOLIO**	**BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTHS	3.94%	6.31%	-2.37%
ROLLING 1 YEAR	21.21%	20.18%	1.03%
ROLLING 2 YEAR	23.31%	20.36%	2.95%
ROLLING 3 YEAR	17.01%	10.85%	6.16%
ROLLING 5 YEAR	10.41%	7.38%	3.03%
ROLLING 7 YEAR	7.53%	3.32%	4.21%
SINCE INCEPTION*	11.24%	5.79%	5.45%
SINCE INCEPTION^	156.11%	64.35%	91.76%

*Annualised
^Cumulative 1 December 2004. Initially Fund invested predominately in Australian equities. However since May 2006, the Fund has been invested in a broad range of global equities.
**Before fees and expenses



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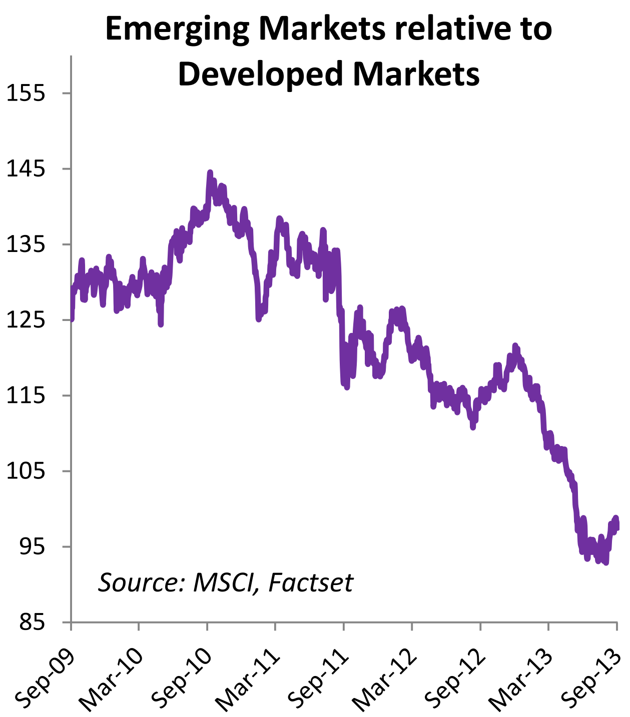
Market and Portfolio Performance

Over the last three months the portfolio returned 3.94% compared with the Benchmark which returned 6.31%.

We aim to invest in companies with positive operating trends, focused management and value latency. Within this framework the portfolio has a natural bias toward companies with recurring revenue streams and predictable, enduring cash flows. The portfolio beta of 0.9 reflects this philosophy. This quarter was characterised by a bounce in higher beta cyclical stocks – the biggest gainers in the portfolio echo this with Itau Unibanco, Christian Dior, GEA Group and United Technologies all delivering double digit returns. Conversely, a large part of the portfolio also lagged the market, resulting in the relative under-performance for the quarter.

Global equity markets overall had a decent quarter, with the S&P500 +4.7%, the Nikkei +5.7%, the EuroSTOXX 50 +6.6% and the MSCI Asia ex-Japan +4.9% (all in local currency). Indeed this quarter saw record highs by the S&P500 and Dow Jones. These benign performance figures cloak a period that saw significant volatility in emerging markets' equities and currency markets.

The ongoing discussions around when the US Federal Reserve would begin 'tapering' (i.e. stop artificially forcing interest rates down as has been their policy since 2008) led markets to rapidly refocus on countries who might struggle in a new world of higher borrowing costs and a strong U.S. Dollar.



Prime candidates for concern here are economies with high current account deficits, high amounts of foreign currency borrowing and high inflation, especially inflation imported via energy costs.

This led to several weeks of souring sentiment in Indonesia, India, Turkey, Thailand, Brazil and the Philippines amongst others, during which declines in both equities and currency markets resulted in 20-25% of stock market valuation being wiped off in USD terms.

These moves exacerbated the under-performance of emerging markets relative to developed markets that has been a key feature of this bull market for the last three years (see chart above).

We believe that the key point on which many investors are still divided is whether the US economic recovery is 'real' or if the country will slide into a Japanese-style deflation. While economists tend to focus on absolutes of 'good' or 'bad', markets move on 'better' or 'worse' and we still see things getting better, albeit slowly.

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Per Willis Group (the largest insurance broker to U.S. construction companies) premium volumes in the construction industry had the strongest growth last quarter since the recession began. Truck manufacturers like Ford and GM saw the best sales figures in August in seven years. Perhaps, most tellingly of all, in the last quarter alone the percentage of US households in negative equity fell from 19% to 14% per the FDIC.

This is a major driver of consumer confidence, and thus has an enormous impact on the US economy. As house prices rise and homeowners get natural relief from no longer being underwater, the effect is an improvement in the aggregate creditworthiness of the entire country.

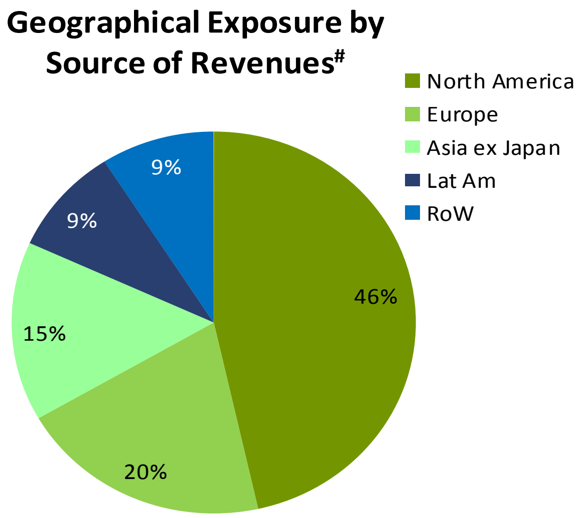
The doom-mongers believe that stagnant credit growth in the U.S is due to a lack of *willingness* to borrow. Rather, we believe credit growth has been stymied by a lack of *ability* to borrow due to the very tight lending standards imposed post-crisis, requiring an almost perfect 'FICO' score. A rising tide lifts all boats and, as the FICO score of Mr and Mrs USA improves due to better household balance sheets, many more Americans will get access to credit from a strong, cleaned-up banking system with plenty of capacity to lend.

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 below pie chart (as at 30 September 2013) from company accounts and disclosures.

No. of Stocks	**39**
Region Weights based on Country of Listing	**U.S. 57%**
	Europe 25%
	Asia ex-Japan 5%
Most OW Sectors	**Financials, Consumer Disc.**
Most UW Sectors	**Energy, Health Care**
Cash	**5%**

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



The top three performing stocks this quarter were **Itau Unibanco**, **Christian Dior** and **Vodafone**, rising 20%, 16% and 14% in local currency respectively. **Itau** was in the bottom three last quarter, demonstrating the recent volatility in emerging markets. That said, the prospects for the Brazilian private banks are genuinely looking up after a tough few years because:

(1) The peak of the non-performing-loan cycle (NPL) brought on by an economic slow-down is past. NPLs are still accruing but at a decelerating rate.
(2) Due to inflation concerns the Brazilian government has increased the SELIC policy rate by 175bps in the last 6 months, supporting a pickup in Net Interest Margins.

(3) A prolonged period of competition by state-owned banks to stimulate credit growth (largely to segments of the population with poor creditworthiness) had squeezed lending spreads and that is now coming to an end.

The strong performance of **Christian Dior** this quarter can be attributed to a 17% rise in Louis Vuitton Moet Hennessey, its main asset. Retail multiples tend to trade around like-for-likes (the amount of sales growth from the existing store base) and LFLs had been decelerating (albeit from a high level) in LVMH's main Fashion and Leather category for several quarters. However LVMH surprised the market with a pickup in LFLs and operating margin improvement in their flagship Louis Vuitton brand as they have been able to innovate away from logo-heavy products and into higher margin canvas bags. Our insight from colleagues travelling to China is that, though the very top spenders are more cautious around conspicuous consumption, there remains huge latent aspirational demand for luxury from the growing mass affluent population.

Vodafone rose strongly on M&A activity which is commented on specifically in the Stock News section.

The bottom three performing stocks were **Mattel, Jardine Strategic** and **Reckitt Benckiser,** falling 8%, 6% and 6% respectively. Mattel and Reckitt Benckiser had both raced up close to 30% in the first 6 months of the year, so we see the last quarter as these stocks taking a natural breather. Nothing has fundamentally changed in the investment case or positive outlook for either Mattel or Reckitt Benckiser.

Jardine Strategic is a Singapore-listed family-controlled investment holding company with pan-Asian assets. Within their portfolio is material exposure to South-East Asia, including Indonesia, and these markets came under heavy selling pressure this quarter, with a knock-on effect on Jardine's stock price.

We added three new positions this quarter; **Comcast** (MCap $116bn), **AON Plc** (MCap US$23bn) and **Svenska Handelsbanken** (MCap US$28bn).

Comcast ("CMCSA") is the largest cable network operator in the US, and this investment follows our investment in Time Warner Cable ("TWC") in the prior quarter. However, they are not competitors as these networks do not overlap.

Traditionally these networks have been used to deliver television services to residential customers; however Comcast (and TWC) are leveraging these assets into the higher margin and faster growing business of providing high speed broadband for both residential and business customers. We feel that Comcast has one of the best management teams in corporate America. As the largest player in a scale business, Comcast is in the optimum position to benefit from the growth in high speed broadband. It should also prove able to weather programming cost inflation in the legacy residential TV business.

Comcast also recently purchased the half of NBC Universal ("NBCU") which it did not already own. NBCU is a media/entertainment business which generates income primarily via its television networks.

The NBCU asset has had numerous owners over the years which led to under-monetisation in comparison with peers. We feel that with complete control Comcast management will be able to extract this latency.

In taking our initial position in TWC we felt an investment proposition existed as the market was overly focussed on a number of company-specific factors that were likely to abate post FY13. At the time Comcast traded at a 10% premium to TWC. Since then TWC has been the subject of takeover speculation which led to strong appreciation in the stock price. As consolidation of smaller peers grabbed the spotlight, Comcast was left briefly in the dark and the valuation premium closed, providing an attractive entry point to purchase a best-of-breed business with a rock solid balance sheet at 7x EV/ EBITDA.

AON Plc is a global professional services company specialising in insurance brokerage, reinsurance brokerage, and human resources consultancy. The global insurance brokerage market is attractive for investors as it is a structural oligopoly with three players (AON, Marsh and Willis) dominating around 70% of all premiums written.

The business of broking insurance is also highly appealing as this is effectively a cash annuity business – due to complexities in modern corporate insurance contracts, companies almost never switch insurance brokers, meaning that AON enjoys in excess of 90% recurring revenues from their clients. The pricing environment is benign - brokerage rates have stayed stable for the last 30 years, while the level of regulation around risk mitigation is increasing all the time, leading to rising demands for expertise in the sector.

We prefer AON over its peers as we feel the market does not appreciate the value of this business, trading as it did at a discount to the group. AON previously had an insurance underwriting business, leading to a misconception in the market that AON has underwriting exposure. This is not the case, and we believe this company should trade on a PE multiple more akin to a high recurring-revenue business services firm in the high teens rather than an insurance company multiple of 10-12x, which is close to what we have paid.

Furthermore, the company is coming out of a period of restructuring a major acquisition, resolving an under-funded pension liability and completing a tax-advantageous corporate redomicile from the U.S. to the U.K. All of this will result in a doubling of free cash flow over the next five years. The management team has done a good job and is committed to returning the majority of this cash to shareholders.

Finally, we initiated a small position in Swedish bank **Svenska Handelsbanken** ("SHB") during the quarter. SHB is a bank unlike any we have ever encountered.

It runs a unique business model whereby decision making and lending is completely decentralised at the branch level. All responsibilities for credit risk lie with the branch manager, and performance is measured on profitability and avoiding credit losses, not loan growth. SHB branch managers meet customers face to face and only deal with customers in the local vicinity under the so-called "Church Spire" principle (a term given to the historical practice of only banking people whose home or place of business could be seen from the top of the church steeple in the town square).

At a macro level SHB has an attractive home market, representing one of the 'Big 4' in Sweden's banking oligopoly and having significant market share in the highly profitable Swedish mortgage market. In Sweden, the entire population's income is public information, while, due to years of under construction, the supply and demand dynamics are highly supportive of house prices. Credit growth in Sweden is expected to be 5-6% annually.

Staff do not get bonuses, but are instead given shares which vest upon retirement. These shares are amalgamated into a trust which holds circa 10% of outstanding share capital. The out-working of this unique risk and compensation culture is impressive to behold. Not only has SHB been the best performing bank in Europe over 40 years with the lowest credit losses and best credit rating, it has also built up a capital base of almost 18% Basel III Core Equity Tier 1.

While the current dividend yield of 4% in Swedish Krona is appealing in itself, when international capital adequacy rules get finalised over the next 18 months we expect this yield to be more like 7-8% as excess capital gets returned to shareholders. For all this, the market ascribes a miserly multiple of 1.6x Price to Book. We think it should be materially higher.

This quarter we fully exited **Waters Corp** and **Apple**.

Waters has been a core holding since early 2011 and the stock has performed well over the past 12 months, out-pacing the S&P in a rising market. However this performance has been driven by p/e expansion rather than meaningful earnings growth. Waters' growth story has disappointed of late with no top line growth in 2012 and minimal growth so far in 2013. We admire the management and business but we feel the industry is now stuck in a prolonged period of low growth. On a p/e of 20x earnings we have taken the opportunity to realise our gains.

Apple was in the portfolio for over 3 years and was at one time one of our largest holdings. We sold the majority of the stake in mid-2012 but we had retained a small position in the belief that more cash would be returned to shareholders. This occurred, but a sizeable response in the share price never materialised, and the rump has thus been sold.

Stock News

During the quarter **Vodafone** announced that it is selling its 45% stake in Verizon Wireless to the majority owner Verizon Communications for US$130bn. This is a mammoth deal in both an absolute and relative sense for Vodafone, whose market cap at the time was US$140bn. Vodafone's share price subsequently increased from £1.90 to £2.17 at the end of the quarter and was one of our best performing positions.

Vodafone was first bought in the portfolio in the third quarter of last year on the observation that the valuation gap between Verizon Communications (listed in the U.S.) and Vodafone was wrongfully expanding as both owned the same key asset in Verizon Wireless. We believe Vodafone has made the right decision to monetise the U.S. asset at a multiple of 8.5x EBITDA, with Vodafone shares trading at 4.5x (and 3x if you include Verizon in EBITDA rather than associate income). More so, Vodafone's decision to return US$84bn to shareholders is a positive surprise for a company with a history of value-destructive M&A.

Following some weakness in the share price late last year due to concerns about the European business, the stock is up almost 45% including dividends in 2013. We continue to believe Vodafone is undervalued. With plans to return more than half the market cap to shareholders, halving the balance sheet and increasing investments in its 4G networks, 'New Vodafone' is on an undemanding valuation of 11x Free Cash Flow and 4x EBITDA with a strong balance sheet. We think the market continues to penalise the stock for mistakes made in the past, and isn't recognising the good work CEO Vittorio Calao has done since taking the helm in 2008.

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International Trip and Market Observations

This quarter we visited Europe for two weeks, meeting companies in the UK, France, Switzerland, Sweden and Denmark, as well as a two-day stopover in South Africa. In comparison with our visit 12 months ago, we noted a positive change in tone across our meetings as the European economy slowly moves out of a deep recessionary period.

Despite the weak economy, European stocks have performed well (as seen by the Euronext-100 up over 40% within a 2 year period). As a result of this, few bargains appear to be on offer as has been the case periodically over the last 5 years. In saying that, companies have survived and prospered and end markets are getting stronger.

We met with a range of banks, with the majority of the discussions around sustainable ROEs, whereas last year it was all about how to achieve the required capital levels. This is a positive shift - as European economies grow out of their respective recessions, Europe as a whole will need a strong banking system as part of its infrastructure. As discussed earlier, during the quarter we made our first investment into a European bank since the crisis began.

Across the board we were surprised by the lack of talk on the future of the European Union and the livelihood of the Euro – this was a major topic of conversation in prior years. It appears that this is no longer a subject worth discussing, though we don't see it as a complete non-issue just yet.

The healthcare market across Europe continues to face headwinds. With government paid healthcare systems and budgets under stress, healthcare providers such as drug companies are facing pressures. Governments are demanding price declines annually and pushing back on paying for innovation. More so we hear regular stories of southern European countries taking years to pay their bills. This is in stark contrast to the US where prices continually rise. While the costs of healthcare may continue to deviate across the world it can't last forever.