CI GLOBAL EQUITIES FUND (UNHEDGED)
QUARTERLY REPORT

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

DECEMBER 2014

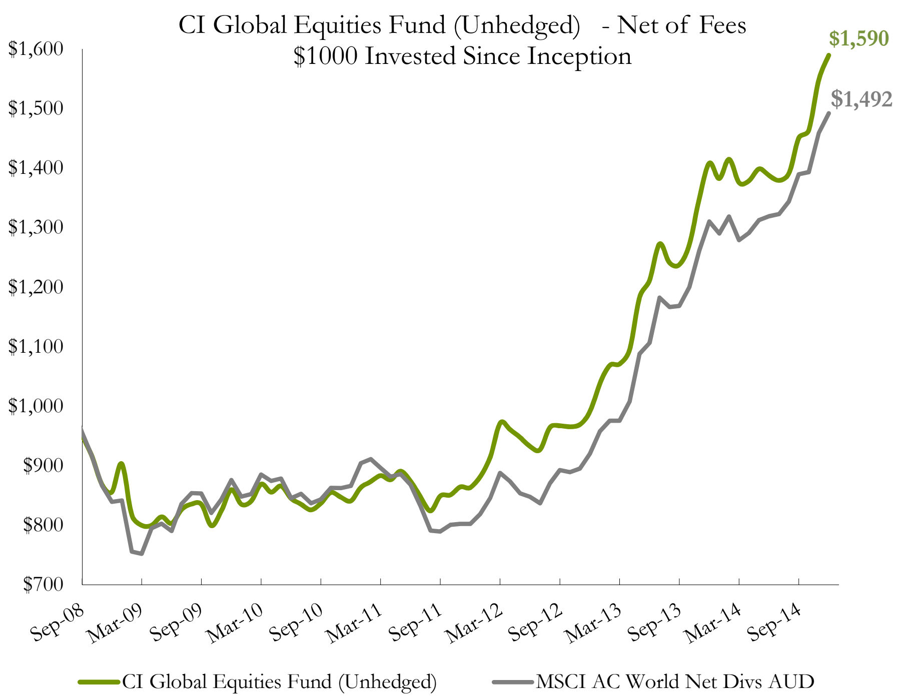
"Smooth seas do not make skilful sailors." African Proverb.

"Stability begets instability." Hyman Minsky.

"He who would be serene and pure needs but one thing, detachment." Meister Eckhart.

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTHS	9.94%	7.37%	2.57%
ROLLING 1 YEAR	14.45%	13.87%	0.58%
ROLLING 2 YEAR	28.39%	27.41%	0.98%
ROLLING 3 YEAR	24.28%	22.99%	1.29%
ROLLING 5 YEAR	14.31%	11.25%	3.06%
SINCE INCEPTION*	8.70%	6.53%	2.17%
SINCE INCEPTION^	69.59%	49.23%	20.36%

*Annualised
^Cumulative (1 September 2008)
**Before fees and expenses
MSCI AC World Net Divs AUD



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Market and Portfolio Performance

After 9 months of relatively stable and rising markets, 2014 ended with a sudden bout of volatility. The MSCI AC World Index fell 10% peak-to-trough in early October and 6% in mid-December before bouncing back on both occasions.

In our last newsletter we noted the resurgent U.S. dollar and this is becoming a major feature as markets head into 2015, with the trade-weighted USD index rallying to nine year highs.

Many currencies have fallen sharply against the USD – the Euro is down 12% for the year, while the Australian dollar has slid more than 20% versus the USD in the last two years. In fact the AUD weakened against many currencies in 2014, with the result that many Australian investors made more money in 2014 owning foreign equities than investing domestically.

DEVELOPED MARKETS 2014 Price Change		
Country *(Index)*	**AUD**	**Local Ccy**
US *(S&P 500)*	22%	11%
Hong Kong *(Hang Seng)*	21%	11%
Denmark *(OMX Copenhagen)*	16%	21%
Singapore *(STI)*	11%	6%
Canada *(TSX Composite)*	8%	7%
Switzerland *(SMI)*	7%	10%
Japan *(TOPIX)*	4%	8%
Netherlands *(AEX)*	1%	6%
Australia *(ASX 200)*	1%	1%
UK *(FTSE 100)*	0%	-3%
Spain *(IBEX)*	0%	4%
Germany *(DAX)*	-1%	3%
Sweden *(OMX Stockholm)*	-1%	10%
Italy *(FTSE MIB)*	-4%	0%
France *(CAC 40)*	-5%	-1%

EMERGING MARKETS 2014 Price Change		
Country *(Index)*	**AUD**	**Local Ccy**
China *(CSI 300)*	62%	52%
Egypt *(EGX30)*	40%	32%
India *(SENSEX)*	39%	30%
Indonesia *(JCI)*	31%	22%
Turkey *(ISE 100)*	27%	26%
Thailand *(SET)*	26%	15%
Taiwan *(TAIEX)*	11%	8%
South Africa *(JSE)*	6%	8%
Korea *(KOSPI)*	0%	-5%
Chile *(IPSA)*	-1%	4%
Mexico *(IPC)*	-2%	1%
Malaysia *(Bursa KLCI)*	-3%	-6%
Brazil *(Bovespa)*	-6%	-3%
Greece *(ASE)*	-31%	-28%
Russia *(RTS)*	-40%	-45%

Source: Factset

Emerging markets had big winners and losers. The Chinese 'A' share market spiked after the twin liquidity events of a Q4 policy rate cut by the central bank, and the impact of the 'Hong Kong-Shanghai Through Train' which is designed to improve access to mainland shares.

Russian equities almost halved in 2014, which brings us to the extreme moves occurring in crude oil recently. Oil has plunged from $90 a barrel to around $53 in the last three months, a drop of more than 40% that is hurting oil-exporting countries. Brazilian and Norwegian stock markets fell sharply in the quarter, but Russia has been the major victim. Indeed Russia looks to be facing a 3rd financial crisis in 16 years with the central bank hiking interest rates from 11.5% to 17% in mid-December to stem the collapsing rouble. The portfolio currently has no direct exposure to either Russian stocks or oil producers.

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We have been a little surprised that the price impact on oil producers has not been more severe. Many of the recent large and expensive oil projects like oil sands and deep-water offshore are lossmaking at today's prices. While oil services stocks are down 20-60%, the big oil majors like Exxon Mobil and Shell were down less than 10% for the year, and we expect there will be more pain to come the longer crude stays at these levels.

The portfolio returned 9.94% during the quarter vs the benchmark return of 7.37%. For the calendar year to 31st December the portfolio returned 14.45% vs the benchmark return of 13.87%. This quarter the AUD fell 7% against the USD, 3% against the GBP and EUR but gained 2% versus the JPY.

The three biggest out-performers this quarter in terms of total shareholder return were **Christian Dior, Shoprite** and **Oracle.** The main under-performers by total shareholder return were **Sanofi, Makita** and **Google.**

Christian Dior returned 22% due to strong price action surrounding the distribution of Hermés shares and the annual cash dividend. Shoprite gained 20% on the back of a positive trading update which saw revenues grow 12% in the 3 months to September, while Oracle gained 18% in the quarter after reporting strong earnings. Both Christian Dior and Oracle are discussed in more detail in Stock News. Sanofi fell 15% in the quarter after the company reported more intense competition in the U.S. insulin market and the Board subsequently removed CEO Christopher Wiehbacher, with Chairman Serge Weinberg taking interim control.

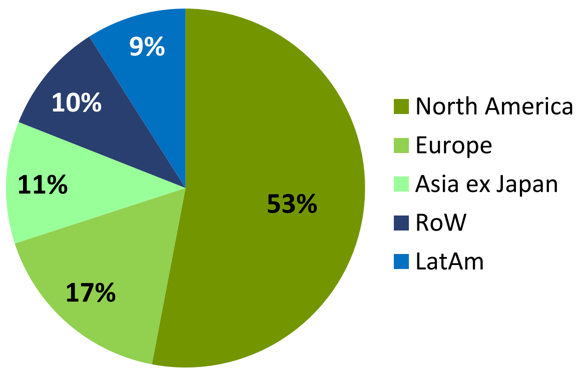
Makita saw volatile trading as Japanese markets whipped around amid President Abe's snap election – the stock rose 23% in two weeks in October, and then fell 15% from that level as traders took profits. Google was down 9% in the quarter on no material news flow.

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 following pie chart from Company accounts and disclosures.

No. of Stocks	**42**
Region Weights	**U.S. 56%** **Europe 30%** **Asia ex-Japan 2%**
Most OW Sectors	**Industrials, Financials**
Most UW Sectors	**Energy, IT**
Cash	**4%**

Geographical Exposure by Source of Revenues#



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

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M&A volumes in 2014 reached levels not seen since the pre-crisis years, and for the portfolio this was the 'Year of the Spin-off'. Christian Dior, Reckitt Benckiser, Agilent, eBay, International Paper, Liberty Media and Time Warner Inc. all spun off assets (or announced upcoming spin-offs) to shareholders.

The portfolio sold all its spin-off companies in 2014 and instead maintained or increased its investment in the slimmed down parents. We think in these instances the parent company will benefit from added focus and so far share prices have responded. Time Warner Inc. is up 30% since it spun off Time Inc. in June and International Paper is up 20% since it spun off Veritiv in the middle of the year. The other spin-offs took place in November and December, making it too early to call their success or otherwise.

While we like the concept of a spin-off in so far as it can release energy and potentially unlock latent revenue and cost benefits, none of these spin-off companies fit our investment criteria. The exception will likely come in 2015 when eBay spins off PayPal. At the present time we intend to hold our PayPal shares.

Portfolio Changes

We added 2 new positions this quarter; **Liberty Media** (MCap $12bn) and **Royal Bank of Scotland** (MCap $70bn).

The past 20 years has seen the TV industry shift from ad-supported free-to-air broadcasting to cable TV and most recently we have seen growth in the subscription video-on-demand model. Over the last few years we have invested in U.S. cable companies as we like their strong high speed internet positioning as people watch more content on their laptops and tablets. (Note: we have also invested in the content producers).

In the meantime we have seen the Pay TV businesses at the cable companies come under pressure from the likes of Netflix, Hulu and Amazon Prime. It is becoming increasingly clear that today's generation will not sit through ads unless they have to, and while there is a strong trend for ad-free models there are no clear investment opportunities as Netflix, the only pure play, has no real earnings.

Given this strong trend for no ad-based television we have been searching for other businesses with similar models. This led us to Sirius XM, the one and only US satellite radio player. While radio may not be as popular as TV (90mn households paying $70 per month) we think Sirius XM has a much better competitive environment than any TV distributor we have seen. In the U.S. there are 27mn subscribers paying Sirius XM $12 a month to have 140 channels of ad-free radio. Given the average American spends almost 3 hours a day in the car we think this is great value and the lack of investment in infrastructure and public transportation is only making travel times longer.

We expect Sirius XM to generate over US$1.3bn of free cash flow in 2015, which puts the company on a multiple of 14x cash flow. There is a huge growth opportunity as the US$4bn of revenue the company currently makes is still dwarfed by terrestrial radio's US$15bn revenue pool. Given there are 250mn cars on the roads in the US we think the number of subscribers will continue to increase from today's 27m, and since radio isn't as competitive as TV the content costs and inflationary pressures are much lower.
Importantly, Sirius XM is "radio", which is much more than plain music distribution where competition is considerably fiercer and the power sits with the record labels. People listen to Sirius XM for news, weather, sports, talk back and most importantly of all, Howard Stern (whose nationally syndicated show is exclusive

to Sirius XM). The result is that Sirius XM generates EBIT margins of 30%, well above the cable industry's 20%.

Sirius XM was created in 2008 through the merger of Sirius and XM Radio. Both were sub-scale players and the merger was a "no-brainer", however the timing was a disaster. As the deal closed in July 2008, credit markets began to fall apart and much of the company's heavy debt load was becoming due. In rode **Liberty Media**, the listed investment vehicle used by billionaire John Malone (with a long history of successful value creation for shareholders) to provide an emergency loan of US$400m to prevent a bankruptcy filing. Under the terms of the loan Liberty Media gained the right to purchase 40% of Sirius XM for essentially nothing. Liberty Media bought more Sirius XM shares to take its stake to 50% and with Sirius XM buying back its own shares over the last 2 years Liberty Media now owns 58% of the company. As Liberty Media's CEO, Greg Maffei, is also the Sirius XM Chairman, we believe that buy-backs are likely to continue.

Rather than owning Sirius XM directly we think owning **Liberty Media** is the best way to make the investment. First, Liberty Media realised value by spinning off its cable assets in November which has reduced the discount to NAV, and means Liberty Media is effectively a Sirius XM pure play as Sirius now makes up 90% of Liberty's net asset value.

Secondly, and more importantly, we expect Sirius to continue buying back shares which will see Liberty's ownership continue to increase. At 80% ownership Liberty will have access to the cash flows of Sirius, so without spending a cent from here, Liberty Media, with a US$12bn market cap, could in a few years have access to the billions of dollars of Sirius XM free cash flow.

Royal Bank of Scotland ("RBS") is perhaps the ultimate hubris-to-humiliation story in European banking. The rapid expansion phase of 2001-2007 saw RBS at one point ranked as a top 5 global bank by market capitalisation, but the acquisition of ABN AMRO in 2007 proved a deal too far for disgraced former CEO Fred Goodwin, who saw his knighthood annulled after the bank subsequently collapsed into Government nationalisation.

Six years on RBS remains 80% owned by HM Treasury and it is yet to report a full year of profits since the financial crisis. Yet at the heart of RBS are excellent traditional retail and commercial banks that produce ROEs in the mid-20's and mid-teens respectively, and each of which as a standalone business would command a multiple of book value.

These franchises have remained highly profitable over recent years and were not tarnished by the actions of former management. However their value to the group has been obscured by the litany of other issues the bank has had to deal with, and as a whole RBS still trades at below book value.

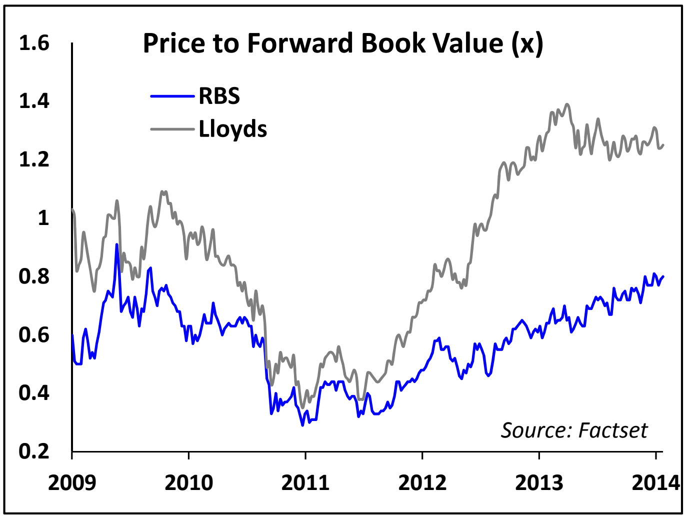
We have followed RBS throughout its journey, and met the bank several times over the last few years as it struggled through a period of heavy write-offs, the separation of an 'internal bad bank' and the resolution of significant litigation and conduct costs.

These issues have put RBS in the too hard basket for many investors, but since the appointment of Ross McEwan as CEO in 2013, the pace of healing at RBS has accelerated and recent operating trends along with strong indicators of cultural change have surprised the market. We know Mr. McEwan from his successful time at CBA, and a meeting with him in November after a year in charge convinced us he is the right man to lead RBS today.

McEwan has many tasks in front of him over the next 2 years, including winding-down the investment bank, deconsolidating Citizens Financial Group in the U.S. and moving the bank into a position where it can reinitiate ordinary dividends and get the UK Government to start selling out. The bank's capital position has been largely repaired and merely by following through with the existing asset reduction strategy, RBS will be one of the best capitalised banks in Europe in the next 12-18 months.

We believe the story is now close to an inflection point where the market will start to look beyond the remaining concerns, and value the bank based on the future earnings potential of the core businesses, no longer penalising it for the sins of the past. As each of the items on Ross McEwan's to-do list gets ticked off we expect consolidated group ROE to naturally climb from ~6% through to ~12% and the bank's shares to be re-rated accordingly back to tangible book value and beyond.

The roadmap for this process has already been laid out by another part-nationalised UK bank in Lloyds.



While we wouldn't necessarily expect RBS to trade at the same multiple as Lloyds (the positioning and risk profile of the banks are different) there is significant value latency in RBS merely trading back at book value, which we would expect to eventuate as it continues its journey back to being a simple, stable, fully privatised UK lender.

We exited entirely from **Christian Dior** during the quarter**.** The position was initiated in October 2012 with the thesis that Christian Dior was a cheaper way to own Louis Vuitton Moët Hennessy ("LVMH"), the world's largest luxury conglomerate. We felt Christian Dior traded with an unjustified discount of ~20% to its NAV (which is almost entirely made up of LVMH) with the free option of the discount closing by controlling shareholder Bernard Arnault collapsing the inefficient holding structure.

Today the discount has indeed narrowed in spite of Arnault showing no desire to change the way the group is set up. Christian Dior has consistently out-performed LVMH in a difficult two years for the European luxury goods industry amid weakness in emerging market currencies and fierce anti-extravagance measures implemented by the Chinese government. Christian Dior has provided a total shareholder return of 53% over the holding period, versus LVMH of 22% and the EuroSTOXX 50 of 31%.

Further value was recently released via the distribution of the group's stake in Hermés which, along with the annual cash dividend worked out to a roughly 14% disbursement to shareholders in December with both Dior and Hermés trading strongly post the event date.

Looking ahead at the prospects for the group, we think margins may come under pressure as less profitable divisions like Sephora, Duty Free and Cosmetics will continue to grow faster than the frontline Fashion & Leather brands. Our research suggests high end luxury customers are becoming more and more discerning in their buying choices, more sensitive to logos, and more demanding of bespoke, personalised or exclusive products, all of which will erode the fat margins these companies have enjoyed in recent years.

Louis Vuitton, which generates roughly half of the group profits, is currently undergoing efforts to revitalise the brand in Asia. Whether this succeeds or not, returning to organic growth rates of double digits looks like a tough ask for the group today, so with an outlook of decelerating sales and margin pressure, we have taken profits on the Christian Dior discount-play and moved capital elsewhere.

Stock News

This quarter saw the long-awaited spin off of **Reckitt Benckiser's** pharmaceuticals division. The new entity, listed on the London Stock Exchange as 'Indivior PLC', commenced trading on the 23rd of December and rose 25% on debut.

We subsequently sold the shares in Indivior and reinvested the proceeds back into Reckitt Benckiser. The spin-off leaves it as a pure-play consumer hygiene and healthcare company with management finally able to fully focus on what they do best – innovation, sales, marketing and brand extension of their world class household personal care 'Powerbrands'. Reckitt Benckiser has been in the portfolio for more than 8 years and over the holding period it has generated a total shareholder return of over 200% and continues to be a core position.

Agilent Technologies spun off Keysight Technologies in November which we subsequently sold. We had bought Agilent post the spin-off announcement as the residual Agilent is one of the last remaining listed pure play life science companies.

New holding **Liberty Media** spun off Liberty Broadband. The portfolio subsequently sold its Liberty Broadband holdings and reinvested the proceeds back into Liberty Media.

Oracle Corp was up 10% on its 2nd quarter earnings announcement in December. This was a nice change from the recent trend where the previous 7 results announcements averaged a minus 3% move on results day. The result was decent with revenues up 7% in local currencies and earnings slightly ahead of expectation, but what seems to have had a bigger impact is the sudden change in view by the market that Oracle is now a serious player in cloud applications.

International Trips

This quarter we visited the **UK, France, Germany** and **South Africa**.

It was a poignant time to be in Northern Europe, with the British and French remembering 100 years since the beginning of World War I, while the Germans celebrated the 25th anniversary of the fall of the Berlin wall. Yet the nostalgia from memories of reunification and images of ceramic poppies at the Tower of London served only to highlight the disparate political and economic realities in the region today.

The brutal truth is that the single currency bloc continues to be highly dysfunctional. The ongoing symptoms of distress are high unemployment, consumer price deflation and more recently a rise in anti-Eurozone politics.

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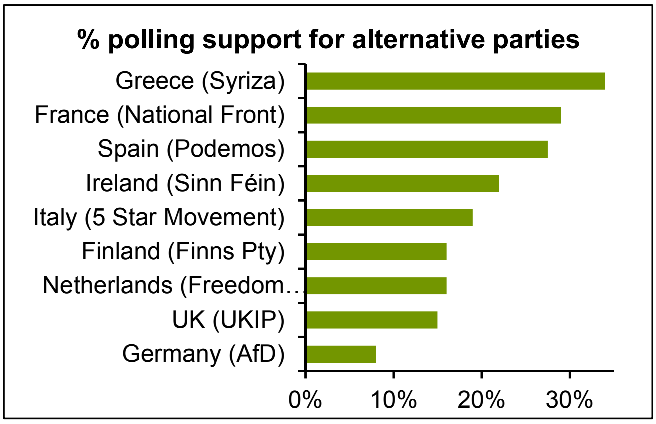
We are seeing more and more 'non-mainstream' parties gaining power. These groups - mostly though not exclusively right-wing and Eurosceptic – are beginning to win votes and seats in their respective parliaments and some, including Syriza in Greece and the National Front in France, are actually topping national opinion polls.



Source: Deutsche Bank

How this plays out is unclear, but the trend is clearly a risk to the stability of the Eurozone in the coming years. Unemployment in Spain, Italy, Portugal, Greece and France remains stubbornly high - remarkable since it seems almost impossible to fire workers in many of these countries.

The French economy in particular is being kept artificially alive by increasing government support – thus French public spending as a proportion of GDP has risen to over 55%. As such Parisian malls and cafés remain busy and there is little evidence of 'austerity' on the streets.

Following our visit, our take is that French companies that are disciplined by global competition tend to be the strongest businesses, whereas those with ties to government or dependent on government-subsidised domestic demand are less interesting. Unfortunately we see little value on offer in the best French companies today and for now this is a country in which we are not prepared to go down the quality curve.

Across Europe 'deflation' is the buzzword. Prices are falling across food, clothing, fuel, cars and white goods, and anecdotally walking around London and going into shops, things 'feel cheaper' than a few years ago. This environment is tough for retailers and suppliers – we met a number of both, and it is clear that pricing competition is more intense than ever before.

Brands are becoming even more important. Discounters like Aldi and Lidl may stock just one or two branded chocolate bars alongside their cheap and cheerful private label alternatives (from our research there's a good chance they will be **Nestlé** products). Apply this logic across coffee, dairy, frozen pizzas and pet food and it is clear you need to be the number one or two brand in a category. With shelf-space at a premium, lesser brands simply won't get a look in.

The same applies in hygiene and health – **Reckitt Benckiser** is best-in-class in marketing and innovation, and by consistently offering the customer new variations of Nurofen pain-killers or Finish dishwasher tablets, it maintains the loyalty and awareness in these categories which makes it very hard for new entrants to gain ground.

Ultimately we believe that falling prices for a period are not necessarily a bad thing, especially if combined with rising wages, which are also starting to be observed in the UK. The country continues to see a decent recovery with the momentum that started with a London property boom now filtering out into the rest of the economy. Unemployment at 6% is at its lowest rate since 2008 and there is now every chance that the UK could be the first G7 country to raise interest rates in 2015.

These trends are benefitting British banks, with whom we had several meetings in London. The banks have had a torrid time with billions of pounds of profits lost through litigation and conduct costs over the last few years. Our meetings with a number of bank executives suggested the worst is behind, and that the regulatory pendulum is beginning to swing back towards neutral territory having been clearly in bank bashing mode for some time. Even the British media are starting to fatigue on this, with immigration and the NHS likely to be the major election topics next year.

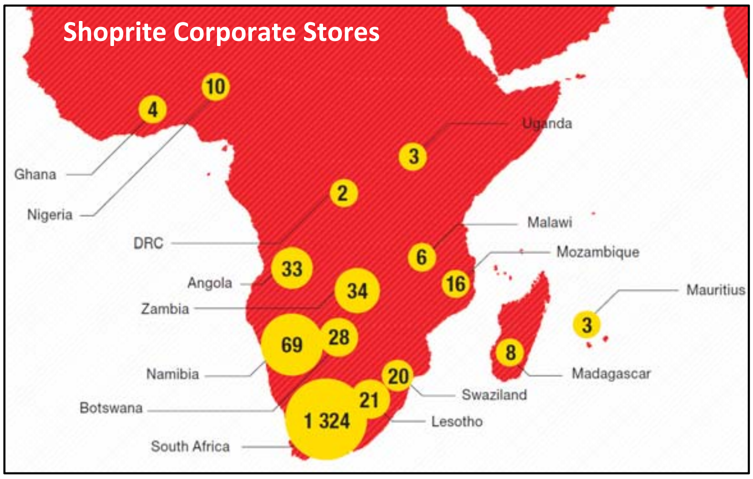
We continue to be bullish on the prospects for the niche financials the portfolio owns such as **Close Brothers**, who is enjoying high net interest margins and double digit loan growth rates in its asset and motor finance books, and **Svenska Handelsbanken**, who continues to win over UK consumers with their decentralized model and focus on customer creditworthiness. The ongoing self-help story in RBS will progress more easily too with improved market conditions in the UK and, particularly, Ireland. Our experience with Wells Fargo in the U.S. suggests that post-crisis loan losses can be low for an extended period due to tightened lending standards, while write-backs from over-zealous provisioning can provide a fillip to EPS for longer than the market anticipates.

We also spent a week visiting corporates in South Africa. Our schedule was focused on the portfolio's two South African investments; Shoprite, held in the portfolio since 2010, and Remgro, since March 2013.

Shoprite (US$8bn MCap) is the leading supermarket chain in South Africa and, more importantly, Africa. The investment proposition for Shoprite is that it is the only formal retailer making serious headway into the African retail scene. With 169 stores in Africa, Shoprite is already a serious operator in the region. Importantly the African operation is a profitable business. Despite the results not showing due to lack of scale for the region as a whole, on a store by store basis the Shoprite African stores have margins 1.5x those of an equivalent Shoprite South African supermarket.

There were two main take-outs from the meeting. First, any issues with the pace of store rollout across Africa are supply related. Shoprite has averaged 10% new store growth in Africa, which has been below its initial targets. There is strong demand for Shoprite stores and the company would like to expand faster than 20 new stores a year but has been unable to do so.

While there is demand for Shoprite supermarkets, there are not enough malls and shopping centres to cater for the rollout as there is little property development happening in Africa.



Source: Company Reports

This has forced Shoprite to undertake the development themselves which is a much slower expansion process. Secondly, Shoprite's peers currently face many distractions. Woolworths has just spent US$2bn on David Jones in Australia, Pick n Pay has a major task on its hand as it changes from a decentralised to centralised operating model in South Africa, and Massmart is still getting used to life as part of Wal-Mart. The result is that Shoprite's African store count is more than double its nearest peer. To highlight the opportunity, Nigeria alone has similar levels of consumption expenditure to South Africa but where South Africa has over 2,700 supermarkets Nigeria has less than 50. The lack of quality property and infrastructure will likely mean the African rollout is slower than Shoprite would ideally like, but it is happening nonetheless.

Remgro (US$10bn MCap) is an investment holding company founded in the 1940s by the late Anton Rupert. Today it is chaired by his son Johann Rupert (also Chairman of Richemont, the luxury goods company). Remgro has a range of listed and unlisted investments, most of which Remgro has been invested in since their very early stages. We met with Remgro as well as the key listed investments to get a better understanding of the value of these companies and therefore the net asset value of Remgro. It was a timely visit as the valuations of the portfolio companies have expanded and lead to some tough questions about future returns, but the operational momentum and growth opportunities are striking.

The two largest businesses in Remgro's portfolio are FirstRand Bank and Mediclinic, which combined make up 50% of Remgro's asset value. Remgro is trading at a 14% discount to its NAV using listed prices and conservative valuations on its unlisted assets. If you put more realistic assumptions on the unlisted assets, which include stakes in Unilever South Africa and Air Products Africa, the discount widens to almost 25%.

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