PetersMacGregor
CAPITAL MANAGEMENT

2011 June Global Fund Report

Performance Summary

The net performance for the Peters MacGregor Global Fund for the June quarter was -1.57%, lagging the MSCI World Index, which declined 0.63%. For the full year to June 30, the fund gained 4.02%, underperforming the 21.82% gain in the Index.

The portfolio comprised ten companies, one alternative investment and cash finished at around 27%.

June2011	net return	MSCI index	out performance
Rolling			
3 months	-1.57%	-0.63%	-0.94%
1 year	4.02%	21.82%	-17.80%
3 years	5.54%	0.03%	5.51%
5 years	3.76%	0.52%	3.24%
Since inception p.a. (September 2004)	3.78%	4.18%	-0.40%

Top 5 Portfolio Holdings (alphabetically)

| Asta Funding | Berkshire Hathaway | Fairfax Financial |Johnson & Johnson |Michael Hill International |

General Commentary

This past year has seen equity markets around the world continue to rebound with the MSCI World Index gaining 21.82%. Our portfolio underperformed this index for the year, gaining 4.02%. These broader market gains have been concentrated in lower-quality names and in our view, reflect a lack of appreciation of the difficult macro issues faced around the world.

The tone in markets globally has been notably skittish in recent times. News surrounding Greece's dire financial position and measures being taken to address it were prominent. While the European Central Bank may be able to negotiate a solution that restores order and keeps things ticking over 'for now', whether any such solutions prove effective in the medium to long-term will remain to be seen. The stakes are high, not only for the banks and institutions that own the Greek debt, but also for those that have sold Credit Default Swap (CDS) protection against that debt. Typically CDS contracts become payable once a default in the related debt occurs. It is no wonder that European officials are fighting tooth and nail to have any "reorganisation" not classified as a default.

Yet Greece is not alone in this one currency Euro zone experiment that has attempted to merge and centralise this key aspect of these countries' economies, despite their divergent cultural and political environments. Italy, Portugal and Spain are all to varying degrees presenting the same dilemma!

Signs of growth slowing in China have emerged, with property prices and construction activity falling in recent times. It is difficult for us to imagine that commodity producing countries, which have fed the significant construction boom in China this past decade, won't be negatively impacted if China continues to slow or actually experiences a hard landing.

Economic news flow out of the US has been ho-hum recently but broadly consistent with our view that this key economy is continuing and should continue to muddle-through in the wake of the very significant contraction experienced previously. The US Federal Reserve's QE2 program ended in June with no clear consensus on its effectiveness. Bernanke & Co. appear firm that no further monetary easing will occur in their attempt to prevent commodity prices from soaring further, especially energy and food. However, QE3 cannot be ruled out until the US economy has travelled some distance without its trainer wheels.

Despite the shaky undertones, markets on the whole pretty well held on to strong gains recorded in previous periods, the MSCI World Index declining by just 0.63% for the quarter, the S&P 500 likewise went nowhere and so-called 'risk' currencies – those considered to be most sensitive to global growth – including the Australian and New Zealand dollars both actually continuing to appreciate.

We continue to believe that the large global franchise businesses – strong companies with diverse revenue streams, deep management teams, rock-solid balance sheets and pricing power – are where the value lies in this still precarious economic environment. We find it peculiar that relatively young, small, retailers with questionable competitive advantages trade at multiples approaching 20 times earnings when a defensive name such as global leader Walmart, with its considerable and robust economic moat, trade for just 12 times. Accordingly, our focus is squarely on companies of Walmart's ilk, which offer a wonderful combination of low risk and reasonable long-term rates of return irrespective of the economic landscape.

Portfolio Commentary

Once again, most of the share prices of our holdings moved across a relatively small range during the quarter – either increasing or decreasing a few percent with the exception of Symex Holdings and our small Chinese company, which fell approximately 22% and 50% respectively. Our reactions to each appropriately reflect our revised views of the prospective upside returns and potential downside risk from the marked-down prices. In the case of our small Chinese company, we had grown concerned with some of the capital management decisions of management as well as a deterioration in the quality of communications with the company and we took the decision to exit our holding entirely. Our prompt decision to exit reduced our exposure to the worst of the stock's decline though the sharp fall resulted in a (crystallised) loss for the portfolio of approximately 1.5%.

Symex Holdings announced a significant equity capital raising of $24m (versus $65m in pre-capital raising market value) to significantly reduce debt which had ballooned following its $50m purchase of White King / Janola. As is usually the case when raising new equity capital, Symex's share price suffered, initially falling more than 10% to around 45c (versus a 42.5c capital raising price), but then falling post-capital raising to just 40c. We participated in the capital raising, exercising clients' rights to buy new shares. Consequently, we have maintained a holding in the 4-5% portfolio weighting range which we are comfortable with at today's prices. At the 42.5c level where we effectively 'topped-up' your holdings, the shares traded at a single digit multiple of our estimate of sustainable earnings power – a level that we feel is too low considering the brand strength of some of its products and the renewed strength of their balance sheet.

As discussed in our quarterly reports, Wells Fargo was added to the portfolio early in the financial year. During May we took the opportunity to boost our holdings in Wells within the portfolio as we sought to take advantage of pricing that we found very attractive. Our views of Wells have not changed materially, though we watch the sector carefully. An interesting aspect of the major US banks today is that their financial positions have become very strong – the result of allowing surplus earnings to build up within the balance sheet (as opposed to being distributed to shareholders) and a much more cautious approach to lending. The inability to motivate banks to lend more to stimulate economic activity has been problematic for the economy as a whole but reduces our risk as shareholders of a major enterprise in this space.

Howard Hughes Corporation was added to the portfolio in May. This company was spun out of General Growth Properties Inc. as the latter emerged from Chapter 11 last year. In essence, the company owns, manages and develops commercial, residential and mixed-use real estate across the US. With a management team that is highly skilled and incentivized, basically no debt, and a diversified property portfolio that in our view is earning significantly below its potential in a general market that is skewed to income, we believe there exists substantial upside to our entry price.

In addition to the pleasing news of being able to put cash to work in adding to a couple holdings and initiating two new interesting positions, we successfully exited three positions during the year. While we suffered a small impairment on our investment in the small Chinese company, we more than made up for this with strong gains on each of BP (which we bought in 2010 at depressed prices during the oil spill drama in the Gulf of Mexico); Iron Mountain (which came under welcome pressure from activist shareholders resulting in its share price ascending to our full valuation); and Pre Paid Legal Services (which also saw its share price rise to our appraisal of fair value ahead of its agreement to be bought out in a private equity-led bid).

Conclusion

While we are concerned about the goings-on in the broad global economy, debt markets and our commodity-boom-fuelled domestic economy, we are cautiously optimistic about the prospects for our portfolio in the periods ahead. Cash continues to be prominent at around a quarter of the portfolio and together with an increasing emphasis on higher quality names that have suffered severe multiple compression and offer excellent upside potential in the event of mean reversion (or still quite satisfactory returns if current multiples persist), we believe client portfolios are positioned relatively defensively while still holding the prospect of decent overall medium to long-term returns from here.

Thank you for your continued trust and support.

Notes:

- Intra year performance figures are unaudited
- Performance figures in the table are historical and not necessarily an indication of future performance.
- Thereturns are net of management fees and before taxes.
- The MSCI figures are the MSCI World Total Return Index (net local).

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