PetersMacGregor
CAPITAL MANAGEMENT

Peters MacGregor Global Fund

ARSN 110 619 559

31 December 2012

Key Facts

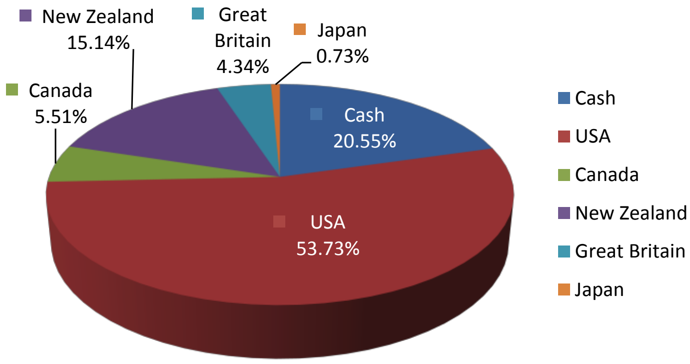
Portfolio Manager	L Wayne Peters
Management Expense Ratio:	1.57%*
Structure:	Global Equity Fund, $A generally hedged
Buy/Sell Spread:	0.20%/0.20%
Inception Date:	6 September 2004
Fund Size:	$A 71 million

*All fees are inclusive of net effect of GST.

Performance*

	Fund	MSCI	Excess Return
1 month	3.58%	1.91%	1.67%
3 months	2.45%	2.93%	-0.48%
1 year	18.30%	15.71%	2.59%
3 years p.a.	9.58%	6.35%	3.23%
5 years p.a.	1.15%	-1.50%	2.65%
Since inception p.a.	4.46%	4.16%	0.30%
Total return since inception	43.75%	40.42%	3.33%

Regional Exposure

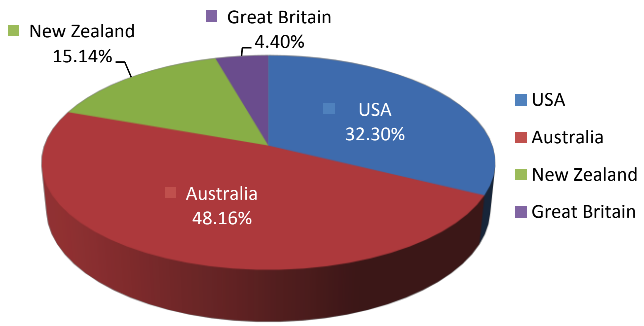


Top 10 Holdings

in Alphabetical Order	
American International Group	Financials
Asta Funding	Industrials
Bank Of America Corp	Financials
Berkshire Hathaway B	Financials
Fairfax Financial Holdings	P & C Insurance
JCPenney	Consumer Discretionary
Johnson & Johnson	Healthcare
Michael Hill International	Consumer Discretionary
Tesco	Consumer Staples
The Howard Hughes Corp	Diversified Real Estate

*Intra year performance figures are unaudited; the returns are net of management fees and before taxes; the MSCI figures are the MSCI World Total Return Index (net local).

Currency Exposure



**Peters MacGregor generally hedges foreign currency exposure when it invests in international securities. As part of this policy it considers the intrinsic currency exposures of investee companies. The graph summarises the principal net currency exposures based on generally accepted accounting standards. GAAP measures currency exposure based on the country of stock exchange listing in which the investee company security is held, which is not necessarily reflective of the intrinsic currency exposures of the investee companies.

Performance Summary

The net performance of the Peters MacGregor Global Fund for the December quarter was an increase of 2.5%, lagging an again-strong MSCI World Index, which rose 2.9%.

The portfolio held 11 companies and cash finished at around 21%.

General Commentary

The quarter under review was very interesting as an Obama re-election ensured continued US political gridlock as the economy veered toward the so-called 'fiscal cliff'. That is, the scheduled 31 December expiry of Bush-era tax cuts and automatic cuts to certain government spending programmes. Together, these were sure to push the economy back into recession. Fear and uncertainty early in the quarter saw a spike in volatility and broad decline in equity prices, but greed and hope returned to rule the day – pushing markets back up and the MSCI World Index to a further 2.9% gain, building on its 5.5% gain from the previous quarter.

We feel the recent market strength is a classic example of short-termism. With confidence that a resolution to the fiscal cliff would ultimately be reached (and a growing appreciation that if not resolved by the technical deadline that the Obama Administration would be able to enact new laws to offset the scheduled changes, at least for a period of time), participants have been able to anchor on the 'good' news directly in front of them and ignore the reality. The reality, as we see it, is that current rich market valuations are supported by record-high corporate profitability. In the case of the US, it is fair to assume some of the increased profitability is due to structural changes within the economy – outsourcing of low margin manufacturing to the developing world. But to some degree we believe profitability is being fueled by debt-funded demand – excess demand that, due to operating leverage, has the potential to cause a disproportionate contraction in profitability if and when government deficit spending is ultimately brought down to a sustainable level. Rather than thinking through the implications of reduced government spending and increased taxes in the medium term, we believe market participants have anchored squarely on the potential for short-term fiscal resolutions and given present rich equity values a 'pass'!

Elsewhere, the muddle-through in Europe continues as stakeholders work diligently to keep the economy ticking over while trying to resolve fundamental structural problems. Stronger than expected economic data out of China fed into the improving market sentiment while simultaneously offering support for the Australian economy, with iron ore prices recovering ground lost earlier in the year.

Again, looking through the short-term economic and market noise, we remain firmly of the view that we are in a secular low-growth economic environment characterised by low asset returns (interest rates are universally very low and likely to stay so for some time), low growth, and prone to shock. A focus on owning quality financial assets with pricing power and good long term prospects remains of paramount importance!

Portfolio Commentary

While we underperformed the MSCI World Index this quarter (returning 2.5% v. 2.9% for the index), we're pleased to add modestly to what has turned out to be a strong 2012 for the portfolio with a total return of approximately 18.3% (handily outperforming the MSCI's 15.7%). The December quarter was relatively benign across the portfolio with the principal contributors to and detractors from performance being:

JCPenney falling 19% generating mark-to-market losses of a little over 1% (net of gains from incremental shares bought intra-period at even lower prices);

Continued strength in Michael Hill whose stock rose a further 6% to add about 1% to the portfolio; and,

A strong boost in the price of Bank of America which rose more than 30% to generate over 2% in performance for the portfolio.

The strong full-year performance was recorded despite our continued cautious investment posture, including an average cash balance through the year of over 20%.

In terms of news flow and developments within the portfolio, Asta Funding reported respectable full year (to September 30) profit results, with continued strong cash flows from its legacy charged-off bad debt paper and pleasing new investment into the legal funding space. The company continues to buy in stock, having repurchased around 12% of its shares outstanding over the course of 2012. We remain hopeful that the company will be able to put more of its $8+ per share cash hoard to work in the year ahead.

Berkshire Hathaway continues to perform solidly and surprised the market this quarter by repurchasing a large line of its stock at a price that we believe makes good economic sense for the company. Interestingly, to execute the transaction Berkshire has increased the stated price it is willing to pay to repurchase shares from 110% of book value to 120%. The recalibrating of its buyback perimeters may help support the stock and reduce the potential for it to trade at a meaningful discount.

JCPenney reported worse-than-expected sales numbers and the market responded accordingly. As previously outlined, we are taking a long-term view with this business and believe there is a high chance of success in reengineering this well-known retailer. We took advantage of price weakness intra-period to add to our position, bring the stock to a more meaningful weighting in the 7-8% range.

AIG

An investment in leading property & casualty and life insurer, American International Group (AIG), was added to the portfolio this quarter. AIG is a much slimmed down and much cleaner financial operation, having worked off and divested its non-core assets and lines of business since the US mortgage meltdown and global financial crisis brought the company to its knees. Having been previously bailed out by the government including financial support and the government taking a 90% stake, AIG has addressed its fundamental problems and returned to its core.

For some time, however, the stock has – in our view – lagged its fundamental performance due to the substantial overhang of government-owned shares in the company, which have been progressively sold to the public in various equity offers. The government has now exited its entire equity position having flooded the market with over $50b worth of stock. What we find very interesting is that the market seems unmoved by the fact that the company itself has taken advantage of this abnormal ‘supply’ of stock to buy-in and retire shares. Repurchasing significant amounts of stock, we believe, will add materially to AIG’s long-term per-share earning capacity and thus value, while also sending a strong signal that the company has very much turned a corner in its own capital needs.

While by nature AIG has inherent balance sheet risks, we believe that this revitalised and restored global insurance franchise represents a good opportunity in the low-$30 price range where we bought.

Conclusion

We’re pleased with our modest absolute performance this quarter which rounds out a solid year both in absolute and relative terms. Our 18.3% return for the full year is despite our conservative positioning, including holding substantial cash through the period. We tend not to dwell on past performance but instead remind ourselves that these do not help with the future! Rather, we remain squarely focused on the stocks we currently hold, our appraisals of their prospects, valuations and inherent risks, and the opportunities to add to (or subtract from) the portfolio. Despite our broad concerns for the overall economy and our view that equities are generally quite richly valued, we are still finding individual businesses that meet our investment criteria.

Once again, thank you for your continued trust and support.

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