PetersMacGregor
CAPITAL MANAGEMENT

2012 June Global Fund Report

Performance Summary

The performance of the Peters MacGregor Global Fund for the June quarter was -0.72 beating the MSCI World Index which declined -4.26%. Performance for the June year is 4.69%, outperforming the MSCI which was -2.25%.

The portfolio held 12 companies and cash finished at around 32%.

June 2012	net return before tax	MSCI index	out performance
Rolling			
3 months	-0.72%	-4.26%	3.54%
1 year	4.69%	-2.25%	6.94%
3 years p.a.	13.50%	9.93%	3.57%
5 years p.a.	0.74%	-3.76%	4.50%
Since inception p.a.(September 2004)	3.77%	3.33%	0.44%
Total return since inception	33.54%	29.19%	4.35%

Top 5 Portfolio Holdings (alphabetically)

| Asta Funding | Bank of America | Berkshire Hathaway | Fairfax Financial | Michael Hill International |

General Commentary

Once again, headlines were dominated by the on-going European debt crisis and the actions taken by the various governments and central banks. We expect the saga to continue well into the future as the can is continually kicked down the road and actions are taken to hold the Euro together. Ultimately, a muddle-through approach may work in Europe with some combination of structural changes within the individual troubled countries, debt restructuring, and monetary policy (printing cash!) helping to slowly resolve the current problems.

Of greater concern to us is the potential for a Chinese construction slowdown. News flow is increasingly turning toward this issue but – as was the case with the 2008 US-centric financial crisis and the 2010-present European crisis – attention turns to these things ‘after’ the event. China has been in a long-term boom with residential, commercial and infrastructure development leading the charge in recent years. The extent of any over-building and the consequent slow-down in construction will be of paramount importance not only to the Chinese economy but to the global economy and, worryingly, our own domestic economy: Australia. With our reliance on the export of hard commodities to China, the fate of the Australian economy has become increasingly intertwined with that of China and in a way that we wouldn't appreciate until something goes wrong with our largest trading partner.

These concerns continue to be front-of-mind for us as we analyse individual companies for inclusion within the portfolio and, importantly, how we then construct and manage a portfolio of interesting names. More than anything, an awareness of many of the risks and indeed the potential for events that are impossible to anticipate supports portfolio construction that includes international shares and is weighted toward larger, well-funded, multi-national companies whose valuations remain relatively attractive.

Portfolio Commentary

We are pleased with the performance of our portfolio, particularly in a relative sense. Each stock had a less-than-1% impact on performance with the exception of Bank of America which gave up some of the previous quarter's gains (falling 15% to cost us around 1.2%) and Asta Funding (which rose 15% and contributed 1.5%). This benign outcome at both the individual company level and for the broad portfolio (-0.72%) was not reflected in the activity level within the portfolio. Indeed, the quarter under review was particularly busy with a number of stocks being opportunistically increased at attractive price points (Johnson & Johnson and Tesco) and a position in US retailer JC Penney being initiated. Additionally, our previously-large holding in Asta Funding was brought to (partial) fruition through the sale of around half our position back to the company at a premium price.

We were pleased to be able to add to both Johnson & Johnson and Tesco as the shares of those two quality names traded down to very attractive levels. These stocks have been increased to 5% and 4% respectively of the portfolio.

ASTA FUNDING

The most interesting adjustment within the portfolio this quarter, however, has been Asta Funding. Asta Funding has been a long-term investment and up until the global financial crisis had been a small position in the portfolio (3-4%). Enticed by the opportunity that was presented through the financial meltdown, we added to our holdings in Asta through the early 2009 trough, buying the stock as low as the $1.30 to $1.40 range. As the stock recovered through 2009 the position expanded organically from being a small holding (<5%) to a full-sized one (>10%). In the three years since, we have trimmed a few shares on the open market to keep the stock in the 10-12% range within the portfolios – a level that we have felt comfortable with considering the further upside potential and the increasingly limited downside as the company has monetised most of its asset base and is largely cashed-up.

In 2011 as the company had failed to reinvest its strong cashflow into its core business, we felt it would be appropriate for them to start returning cash to shareholders. Our dialogue with the company has been focused on mechanisms for doing so, including the potential for us to negotiate a sale of stock back to the company. The conversation continued but we were unable to reach a deal as the company was reluctant to pay a price materially higher than the prevailing market price and we were unwilling to sell at those levels. To provide context, at 31st March 2012 the stock price was $8.17 and the company had nearly $8 per share in cash and another $3-4 per share in further value, by our estimation. At $8.17 or even $8.50 we were simply unwilling to sell our position.

Fortunately, the announcement of strong on-market buybacks (around 1% of the company) helped push the stock price to nearly $9 per share where we were able to strike a deal to sell around half our holding to the company for a premium price of $9.40 per share. At that level we felt we were receiving an appropriate price while recognising it was economic and made sense for continuing shareholders of Asta. The $9 range remains somewhat shy of our appraisal of full value, but in the context of the failure to reinvest within its core business, we feel at that price level is more appropriately sized in the 5-7% range within the portfolio.

JC PENNEY

We added a small position in US retailer JC Penney during the quarter following a greater-than 40% decline in that company's stock price since February. JC Penney is a department store chain with a history dating back more than 100 years. Its iconic brand peppers the US retail landscape with more than 1000 stores located within and anchoring shopping malls across the country, as well as standalone stores and super-stores. Having become commoditised over time, JC Penney is undergoing a wholesale change in strategy designed to more effectively monetise its very strong brand equity. Key aspects of the business reengineering include simplifying and significantly reducing its promotional activity (which has cheapened the name over time). Together with a physical makeover of the store offer, we expect the company to attract a whole host of new up-market brands to its enhanced format, including a 'store within the store' concept.

As with re-breaking an incorrectly healing fractured bone in order to reset it, sometimes effecting wholesale change is a painful ordeal. In the case of JC Penney, the company has had to discontinue certain aggressive (but ultimately brand cheapening) behaviour in order to attract premium branded suppliers. The result is that in the short term sales have fallen materially, but the opportunity lies in being able to rebuild those sales on better terms and in a way that supports and promotes the brand rather than eroding it.

It is this 'resetting' process that has spooked the market, causing the shares to give up previous gains and fall to levels that attract us. If one can look beyond the short-term business disruption caused by its dramatic makeover, we believe JC Penney is a highly prospective opportunity.

Conclusion

We held on to previous gains in a declining market this quarter. Our focus remains on the portfolio from a stock-by-stock perspective in the first instance and then to how these are molded together to create the broad portfolio. The theme of our focus continues to be on larger high-quality names and capital continues to be rotated toward these. Cash remains around 30% of the portfolio at quarter-end, as proceeds from selling-down Asta were approximately matched by funding of a new position in JC Penney and adding to others.

Once again, 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.
- The returns are net of management fees and before taxes.
- The MSCI figures are the MSCI World Total Return Index (net local).

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