PetersMacGregor
CAPITAL MANAGEMENT

2012 March Global Fund Report

Performance Summary

The performance of the Peters MacGregor Global Fund for the March quarter was 11.1%, in line with the MSCI World Index which rose 11.2%.

The portfolio held eleven companies and cash finished at around 30%.

March 2012	net return	MSCI index	out performance
Rolling			
3 months	11.13%	11.19%	-0.06%
1 year	3.69%	1.45%	2.24%
3 years	22.47%	17.34%	5.13%
5 years	1.46%	-1.79%	3.25%
Since inception p.a. (September 2004)	4.09%	4.04%	0.05%
Total since inception	35.46%	34.94%	0.52%

Top 5 Portfolio Holdings (alphabetically)

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

General Commentary

Last quarter we took you on a 'meltdown tour', outlining the broad concerns we have for the various major global economies. From the Eurozone's monetary union 'experiment' to unsustainable budgetary imbalances in the US. From the potential for a hard landing in China to worryingly high levels of debt in the face of unfavourable demographics in Japan. All the while, Australia remains positioned in the cross-hairs given its reliance on the mining and export of particularly-growth-sensitive hard commodities. We can't say we're alone in our concerns, but with markets roaring ahead with double-digit percentage increases this quarter it's clear that investors generally are dismissing these very real risks, imbalances and uncertainties and are instead adopting an 'all in' approach to asset allocation!

In addition to our concerns for the global economy in general, we are also mindful of more specific themes, which may make the investor's job increasingly challenging in the years ahead. These include the continued de-leveraging of the household sector as consumers pull back on discretionary spending in favour of building their savings, and the potential for record high corporate margins to mean revert. The former is a well appreciated concern that gets considerable media coverage and appropriate investor consideration, considering its very nature. The latter, however, by nature is less overt and perhaps not so broadly appreciated. The corporate sector is basking in what we consider to be unsustainable levels of profitability. We fully expect these to eventually normalise and believe that a key area of opportunity for the stock picker today lies in the ability to successfully differentiate between those companies, which will suffer disproportionately in such an environment.

Portfolio Commentary

We are very happy with the absolute performance of our portfolios over the quarter, and satisfied in a relative sense. While we own some stocks that tend to perform very well in buoyant market environments, we also have a number of holdings that are lower-risk and tend to lag rising markets. With cash in the 20-30% range and the portfolio populated with names such as Asta Funding (which itself is mostly cashed-up) and defensive names such as Walmart (which tend to lag rising markets – but outperform during the downturns) we are very glad to have kept pace with the market through such a strong period.

Principal contributors to performance were Bank of America (up 72% for around 3.5% contribution); Howard Hughes (up 42% for over 2% contribution); Michael Hill (returning around 25% in AUD terms for a 4% contribution) and Wells Fargo (returning 25% for nearly 1.5% contribution). There were no major detractors.

In terms of news flow, the quarter was relatively benign. All of our holdings delivered results that were broadly in line with our expectations with no major surprises either way. Our banking stocks – Bank of America and Wells Fargo – benefited as the sector was rerated on the back of encouraging results from the Federal Reserve's stress testing in March. Bank of America in particular is more levered and thus sensitive to sector developments. That stock rose 72% over the quarter recovering most of its 2011 losses and bringing the position into positive territory across our portfolios.

Another large holding, Asta Funding, reported strong continued collections from its legacy book of bad debts but is still finding the pricing for fresh charged off paper too rich. Management continues to assess opportunities for investment in the credit space and have made a substantial commitment to invest in short-term loans against expected legal judgements. While the inability to reinvest in distressed debt has been disappointing, we remain comfortable with our investment in Asta considering its substantial cash backing (greater than 90% of the current share price) in addition to still-valuable tails of bad debt paper.

In the wake of a re-rating to its stock, we took the decision this quarter to reduce our Michael Hill position. At 13% of the portfolio this company remains our largest holding and we remain optimistic about both its long-term prospects and its current operating profitability, on the back of strong growth in its Professional Care Plan sales.

We also took the decision to further reduce our position in Berkshire Hathaway as its price rose during the quarter. Berkshire remains a core holding within the portfolio and we will continue to actively manage our position in response to price movements relative to our appraisal of underlying valuation.

Finally, Wells Fargo was reduced – bringing our position from 6% last quarter down to 4%. This trimming reflects both a decline in Wells' attractiveness in absolute terms (as its stock price rose) and our desire to actively manage and contain our broader exposure to the banking sector (considering our position in Bank of America, too).

On the other side of the ledger, we added a small position in UK retailer Tesco following a greater than 20% decline in that company's stock price in January in response to disappointing sales results. UK-based Tesco is the third largest retailer in the world with a market-leading grocery business in the UK and important general merchandising and grocery sales contributions from many countries across the globe. The company has suffered in recent times from an inadequate investment in the customer experience as well as merchandising mishaps, particularly on its fresh fruit, vegetables and meat offers. We believe these are all fixable operational issues and that the market, in trading the shares down to current levels (circa 9-10 times sustainable earnings) is overlooking Tesco's strong market position in many areas of its home market in the UK, valuable growth opportunities in newer markets and its pristine balance sheet with modest debt and substantial valuable real estate backing. Tesco will likely continue to report uninspiring sales and profit results for a while yet, but over time we believe the business will improve its service and merchandising and that profitability will follow suit. In that context and from these levels, we expect the shares to perform handsomely over time.

Conclusion

As always we remain focused on the portfolio from a stock-by-stock perspective. With markets trading up to levels that we believe do not adequately discount either the very real economic risks or the potential for mean reversion of earnings we are managing positions very tightly in order to control risk within the portfolio. Cash is always a by-product within the portfolio and the trimming activity has contributed to cash balances rising to around 30%. This can move back down quickly in response to fresh ideas or sharper pricing on existing holdings, but for now in the context of this environment we are pleased with both our cash positioning and the composition of the invested portfolio.

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).

Suite 507,
19A Boundary Street,
Rushcutters Bay,
Sydney NSW 2011 Australia
Tel: + 61 (0)2 9332 2133
Fax: +61 (0)2 9331 3177