

31 March 2015

Key Facts

Portfolio Managers L Wayne Peters
Michael Haddad, CFA

**Management Fee¹
Structure** 1.5%
Global Equity Fund
\$A generally hedged

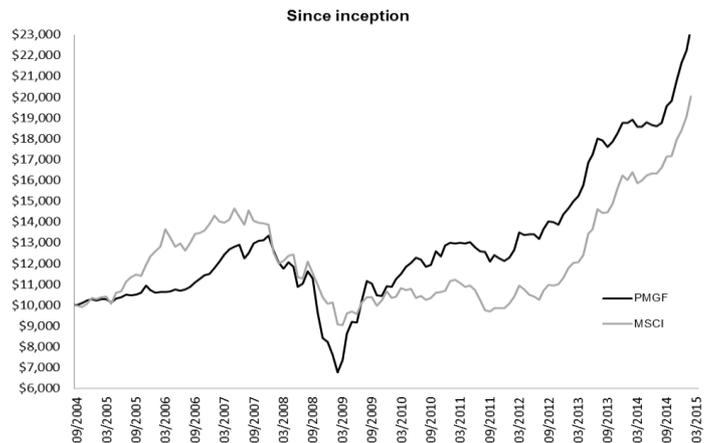
Buy/Sell Spread 0.10%/0.10%

Inception Date 6 September 2004

Distribution 30 June

Fund Size \$A 136 million

¹ All fees are exclusive of the net effect of GST

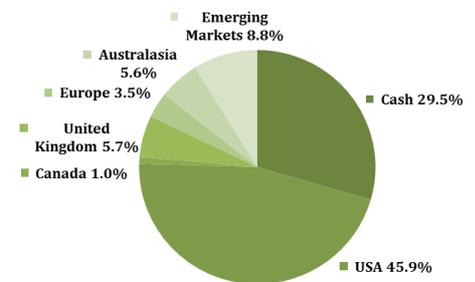


Performance**	Fund	MSCI**	Excess Return	Std Dev ¹	Sharpe Ratio ²	Correlation ³
1 month	1.82%	1.11%	0.71%			
3 months	9.57%	9.88%	-0.31%			
1 year	27.79%	27.54%	0.25%	7.21	3.13	0.89
3 years (p.a.)	20.77%	22.83%	-2.06%	7.44	2.21	0.41
5 years (p.a.)	15.59%	13.34%	2.25%	8.10	1.40	0.43
7 years (p.a.)	10.57%	7.61%	2.96%	15.82	0.47	0.72
10 years (p.a.)	8.71%	6.87%	1.84%	13.84	0.35	0.71
Since inception (p.a.)	8.52%	6.89%	1.63%	13.46	0.34	0.70
Total return since inception	137.41%	102.40%	35.01%			

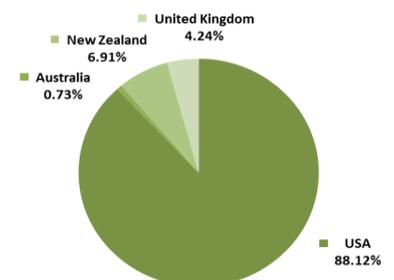
Top Holdings

AIG	Multi-line Insurance
Asta Funding	Consumer Finance
Bank Of America	Diversified Banks
eBay	Information Technology
Fiat	Auto Manufacturer
Howard Hughes	Real Estate Development
Michael Hill International	Consumer Discretionary
Nicholas Financial	Consumer Finance
Royal Bank of Scotland	Diversified Banks
Wells Fargo	Diversified Banks

Regional Exposure by Revenue



Currency Exposure



**Intra year performance figures are unaudited; the returns are net of management fees and before taxes. They do not include franking credits. The MSCI figures are the MSCI All Country World Index IMI Net Total Return (AUD) Index.

¹ Standard Deviation: Measure of the annualised volatility of monthly returns.

² Sharpe Ratio: Measure of the risk-adjusted performance.

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. Regional Revenue breakdowns are approximations.

Important Information

This report is provided for investors in the Fund (ARSN 110 619 559) and IMA clients and is not intended to provide advice. While all care has been taken in the preparation of this report (using sources believed to be reliable and accurate), Peters MacGregor Capital Management Limited (ABN 077 087 181 600, AFSL 225984), its officers, employees, agents and associated entities accept no responsibility for and will not be liable in respect of any loss or damage suffered by any person in connection with this, other than under law, which cannot be excluded. You should seek your own financial and taxation advice before dealing with your investment. This report has been prepared without taking into account your investment objectives, financial situation or particular needs. Before investing, or retaining an investment, in the Fund you should read the PDS dated 31 October 2014 and consider whether the Fund is appropriate having regard to those matters. A copy of the PDS is available at www.petersmacgregor.com. Remember, past performance should not be taken as an indication of future performance.

Performance Summary

The net performance of the Peters MacGregor Global Fund for the March quarter was 9.57%, again keeping pace with a strong MSCI showing of 9.88%.

We are once again pleased with our performance in a broadly rising market. Value-based approaches to investment management tend to lag rising markets as portfolios become populated with the misunderstood, unloved and neglected stocks that generally aren't the drivers of such strong markets. Large cash balances that can build up in the absence of quality value-driven opportunities provide further headwinds to relative performance in rising markets. Despite these, success with some of our recent stock picks has generated enough performance to keep us broadly in-line. Our 12-month return of nearly 28% matches the MSCI while our longer-term numbers – five years or greater – reflect a respectable annualised outperformance of 1.6 to 3% after all fees and expenses.

The portfolio closed the quarter with 15 companies and cash was down slightly at 29%.

General Commentary

Continuing their recent trends, the equity market remained broadly strong and rising while the AUD fell materially. Low interest rates and the expectation they'll remain low for an increasingly long period of time continue to fuel 'risk' asset prices. Australia is a prime recent example of the effects of collapsing interest rates and expectations. The official rate here has been lowered this quarter to 2.25% with market participants widely expecting further cuts as the economy comes off the boil and our terms of trade deteriorate markedly. Yield hungry investors are pushing the prices of decent Australian equities to relatively rich valuations while property prices in the main centres continue to rise and have now been at nose-bleed levels for some time.

The theme of the day has certainly been of 'international investing' with the step down in the AUD from over 100c US to around 76c coming as a shock to many and prompting some serious asset allocation re-consideration. At first blush one might feel that the major move has been made and investors looking to diversify abroad are possibly too late to the game. However, one must be mindful of two important dynamics: (1) the move to the mid-70c range simply brings the AUD back to its historical average versus the USD. Considering the fundamentals (purchasing power parity, terms of trade, etc) it certainly does not have the feel of a currency that has overshot

the mark on the downside. And (2), the decline in the AUD/USD cross is more a USD appreciation than AUD depreciation story. Relative to other major global currencies the AUD has held up well. While the decline versus the USD may be taken as something of a wake-up call, we believe the opportunity to prudently diversify into quality international stocks at reasonable pricing remains very much alive and well.

Portfolio Commentary

Once again, our portfolio has kept pace with a strong MSCI. We finished the quarter up 9.57% versus 9.88% for the benchmark. Around 6% was attributable to the decline in the AUD, while our equities contributed 4% (pre expenses) to performance. Principal individual contributors include global car-maker, Fiat (up 42% and contributing over 3.2% to the portfolio); recently re-acquired property holding company – Howard Hughes Corporation – (up 25% from where we re-purchased during the quarter and contributing 1.2%); and U-Haul owner, Amerco, which rose 10% (contributing over 0.5%) to where we disposed of our holding this quarter.

Fiat's stock price appreciation reflects the market's recognition of the inherent value in the collection of interesting car brands and the removal of merger uncertainties surrounding Chrysler. Believing the market was being slow to discount some of the many positives that came to light in a relative short period of time, we expanded our position in the previous period to almost 8% of the portfolio. Subsequent price action has brought the stock up to a full 11% of the fund. We continue to believe the prospects for the business are bright but are carefully considering our exposure to the name at these higher prices and larger position size.

Material detractors included two of our mid-sized positions in banks – Bank of America and Royal Bank of Scotland. Each of these fell almost 14% and cost us 70bps a piece this quarter. We continue to believe each of these stocks are selling at a material discount to reasonable multiples applied to normalised earnings. Headline numbers continue to reflect the cleaning up of balance sheets and legacy operations. But we believe in time the market will likely come to appreciate the power of the underlying business franchises these companies have.

Portfolio Changes

While cash finished the period little changed at 29% of the portfolio, this does not reflect the substantial activity we had this quarter. On the sell-side, and as mentioned in our last quarterly report, we completely exited holdings in the oil majors – BP and Exxon Mobil. These are great companies with valuable global assets across the oil exploration, production and distribution spectrum. However, as the price of oil collapsed and the expectation of medium-term lower prices were factored into our discounted cashflow valuation framework, our valuations fell 20+% and eroded our entire perceived margin for safety. These are excellent examples of our discipline in exiting stocks not only when prices rise to full value but also when full value declines to current price. Despite the collapse in oil, these stocks held up remarkably well and we were able to exit with immaterial impact to the portfolio.

Canadian-based global property & casualty insurer – Fairfax Financial – was exited as further price appreciation brought the stock above our full valuation. On the back of improving underwriting performance, a greater appreciation of the hedged nature of its investment portfolio, and the broad decline in the Canadian dollar, Fairfax has performed exceptionally well in recent periods. The stock returned 20% in 2013, a further 40% in 2014 and continued higher into the first quarter of 2015 (up around 10% to where we ultimately exited). Having previously held a full position size at around 9% of the fund, we scaled our holdings back last year as its inherent value was beginning to be realised and further reduced this past quarter ahead of our complete exit. We continue to rate highly Fairfax's management team and believe they have an excellent platform for long-term shareholder value creation. The only problem we see here is that the expectation of this value-creation is priced into the stock and little margin for error exists. Quality companies are scarce and Fairfax maintains its prominent position on our 'watchlist'. We also exited another business that we believe has great economics and a bright future – Amerco (owner of U-Haul). U-Haul is by far the largest operator in the lucrative removal truck rental business in the US. It also has valuable self-storage properties. Having doubled from our purchase point less than two years ago, Amerco has simply reached a very full value and is at levels from which we believe long-term returns will be much less interesting. While the company ticks many of our boxes for quality and franchise durability, one must always remember that a great business may be a lousy investment if

acquired (or held from) an inappropriately high price. We're pleased with the contribution Amerco has made to the portfolio and would welcome the opportunity to re-acquire a position should pricing once again become appropriate considering our strict value discipline.

On the subject of re-acquiring quality assets at the right price, we were fortunate to have the opportunity to again establish a mid-sized position in property holding company – Howard Hughes Corporation. Investors will recall we initially invested in Howard Hughes in 2012 in the \$60 range. Having exited around \$160 last year we recently had the opportunity to re-establish a position in the low \$120 range. Real Estate Investment Trusts which have a special tax status, are required to distribute essentially all their earnings and have become wickedly-priced in a yield-hungry environment. Meanwhile, holding company equivalents such as Howard Hughes which do not make distributions and are instead focused on building long-term capital value for investors have been left for dust. We believe this is a unique area of potential deep value in an otherwise richly priced market and have been glad to again invest in a collection of premium properties and developments via Howard Hughes.

New Names: IAC/Interactive and Lloyds Banking

IAC/Interactive owns a collection of wonderful media properties and is controlled by long-time media veteran, Barry Diller. Most notable of its diverse media and Internet properties include well-established dating sites Match.com and OKCupid.com, as well as valuable search properties (about.com and ask.com). These businesses are mature and produce substantial and consistent cashflows that have allowed IAC to invest heavily in highly-prospective new ventures. Most exciting of these being the mobile dating app, Tinder, and the video streaming site, Vimeo. These new businesses have numerous early-stage costs that have distorted the broader group's financial results. The company is in the early stages of a monetisation strategy around Tinder – for example – which holds the potential of contributing considerably to group earnings. The current stock price is in our view well-supported by existing revenues with inherent substantial upside optionality around some of its fledgling businesses.

Lloyds Banking is one of the big four UK banks suffering investor neglect due to its large government shareholding resulting from the 2008 financial bailout. As with RBS and to a lesser degree Bank of America, current earnings continue to reflect legacy issues that are slowly being worked through the

financials. Underneath this though we believe lies a very strong banking franchise and the potential to be a major player in a market where power is concentrated into the majors (not unlike Australia). Key to the thesis is the company's focus on shrinking global operations in order to re-focus on its home market where real shareholder value can be created over time. As its legacy 'run-off' book continues to shrink, operations are simplified and tangible steps are taken to move up the value chain in its home market in a bid to leverage off its market position, we believe investors will come to appreciate this quality asset.

Conclusion

For a long time we've emphasised our concerns for broad market valuations and the risks and uncertainties we face in today's world. We continue to manage the portfolio defensively with our strict focus on ensuring an adequate margin of safety is present with all holdings, and trimming or exiting stocks as price relative to value dictates. Our portfolio is built one stock at a time from the bottom-up and clients have exposure to pockets of deep value while retaining adequate liquidity to capitalise on opportunities that may arise in future environments. Avoidance of the 'hot' sectors has made keeping up with the indices challenging. But we're pleased that success in identifying and capitalising on some mispricings in markets over the past couple years (ie: Amerco and Fiat) has driven our absolute returns well enough to keep pace with the broad market. Of course, we remain diligent and disciplined as we continually seek to replenish the portfolio with interesting new (or old favourite) names in order to drive future performance.

As always, we appreciate your support and welcome your feedback, questions and the opportunity to further discuss our service with you.