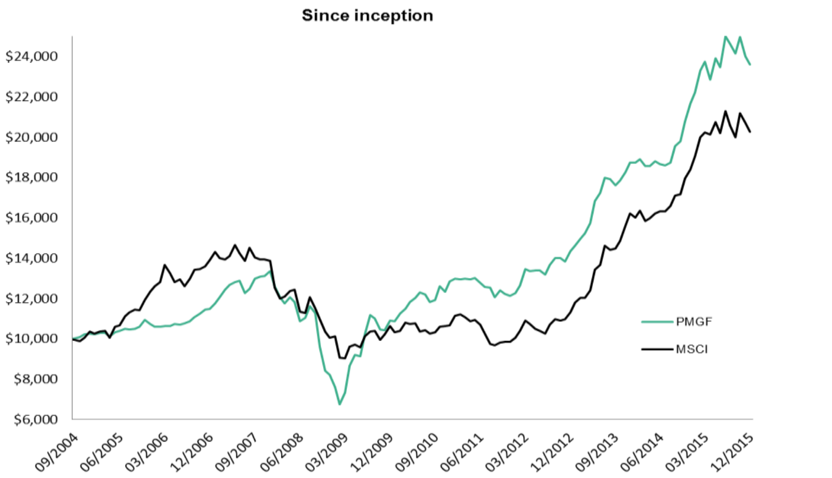
PetersMacGregor
CAPITAL MANAGEMENT

December 2015

Key Facts

Portfolio Managers	*L Wayne Peters* *Michael Haddad, CFA*
Management Fee[1]	*1.35%*
Structure	*Global Equity Fund* *Unhedged*
Buy/Sell Spread	*0.10%/0.10%*
Inception Date	*6 September 2004*
Distribution	*30 June*
Fund Size	*A$116.9 million*

[1] *All fees are exclusive of the net effect of GST (1.41%p.a. including the net effect of GST).*

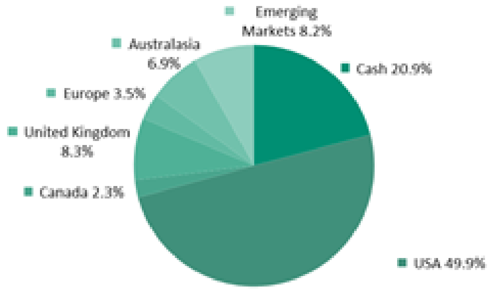


*Performance***	*Fund*	*MSCI***	*Excess Return*	*Std Dev*[1]	*Sharpe Ratio*[2]	*Correlation*[3]
1 month	*-1.70%*	*-2.26%*	*0.56%*			
3 months	*-2.19%*	*1.26%*	*-3.45%*			
1 year	*9.03%*	*10.02%*	*-0.99%*	*12.38*	*0.59*	*0.90*
3 years (p.a.)	*18.08%*	*21.45%*	*-3.37%*	*9.41*	*1.56*	*0.87*
5 years (p.a.)	*12.92%*	*13.64%*	*-0.72%*	*8.87*	*1.07*	*0.83*
7 years (p.a.)	*16.27%*	*10.50%*	*5.77%*	*13.58*	*0.94*	*0.71*
10 years (p.a.)	*8.20%*	*5.07%*	*3.13%*	*14.19*	*0.33*	*0.69*
Since inception (p.a.)	*7.89%*	*6.44%*	*1.45%*	*13.40*	*0.34*	*0.67*
Total return since inception	*136.24%*	*102.65%*	*33.59%*			

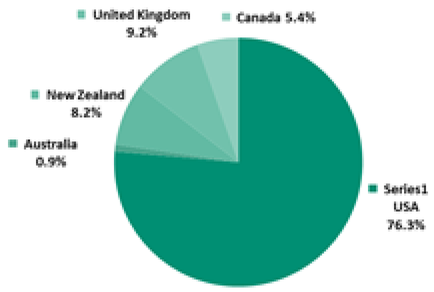
Top Holdings

AIG	*Multi-line Insurance*
Bank of America	*Diversified Banks*
Berkshire Hathaway	*Conglomerate*
Fairfax Financial Holdings	*Insurance*
Fiat Chrysler	*Auto Manufacturer*
Liberty Media	*Broadcasting*
Michael Hill International	*Consumer Discretionary*
Precision Castparts	*Aerospace and Defense*
Rolls-Royce Holdings	*Aerospace and Defense*
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 ACWI IMI Net Return (AUD) Index.
[1] Standard Deviation: Measure of the annualised volatility of monthly returns.
[2] Sharpe Ratio: Measure of the risk-adjusted performance.
[3] Correlation: Measure of how PMGF and MSCI index move in relation to each other.

Peters MacGregor may on occasion, hedge against movements in the Australian dollar and other currency exchange rates, but the default position is to remain unhedged. 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.

Performance Summary

The net performance of the Peters MacGregor Global Fund for the December quarter was minus 2.2%, underperforming by over 3% the MSCI which rose 1.3%, and handing back much of the previous quarter's strong outperformance.

Over most short to medium term horizons our performance numbers, while strong in absolute terms, slightly lag the broad market. Our 12-month performance at 9% slightly underperforms the MSCI's 10% while our 3-5 year numbers at 18.1% and 12.9% lag the MSCI by 3.4% and 0.7% respectively. While slightly below the market over these time horizons, we're proud of our results, which reflect stock selection that has enabled us to almost keep pace with a dramatic bull market these past few years. Our all-important longer-term numbers remain very strong relatively with outperformance over the seven and 10-year horizons of 5.8% and 3.1% respectively.

General Commentary

Following a highly volatile September quarter, which included a technical correction, markets settled down these past few months. With bullish sentiment seemingly 'back to normal', markets recovered most of their losses and perhaps participants anchored on the positive signal of the US Fed increasing its target cash rate by 25bps (from 0-0.25 to 0.25-0.5%) – the first increase since 2006! Though having adjusted to the new reality of increasing interest rates, sentiment toward the end of the quarter has again shifted south with market chatter being focused on continued weakness in oil, a slowing in global growth, and Chinese economic & stock market jitters. As we write, the Chinese market has hit its new circuit-breakers twice already since the new year – circuit-breakers designed to halt trading into material price declines. Further aggravating sentiment are fresh geopolitical concerns surrounding North Korea's nuclear ambitions. There's never a shortage of interesting and scary news, but what's important is that investors remain calm and focus on the fundamentals for the assets to which they're exposed.

An interesting dynamic, which we've witnessed in markets over the past year or so, has been that of increasing dispersion in the performance of individual names. Specifically, the very largest of companies have dramatically outperformed the typical stock, driven recklessly higher – we believe – by the flood of capital entering the market via Exchange Traded Funds. The concept of obtaining broad market exposure through investing in low-cost index funds certainly has merit. But a perverse outcome of mass adoption of such a strategy is that the weight of capital 'blindly' buying more of the largest (and often most overvalued) companies is that these hot stocks become hotter, appreciate further, augment strong recent past performance with continued strong performance. This validates investors' decision to 'index' and leads to further strong flows, and so on. Meanwhile, value-oriented stock-pickers will tend to avoid those hot stocks and broadly struggle relative to the market. Of course, the piper must always eventually be paid. Should the market darlings fail to live up to their priced-in expectations we fear their fall from grace could trigger market 'redemptions' for the same emotional reasons that have fuelled their rise. From our perspective, while we don't actively hope for market declines or disruption, we continue to execute on a sensible investment strategy that demands we buy quality companies trading at material discounts to our valuation appraisals. It's a big world out there, and despite the broad market environment we are excited about the prospects for our basket of quality businesses – both in relative and absolute terms – over the years ahead. In a fully valued and precarious broad market environment, we take this opportunity to encourage clients to ensure all investment exposures have a sound and reasonable basis and that portfolio duration is appropriately matched to personal cash flow requirements.

Portfolio Commentary

The portfolio declined 2.2% this quarter, underperforming the MSCI, which appreciated 1.3%. Absolute performance of each was hurt by a bounce in the Australian dollar with currency costing the portfolio 3.4% for the period. Underlying gross equity contribution was positive at 1.6% in what was a fairly benign quarter for our portfolio holdings. The only material contributors were Rolls Royce, which struggled in the wake of yet another profit warning and weak medium-term guidance. Rolls fell 14% for the quarter and cost us 75bps. And two long-held financial institutions: AIG and Bank of America, which rose 8-10% each and contributed around 50bps each.

In terms of portfolio changes, we reduced US-based diversified financial company, Asta Funding, and took the decision to exit a small position in subprime auto financier – Nicholas Financial – each at attractive pricing intra-period. These decisions were driven primarily from a portfolio risk management perspective, and reflect our preference for maintaining or augmenting holdings in favoured financials such as AIG, Bank of America and Wells Fargo.

Increased Commitment to Recently Added Liberty Media

Elsewhere, we remain excited by the prospects for relatively new holding, Liberty Media. Our CIO, Wayne Peters, and Investment Analyst, Trevor Scott, spent time this past quarter visiting with companies in North America. In particular, the pair attended Liberty's annual investor day in New York with insights from their various meetings strengthening our conviction in this interesting business and leading to our decision to boost our holding from 5% to a full sized 7% of the portfolio. Liberty Media is a holding company whose principal asset is its 61% ownership interest in separately listed, Sirius XM – the only satellite radio service provider in North America. Sirius XM has a phenomenal economic model with a monopolistic position in its particular distribution niche due to the controversial 2008 merger between the then two satellite radio providers: Sirius and XM Satellite. Interestingly, the merger was only allowed to be consummated due to the inability of either company to reach the critical mass required to turn a profit. Merging the two propelled the industry from loss making to having a platform for significant growth while achieving excellent profit margins over time.

The consumer proposition with Sirius XM is compelling. Provided your car has the requisite hardware installed, a monthly subscription to ad-free satellite radio with some 150 channels to select from – including much sought-after exclusive content such as the Howard Stern show – will set you back just $13. At 40 cents per day, Sirius has wonderful pricing power as incremental increases of a few cents generate significant revenue growth for the company – which is leveraged to the bottom line – while barely affecting consumer demand. Given the cost of establishing a satellite network, obtaining content, and installing the receivers in cars, it is virtually impossible now to set up and compete with Sirius. At the attractive prices we've been able to obtain our exposure to Sirius XM via Liberty Media over the past couple quarters, we're very excited about the potential for the company to contribute significantly to performance.

Fiat's Spin-off of Ferrari Puts Spotlight on Value

We're pleased with the strong contribution Fiat has made to the portfolio since we established a full sized position in the misunderstood and underappreciated global auto giant in early 2014. Clients will recall a key aspect of our investment thesis with Fiat was its 90% ownership of luxury carmaker, Ferrari. The economics of Ferrari reflect the iconic super-brand that it is and are incomparable with those of typical auto companies, despite the lowly valuation applied to it through its parent company: Fiat. As with many of our investments, we seek to obtain an edge in the research process by seeking to understand the dynamics of the individual component companies within a broader holding or parent company structure. Oftentimes truly great businesses become overlooked within complex ownership structures. Interesting examples that we've capitalised on include PayPal within the broad eBay group; U-Haul within Amerco; Tinder within IAC/InterActiveCorp; and now Ferrari within Fiat.

In recent months Fiat has been through a separation and spin-off process with Ferrari. Shareholders of the former receiving shares in the latter – a move which has put the spotlight on Ferrari's wonderful fundamentals and highly attractive long-term prospects. Appropriately, the market has ascribed a very substantial premium to Ferrari's stock, well ahead of our own valuation, leading to our exit of Ferrari from the portfolio following receipt of the stock. At over 1/3rd of the value of our pre-spin Fiat position, the separation of the two companies allowed us to unlock this previously unappreciated value and now leaves us with a smaller position in, still attractively priced, Fiat.

Conclusion

As we write, global markets have been weak with media jumping on phrases like "worst start to a new year ever". A bad week in markets is of course no worse for happening to fall at the beginning of an arbitrary period of time, and it is important investors keep market noise in context. That said, we do remain cautious on the broad economic environment and asset prices generally, particularly given the extremes to which risk-assets have been bid up in a low interest rate world. While we are unenthused about the potential for broad equity market returns over the medium term from here, we are optimistic about the prospects for a hand-selected, concentrated portfolio of quality assets held at sensible prices from which investors should expect to earn satisfactory absolute returns over time. Together with having ample cash liquidity at present, and a willingness to opportunistically deploy this as we identify companies that meet our strict criteria for quality and valuation, we believe the relative prospects for our portfolio are as attractive as ever while simultaneously looking forward to respectable absolute results over time.