PetersMacGregor
GLOBAL FUND

ARSN 110 619 559

31 December 2013

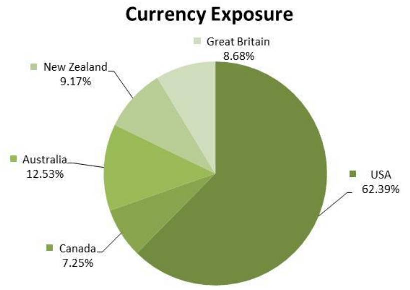
Key Facts

Portfolio Manager	*L Wayne Peters*
Management Fee	*1.57%**
Structure	*Global Equity Fund, $A generally hedged*
Buy/Sell Spread	*0.10%/0.10%*
Inception Date	*6 September 2004*
Fund Size	*$A 111.0 million*

**All fees are inclusive of net effect of GST.*

*Performance***	*Fund*	*MSCI World NTR Index*	*Excess Return*	*Std Dev*[1]	*Sharpe Ratio*[2]	*Correlation*[3]
1 month	*2.74%*	*2.09%*	*0.65%*			
3 months	*6.51%*	*8.43%*	*-1.92%*			
1 year	*30.69%*	*28.87%*	*1.82%*	*7.53*	*3.26*	*0.09*
3 years (p.a.)	*13.38%*	*12.12%*	*1.26%*	*8.13*	*1.14*	*0.46*
5 years (p.a.)	*17.92%*	*14.28%*	*3.64%*	*14.81*	*0.94*	*0.65*
Since inception (p.a.)	*6.97%*	*6.57%*	*0.40%*	*14.04*	*0.19*	*0.70*
Total return since inception	*87.32%*	*80.97%*	*6.35%*			

Top Holdings	
AIG	*Insurance Diversified*
Amerco	*Industrials*
Asta Funding Inc	*Industrials*
Bank Of America Corp	*Financials*
Berkshire Hathaway B	*Conglomerate*
Fairfax Financial Holdings	*P & C Insurance*
Michael Hill International	*Consumer Discretionary*
The Howard Hughes Corp	*Diversified Real Estate*
Tesco Plc	*Consumer Staple*
Wells Fargo & Company	*Financials*



**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 World Net Total Return 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 World NTR index move in relation to each other.

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.

PetersMacGregor
CAPITAL MANAGEMENT

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Performance Summary

The net performance of the Peters MacGregor Global Fund for the December quarter was 6.51%, underperforming a strong MSCI World NTR Index, which rose 8.43%.

This takes the Fund's return over the last twelve months to 30.69%, outperforming the MSCI's 28.87% result.

General Commentary

Key themes of interest this quarter included a strengthening US economy, the associated announcement of the anticipated US Federal Reserve 'taper', and closer to home, the resumption of the Australian dollar's decline as our economy readjusts in the wake of lower expected export revenue.

Without a doubt, the tsunami of money washing over the US these past years has kept the economy ticking over. Lower interest rates have benefited the heavily indebted consumer; while the Fed's debt purchase programme has given the US Government the cash it needs to engage in its unprecedented fiscal stimulus. As a result, consumers have been prudent and taken the opportunity to de-lever their balance sheets but the Fed in pumping massive liquidity into the market has expanded its balance sheet dramatically and the Government has offset reductions in consumer debt with growth in its own.

Given the significance of the Fed's debt purchasing programme in propping up the economy, much has been made of the recently announced 'taper'. We're amused that 'taper' simply means a reduction in the rate of expansion of the Fed's balance sheet (it will buy just $75b per month of debt, down $10b from its recent rate of $85b). It's a move in the right direction, but probably only 10% of the way! Ultimately, we will be interested to see how/when/if they expand the taper from $10b all the way to $85b and then actually start to sell some of its debt holdings and begin to reduce/normalise its own balance sheet. We watch with interest!

Closer to home, the Australian economy is readjusting to the commercial realities it faces. Lower expected export revenue on the back of a Chinese slowdown together with some serious talking-down by the Governor of our Reserve Bank have seen the Australian dollar fall 10-15% through 2013. Despite this correction, we continue to believe that at the US 88-90c level the Australian dollar remains fundamentally overvalued. This period may indeed be looked back upon in years to come as a generational opportunity to diversify one's Australian asset base into global assets.

Portfolio Commentary

We again lagged an unusually strong broad market this quarter. Our 6.5% gain didn't quite match the 8.4% generated by the MSCI but in absolute terms was very pleasing and especially so considering the defensiveness built into our portfolio at present. (With 28% cash and a number of businesses whose fundamentals and stocks aren't strongly correlated with the market, this is not a portfolio structured to keep pace with a raging bull market.)

Newsflow was relatively benign across the portfolio with companies reporting generally to expectations. Key stock contributors were Bank of America whose 13% return generated 1% for the portfolio. Bank of America continues to perform well as legacy balance sheet issues are addressed and market participants begin to (rationally) focus more on underlying normalised earnings. Recently acquired U-Haul returned around 30% and also generated almost 1% for the portfolio. And as with Bank of America, Wells Fargo too performed solidly benefiting from the renewed positive sentiment toward the US franchise banks. Its stock returned 10% and contributed around 70bps to performance. On the other side of the ledger, the only material detractor was Michael Hill whose stock fell 5%, but this was offset by the 4% appreciation of the NZD relative to the AUD during the period.

This leads into the main contributor for the quarter, which was the broadly declining AUD. Four percent falls against each of the NZD and USD as well as a 6% fall against the Great Britain Pound together generated over 3% in positive contribution this quarter. To the degree our portfolio has been unhedged this past year we have benefited handsomely. However, in the long-run currency will likely have an immaterial impact on performance overall with the successful identification and acquisition of appropriately priced quality companies expected to remain the primary driver of our outcomes. For this reason it is important to emphasise that we remain ever-focused on assessing the prospects and determining/updating valuation for existing holdings as well as searching for new names to add to the portfolio.

Having added small positions in three names in the September quarter (Amerco (U-Haul), BP and Leucadia) we're glad to have further broadened the portfolio and put an additional 10%

or so of our cash to work in adding four additional names: Coca-Cola, Exxon Mobil, Markel Corp and the Royal Bank of Scotland.

Coca-Cola is a company we've followed closely over many years. It is the dominant beverage company globally with a portfolio of desirable beverage products and unmatched global distribution. Coca-Cola has been a laggard through this recent bull market phase and the key point of interest that created our perceived market misappraisal of its valuation is its substantial bottling earnings. At the price we bought the stock in October, the multiple applied to this powerful franchise's earnings was just 18. However, we feel the true underlying earning power is obfuscated by the 'bottling' component of earnings as high depreciation masks its cash generative nature. Indeed, if you were to split out the bottler earnings they would be valued on a very high P/E as such assets tend to be valued on a EV/EBITDA basis. Applying such an appropriate valuation to the bottler earnings and a more reasonable multiple to the underlying franchise earnings yields a sum-of-parts value well in excess of our purchase price.

Exxon Mobil is another company we have followed over many years. Exxon is the largest company in the world by market value and is a major producer of oil, natural gas and petroleum products worldwide. Adding a small position to this major oil company further builds on our energy theme in the portfolio, with a small position in BP having been re-established previously. At the level where we bought the stock in November, Exxon was trading at a substantial discount to our value appraisal and offers interesting diversification and risk management benefits in our portfolio. An excellent profile of the rational capital allocation at Exxon is included in William Thorndike's important book: The Outsiders, which we strongly recommend.

Markel Corp is a US-based property and casualty insurer. We've been long-time followers of Markel and its shareholder-value oriented management team. For any insurance company a key determinant of attractiveness is whether they can behave rationally (structurally as a business and psychologically as individuals running a business) and only write business that is deemed appropriately priced. With obligations being long-tail by nature it is easy for insurers to alter their risk assumptions in order to make a risk fit to the pricing being demanded in the marketplace. A quality insurer will be able to dispassionately assess a risk, price accordingly, and walk away from the business if the market cannot support the required pricing. Further, value can be added if a rational value-based approach can be adopted in running an insurer's investment assets. In the case of Markel the company ticks these critical boxes. Despite having performed strongly in recent times we believe Markel remains a solid value and look forward to a long-term association with the company.

Finally, the Royal Bank of Scotland (RBS) was added this quarter. The addition of RBS follows the trimming of our Bank of America position. Rotating some capital from Bank of America into RBS keeps our total 'bank' commitment in the portfolio relatively similar but allows us to move slightly up the risk/reward scale. Having come through a traumatic and life threatening period, RBS has substantially cleaned its balance sheet up; has refocused on its core retail banking business; and in our estimating is being underappreciated by the market which we believe is pricing in a substantial chance of equity failure. Our assessment is that while the risk of substantial equity impairment remains, this risk is over-discounted in the current stock price and that the potential upside in the event of our appraised underlying earnings coming to the fore far outweighs the downside risk. As always, such positions must be closely monitored with risk managed from an overall portfolio perspective. We remain willing to suffer small impairments in the portfolio if we're compensated adequately in the form of expected returns.

Conclusion

Despite its recent correction we believe the Australian dollar is relatively high and continues to offer investors a good opportunity to continue diversifying their portfolios into global assets. Cheap and plentiful money has certainly propelled asset prices across the board, but from our perspective we are glad to be able to continue to identify high quality companies to add to the portfolio at still reasonable pricing. Global shares have been a nice place to be in recent times and we believe the case for this asset case remains notwithstanding the need to tread carefully in a richly valued market. The past couple of years have been kind to all but we believe we're now very much in a stock picker's market.