PetersMacGregor
GLOBAL FUND

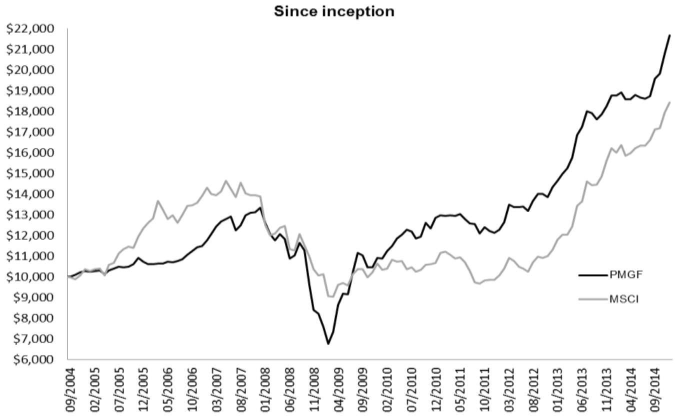
ARSN 110 619 559

31 December 2014

Key Facts

Portfolio Managers	*L Wayne Peters* *Michael Haddad, CFA*
Management Fee[1]	*1.5%*
Structure	*Global Equity Fund* *$A generally hedged*
Buy/Sell Spread	*0.10%/0.10%*
Inception Date	*6 September 2004*
Distribution	*30 June*
Fund Size	*$A 126 million*

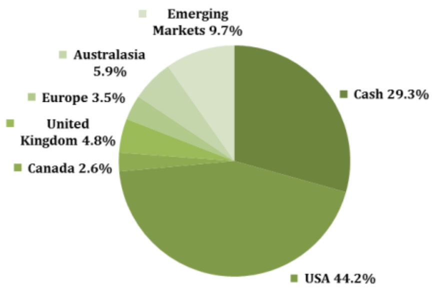
[1] All fees are exclusive of the net effect of GST



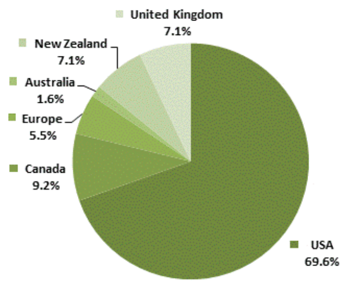
*Performance***	*Fund*	*MSCI***	*Excess Return*	*Std Dev[1]*	*Sharpe Ratio[2]*	*Correlation[3]*
1 month	*4.21%*	*2.58%*	*1.63%*			
3 months	*10.64%*	*7.56%*	*3.08%*			
1 year	*15.51%*	*13.52%*	*1.99%*	*7.52*	*1.63*	*0.65*
3 years (p.a.)	*21.32%*	*23.21%*	*-1.89%*	*7.79*	*2.15*	*0.35*
5 years (p.a.)	*14.71%*	*11.56%*	*3.15%*	*8.01*	*1.31*	*0.42*
7 years (p.a.)	*7.16%*	*4.13%*	*3.04%*	*16.09*	*0.26*	*0.73*
10 years (p.a.)	*7.74%*	*5.92%*	*1.83%*	*13.77*	*0.28*	*0.70*
Since inception (p.a.)	*7.78%*	*6.09%*	*1.69%*	*13.54*	*0.29*	*0.70*
Total return since inception	*116.69%*	*84.19%*	*32.50%*			

Top Holdings	
AIG	*Multi-line Insurance*
Amerco	*Transportation*
Asta Funding	*Consumer Finance*
Bank Of America	*Diversified Banks*
eBay	*Information Technology*
Fairfax Financial	*Multi-line Insurance*
Fiat	*Auto Manufacturer*
Michael Hill International	*Consumer Discretionary*
Nicholas Financial	*Consumer Finance*
Royal Bank of Scotland	*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.

PetersMacGregor
CAPITAL MANAGEMENT

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Performance Summary

The net performance of the Peters MacGregor Global Fund for the December quarter was 10.6%, outpacing another strong MSCI performance of 7.6%.

Our performance this quarter was pleasing in that not only did we keep pace with a strong broad market, we managed to outperform by 3%. This outperformance has seen a further improvement to our longer-term performance numbers with respectable outperformance over all time horizons five years and longer.

General Commentary

The big news this quarter has been the 50% collapse in the price of oil. The combination of slowing demand together with increasing supply at higher price points, has led to a glut in the market and a significant re-pricing of this important commodity. The pricing impact is compounded by the world's low-cost producers (Saudi Arabia) maintaining supply levels despite the price fall. When your cost of production is $10 per barrel you can maintain production levels into a halving from $100 to $50. Rationally, as that highly advantaged supplier you'd want to maintain volumes if you believed the shale revolution was going to prevent prices from promptly 'correcting' to that $100 level. This dynamic implies the price movement may represent a secular shift rather than a cyclical downturn.

While some countries are obviously hurt by a lower oil price (producers such as Russia), many are substantial net beneficiaries. For most in the West we're better off, while the emerging behemoths China and India are also significant net beneficiaries. From a financial system perspective though we wait with interest to see what the ramifications are from oil's re-pricing. Many producers and service providers are no longer viable and while share prices have fallen quite considerably, the debt markets – in our estimation – aren't yet fully pricing in the potential for defaults. Another economic crisis in Russia, for example, could have unanticipated consequences for us all as we're increasingly woven into the global economic fabric.

Again, equity markets remain generally strong. From an Australian investor's perspective the MSCI appreciated 7.6% for the quarter. But it must be noted that much of this gain has been attributable to the continued decline in the Australian dollar, which fell from US 87c to 81c. While the shift down from above parity to the low-80c range has certainly been a boost for investors in global shares (along with a generally strong underlying equity market), we believe the AUD in the 80+c range continues to represent a relatively attractive entry point for those seeking to achieve proper global diversification or to augment an existing international asset allocation with incremental increases (ie: those of us dollar cost averaging into our portfolios, as we save through our working careers). Markets remain high and one needs to be cautious and selective with investments made. But from a bottom-up stock selection perspective opportunities remain.

Portfolio Commentary

Our portfolio has kept pace and recently modestly outperformed a strong MSCI. Ordinarily this would seem odd, as our higher-than-average cash balance and a number of un or lowly-correlated equity positions tend to hold us back during the up swings. But the recent MSCI performance has been largely attributable to currency movements (the AUD falling broadly) and having removed our currency hedges some time ago, we've been able to benefit in AUD terms from this re-pricing. Still, stock selection and portfolio re-balancing in recent times have been constructive. Our December monthly performance was +4.2% versus the MSCI's +2.6%; our quarterly number was +10.6% versus +7.6% and for the calendar year we're up 15.5% versus 13.5%.

Aside from currency being a positive contributor, the portfolio benefited from core holdings in each of Canadian-based insurer, Fairfax Financial (up over 20% and contributing 1.5% to the portfolio), and Italian-based auto giant, Fiat (up 25% and contributing 1.2%). Fairfax rose on the back of strong underlying results and perhaps the market discounting greater potential for its deflation bet to pay off as lower commodity prices play to this theme. It also benefited in Canadian dollar terms from its foreign business exposure (mainly the US) as the Canadian currency was weak over the period. Having started the period at a full 7.8% of the portfolio, we allowed the stock to run to the 9% range before we ultimately pared our position down to a more modest 6% toward quarter-end. We continue to like Fairfax and its long-term prospects, but as always we alter our position sizes as pricing moves relative to our appraisal of underlying value.

Fiat was re-rated by the market as uncertainty subsided with the completion of the Chrysler acquisition, the listing of its shares on the New York Stock Exchange and Sergio Marchionne, Fiat's CEO, announcing that Ferrari will be spun off in 2015. Existing Fiat Chrysler shareholders will receive shares in the new standalone Ferrari listing and this move should highlight the significant value of the brand. We added to our position as these uncertainties lifted with it now representing almost an 8% position.

The other noteworthy contributor this quarter was Nicholas Financial whose shares rose almost 30% and generated 0.8% to performance. Nicholas is a special situation that we purchased in the September quarter and introduced to you in our last quarterly report. The company is a high quality niche finance company specialising in the subprime auto market. In recent years the company has allowed its balance sheet to become bloated with equity, partly because it has been courted by potential acquirers who would ultimately assume that excess equity in a going-private transaction in a tax effective manner. The company agreed to a takeover at $16 per share at the end of 2013 but some months into the process decided to walk away from the transaction. A number of merger arbitrage funds had built sizeable stakes in the company through that period (in hope of flicking their shares for a small profit in the transaction) and were essentially forced sellers in the wake of the deal falling over. The shares fell precipitously from near their $16 deal price to a low of $11 in the September quarter. We began buying in the high-$12 range and continued to average down as the stock fell. At the time, our value appraisal was in the $17-20 per share range – a really deep value and unique situation in this quality name that we've followed for many years!

In December the company announced a modified Dutch tender offer to repurchase approximately 25-35% of itself in a price range of $14.60 to $15.60 per share, resulting in a price jump of circa 20% up into that range. While there is some risk around this buyback (a minimum amount must be tendered for it to take place) we're very pleased with the announcement and are hopeful they're able to buy back the full amount desired. In addition to effectively re-engineering their balance sheet to a more appropriate 30% equity ratio (from over 50% at present), the deal is a very positive signal from the credit market, as Nicholas's bankers are obviously happy to extend this financing. Nicholas began the quarter at under 2% of the portfolio but was added to while its stock was in deep-value territory – bringing the weighting to 3%. This has expanded to 3.8% with the recent price increase. We're currently reviewing the position and will in due course decide whether to re-balance through participation to some degree in the tender buyback offer.

Within the rest of the portfolio, newsflow and stock action was relative benign. We did however take the decision to further trim back our US banking exposure, locking in some of the healthy gains we've enjoyed in each of Bank of America and Wells Fargo over the last few years. These have been reduced from a combined 14% of the portfolio to 8%.

Since quarter-end we've also taken the decision to exit our two oil company positions: BP and Exxon Mobil. These two are high-quality assets in the sector and have very valuable global properties. While these integrated majors have business value associated with production/refinement and are somewhat insulated from the oil price cycle, the reality is a substantial re-rating to the oil price does have a material impact on their underlying values. We don't have any special insight to believe the oil price is going to bounce back up in a hurry, so absent that sort of conviction our value appraisals have been eroded along with the commodity. Fortunately, the share prices have not eroded anywhere near as much, and as such, we've been able to exit these positions at negligible expense to the overall portfolio. Sell discipline is equally as important as buy discipline. It's important to actively overcome the endowment effect in portfolio management and ensure – in real time – that we own what we own because we believe *today* they are quality assets trading at an appropriate discount to our value appraisal. One should never continue to own an asset simply because one held it *yesterday*.

Conclusion

As has been the case for some time, we remain cautious about the prospects for equity markets considering the risks and uncertainties in today's world. The collapse in the oil price is yet to wreak havoc in the global capital market but is yet another dynamic to be mindful of as we move into 2015. Our portfolios have been defensively managed for some time with cash being in the 20-30% range and the selection of a number of shares whose fortunes are not necessarily tied to the broad economy or stock market. These have been a drag on performance in a strong market, but we've more or less made up for this drag with gains from other positions within the portfolio. As always, our opportunity set is fluid and we remain cautiously optimistic about what our investment process will identify in the months and years ahead. We're driven by the sense of responsibility for helping to preserve and grow our clients' hard-earned capital. It's a role we take very seriously and are appreciative of your trust and support in this relationship.