

30 June 2013

**Key Facts**

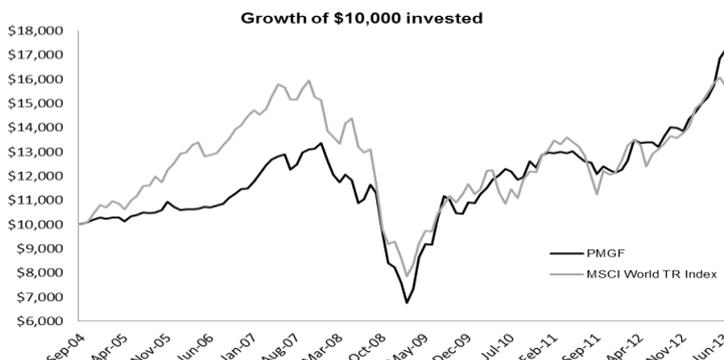
Portfolio Manager  
Management Fee  
Structure

L Wayne Peters  
1.57%\*  
Global Equity Fund,  
\$A generally hedged

Buy/Sell Spread  
Inception Date  
Fund Size

0.20%/0.20%  
6 September 2004  
\$A 98.6 million

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

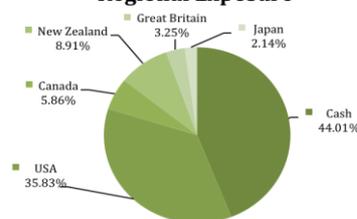


Performance**	Fund	MSCI World TR Index	Excess Return	Std Dev <sup>1</sup>	Sharpe Ratio <sup>2</sup>	Correlation <sup>3</sup>
1 month	2.33%	-2.42%	4.75%			
3 months	13.08%	1.74%	11.34%			
1 year	28.83%	21.41%	7.42%	7.84	2.03	0.89
3 years (p.a.)	11.89%	13.10%	-1.21%	8.76	0.78	0.72
5 years (p.a.)	9.61%	3.51%	6.10%	17.71	0.27	0.67
Since inception (p.a.)	6.36%	5.24%	1.12%	18.85	0.4	0.52
Total return since inception	72.19%	56.85%	15.34%			

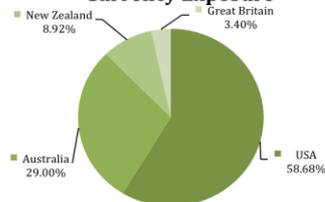
**Top Holdings**

AIG	Financials
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

**Regional Exposure**



**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 World Total Return Index (net local).  
<sup>1</sup> Standard Deviation: Measure of the annualised volatility of monthly returns.  
<sup>2</sup> Sharpe Ratio: Measure of the risk-adjusted performance.  
<sup>3</sup> Correlation: Measure of how PMGF and MSCI 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.

**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 30 August 2012 and consider whether the Fund is appropriate having regard to those matters. A copy of the PDS is available at [www.petersmacgregor.com](http://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 June quarter was 13.08%, significantly outperforming the MSCI World Index, which rose 1.74%.

The strong quarter rounds out a very good year for the portfolio, which returned 28.83% for the full year versus 21.41% for the MSCI World Index.

## General Commentary

The theme of the quarter has been quantitative easing with Ben Bernanke sending signals to the market that the Fed would look to scale back its debt purchases in the medium term. The collective mood seemed to shift from ever-bullish to a-little-skittish but ultimately stocks continue to trade within a tight range and as though all is well within the world!

Across to Japan and one definitely has the sense that the wheels are starting to come off. Quantitative easing in that market reached a new pinnacle with the biggest ever programme being announced. Having fallen 10% the previous quarter, the Yen continued its descent, falling another 5% (versus the USD) over the quarter. We believe a materially lower Yen over time will be the valve that releases extraordinary pressures in that vital economy.

China is looking increasingly vulnerable to us. Access to credit has dried up for many in this rapidly growing economy. Together with softening of demand and excess capacity in various industries, potential overdevelopment of real estate & infrastructure and the situation feels concerning to say the least.

How Japan and China play out will have interesting ramifications for Australia. Access to foreign credit is important in Australia, as is the health of our major trading partners. When we consider all that is going on in the global economy, we remain concerned that market participants seem to have short memories! Chasing 4-5% prospective equity returns in a 2-3% long-term interest rate environment may be interesting if you could see the horizon and know that it was smooth sailing all the way. But with limited visibility and a tendency to anchor on the most recent (mostly pleasant) experience we feel strongly that asset prices are failing to discount appropriate risk and uncertainty. Is a 2% risk premium adequate to compensate for the potential of a 20% downdraft?

## Portfolio Commentary

We had an excellent quarter both in absolute terms (up 13.08%) and in relative terms (outperforming the MSCI World Index which rose 1.74%). The strong performance this quarter was attributable to a number of our holdings, which performed strongly, no major offsetting negative contributors to performance and the benefit of a declining AUD. Furthermore, the result is pleasing in the context of our large cash balance (24% at the start of the quarter, expanding to 44% at quarter-end) as well as the challenging environment of rich valuations in which we have found ourselves for some time.

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Individual contributors to performance this quarter in local currency include:

- (1) AIG, which rose 15%;
- (2) Howard Hughes Corporation, which having performed very strongly in the previous quarter rose a further 34%;
- (3) JCPenney recovered some of its previous quarter's losses rising 23% between the start of the quarter and where we ultimately decided to exit the position during the period;
- (4) Wells Fargo, which returned 12%; and
- (5) We recorded an approximate 1% mark-to-market gain for the portfolio on our Japanese portfolio 'insurance' as the Yen fell in value and that important economy continues to show signs of vulnerability.

Given the strong decline in the AUD this quarter and the corresponding positive contribution to the portfolio despite our generally hedged positioning, we believe it is important to provide further insight as to just how our hedges are conceived and implemented.

Despite our intention of being generally hedged, there is always a component of the portfolio which is practically too difficult and costly to hedge. While we invest in an actual business that will be registered and traded on a particular exchange, that business will often have substantial foreign operations. Johnson & Johnson is an excellent example of a US-based business, which has around half its value outside the US. Because it is practically impossible to know the

composition and effectively hedge the 50% ex-US value we simply allow the portfolio to be exposed to that portion of foreign currency and hedge back to AUD the 50% value derived in the US.

In addition to this natural portion of unhedged exposure that we have always operated with, in recent times we have exercised our discretion to – while still being generally hedged – allow those hedges to be relaxed a little. We maintain our focus on individual stock selection and believe we will derive the significant majority of our long-term performance from stock picking and managing a well-considered portfolio of quality assets. However, from time to time as a by-product of our investment research process we will form a conviction on the fundamental value of currencies, and when those values become extreme we seek to alter our exposure in order to protect the portfolio in real terms. We witnessed the unusual combination of an apparent substantial slow-down in China, substantial declines in commodity prices (to which the Australian economy is critically exposed), and strong rhetoric and recent Australian central bank actions, which are conducive to a materially lower AUD. We also felt a materially lower AUD was the obvious corrective mechanism to help restore some competitiveness to what is left of Australian manufacturing as well as an ailing tourism sector. These factors all came together in the context of an AUD which at greater than parity was demonstrably overvalued on a global purchasing power parity basis. Accordingly, we had relaxed our hedges to bring our AUD exposure down to around the 40% level (including NZ-listed but mostly Australian-income generating Michael Hill International).

As we have been saying for some time, we find the current investment environment particularly challenging. The rich prevailing market valuations and price appreciation of some of our existing holdings have resulted in a number of portfolio eliminations and selective trimming. The difficulty we are facing at present is finding replacements for these holdings in this environment. Two stocks were exited this quarter – JCPenney and Johnson & Johnson. In the case of JCPenney the company reported another poor quarterly sales and profit result. Despite actions taken to arrest its declining sales base the situation worsened. There was always two key aspects to our investment thesis: (1) that the company would be able to execute on its vision for a revolutionary retail experience but that (2) if they were unable to create something truly special on the retail front, the price we paid for the equity was mostly

covered by its valuable underlying real estate portfolio. We had become increasingly concerned that irrespective of whether the retail story would play out in the long term, the magnitude of operating losses / cash burn in the interim period had the potential to undermine ‘part two’ of our investment thesis. When the equity downside protection appears to evaporate the case for owning the equity becomes too reliant on the quick turnaround of the retail operation. Our evolving view following further on-the-ground research of JCPenney and its competitors on our US trip in April and May led to the decision to exit this holding.

An important note to make with our JCPenney position is that the environment in which we as portfolio managers and each of our portfolio companies operate in is fluid. There are always many variables at play and each story is unfolding on a daily basis through time. When managing money it is critical to continually objectively reassess each position and to not allow oneself to become anchored on previously held convictions. We believe our ability to promptly reassess and where necessary change our minds in response to new evidence is a key competitive advantage in this business.

With Johnson & Johnson, we exited for a very different reason. Here, we continue to believe the company is a high quality asset that should perform satisfactorily over the long term. However, following its strong share price performance we felt the shares had reached a full valuation and having previously trimmed on the way up, sold the remainder of our shares during the quarter.

Sales of these two positions generated around 10% of cash in the portfolio. At the same time, we took advantage of the strong pricing in long-time holding Michael Hill International to reduce this position size. We also trimmed Howard Hughes Corporation to a moderated 5% position size in response to a doubling in that company’s share price since making the investment and Berkshire Hathaway was also partially sold down for similar reasons. This trimming activity saw cash build a further 10% and with no offsetting acquisitions, cash has risen to around 44% of the portfolio.

## Conclusion

The quarter and year have been excellent both relatively and in absolute terms. We achieved 28.83% for the full year versus 21.41% for the MSCI World Index. As we move into the new financial year we remain ever focused on identifying new interesting names to add to the portfolio. While in the 40% range our cash holdings are unusually high, we note that we've been in this position before, that cash is always a by-product of the investment process and that we fully expect that in the periods ahead we will face many wonderful opportunities to deploy capital at prospective returns that meet our strict valuation criteria. Our discipline is to not lower our standards but to exercise prudence in managing the portfolio.

Once again, thank you for your continued trust and support.