PetersMacGregor
CAPITAL MANAGEMENT

Peters MacGregor Global Fund

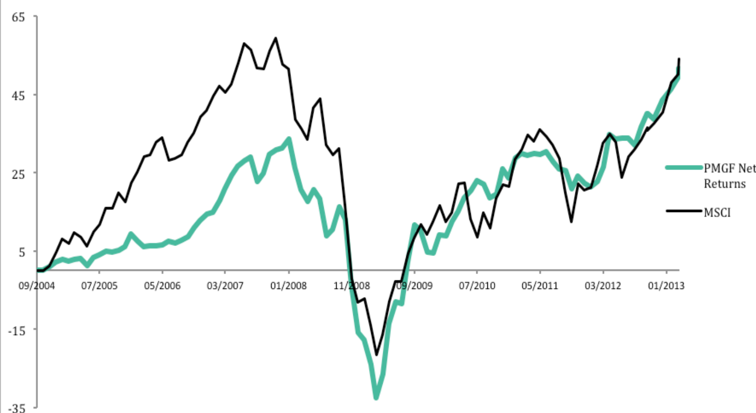
ARSN 110 619 559

31 March 2013

Key Facts

Portfolio Manager	L Wayne Peters
Management Expense Ratio:	1.57%*
Structure:	Global Equity Fund, $A generally hedged
Buy/Sell Spread:	0.20%/0.20%
Inception Date:	6 September 2004
Fund Size:	$A 75 million

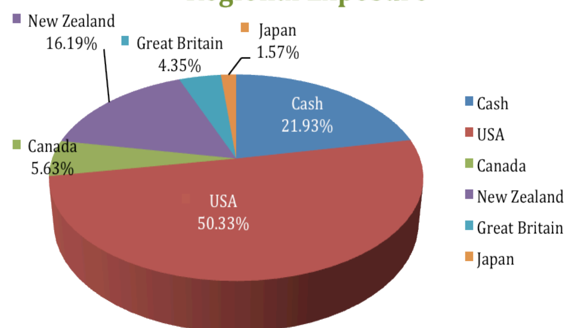
*All fees are inclusive of net effect of GST.



Performance*

	Fund	MSCI	Excess Return
1 month	1.84%	2.68%	-0.83%
3 months	6.26%	9.79%	-3.53%
1 year	13.11%	14.25%	-1.14%
3 years p.a.	9.83%	8.07%	1.76%
5 years p.a.	5.18%	2.94%	2.24%
Since inception p.a.	5.03%	5.18%	-0.15%
Total return since inception	52.24%	54.17%	-1.93%

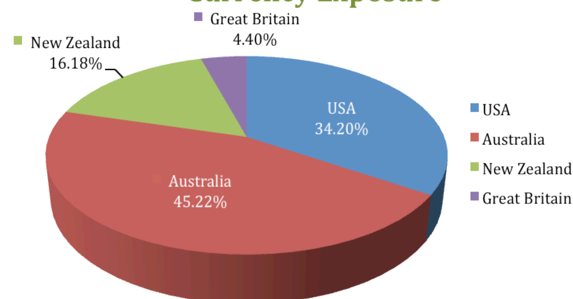
Regional Exposure



Top 10 Holdings

in Alphabetical Order	
American International Group	Financials
Asta Funding	Industrials
Bank Of America Corp	Financials
Berkshire Hathaway B	Financials
Fairfax Financial Holdings	P & C Insurance
JCPenney	Consumer Discretionary
Johnson & Johnson	Healthcare
Michael Hill International	Consumer Discretionary
Tesco	Consumer Staples
The Howard Hughes Corp	Diversified Real Estate

Currency Exposure



*Intra year performance figures are unaudited; the returns are net of management fees and before taxes; the MSCI figures are the MSCI World Total Return Index (net local).

**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. 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 6.26%, lagging an again-strong MSCI World Index, which rose 9.79%.

The portfolio held 11 companies and cash finished at around 22%.

General Commentary

The March quarter again proved interesting with markets moving ahead strongly, perhaps as much on the back of no major disruptive news as on the positive indicators in various corners. Many of the headlines report positive news with the US, for example, posting lowering unemployment and increased productivity. However, we can't help but sense that much of the present prosperity is simply borrowing from the future. For all the progress the US economy has made in recent times, the fundamental problem of how to address the gap between what the country earns and what it spends remains.

Further afield, Europe continues to muddle through its debt crisis, and we were very surprised with the structure of Cyprus's bail-out where retail bank depositholders have faced a hair-cut. The global financial structure is built on confidence and it is critical that the ordinary retail depositholders retain confidence in their banking institutions. To perceive 'cash in the bank' as potentially 'risky' has interesting ramifications in asset allocation!

We continue to wonder with interest how central bank stimulatory action (money printing) will play out over time. The US Federal Reserve has provided massive, and unprecedented, liquidity; and the nature and degree to which it withdraws will have interesting consequences for that important economy. Japan continues down its path of monetary easing with the result of a lowering currency. In a world of cheap and easy money creation – and with the benefit of hindsight – it is not entirely surprising to see equity pricing move north in the way they have.

Portfolio Commentary

In relative terms we underperformed a very strong market this quarter (with the MSCI World Index up 9.79%), but in absolute terms are very pleased with a solid 6.26% return. We expect to lag unusually strong markets considering the defensive nature of some of our holdings (Asta Funding, for example, is largely cash-backed and can move in a way that is largely unrelated to the broad markets). And of course, to the degree our portfolios hold cash we struggle in frothy market environments. The flipside however is that we expect to manage through the inevitable down market environments better than average and are able to deploy cash into the attractive opportunities that are available in such environments.

Principal contributors to performance this quarter were:

(1) Berkshire Hathaway, which rose 14% and added about 1.5% to our portfolios;

(2) Howard Hughes Corporation, rising 15% to contribute around 1%;

(3) Michael Hill International, returning 14% and contributing over 2%; and

(4) Smaller positions Johnson & Johnson and Tesco which rose 13-15% each and contributed positively to our performance.

(5) Partially offsetting those positive contributions, JC Penney (discussed below) fell 23% and cost us 2%.

In response primarily to price movements, and in some instances changes to our appraisals, several small changes were made within the portfolio. Larger positions in Bank of America and Berkshire we trimmed from around 10% each to 8%. In the case of Bank of America – thanks to its strong performance since acquisition – our exposure had just run ahead of where we had targeted it in the portfolio. Berkshire, in which we feel more confident in our appraisal, was trimmed on account of a narrowing of its price relative to our perceived value. Johnson & Johnson was also reduced, bringing our weighting down from 5% to 3% as that stock traded up nearer to our assessment of underlying value. On the other side of the ledger, we boosted each of AIG and Wells Fargo from around 4% to 6% of the portfolio. As always, we constantly monitor each position in the portfolio and ensure we are exposed to the degree we believe is appropriate relative to constantly changing share prices and value appraisals.

JC Penney Update

In terms of news flow and underlying business developments, the quarter was benign for most of our portfolio. Strong share prices instead were generally reflective of the overall market buoyancy. The sole exception however has been JC Penney (JCP), which reported disappointing sales and profitability for the crucial 'Christmas' fourth quarter.

JCP has been in the midst of a dramatic business reengineering process, switching its traditional highly promotional coupon-based marketing to a low everyday pricing model. In so doing, the company's strategy has been to attract upmarket retail brands to sign-up for dedicated space within its re-imagined retail model: store-within-stores. Our investment thesis with JCP has been predicated on the belief that the adopted pricing structure and store-within-a-store model made sense and that success in achieving the company's goal would deliver substantial upside potential to us. The thesis has been, and continues to be, substantially underwritten by the company's very valuable real estate holdings.

What recent results with JCP show is that the company was too quick to 'turn-off' its old customer base. While its new model and offer are showing positive signs of success, we believe they have made costly tactical errors with execution. As we write JCP has announced the departure of its strategic architect – CEO Ron Johnson – and the return of his immediate predecessor, Mike Ullman. The move is instinctively negative but we believe there are real positive aspects to the switch back. While it may still be too soon to assess the success of the new retail model, it is important to arrest the recent negative sales trends in the interim in order to preserve liquidity and execute on the bigger picture vision. Tapping a familiar former CEO shows the Board's preparedness to recognise a tactical error and promptly take corrective action. In appointing Ullman as Interim CEO, we believe the Board is saying "regardless of the merits of our strategic objectives, we must restore sales and profitability in order to stay the course".

Ultimately, only time will tell on whether JCP's retail plans will be a success and we continually reassess our odds of success, what success will look like financially, and what failure will look like financially. We continue to closely monitor the company's liquidity as well as asset base; and believe that the downside protection inherent in JCP's property portfolio and net tangible asset base make the stock an attractive proposition for a moderately-sized position in the portfolio.

Conclusion

Our strong performance this quarter adds to a very strong 2012 with a total return for the past 15 months of over 25%. Despite the strong performances of many of our holdings, we remain enthused about their long-term prospects from these higher and admittedly less prospective prices. Having witnessed much monetary easing and considerable fiscal stimulatory actions globally, it's unsurprising that markets have behaved as strongly as they have. We remain vigilant in our investment process and are ever-mindful of the risks that lurk beneath. While one may expect central bank and government actions to continue to support the global economy, it is important to remember that markets are anticipatory mechanisms and it is impossible to know to what degree expectations are already priced into securities. Just because accommodative fiscal and monetary policies have been historically correlated with the market does not mean they will in future.

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

Suite 1801A, Westfield Tower 2
101 Grafton Street, Bondi Junction
Sydney NSW 2022 Australia
Tel: +61 (0)2 9332 2133