PetersMacGregor
GLOBAL FUND

ARSN 110 619 559

31 March 2014

Key Facts

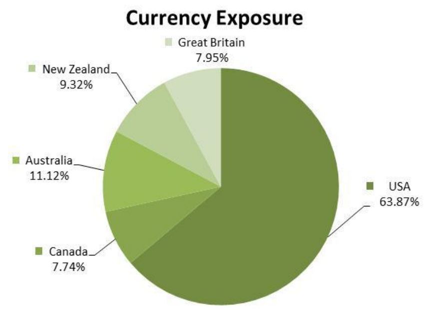
Portfolio Manager	*L Wayne Peters*
Management Fee	*1.57%**
Structure	*Global Equity Fund, $A generally hedged*
Buy/Sell Spread	*0.10%/0.10%*
Inception Date	*6 September 2004*
Fund Size	*$A 108.5 million*

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

*Performance***	*Fund*	*MSCI World TR Index*	*Excess Return*	*Std Dev*[1]	*Sharpe Ratio*[2]	*Correlation*[3]
1 month	*-1.83%*	*0.19%*	*-2.02%*			
3 months	*-0.97%*	*1.02%*	*-1.99%*			
1 year	*21.08%*	*18.58%*	*2.50%*	*8.83*	*2.00*	*0.24*
3 years (p.a.)	*12.66%*	*11.19%*	*1.47%*	*8.28*	*1.06*	*0.46*
5 years (p.a.)	*20.37%*	*16.96%*	*3.41%*	*12.72*	*1.24*	*0.54*
Since inception (p.a.)	*6.67%*	*6.51%*	*0.16%*	*13.88*	*0.20*	*0.70*
Total return since inception	*85.44%*	*82.81%*	*2.63%*			

Top Holdings

AIG	*Insurance Diversified*
Amerco	*Industrials*
Asta Funding Inc	*Industrials*
Bank Of America Corp	*Financials*
Berkshire Hathaway B	*Conglomerate*
Exxon Mobil Corporation	*Energy*
Fairfax Financial Holdings	*P & C Insurance*
Michael Hill International	*Consumer Discretionary*
The Howard Hughes Corp	*Diversified Real Estate*
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 Total Return Index (net local).
[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 NR Local 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 March quarter was -0.97%, underperforming the MSCI World Index's slight increase at 1.02%.

This takes the Fund's return over the last twelve months to 21.08%, outperforming the MSCI's 18.58% result.

General Commentary

The new year got off to a bumpy start with markets jittered by the slow realisation that the Federal Reserve is serious about withdrawing stimulus and the expectation of a 2015 commencement to US interest rate rises came to the fore. Coupled with geopolitical uncertainties, specifically the Russian takeover of Crimea and the potential to push further into Ukraine, and the recent bull market in equities has certainly been moderated.

Whether it's the on-going civil war in Syria, escalating tension between the two Korea's, or Russia seeking to conquer its neighbours, there's seemingly always something to 'worry' about in the world. Socially, we're indeed alarmed and concerned by these developments. But from an investment perspective, we reiterate that we are focused intently on the fundamentals of our individual portfolio companies, and prospective additions, and do not believe their prospects are adversely impacted by these global goings-on. It is ever-important to determine what of our newsflow is important from an investment perspective and what is simply noise.

Global markets have been very strong in this post-GFC recovery period. Unfortunately, strong historic market returns do not help us with the future. The flipside of a strong bull market is that assets are by definition priced to deliver much reduced future returns. If equities are expected to earn 6-8% pa over time and you record a 20% year, to a large degree this return will be borrowing from future returns. The broad theme that we are concerned about most today is that having performed strongly in the recent past, equities (particularly in the US) are at valuations that have historically been associated with relatively poor medium to long-term outcomes. Price to sales multiples are well above historic norms, and if one is concerned about the potential for mean-reversion in corporate margins, price to earnings multiples are at dangerously high levels. US margin debt levels are at all-time highs (relative to GDP and in real terms) – levels that have also been historically associated with very poor medium-term outcomes.

The nature of sharemarkets is that they will rise and fall and as long-term oriented investors we accepted the inevitable outcomes that occur through full market cycles. But equally important as appreciating that markets do move up and down is that we have a reasonable basis to believe that our individual stocks remain priced to deliver an adequate long-term return from any level which they may reach through a strong bull market. We continually test and appraise our individual holdings and are indeed comfortable and confident that they remain priced to deliver satisfactory returns over time and continue to offer valuable diversification benefit from our clients' overall wealth management perspective.

Portfolio Commentary

The quarter under review saw us again lag the broad market with our -0.97% return comparing unfavourably relative to the slightly-up MSCI at 1.02%. However, we remain pleased with our medium to longer-term performance with outperformance being achieved over all time horizons one year or longer. We're particularly glad that we've kept pace with a strong bull market these past few years (our 5-year performance being 20.37% annualised versus the MSCI's 16.96%) despite carrying cash balances that have averaged around 27% over that time period.

In terms of performance attribution this quarter the primary contributor has been the sharp reversal in the AUD which rose from 89c to over US 92c. As you are aware, a significant portion of our portfolio is currently unhedged. The 3.5% appreciation in the AUD versus the USD cost us around 2.2% in performance this quarter. Our fundamental view on the prospects for the Australian economy and currency are unchanged. We continue to believe our economy is dangerously exposed to a potential China slow-down and/or domestic housing market correction, and in either scenario we believe an important correcting mechanism would likely be a materially lower currency over time. In the 90c range the Australian dollar remains at a historically high level and we believe carries more downside than upside risk.

While our underperformance this quarter is fully attributable to currency movements, and while most of our portfolio holdings reported results in-line with expectations and had immaterial price movements over the quarter, there were a few noteworthy contributors on both sides of the ledger. On the back of continued positive developments with their balance sheets and an increased focus by 'the market' on their underlying core earning power, both our US banking stocks – Bank of America and Wells Fargo – performed strongly, returning over 10% each and contributing almost 1.5% to performance. We remain committed to this theme (at 14% of the portfolio in these two stocks) and believe these companies remain priced attractively considering their long-range potential.

UK retail giant, Tesco, did not fare so well with its shares falling 12% as expectations for a near-term earnings recovery waned and fear around its longer-term market position continues to grow. Without a doubt, Tesco is facing unprecedented competition in its home market and uncertainty remains as to how the company will be impacted by growing e-commerce alternatives. But we believe these fears, concerns and threats are more than adequately discounted in its shares, and we believe the market is overlooking the real tangible value inherent in the company's vast portfolio of real estate holdings. Tesco remains a small holding for us at 3% of the portfolio and its decline this quarter cost us less than 0.5%.

In terms of portfolio activity the quarter was relatively benign. No new names were added or deletions made. We did take advantage of further price strength in Howard Hughes Corporation to further reduce this position from over 4% to 3% of the portfolio. Howard Hughes has been a solid contributor in the portfolio over the past two years, rising by some 112% from our entry price of $67 to $142 at 31 March. We continue to very much like the portfolio of assets Howard Hughes owns and while we believe there is still considerable long-term upside to its shares, we are taking a more moderated approach at these higher levels. Finally, in response to our positively revised appraised valuation, we took the opportunity to add to our Berkshire Hathaway position, boosting the stock from 4% back up to 7% of the portfolio during the quarter. Berkshire's operating subsidiaries are performing exceptionally well and we're glad that despite its size the company has found ample opportunities to put excess capital to work on attractive terms in recent years.

Conclusion

We continue to remain concerned about the prospects for the high broad equity market on account of valuations being much higher than historic averages. These valuations overlaid with the influence of hair-trigger money (as evidenced by record-high US margin debt levels) provide cause for pause. At these times it is critical to think defensively and ensure each position in the portfolio is held deliberately (and not just because we held it yesterday!). Indeed, despite broad market valuations, we believe our companies are superior in quality and remain priced to deliver appropriate risk-adjusted returns in the years ahead. Further, we retain ample liquidity (26% cash) in the portfolio and are ready, willing and able to deploy those funds promptly as we find attractive opportunities in the future.

From an Australian investor's perspective, we believe our underlying portfolio attributes provide valuable diversification benefits and interesting profit-making potential over time. This opportunity is reinforced by the potential for further mean reversion in the AUD over time.