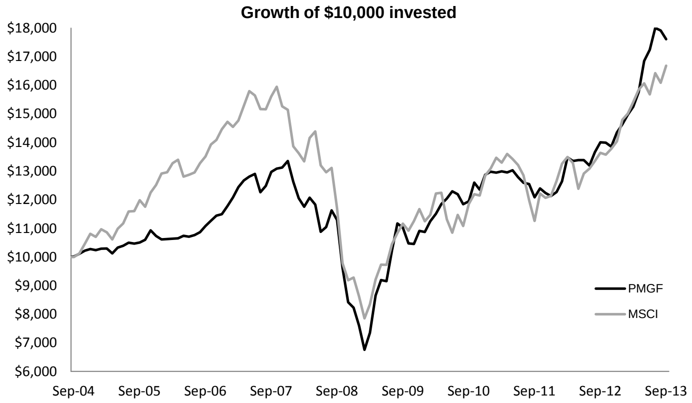
PetersMacGregor
GLOBAL FUND

ARSN 110 619 559

30 September 2013



Key Facts

Portfolio Manager	*L Wayne Peters*
Management Fee	*1.57%**
Structure	*Global Equity Fund, $A generally hedged*
Buy/Sell Spread	*0.20%/0.20%*
Inception Date	*6 September 2004*
Fund Size	*$A 103.1 million*

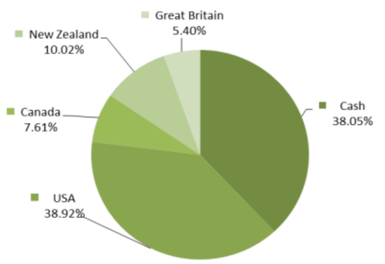
**All fees are inclusive of net effect of GST.*

*Performance***	*Fund*	*MSCI World TR Index*	*Excess Return*	*Std Dev[1]*	*Sharpe Ratio[2]*	*Correlation[3]*
1 month	*-1.71%*	*3.73%*	*-5.45%*			
3 months	*2.12%*	*6.40%*	*-4.28%*			
1 year	*25.71%*	*22.34%*	*3.37%*	*8.60*	*2.39*	*0.20*
3 years (p.a.)	*13.80%*	*12.07%*	*1.73%*	*8.81*	*1.08*	*0.49*
5 years (p.a.)	*9.29%*	*7.36%*	*1.93%*	*17.63*	*0.37*	*0.73*
Since inception (p.a.)	*6.43%*	*5.81%*	*0.62%*	*14.27*	*0.17*	*0.70*
Total return since inception	*75.89%*	*66.89%*	*9.00%*			

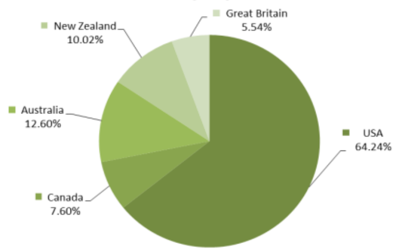
Top Holdings

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*

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).
[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 September quarter was 2.12%, underperforming a strong MSCI World Index, which rose 6.4%.

This takes the Fund's return over the last twelve months to 25.71%, outperforming the MSCI's 22.34% result.

General Commentary

The period under review was again unusually interesting. Geopolitical uncertainty was a key theme with the West's response to the use of chemical weapons in Syria's two-year old civil war being of interest both socially and economically.

As the quarter came to a close so too did the US Government. The inability for Republicans and Democrats to reach agreement on their fiscal differences has resulted in a failure to increase the federal debt ceiling and a consequent shutdown of certain non-essential government services. As we write, the budgetary impasse remains unresolved and the government risks defaulting on its debt.

Once again, much attention was given to commentary surrounding the US Federal Reserve hinting at the potential for a scale-back in its relaxed monetary policy. With the apparent dysfunction in government posing a real risk to the still-needed fiscal stimulus (deficit spending) perhaps a saving grace has been the Fed's willingness to provide seemingly perpetual monetary slack?

Aside from the Middle Eastern uncertainty and US political dysfunction, we were surprised with positive economic data coming from China over the period. We remain deeply concerned about the potential for a housing & construction bubble in that country and the potential for an eventual major slowdown to inflict damage on the Australian and global economies. Nevertheless, we note that while short-term production and economic activity data may be positive, these may ultimately be overwhelmed by a wholesale change in capital investment activity in that economy. We watch with interest (and in terms of your portfolio, caution!).

And to Australia, associated with the positive data out of China, the Australasian currencies stabalised and indeed strengthened over the period. The Aussie, having fallen 12% the previous quarter (relative to the USD) recovered around 3% to 93c US. After a tumultuous six-year stretch of Labor leadership, power changed hands in Australia. As with the US though, politics really does feel all about obtaining and retaining power. In civilised society, one would hope that our elected leaders could work together to develop genuine future-oriented policy and simply behave in a manner consistent with that expected of their office. Noting the situation though in countries such as Syria, at least our Western governments have relatively short arms; our economies are robust, dynamic and open; and we can go about our daily lives without the fear of being gassed.

Bringing all this global excitement together, we remained astounded at the general exuberance being displayed by market participants. It feels that every piece of good news brings asset prices higher, but the negative items don't seem to inflict proportional damage. We believe this dynamic is reflective of the unusual state of long-term low interest rates. Periods of confidence and excitement are driving participants to bid up assets, but inevitable bad news stories tend to result in inaction considering the relative unattractiveness of moving to zero-yielding cash. In addition to how this situation plays out in the short term, we feel the increasingly obvious (at least from a political perspective) solution to rising asset prices (including housing) over the medium to long term is going to be a bout of inflation. Without doubt, we remain in a challenging and precarious environment.

Portfolio Commentary

We lagged this quarter principally on account of the relaxed AUD hedges in our portfolios. The 3% increase in the AUD boosted the MSCI by a comparable amount while with our AUD/NZD exposure running at 22% we captured only a modest amount of that gain. Despite the apparent stabalisation in the AUD, we remain concerned about the medium to longer-term fundamentals of the Australian economy and believe over time there is more downside risk than upside potential. In the short term, we don't have any view as to whether the next 5-10% move in the currency is going to be up or down – and we're prepared to accept either outcome and manage the portfolio accordingly. However, in thinking about tail risk – that is, the potential outcomes in outlier scenarios – we believe there is a much greater chance of a, say, 30-40% decrease in the AUD over any time period than an equivalent increase.

In terms of stock performance, our largest contribution came from Michael Hill International. A 15% stock performance (including dividend) was augmented by the continued strength of the NZD relative to the AUD, adding a further 5% and bringing the total return to almost 21%. As our largest holding (currently 10% of the portfolio), Michael Hill contributed almost 2% to performance this quarter.

Meaningful contributions were received from the 8-9% returns from both AIG and Tesco while Bank of America returned over 7%. Together, these three stocks contributed almost 2% to performance.

In terms of newsflow, Asta Funding announced its first purchase of bad debt paper ($3m worth) in several years. We view this development very positively. They also took advantage of continued slow collections within their subsidiary book of business to dramatically re-structure the non-recourse debt associated with that book. That deal was so attractive that on a net present value basis we believe it adds around 10% to Asta's equity value. We visited with management again in New Jersey in September and remain comfortable with our mid-sized commitment to this investment.

News from our UK investment, Tesco, have been negative, but so much negativity has been baked into the stock in recent periods that the shares recorded a respectable gain for the period despite business performance. We are less enthused about the prospects for this major retailer as we were some time ago but this is reflected in its position sizing within the portfolio. Our site visits in September nevertheless reconfirmed their entrenched competitive position. As with all our holdings, our enthusiasm fluctuates inversely with stock price performance relative to our appraisal of value. At a price, Tesco is a hold and at some other price it would be an exit.

Our North American financials including AIG, Bank of America, Fairfax Financial and Wells Fargo reported results either in-line or slightly ahead of expectations. We believe these companies all have high quality business franchises and expect solid long-term performance contribution from this group.

Having created additional portfolio liquidity through trimming and exiting activity in the previous quarter, we were glad to put some of our unusually high cash balance to work this quarter in initiating three positions. We re-established a position in BP. Having invested in BP in the aftermath of the 2009 oil spill in the Gulf of Mexico (and subsequently profitably exiting as its stock recovered), we have again found the equity of BP compelling. Having languished since its initial recovery as legal and liability uncertainties continue, we have repurchased a small position in BP at prices slightly lower than where we sold in 2009. While the price has effectively gone sideways over the intervening period, our appraisal of BP's underlying value has increased materially. We are glad to have the opportunity to invest in this quality company at attractive prices.

Having followed Leucadia for many years, we took a position in the company in the wake of leadership succession as the stock fell to our buy range. Leucadia, like Berkshire Hathaway, is a collection of eclectic operating businesses. As with Berkshire, a key aspect of the investment thesis is capital allocation. With both enterprises we believe capital allocation is highly rational and long-term shareholder value creation focused.

Finally, we made an investment in Amerco. Amerco is the parent company of U-Haul, the iconic US-based moving equipment and storage rental company. Despite the strong performance of its shares over the past few years, we believe Amerco continues to represent excellent long-term value. Its shares trade for a lower than average multiple while in our estimation the business is far superior to the average business.

The thesis with Amerco resides with its unusually strong economic moat – a moat that has increased considerably in recent years and which continues to increase. As with real estate, location is everything in the DIY moving market. If you are moving home you should prefer to rent a moving truck that's very close to both locations. Very few truck rental companies offer a broad national presence. This limits competition and enhances pricing power. U-Haul is far and away the largest player in this important DIY market. They are staggeringly eight times the size (in terms of number of locations) of their nearest competitor. Interestingly, in a mature market such as the US, the cost to replicate this scale for competitors is uneconomic, thus reinforcing the current strength of its franchise and its long-term prospects.

Conclusion

The environment in which we operate remains interesting and challenging. We remain focused on the merits of our individual portfolio holdings and as always are working diligently in the on-going appraisal of these companies as well as the process of identifying new names. Having seen cash increase in the previous period, we're glad to have put some of this to work recently, adding three new interesting positions. At present, cash is back down to around 35% of the portfolio and we are hopeful that the ongoing process of screening, identifying, researching and executing on prospective opportunities will yield fruit in due course. It is all-important to remember that the opportunity set we face is not static but rather fluid and ever-changing. When benchmarking one asset against another we're mindful that 'tomorrow' may hold superior alternatives to those available 'today'. Patience is our discipline.