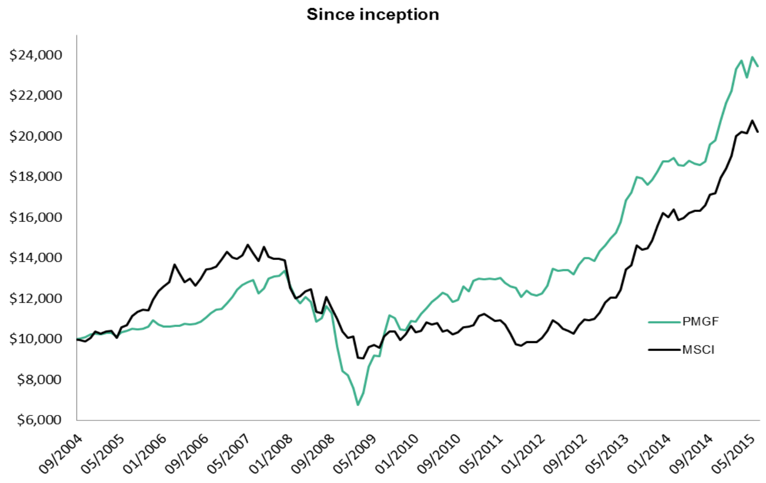
Peters MacGregor
CAPITAL MANAGEMENT

June 2015



Key Facts

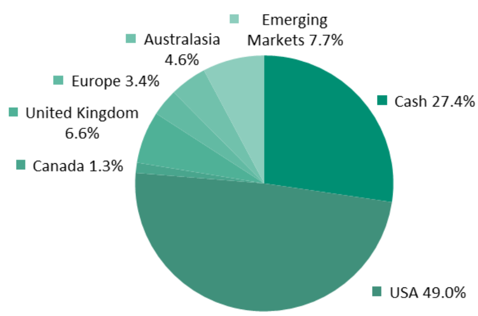
Portfolio Managers	*L Wayne Peters* *Michael Haddad, CFA*
Management Fee[1]	*1.57%*
Structure	*Global Equity Fund* *A$ generally hedged*
Buy/Sell Spread	*0.10%/0.10%*
Inception Date	*6 September 2004*
Distribution	*30 June*
Fund Size	*A$135.8 million*

[1] *All fees are inclusive of the net effect of GST*

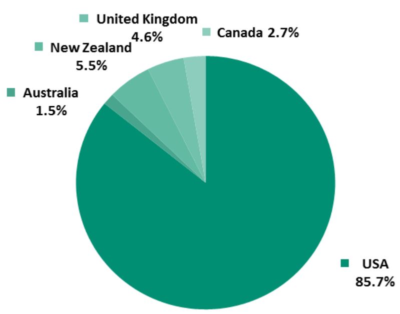
*Performance***	*Fund*	*MSCI***	*Excess Return*	*Std Dev*[1]	*Sharpe Ratio*[2]	*Correlation*[3]
1 month	*-1.89%*	*-2.62%*	*0.73%*			
3 months	*-1.14%*	*-0.07%*	*-1.06%*			
1 year	*25.69%*	*23.79%*	*1.89%*	*9.83*	*2.15*	*0.89*
3 years (p.a.)	*20.60%*	*24.77%*	*-4.17%*	*8.24*	*2.00*	*0.52*
5 years (p.a.)	*13.81%*	*14.30%*	*-0.49%*	*8.58*	*1.16*	*0.51*
7 years (p.a.)	*11.61%*	*8.61%*	*3.00%*	*15.59*	*0.55*	*0.72*
10 years (p.a.)	*8.49%*	*6.60%*	*1.89%*	*13.96*	*0.34*	*0.71*
Since inception (p.a.)	*8.20%*	*6.72%*	*1.48%*	*13.44*	*0.33*	*0.70*
Total return since inception	*134.71%*	*102.25%*	*32.46%*			

Top Holdings	
AIG	*Multi-line Insurance*
Asta Funding	*Consumer Finance*
Bank Of America	*Diversified Banks*
Berkshire Hathaway	*Conglomerate*
eBay	*Information Technology*
Fiat	*Auto Manufacturer*
Howard Hughes	*Real Estate Development*
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 ACWI IMI Net Return (AUD) Index.
[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 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. Regional Revenue breakdowns are approximations.

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Performance Summary

The net performance of the Peters MacGregor Global Fund for the June quarter was -1.14%, slightly outperforming a weak MSCI which was down 2.62%.

Our modest portfolio loss this quarter comes off the back of an exceptionally strong period driven by a combination of strong stock performance and a declining Australian dollar. Despite the poor quarter, our 12 month numbers remain excellent at 25.69%, our five-year performance is a solid 13.81% and longer-term investors (10 years to inception) have enjoyed 8%+ compound annual return. Staying the course and being able to compound one's investment is key. An 8.21% annual return may not jump off the page at you, but compounded over an 11 year 'since inception' period – and holding one's nerve through the periodic market dislocations have resulted in a cumulate return of 135% for original investors. Extend those numbers over an investment lifetime, including continued client contribution, and the math becomes almost magical.

General Commentary

The major global markets remained strong this quarter, and declines in commodity currencies such as the AUD and NZD have been sustained (and in the case of the NZD have been extended). A slowdown in our home market – Australia – has seen the local bourse fall 7% for the quarter as resource stocks decline in the face of a rapidly slowing mining sector as well as banks being re-priced as stricter capital requirements reduce their financial attractiveness. While equities and our currency have come off, low interest rates continue to fuel booming residential property in our major cities – particularly Sydney. Low interest rates and a tax system favourable to property investors may enable risky and dangerous behaviour for an extended period of time, but the piper will eventually need to be paid. We watch with interest and caution.

Continued strength in the major world markets is curious considering some of the goings-on at the periphery (Greece) and with critically important China. Our CIO, Wayne Peters, recently provided his views on the Greece situation in an update note distributed to clients (and available at our website Greece is the word). In sum, we've been carefully considering our (indirect) exposure to Greece and how dislocations in that part of the world may affect client portfolios. On a recent research trip we met with Nikos Karamouzis and Fokion Karavias – Chairman and CEO respectively of Eurobank, one of Greece's four major banks. Their views were that there remains a high chance of Greece remaining in the Euro and that its membership has been a net positive for the country.

We also met with Greece's ex-Prime Minister, George Papendreau, who shared this view. Most interestingly, it wasn't as much what these key players said as much as their body language and some of the nuances one is able to pick up on in these sorts of meetings. The bottom line is that irrespective of how events play out in Greece, we believe any fall-out will be relatively contained and that Greece in and of itself does not pose a major risk to broader economic stability.

China on the other hand is more problematic. Aside from being a major trading partner with the rest of the world (and Australia in particular with the export of our hard commodities), China is financially integrated globally and is prone to speculative behaviour and seemingly irrational centrally-organised reactions. The recent decline in equity values, following a dramatic bull market, is one thing. But reactions such as the government and broking houses stepping in to buy shares in hope to stemming the decline reeks of desperation. What a financial crisis in China may look like for the global financial system is an unknown.

Portfolio Commentary

Following a very strong return in the previous period, our portfolios handed back 1.14% in performance this quarter. The slight negative return was slightly ahead of the MSCI's -2.62% return. Currency had an immaterial impact on the portfolio this quarter but a range of outcomes at the individual stock level netted out to our negative performance. On the positive side, AIG returned 13% and contributed around 90bps to performance. As the stock began appreciating during the period we took the decision to reduce our exposure back down to the 6-7% range (from closer to 10%). This was principally from a risk management perspective but also due to our perceived valuation range being nudged down slightly following ho hum earnings results from the company. Bank of America also performed strongly, returning 11% to contribute 70bps. While in response to changes to both our appraisals and the prevailing stock prices we have periodically altered our exposure to these two 'franchise' financials, they each remain core holdings for us at 6-7% of the portfolio and we believe continue to represent attractive long-term values. We look forward to owning these businesses and experiencing continued shareholder value creation for potentially many years to come. Recently acquired small holdings in IAC/InterActiveCorp and Lloyds Banking Group each performed handsomely, returning 16-18% each and contributing a combined 70bps. Lloyds is being re-priced by the market as participants come to appreciate its cleaned-up balance sheet while IAC/InterActiveCorp has had a shot in the arm from its announced spin-off of its Match dating group (including Match.com and Tinder).

Strong performance from our financials and IAC/InterActiveCorp were not enough to offset modest losses recorded in several other holdings. Previous outperformer and continued favoured holding – Fiat – lost 11% to cost us around 100bps. Howard Hughes declined by over 7% and cost us 40bps while long-time holding Michael Hill declined 10% to cost us 60bps. Subprime auto lender – Nicholas Financial – languished in the wake of its completed tender buyback offer. Recall Nicholas had previously walked away from a $16 per share going-private transaction. Its stock fell as low as $11 as merger arbitrage funds sold indiscriminately, creating the opportunity for us to establish a position. Shortly thereafter the company announced an alternative to going-private: a re-engineering of its balance sheet to repurchase 38% of the company. This transaction was completed recently at $14.85 but a fresh overhang has seen the stock decline back to the $12 range. The 9% decline this quarter cost us 30bps, but we remain confident in the company's long-term prospects and believe it is priced to deliver outsized returns in the years ahead.

A few changes were made to the portfolio this quarter. AIG and Fiat were each reduced slightly – AIG being brought back to the 6-7% range while we harvested some of our Fiat gains, bringing this stock back from a very full 11% position size to under 9%. On the other side of the ledger we increased our Berkshire Hathaway position back to 5% of the portfolio on price weakness, and re-established a small position in Fairfax Financial at 3% of the portfolio as its stock also declined back into our buy range. Clients will be well aware of Fairfax Financial from previous reports with this stock having been a major position for us over many years.

New stock: Precision Castparts.

A new name in the portfolio, which we're really excited to report on, is Precision Castparts (PCP). PCP manufactures and sells 'mission critical' componentry used in the aerospace and power industries. Its products include castings for aircraft engines and other industrial applications as well as high value componentry such as rotating blades. A range of important consumable items used in important machinery (such as airplane engines) is produced. What's important to appreciate with PCP is that it is the dominant player in its industries and the cost to switching away from them – in the form of 'risk' – is usually too great for its clients. While its products are often high value as individual items, that value will represent a tiny portion of the value of the overall piece of equipment in which it is used. I.e.: a consumable used in an airplane engine will have a tiny value in relation to the overall aircraft and the revenue that aircraft will generate its owners. This dynamic together with the perceived risk of switching and the entrenched position PCP has globally gives the company simply wonderful pricing power.

The company's long-term strategy has been to capitalise on the organic growth of the global aviation industry – leveraging off its dominant market position to supply an ever-increasing volume of product to an ever-growing industry. This position has been augmented through the careful acquisition and tuck-in of many related businesses, effectively executing a roll-up strategy around its core business.

The bottom line is compelling. A strict focus on operating profitability and carefully-acquired businesses has resulted in a 10-year compound annual sales growth of over 13%. Over that same time period shares outstanding have grown by less than 0.4% pa – so that growth has been almost entirely internally funded. The stock has followed suit – rising broadly in-line with that underlying business performance. We've followed this business for some time and spied an opportunity in recent times as the stock has declined over 20% as the market adjusts to lower near-term growth expectations. Ever-focused on the short term, we believe market participants have unduly discounted the qualitative attributes and long term potential for this great business franchise. In simple terms, where we've been buying the stock recently the shares are trading for a below-market multiple of earnings while those earnings exhibit considerably greater-than-normal quality and have a greater-than-normal growth potential. We simply believe these sorts of multiples are too light for this sort of business and we're really glad to have had the opportunity to add this name to the portfolio.

Peters MacGregor Business Update

We'd like to diverge from our ordinary quarterly template to let you know about some important changes and appointments at Peters MacGregor this past year.

Our Advisory Board appointed John Tuxworth last November as Non-executive Chairman and we couldn't be more impressed with his insightful and rational contributions. John has extensive industry experience and was Chief Operating Officer of Rothschild Australia Asset Management.

On the administration front, Paul Bilich decided to join us in late 2014 as Head of Operations following a contracted period where he reviewed our entire operations function. Having previously worked for Select Asset Management, we've been impressed by Paul's diligence and professionalism in this role.

Many of you would have dealt with Paul over the past few months and we hope you too share our enthusiasm.

Most clients will be aware that since 2012 we've been working with Andrew Fairweather, Stephen Robertson and Rory MacIntyre of Winston Capital Partners to broaden our client and prospective client base. Additionally, their feedback has been key to important changes within our business such as moving to daily unit pricing, reducing buy/sell spreads and engaging world-class service providers to support our administration.

A more recent decision as a logical 'next step' in the company's development has been to fully internalise the business development / client servicing functions through the appointment of a Head of Distribution. With Winston's assistance we embarked on a recruitment process that led to the appointment of Alex Haynes to this role, which will replace the outsourced services of Winston. Alex was recently Head of Business Development at Aberdeen Asset Management and prior to that Head of Retail Sales at Credit Suisse. We're delighted that an individual of Alex's caliber has joined us and most importantly, we're excited by the apparent cultural fit and strong philosophical alignment he has with us. We're very appreciative of Winston's hard work and we welcome Alex to the team.

On the investment management side of the business, we're very glad to announce the appointment of Nathan Bell to the newly created role of Head of Research. Nathan has been a friend of the firm for many years and we're glad to now have the opportunity to formally work together. Nathan joins us from Intelligent Investor Publishing where he has been for the past nine years and it's Head of Research for the last four. Nathan, as a senior analyst, will work closely with the portfolio managers in analysing current holdings and potential additions. Importantly, his team management expertise will be brought to bear as he takes responsibility for managing the workflow and research focus of all analysts. Welcome to the team Nathan.

Finally, as we farewell the team at Winston, we also note two other members of the team who have recently moved on. Cardy Man has worked in our operations function for seven years. Having had a taste for the investment management industry, he decided his next step should be into the financial planning world. We thank Cardy for his contribution over the years and wish him well with his future endeavours. Chloe Peters joined us in 2012 having returned from North America where she held business development roles with two leading asset managers. Having segued into the Australian funds management industry, Chloe recently decided the next logical step in her career would be within a larger local institution and has joined Perpetual in a business development role. Thank you Chloe for your contribution over the past three years and we wish you well at Perpetual.

Conclusion

While uncertainties and risks remain, particularly in Europe and China, we believe our approach to managing money goes some way toward mitigating these. As Wayne highlighted in his recent note on Greece, we are structured to handle and withstand unusual volatility that invariably occurs from time to time for *whatever* reason. Our portfolio is fundamentally diversified across various geographies, currencies and industries. We gravitate toward the stronger names in any given industry who themselves are able to withstand and capitalise on periodic dislocations. Holdings are acquired at meaningful discounts to our appraised valuations and are trimmed back and exited at very full prices. Finally, we can – and presently do – hold plenty of cash (circa 22% as at June 30) as a by-product of executing our investment philosophy.

On the whole, we remain enthused about the prospects for our existing portfolio and look forward to uncovering more interesting opportunities for clients in the periods ahead. As always, we appreciate your support and welcome our feedback, questions and the opportunity to further discuss our service with you.