

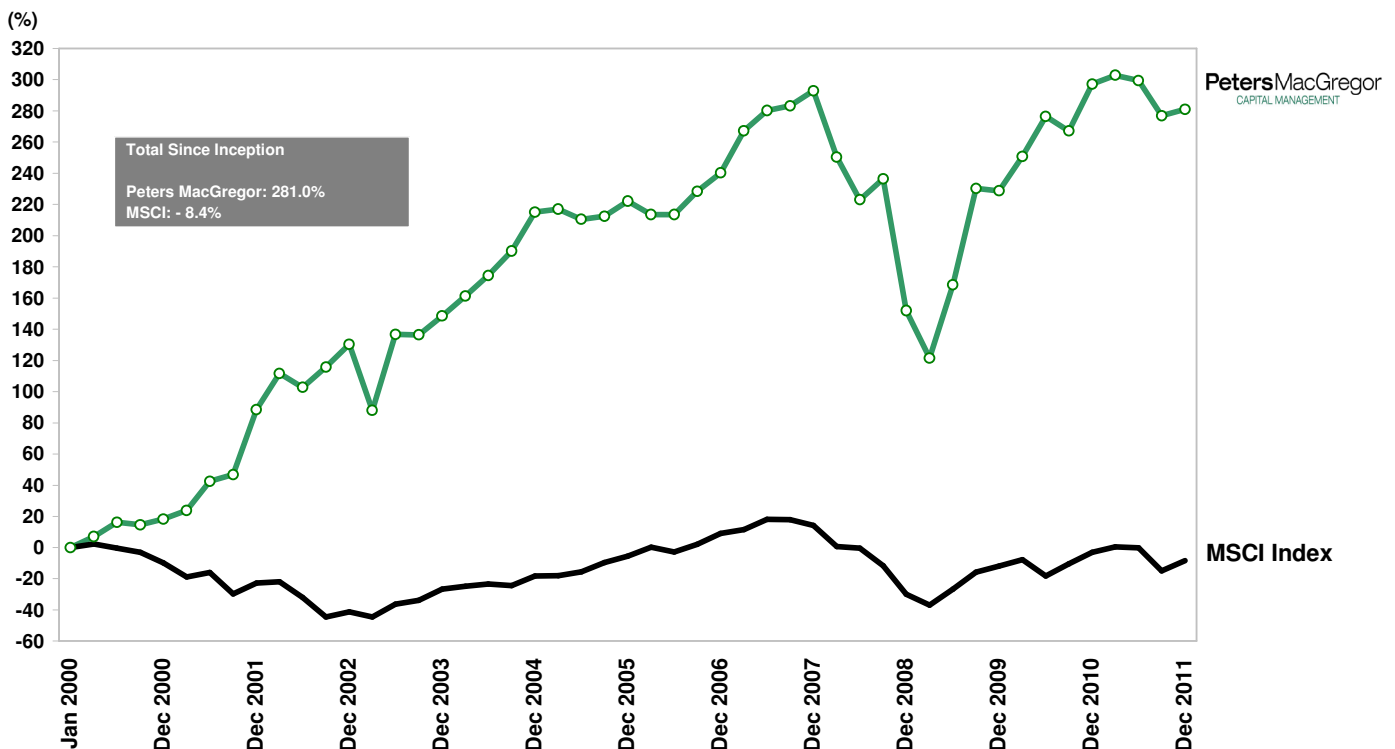
Performance Summary

The average net performance of our portfolios for the December quarter was 1.1%, lagging the MSCI World Index, which jumped 7.8%, and giving back sum of the outperformance accrued in the September quarter. As usual, your individual portfolio return will vary slightly from the average based on when your portfolio commenced, when other client portfolios commenced, and any net capital contributions.

The portfolio held 10 companies and cash finished at around 24%.

December 2011	gross return	net return before tax	MSCI index	out performance
Rolling				
3 months	1.19%	1.09%	7.79%	-6.69%
1 year	-3.71%	-4.07%	-5.49%	1.42%
3 years	14.98%	14.79%	9.34%	5.44%
5 years	3.11%	2.29%	-3.45%	5.74%
10 years	9.35%	7.30%	1.71%	5.59%
Since inception p.a.(January 2000)	14.95%	11.79%	-0.73%	12.52%
Total return since inception	432.31%	281.03%	-8.40%	289.43%

IMA Total Net Return



Top 5 Portfolio Holdings (alphabetically)

| Asta Funding | Berkshire Hathaway | Fairfax Financial | Michael Hill International | Wells Fargo |

General Commentary

The world macro economy continued to dominate market sentiment in the December quarter and we expect this is likely to remain the case in 2012. Michael Lewis' recent book "Boomerang - The Meltdown Tour" gives a succinct overview from Iceland to Ireland to Germany to Greece to the U.S. on how the indebted governments arrived to their current dilemmas and is a highly recommended read. Clearly, how the developed world got here is both fascinating with respect to human nature and educational at the same time. Of course, what everyone wants to know, is where to from here?

From our perspective, as a bottom up stock picker, we're all about finding under valued businesses. The trick remains, as always, in being able to estimate the through cycle earnings and the prospective growth rate of those earnings for each business we consider. The current environment is making this task the most interesting and challenging in our history. Extreme caution is required.

Let's do our own quick meltdown tour. The euro zone has one fundamental problem. It has monetary union (one currency) but no fiscal union (all member countries still run their own balance sheet and profit and loss budgets). So, as should have been expected, the financially less prudent and disciplined countries on joining the euro thought all their Christmas's had come at once when they could borrow at the lower interest rates previously only afforded the more prudent countries like Germany. They went on a spending binge over the ensuing decade and are now either insolvent or so close to it that their economies will pay the price for a decade or more to come.

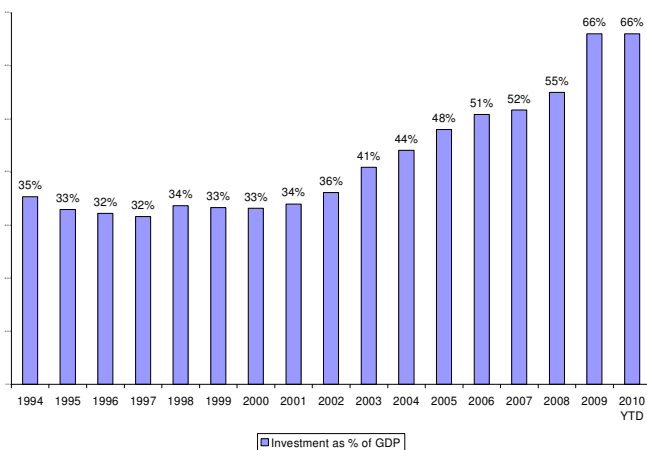
How this plays out is anyone's guess, but it will not be painless. We have not seen an experiment of this size and style before. The political agenda continues to trump the economic reality but the markets are now saying enough is enough. Even the dominant economy, Germany, isn't the tower of financial strength to which it is generally alluded. With a government debt to GDP of over 80% and remembering that the German banks, unlike their US and UK counterparts, have not yet been re-capitalised, they provide a rather weak platform on which the rest of the euro zone can lean.

The US continues to have their own budgetary issues, spending 26% of GDP annually and bringing in only 15%. This imbalance can be addressed, yet to date we have only heard rhetoric. A major drag on the economy is the housing market, which continues to work through the excess homes built during the bubble. With household formation creating new annual demand for approximately 1,200,000 homes and new home construction running around 500,000, the excess is diminishing at roughly 700,000 a year. We don't know if this excess will take another one or more years to clear (obviously the excess is not spread evenly over the country) but at some stage we expect to see employment rise meaningfully in this sector and to have a positive flow on effect to general consumer sentiment from the currently depressed levels.

China is always difficult to read as official economic data has numerous biases. What appears clear to us though, is that the past decade has seen enormous capital spending on infrastructure, housing and offices. With recent "investment" running around 70% of GDP, with a strong bias to housing, supply appears well ahead of demand. It is easy to envisage a

hard landing for the Chinese economy and in fact, the decline in recent monthly home sales numbers already suggest the bubble could be bursting. Couple this with a decrease in demand for consumer items from the US and increasingly Europe, significantly lower GDP growth numbers for China seem likely. We suspect the Chinese central government will attempt to temper any such decline though this will likely only extend the day of reckoning.

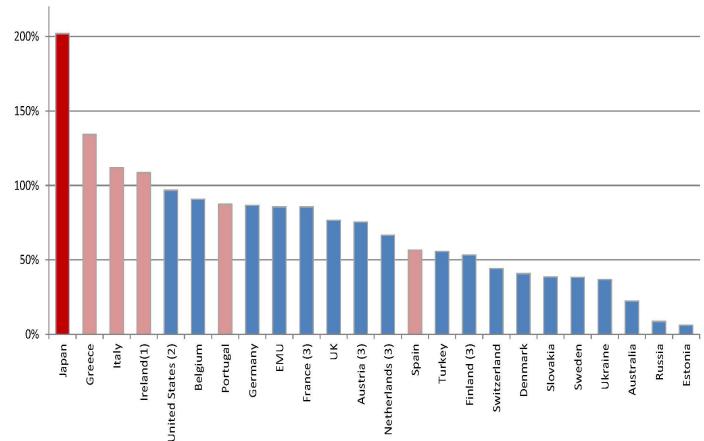
Fixed Asset Investment/China GDP



Source: National Bureau of Statistics of China

This doesn't bode well for Japan given that China is its largest trading partner (China is 19% of Japanese exports; the US is 15%). Not that Japan needs external factors weighing on it. With a budget deficit where expenses out number revenues two to one, debt to GDP north of 200%, an average interest rate on this debt at just over 1%, an ageing population (with net domestic savings only recently becoming inadequate to fund government debt issuances to cover the deficit) and debt service absorbing more than 50% of government tax revenues, the picture could not be much more dire for the Japanese. Any interest rate increase will have a very detrimental impact on their fiscal position.

Government Debt / GDP



1) Includes NAMA 2) Includes Social Security Trust Fund 3) Include commitments under EFSF
Source: Moody's Investor Service "Country Credit Statistical Handbook".

Many of these factors are not encouraging for Australia's near term economic outlook. Resource related industries along with the banking sector are likely to feel these economic headwinds more than most. However, other export and tourism operators will welcome any decline in the Australian dollar as they have suffered in recent times from its relative strength.

Portfolio Commentary

While the bottom line for our portfolio this quarter seems unexciting (+1.1%), the result does not reflect the mixed bag of performances of and developments with the individual holdings. Nor does it reflect the re-weighting activity over the quarter as we very actively monitor and manage position sizes in what we consider an unusually precarious broader global economic backdrop.

The most significant in terms of news flow has been the highly disappointing operating performance, profit downgrade and shareholder communication blunders of Symex Holdings. The 60% collapse in this stock's share price this quarter inflicted over 2% damage to the portfolio and was the single largest stock detractor from performance. A perfect storm of factors has hit the company over the past six months, significantly affecting profitability of both its chemical and consumer products businesses. While the chemical business has always

been subject to swings in profitability based on the relative pricing of its key raw material (tallow v. competitors' palm oil) as well as the short-term absolute movement of that price, it is the substantial and sudden erosion of profitability within the consumer products business (which has historically enjoyed relatively very stable earnings despite the 'purchaser power' inherent with the two major supermarket chains) that has surprised us. Pressure from the supermarkets has intensified as they seek to grow their home brand offers, and this in turn has resulted in intensified rivalry between suppliers. In such an environment, Symex has been caught in the crossfire.

We have had a number of constructive conversations with management over the past couple months, including on-site visits at both the chemical and consumer products production facilities. Our view is that they are doing all they realistically can to salvage business value considering the variables under their control. The directors (including the managing director) have significant shareholdings in the company and are therefore appropriately incentivised to maximise the outcome from here. We've not yet taken any decisions regarding our position here but are instead adopting a wait and see approach.

Elsewhere, on the whole, the portfolio performed satisfactorily. Asta Funding and Bank of America each fell slightly and cost us basis points, but these were overwhelmed by positive contributions from Berkshire Hathaway, Fairfax, Howard Hughes, Johnson & Johnson, Michael Hill, Wells Fargo and Walmart, which all rose between 3% and 15%.

Strength in some of these names, together with our desire to generate increased cash liquidity in the portfolio – a defensive tactic as we negotiate this precarious environment – prompted us to reduce our positions in Berkshire Hathaway, Johnson & Johnson and Walmart, helping to generate more than 10% of additional cash across the portfolios.

Pleasingly, our largest holding Michael Hill performed very well in its latest half with revenue up 11% (including deferred revenue from its newly introduced Professional Care Plan

(PCP)) and comparable sales growth in Australia, New Zealand, Canada and the US of -1.0%, 9.9%, 6.3% and 23.5% respectively. The PCP cashflow – which grew 390% over the previous period (though is only brought to the revenue line over the life of the plans – 3 years+) – has the real benefit of delivering substantial cash upfront with some of the cash expenses being paid over the life of the plans. The upfront nature of these payments creates a valuable cash 'float' for the company which has been used to substantially reduce its debt balance.

Adjusting the PCP revenue contribution to reflect our assessment of the likely *economic* benefit from this income line, our estimate of normalised EBIT for the December 2011 six-month period jumps to more than NZ\$40 million from NZ\$33 million last year. The company continues to grow strongly, increase its market share and consequently its intrinsic value. An outstanding achievement in the context of a very challenging retail environment.

Finally, in terms of performance attribution, please note that – as explained last quarter – our foreign currency hedges cover the majority of our foreign exposures but the remainder is left unhedged. The strong AUD over the quarter (up >5% versus the USD and up >3% versus the NZD) caused a drag of around 2% on the portfolio.

Conclusion

Our present 24% cash weighting positions us well to respond to what the market throws at us in the periods ahead. Considering the relative high quality nature of our portfolio of holdings, we feel the current portfolio is relatively defensive. If markets continue to appreciate despite the economic uncertainty we may lag, but for us the predominant theme remains capital preservation as we emphasise a 'get rich slow' approach to managing your wealth.

Thank you for your continued trust and support.

Important Information

This report is provided for the information of clients and is not intended to provide advice. Whilst all care has been taken in the preparation of this report (using sources believed to be reliable and accurate), no person including Peters MacGregor Capital Management Pty Ltd, Peters MacGregor Investments Limited and Mosaic Portfolio Advisers Limited or any other affiliated company accepts responsibility for any loss suffered by any person arising in reliance on this information other than under law which cannot be excluded. You should seek your own financial and taxation advice before dealing with your investment.

The product disclosure statement (PDS) for the Peters MacGregor Global Fund is issued by Mosaic Portfolio Advisers. The PDS details the terms of the offer and if you wish to invest in the Fund, then you should consider the contents of the PDS, consider whether or not an investment in the Fund is appropriate for you and complete the application form accompanying the PDS.

You should also consider the PDS in deciding whether to continue to hold an interest in the Fund.

Past performance should not be taken as an indication of future performance. This information does not take into account your investment objectives, financial situation or particular needs. Before making any investment decision, you should obtain and carefully consider the PDS, having regard to your investment objectives, financial situation and particular needs.

Notes:

- Intra year performance figures are unaudited
- Performance figures in the table are historical and not necessarily an indication of future performance.
- The returns are net of management fees and before taxes.
- The MSCI figures are the MSCI World Total Return Index (net local).

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