

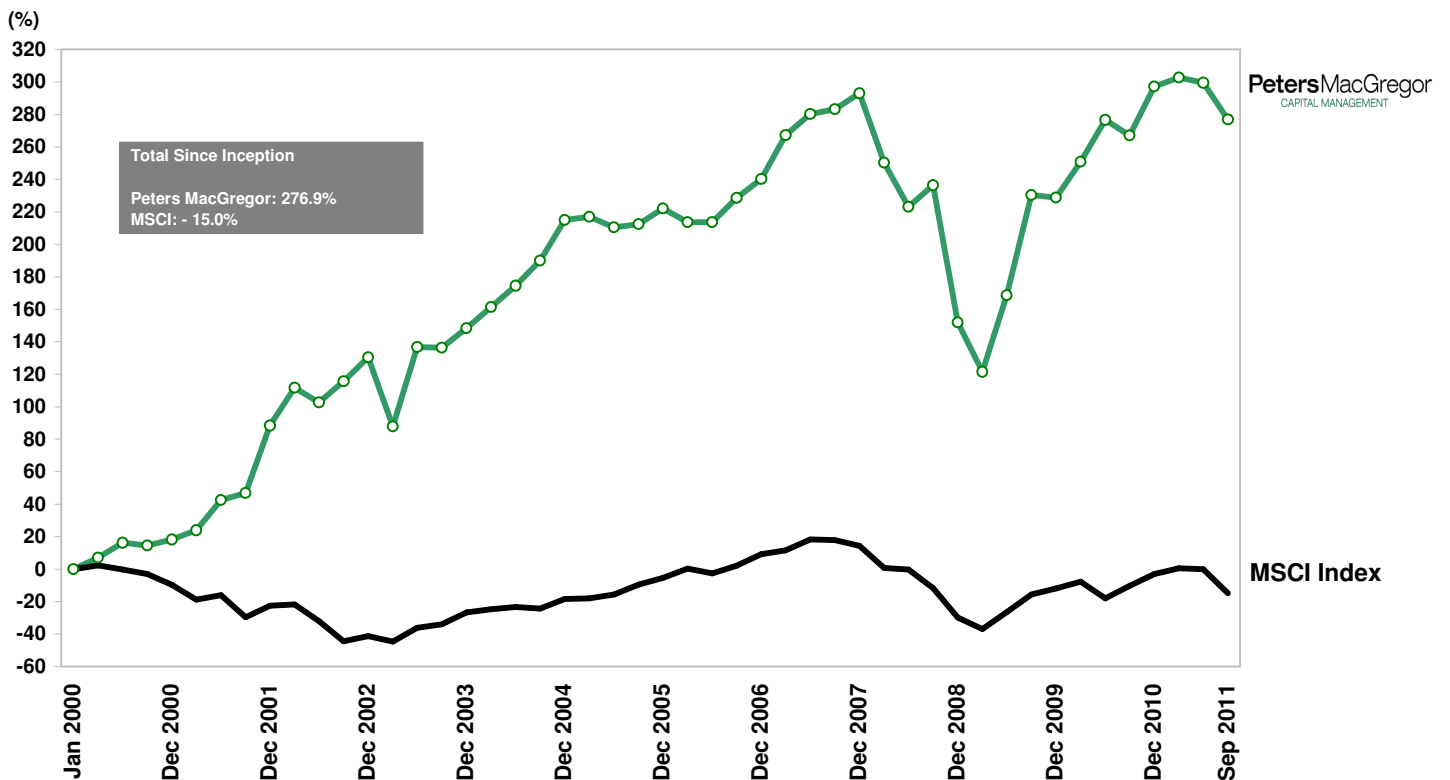
### Performance Summary

The average net performance of our portfolios for the September quarter was a decline of 5.5%, significantly outperforming the MSCI World Index, which fell 14.8%. 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 eleven companies and cash finished at around 10%.

September 2011	gross return	net return before tax	MSCI index	out performance
Rolling				
3 months	-5.54%	-5.64%	-14.80%	9.16%
1 year	3.07%	2.65%	-5.03%	7.68%
3 years	4.00%	3.85%	-1.27%	5.12%
5 years	3.85%	2.79%	-3.59%	6.37%
10 years	12.59%	9.89%	1.93%	7.96%
Since inception p.a.(January 2000)	15.18%	11.95%	-1.38%	13.33%
Total return since inception	426.06%	276.91%	-15.01%	291.93%

IMA Total Net Return



## Top 5 Portfolio Holdings (alphabetically)

| Asta Funding | Berkshire Hathaway | Fairfax Financial | Michael Hill International | Walmart Stores |

## General Commentary

Having been shaky for some time on account of US debt ceiling negotiations and uncertainty, concerns around Greece's financial position and the potential for a Chinese slowdown, markets became overwhelmed by fear this quarter resulting in a 15% decline in the MSCI World Index and a 14% drop in the S&P 500. Interestingly – and reflecting their riskier nature, greater reliance on capital markets for funding and stretched relative valuations going into this fear-driven market environment – smaller companies have fared much worse with the Russell 2000 index of smaller companies, for example, falling more than 22% over the quarter.

Early in the quarter, gridlock between US politicians on the issue of increasing the debt ceiling lasted into the eleventh hour and sent a wave of fear through both financial markets and into the real economy. Last minute compromises to reach an agreement restrict the Obama administration's ability to utilise additional fiscal stimulation to assist the economy, while the overall process led to a US Government ratings downgrade from Standard & Poor's. Uncertainty around the debt ceiling and the highlighting of both political dysfunction in general and the practical restrictions on the current administration's powers resulted in a sharp sell-off in the market and the US dollar.

Having digested the reality of US politics, concern has now shifted squarely to sovereign debt issues in Europe. With Greece teetering on the brink, and with the contagion and near financial collapse of 2008 still prominent in the minds of market participants, investors are trying to come to terms with what Greek debt default and what changes to the composition or a complete break-up of the Euro might mean for the rest of us. European banks, businesses and investors are all exposed to

this risk; and considering the interconnectedness of both the global financial system and real economy, ramifications will be wide-spread and to some degree unknowable.

With fear gripping markets, anything that is perceived to be exposed to Europe or slowing world growth has sold off. Banks around the world have fallen dramatically, as have resource stocks, cyclicals and smaller companies. The US dollar proved once again to be a safe haven in times of global uncertainty, climbing strongly toward the end of the quarter, with marked increases relative to 'risk' currencies such as the AUD and NZD. With help from the Federal Reserve's 'operation twist' – a programme of selling short-term securities in order to fund purchases of long-dated ones – and despite the S&P downgrade, already richly valued long-term US government debt appreciated significantly.

## Portfolio Commentary

We are broadly happy with the relative performance of our portfolio over the quarter, and are glad to report that in this environment of fear and uncertainty we have been able to put a significant amount of your cash to work. Average cash balances across the portfolios declined from 23% last quarter to 10%.

With markets declining and ample cash at hand, we took the opportunity to add to our Berkshire Hathaway position, as well as Howard Hughes and Wells Fargo, which we believe have been unreasonably oversold and represent unusually good value. Berkshire is now our largest position in the portfolio and a month or so after we increased that position at around \$68 a

share, Berkshire announced that it would buy back stock at up to 110% of book value (presently about \$72 a share). Their reasoning is that 110% of Berkshire's book value is demonstrably lower than its intrinsic value.

Additionally, we initiated and subsequently added to a position in Bank of America as that company's stock fell dramatically on the back of both company-specific concerns and broad financial-sector fears. With our estimate of sustainable/normalised earnings power somewhere in the order of \$2 to \$2.50 per share, we believed that in the \$9 per share range the stock was attractive and worthy of a modest position size in the portfolios. In the \$7 range we added to our position and at quarter end – with the stock at \$6.12 – we are sitting on unrealised losses but are glad to have a holding in this leading US institution that has the potential to perform exceptionally well from here in the years ahead. Interestingly, shortly after we took our position, Berkshire invested \$5 Billion in Bank of America via a combination of debt and equity securities. This move will likely lower the bank's cost of debt funding and is welcome third party confirmation that bodes well for the going concern viability of the enterprise.

While our portfolios held up relatively well overall in this difficult market, at an individual component level it was very much a mixed bag. All of our stocks fell at least slightly, and while the majority delivered only single-digit percentage losses, a few fell more dramatically. Two stocks combined – Bank of America and Howard Hughes – were responsible for losses of around 4% across the portfolios. These losses are clearly disappointing, but we believe that each is a compelling opportunity at present levels and we moved decisively to add to each of these at marked-down prices.

Blue-chip core holdings such as Johnson & Johnson and Walmart have performed relatively very well through the downturn. Names like these continue to offer excellent long-term value relative to both the broad indices and so-called 'riskfree' securities, and carry the added bonus of being relatively low-stress positions to maintain during times like these, considering their diverse revenue streams, limited

economic sensitivity, rock-solid balance sheets and deep, talented, shareholder-oriented management teams.

Finally, in understanding our strong relative performance this quarter, it is also worth noting that (for AUD based clients) performance has been helped by the declining Australian dollar. While our portfolios are generally hedged back to the client's nominated currency, there is a minority component that is left unhedged principally due to the practical impossibility of hedging look-through exposures of large multi-national companies. At present, a 10% decline in the AUD (all other variables held constant) results in a 2-3% gain in AUD based portfolios and vice versa. This dynamic costs us slightly in an environment of a rising AUD, but with the AUD declining as it has recently, it is somewhat helpful.

## Conclusion

We continue to monitor the global macro-economic market and assess carefully how our companies and industries may be affected by a potentially worsening environment. While others may increasingly be moving to the sidelines on account of the perceived increased uncertainty, we remain very bottom-up focused and provided we can find good businesses available at attractive prices we are inclined to be fully exposed to these rather than keeping excess cash. In the long-term we believe this strategy will pay handsomely but acknowledge that in the short-term we will be exposed to the vicissitudes of the market.

## Miscellaneous

Standard & Poor's recently reviewed our principal product, the Peters MacGregor Global Fund and have awarded us a 3-star rating. If you are interested in reading the report, it is available on our website.

Thank you for your continued trust and support.

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## 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 Officium Capital 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 Officium Capital. 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).

Suite 507,  
19A Boundary Street,  
Rushcutters Bay,  
Sydney NSW 2011 Australia  
Tel: + 61 (0)2 9332 2133  
Fax: +61 (0)2 9331 3177