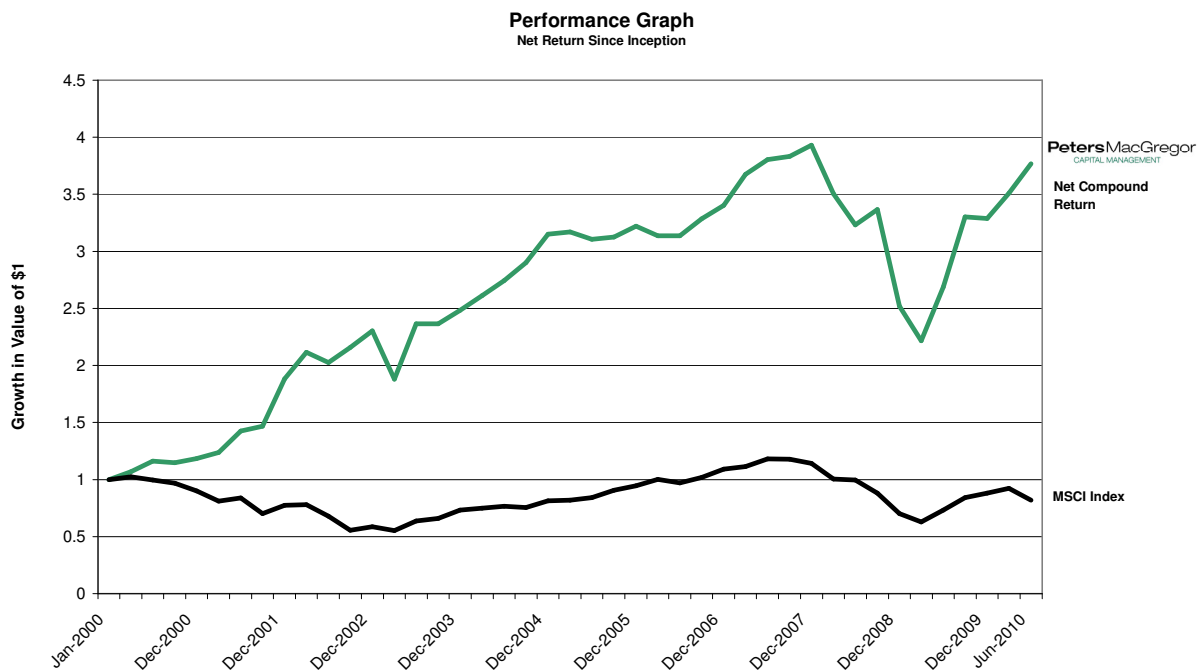


June 30, 2010 Report

The average net performance of our portfolios for the June quarter was up 7.3% while the MSCI World Index declined 11.2%. Over the past 12 months, we are up 40.1% versus the MSCI's 11.5% rise. 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 comprised eleven companies and cash finished at around 18%.

June 2010	gross return	net return	MSCI index	out performance
Rolling				
3 months	7.31%	7.31%	-11.20%	18.51%
1 year	40.18%	40.18%	11.54%	28.64%
3 years	-0.06%	-0.33%	-11.49%	11.17%
5 years	5.23%	3.93%	-0.59%	4.53%
Since inception (January 2000)	17.07%	13.46%	-1.89%	15.35%



PORTFOLIO AT A GLANCE

Asta Funding	Iron Mountain
Berkshire Hathaway	Johnson & Johnson
BP	Michael Hill International
Undisclosed Chinese Co.	Prepaid Legal Services
Fairfax Financial	Wal-Mart Stores
Guinness Peat Group	

GENERAL COMMENTARY

After a very strong recovery from the market's early 2009 trough, the June quarter saw a substantial rise in risk aversion with volatility jumping substantially (more than doubling earlier in the quarter before settling down somewhat) and with most major markets suffering a correction (the MSCI and S&P 500 each falling around 11%).

Markets have been discounting renewed concerns of a 'double-dip' recession as economic news flow has been generally disappointing. After perhaps allowing themselves to feed on the momentum of the recovery from the distressed pricing levels reached in early 2009, the recent market action seems to reflect a renewed focus by market participants on the longer-term economic headwinds we continue to face.

From our perspective, we too are concerned about the economic environment and how the continued deleveraging of consumers' debt together with an eventual pull-back in government stimulus activity (or the adverse inflationary consequences of not reigning in the massive government deficit spending) might impact on the operations and hence underlying values of our individual portfolio holdings. These concerns are front-of-mind as we manage your funds in this precarious environment.

PORTFOLIO COMMENTARY

Pleasingly, despite the broad declines in the indices over the quarter, our portfolio rose by a very respectable 7.3%. While most of the time clients should expect their portfolio to move in the general direction of the broad market (i.e. if the market is down strongly, our portfolios would probably also be down while if the market rises strongly we should also be up), we should – due to the nature of running a concentrated portfolio – also expect the occasional substantial deviation from the underlying market return, and that's what happened this quarter.

In terms of performance attribution, we have certainly been exposed to the declining broad market with a number of our holdings declining more or less in line with the indices – **Guinness Peat Group** fell around 15%, **Iron Mountain** 18% and **Johnson & Johnson** about 9% – but these losses were overwhelmed by the strong performance from a much larger portfolio holding, **Asta Funding**, which rose 40% over the quarter and **Pre Paid Legal Services** which appreciated 20%.

The strong performance from **Asta Funding** followed a satisfactory quarterly report in which the company delivered strong cashflows, experienced no further impairments to the carrying value of its paper and continued strong collections from fully-amortised paper. Toward the end of the quarter the company also announced the receipt of a significant tax refund, equal to approximately 40% of the market value of the company and bringing the total net cash resources of Asta to around 50% of its value (excluding debt in a special purpose bankruptcy remote vehicle). That net cash resource – together with strong free cashflow – gives the company a wonderful opportunity to rebuild its portfolio of charged-off paper in the periods ahead, we believe, at prices that are very attractive. For the mean time, the cash position gives us comfort to allow the stock to remain a large position in the

portfolio, but should they find opportunities to put that capital to work we would expect to be decreasing our exposure to the investment as its risk profile increases. Given the outsized position we presently have here, we are monitoring this company very closely.

Also of assistance to our performance during the quarter was our decision early in the quarter, and as explained in our last quarterly update, to completely exit our holding in **USG Corp.** Further, we also completely exited our **Mohawk** holding early in the quarter at prices above \$60 per share (discussed below). These stocks are more economically sensitive than others in the portfolio and have fallen 25-30% since our exit points. That component of recent performance represented by the stock-price run-ups in each of these positions to hit levels that we felt compelled to exit should rightly be attributable – at least in the short-term – to good luck.

PORTFOLIO CHANGES

As mentioned above, we decided to exit our position in Mohawk during the quarter. Mohawk is a manufacturer and distributor of flooring products (carpets, tiles, etc) and is effectively one half of a powerful duopoly in the United States market as well as having significant international operations. The company has created substantial shareholder value over the long-term, and we believe it will continue to create value well into the future, but in the context of managing a portfolio of securities we are constantly considering the risk profile of the portfolio as a whole and how individual holdings contribute to that risk profile. As Mohawk's share price rose to levels that are closer to longer-term averages in relation to normal earnings power, and with the degree of risk that we are exposed to elsewhere in the portfolio, we decided the further upside potential at \$60 per share was not enough to compensate for the downside risk and accordingly completely exited this position.

Proceeds from the sales of Mohawk and USG Corp were useful to us early in the quarter as we took advantage of the declining market to add to some of our portfolio laggards: Berkshire Hathaway, Iron Mountain, Johnson & Johnson and Wal-Mart. Regular readers will note that we had only just recently trimmed holdings in some of these (Berkshire and Iron Mountain). Indeed, our job is to actively reposition individual investments in response to changes in our appraisals of their underlying intrinsic valuations as well as changes in prevailing market prices. Add to the mix changes in the composition of the portfolio due to new additions or eliminations (which can impact our propensity to want to own other holdings, due to the correlations between new or exited holdings and others in the portfolio), and not only should regular changes in portfolio weightings for individual stocks be unsurprising, they should be *expected*.

In addition to putting capital to work by adding to some of our existing holdings, we initiated a small position in BP Plc. If you own a TV, read a newspaper or simply leave your house you'll no doubt be well aware of the controversy presently surrounding BP and the disaster in the Gulf of Mexico. BP unquestionably owns a very valuable global portfolio of oil related assets (across exploration, production, refining and distribution). What is unknown or uncertain at this point in time is the extent of damage to BP's value from the current oil leak. In the context of that uncertainty the market has discounted BP's shares by more than US \$100 billion, a degree of discounting that we believe probably reflects an overreaction to at least some degree. We believe that the ultimate costs of this disaster will probably be something less than that \$100 billion; that BP will likely continue to be a viable operation in its current form (i.e. without the need for expensive equity dilution) and that they'll be able to meet their obligations to affected stakeholders in the years ahead handily from their existing liquidity and very strong cashflow. Our position has been established toward the end of the quarter at a price of around \$30 and while we believe this type of investment will deliver strong average returns, there is a large range of potential outcomes given the uncertainties at this point of time. Our relatively small position in this stock reflects the potential for adverse outcomes while giving us a decent exposure to the upside should the situation play out in a way that is not as bad as the current share price implies.

CONCLUSION

Our portfolio performance was very pleasing both on an absolute and relative basis for the June quarter and year. We continue to be focused on the prospects for and risks within our portfolio both at the individual stock level as well as in terms of how they are correlated with each other and how they are affected by developments in the broad economy. We believe we are invested across a group of excellent businesses whose valuations are compelling and hold the prospect of strong returns in the years ahead. Our dual focus remains to closely monitor existing positions as well as seek to identify interesting and attractive new holdings for the portfolio.

Thank you for your continued trust and support. As always, do feel welcome to contact us on (02) 9332 2133 or via email at “contact us” on our website with any feedback, queries or concerns.

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:

IMA Portfolio Returns

- Intra year performance figures are unaudited
- Performance figures in the table are historical and not necessarily an indication of future performance.
- The performance figures represent the average returns over all the individually managed accounts (“IMA”) during the relevant periods. Each IMA will generate discrete returns depending on its portfolio structure from time to time.
- Gross returns include dividends and foreign exchange costs and are presented before taxes and fees.
- The net returns are net of management fees and before taxes.
- The MSCI figures are the MSCI World Total Return Index (net local).
- IMA inception date January 2000