PetersMacGregor
CAPITAL MANAGEMENT

Investment Manager's Update - December 2007

PERFORMANCE

The average net performance of our portfolios for the December quarter was 2.54%, outperforming the MSCI World Index at -3.03% and the S&P 500 US Index at -3.33%. 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.

During the quarter the master portfolio topped up four companies, sold down a significant holding and exited another company ending the Quarter with eleven companies and approximately 26% cash.

Set out below is a snap shot of each product:

IMA Portfolio Returns			
	returns		out
Dec	net	MSCI	performance
3 months	2.54%	-3.03%	5.57%
1 year	15.49%	4.69%	10.80%
3 years	7.93%	11.88%	-3.95%
5 years	11.45%	14.26%	-2.81%
Since inception	18.78%	1.68%	17.09%

Peters MacGregor Global Fund			
Dec	net returns		$
1 month	1.71%	Quarterly distribution	0.047
1 year	16.08%		
2 years (pa)	11.44%	Application unit price	1.1939
		Withdrawal unit price	1.1873
Since inception	8.95%	NAV unit price	1.1906

Peters MacGregor Investments Limited	
Dec	cents
NTA after tax on realised gains/losses	120.93
NTA after tax on realised and unrealised gains/losses	118.97
Share price	95.0
Discount to NTA	20.1%

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COMMENTARY

Once again, the quarter-end figures for the benchmark indices mask high volatility over the period with the MSCI trading across a 10% range. We spoke last quarter about the re-emergence of volatility and this quarter it continued to prevail. We expect it to do so for some time.

Whilst, our performance was modest in absolute terms, in some ways, it demonstrates our primary focus on capital preservation, especially prevalent during times of volatile and falling markets. In our view, a key element to generating long-term out performance of the major indices (and a satisfactory return for investors in absolute terms) is how we manage your funds through market declines. Preparing for choppy investment conditions, protecting your capital base and taking advantage of opportunities that we believe will inevitably be presented in the current environment form the theme for this quarterly update.

Ours is very much a bottom-up, qualitative and valuation based approach to investment. We seek to identify outstanding businesses with strong market positions, excellent management and favourable long-term prospects. We feel that investing in such higher-than-average quality enterprises goes some way toward reducing fundamental risk within the portfolios. Also, key to our approach is the discipline that we bring to the execution of buying those wonderful companies only when they are priced sufficiently attractive enough relative to your conservative assessment of their underlying intrinsic values. Basically, it means that as the discount between the market price and our assessment of value (the margin of safety) falls we reduce your holdings. If individual shares happen to reach a very full valuation we typically eliminate the position entirely. This discipline, we believe, goes a long way toward protecting your capital during difficult market environments.

Reducing or eliminating positions as they reach full value is only part of our formula for adding value to your portfolio over time. Of equal importance is the preparedness to act swiftly and with conviction in establishing new or adding to existing positions when values become more attractive as the broader markets decline. Such opportunistic purchases, assuming we have been broadly right in assessing the long-term prospects of the investee companies, will serve to underwrite strong future returns when fear recedes and ‘Mr Market’ eventually focuses on the merits of individual enterprises. To that end, we are pleased to report that we have been able to put more of your capital to work by adding to holdings in American Express, Asta Funding, Mohawk and Moody’s. In some way, each of these companies has been negatively affected by the recent US slowdown and credit crunch. We believe ‘Mr Market’ has overreacted to these concerns and has unduly punished these quality companies. At current levels and taking a five-year view, we believe we will on average do very well with these businesses.

PORTFOLIO CHANGES

Portfolio at a glance	
American Express	Moody's Corporation
ASTA Funding	Northbridge Financial
Berkshire Hathaway	USG Corporation
Johnson & Johnson	Wal-Mart Stores, Inc.
Michael Hill International	Western Union
Mohawk Industries Inc.	

Berkshire Hathaway

Berkshire is the investment vehicle of Warren Buffett and has majority-controlled interests in dozens of wonderful businesses including substantial insurance & reinsurance operations through which the company is the largest individual shareholder in global franchises including American Express, Coca-Cola as well as having many other stakes in global equities.

During the quarter we significantly reduced your holdings in Berkshire Hathaway from around 20% of the portfolio to around 5% in two tranches as the share price appreciated considerably peaking at $150,000 per A share.

Our view of the company has not changed at all. We continue to believe it is an outstanding business with excellent management and wonderful long-term prospects. However, with any security 'future returns' as well as 'risk' are strongly related to 'price'. In 2006 when Berkshire was in the $85,000 to $90,000 per share price range we believed it was significantly undervalued. Accordingly, we then increased your holdings in this business to around 20% of the portfolio. Since then we believe Berkshire has increased its value substantially, but that its share price performance has far exceeded the intrinsic value performance thereby reducing the margin of safety, increasing the riskiness of the investment and lowering the future prospective returns (from the higher base).

As with any portfolio company, as the margin of safety declines we will reduce our holding accordingly, in order to protect your capital. As such we reduced our Berkshire position down to around 5%. We believe we will do well with this investment over time, even from these higher levels, but the change in position size is reflective of the change in risk/reward dynamic at the current prices relative to value.

Iron Mountain

As with Berkshire, Iron Mountain has been a long-term holding in the portfolio. Iron Mountain is in the document storage and data management business, has a wonderful business model, a dominant market position, outstanding long-term business economics, and great management (who have executed very well over time). Our decision to exit your investment is solely due to the fact that the shares had reached what we consider to be a very full valuation, following a "40%" increase over the past year to $37. At 'full value', the margin of safety has eroded, risk has increased and our expected returns become much lower.

Faced with that dynamic, our preference is always to eliminate the position, return to cash, protect your capital and be financially and psychologically prepared to strike on other more attractively priced investments. With any luck, as has been the case with several of our holdings in the past, we may again be given the opportunity to invest in Iron Mountain but on more attractive terms!

CONCLUSION

Another volatile quarter in global share markets, resulting in negative returns across the major indices. We fared well, keeping our heads above water and posting positive gains.

We were active too, having sold down/exited two great businesses as share prices caught up to valuations and deploying more capital into four existing holdings resulting in a net increase in the cash position to approximately 26%.

Preserving capital in this environment is prudent. It provides us with the ability to move quickly if markets present more buying opportunities, as we expect they will.

If you have any questions please contact James Craigie on (02) 9332 2133 or via email at jcc@petersmacgregor.com.

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 Western Pacific Asset Management Limited (WPAM) 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 WPAM. 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 in 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 excess of 12 months are audited. 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

Peters MacGregor Global Fund

- PMGF inception date September 2004