PetersMacGregor
CAPITAL MANAGEMENT

Investment Manager's Update - September 2007

PERFORMANCE

The average net performance of our portfolios for the September quarter was 0.78%, slightly outperforming the MSCI World Index at -0.20%, but behind the S&P 500 US Index at 2.03%. 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 added two new companies (Johnson and Johnson and Moody's Corporation) ending the Quarter with twelve companies and approximately 7.5% cash.

Set out below is a snap shot of each product:

IMA Portfolio Returns			
	returns		out
Sept	net	MSCI	performance
3 months	0.78%	-0.20%	0.98%
1 year	17.05%	15.53%	1.53%
3 years	10.02%	16.01%	-5.99%
5 years	12.37%	16.28%	-3.92%
Since inception	19.05%	2.14%	16.91%

Peters MacGregor Global Fund			
Sept	net returns		$
1 month	3.93%	Quarterly distribution	0.005
1 year	16.79%		
2 years (pa)	11.05%	Application unit price	1.2060
		Withdrawal unit price	1.1994
Since inception	8.71%	NAV unit price	1.2027

Peters MacGregor Investments Limited	
Sept	cents
NTA after tax on realised gains/losses	118.10
NTA after tax on realised and unrealised gains/losses	114.51
Note: NTA net a 2.5c dividend paid in October	
Share price	98.0
Discount to NTA	14.4%

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COMMENTARY

The relatively benign market performance figures mask the volatility that prevailed this quarter. The MSCI World Index traded across an 11% range during the quarter, hitting its high in mid July and its low in mid August. The cause of the volatility was clear, the beginning of the US sub-prime mortgage crisis triggered the fall and the US Fed's response (lowering interest rates) restored short term confidence and markets recovered.

Once again we face stock markets at all time highs and while short term confidence has regained the lost ground over the quarter the fundamental economic data tells a more cautionary tale. Let's focus for a moment on the US sub-prime space. The number of so called 'teaser' loans that will be reset over the coming 18 months suggests that we are still in the early stages of unwinding the credit excess that created the 'sub-prime crisis'. 'Teaser' loans offer the borrower lower interest rates in the initial few years of the loan before resetting to a higher, more commercial level. Unscrupulous lending practices meant many borrowers could barely afford the lower 'teaser' interest rates and defaults begin in earnest once rates reset. We wrote in our annual letter two years ago that things would become very interesting once the real estate market turned down and negative equity (where the mortgage is higher than the home value) becomes more common amongst home owners.

What impact this has on the US economy, the US Fed's ongoing response, and ultimately on stock markets is by no means clear, and we spend little time trying to forecast the outcomes. What is probable is a re-emergence of market volatility that has been absent for some time. It is normal and we welcome it. Stock market volatility can be an ally if your investment horizon is long like ours. It creates opportunities to acquire good businesses at reasonable prices (evidenced this quarter by the purchase of Johnson and Johnson and Moody's Corporation).

PORTFOLIO CHANGES

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

Johnson & Johnson

Johnson & Johnson is a global health care products company which is expected to have around $US 60 billion in revenue in 2007. Just under half of this revenue will come from outside the U.S.

The company is divided into three segments: The Pharmaceutical division, which offers a wide range of drugs, represents around 40% of the company's sales and 45% of its operating profit. The Medical Devices & Diagnostics division, which sells orthopedics, diagnostics equipment, surgical equipment, contact lenses and other products, represents around 35% of the company's revenue and 40% of its operating profit. The Consumer Products division, which is comprised of market leading products in areas such as baby care, skin care and non-prescription drugs, represents 25% of the company's sales and 15% of its operating profit.

The company has very strong market leading positions in all of the segments that it operates. It also has a history of consistently strong operating results. Over the past ten years, it has grown earnings per share at an annual rate of 14%, sales have compounded at 17% and its return on equity has averaged 26%. The company has almost no debt, generates strong cash flows, while requiring minimal capital expenditures and has been actively buying back its shares.

The company is currently selling for around 15 times its 2007 earnings and while the company may not be able to grow at historical rates due to its size, we feel it represents a compelling opportunity given the strength and safety of the company's franchises and its possibilities to further expand globally into segments that have strong secular growth characteristics.

Moody's

Moody's Corporation, along with S&P, holds a dominant position in the global credit ratings market. Each company has market share of around 40%. While the recent sub-prime debacle has been a black mark on the company, the credit rating agencies are an integral part of the global economy. They play a role in helping keep companies cost of capital as low as possible and their ratings also help establish what kind of securities certain institutions are allowed to hold.

The company has a very large moat and only one serious competitor in S&P. It would be very hard for anybody to replicate the network and brand power that these companies have. The company generates triple digit ROEs and has minimal capital requirements. Lately, it has been using its very strong free cash flows to buy back shares. The company also has great secular growth opportunities, as global markets are becoming more integrated and more complex. Currently almost 40% of its revenue comes from outside the US and its international division is growing rapidly.

While the company has lost a bit of credibility due to recent events, these gyrations are due to take place from time to time throughout the credit cycle. As long as this doesn't become a regular occurrence, it should turn out to be just a negative blip against the long term story of this company.

While the company's current earnings potential may decrease in the short term, we feel that the drop in the company's stock price has priced in this risk. Even if the drop is larger than we anticipate, we should still do well on this investment over time due to its compelling business fundamentals and long-term prospects.

CONCLUSION

A relatively satisfactory quarter attained in volatile share markets. Again, we have been able to put more capital to work in two great businesses at attractive prices.

The portfolio is now predominantly invested in a diverse collection of excellent businesses. We look forward to capturing the expected improvement in business valuations over the coming years.

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