

Investment Manager's Update - June 2007

PERFORMANCE

The average net performance of our portfolios for 2007 was 22.23%, slightly outperforming the strong gains achieved by the MSCI World Index at 21.53% and the S&P 500 US Index at 20.59%. 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.

Our performance this year has been good relatively and very strong in absolute terms. We are particularly pleased as it has been generated while maintaining a cautious outlook and conservative investment stance. On average, our portfolios have held a cash balance during the year in excess of 20%.

This year (similar to last year) has been another active one in terms of portfolio changes. The master portfolio sold three companies (Fairfax Financial, Pre-Paid Legal and Anheuser-Busch) and added six companies (American Express, Mohawk Industries, Wal-Mart Stores, US Gypsum, Asta Funding and Western Union) ending the year with ten companies and approximately 15% cash.

Set out below is a snap shot of each product:

IMA Portfolio Returns			
June	net returns	MSCI	out performance
1 year	22.23%	21.53%	0.35%
3 years	11.78%	15.52%	-3.75%
5 years	13.59%	11.69%	0.81%
Since inception	19.62%	2.24%	15.58%

Peters MacGregor Global Fund			
June	net returns		\$
1 month	0.76%	Quarterly distribution	0.006
1 year	20.25%	Application unit price	1.2048
2 years (pa)	10.75%	Withdrawal unit price	1.1982
Since inception	8.90%	NAV unit price	1.2015

Peters MacGregor Investments Limited	
June	cents
NTA after tax on realised gains/losses	122.63
NTA after tax on realised and unrealised gains/losses	116.70
Share price	102.0
Discount to NTA	12.6%

COMMENTARY

The level of turnover in our portfolios is not something we design or can control; it is primarily a function of two factors: share price performance and our assessment of company valuations. The relationship between the two is (of course) the margin of safety. Simply, when we find attractive businesses with deep margins of safety we are compelled to buy, and when the margin of safety disappears we exit. Volatility in equity markets can create considerable changes in the margin of safety (of both companies we own and would like to own) and lead to increased portfolio turnover. This has been the case this financial year. While our approach is to buy and hold for the long term, 'Mr Market' will ultimately dictate our investment activity.

It has been another strong year for global equity markets capping, what in hindsight has been a strong five year bull run. By way of example, the S&P500 index has risen some 164% since its low in August 2002, and closed this year above its 'dot com' high for the first time. The gain in the Australian equity markets is even greater, where the resources boom has contributed dramatically.

It is worth noting that while the major indices have advanced considerably the gains have not been 'broad based', in that, many parts of the market did not move materially while other parts jumped considerably. This has been evident within our portfolios too, with most of the year's performance being attributable to a handful of our holdings.

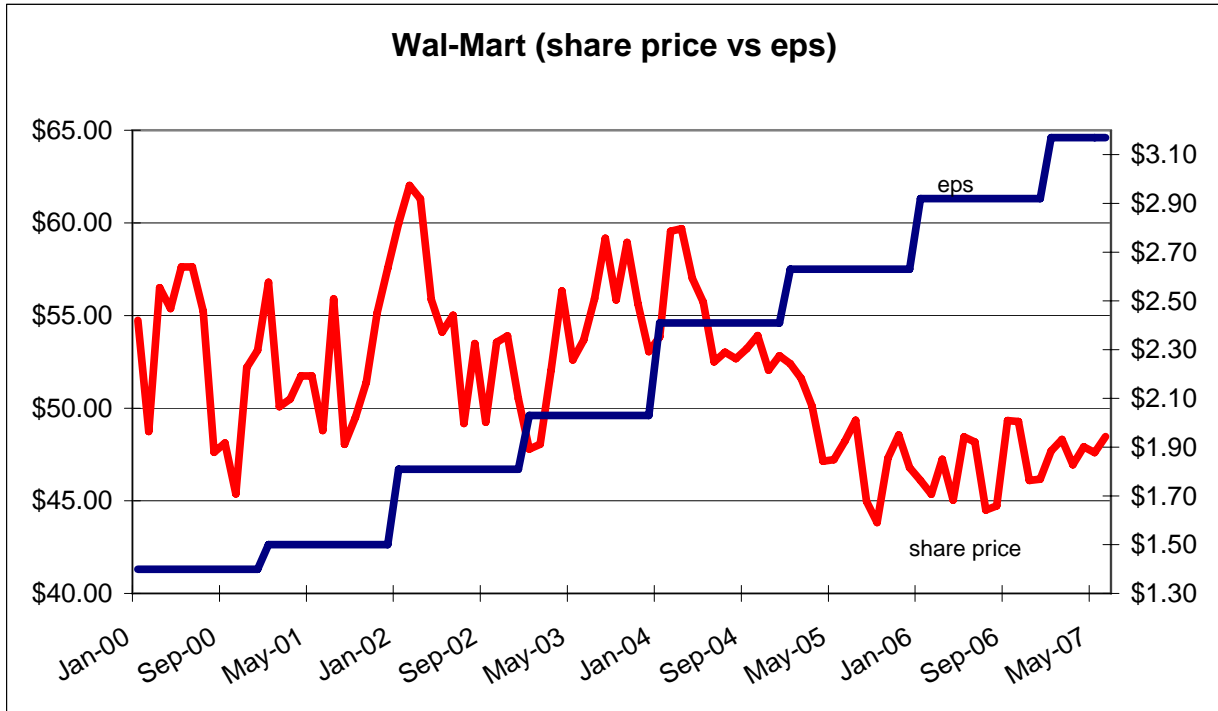
In a global environment where: (i) substantial imbalances exist between the Western 'current account deficit' nations and their Asian 'surplus' counterparts, (ii) there are unprecedented levels of consumer debt, relative to income, and (iii) the inflation outlook suggests a continuation of tightening monetary policy trends. We have now reached a point where market valuations are getting expensive relative to their long term historical averages.

Against this macro economic backdrop, an interesting theme has emerged – the share prices of a number of the wonderful businesses that the market has historically (and justifiably) applied premium multiples to, have either fallen or gone nowhere, while the underlying 'business values' have increased dramatically. This has thrown some large, dominant, quality franchises onto our radar-screen.

At the same time, the lesser-quality counterparts – smaller, average quality and more risky businesses have seen their share prices increase substantially (driven, we believe, by the combination of cyclically high earnings and the emergence of the current 'private equity' phenomenon). This has pushed up prices as investors speculate on 'who's next?' Factors, by the way, which apply to some of the larger, high-quality companies, but to a lesser degree.

We have been fortunate and found pockets of value within the rising broad markets, where we can hunt for quality companies trading at attractive prices. And in 2007 we were able to identify six new companies to add to our portfolios!

Let's look at Wal-Mart Stores as an example of how 'price' and 'value' have moved in opposite directions to present, what we believe, to be a good investment opportunity.



Since 2002, the share price has fallen from a high of USD62 to our buy price this year of USD44 (approximately a 30% fall), while the earnings have moved from USD1.40 per share to USD3.17 per share (approximately a 225% increase).

PORTFOLIO CHANGES

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

We exited three companies during the year: Anheuser-Busch (“Bud”), Fairfax Financial Holdings (“Fairfax”) and Pre-Paid Legal Services (“Pre-Paid”). In the case of Bud, its shares appreciated in value during our ownership period and our assessment of value moved down, eliminating the margin of safety and triggering an exit.

During the period we also sold our small position in Fairfax. As you will be aware, we have also held a position in Northbridge Financial, the Canadian company 59% owned by Fairfax. To a degree, we have had some doubling-up in exposure here, due to Fairfax having a large exposure to Northbridge as well. We have controlled this exposure by ensuring our combined portfolio weighting to these companies has not been too high.

Over the year Fairfax’s share price appreciated significantly thereby reducing its overall appeal from a value perspective. Northbridge’s share price, however, had not moved in spite of the continued strong growth in our assessment of its intrinsic value. Accordingly, given the value discrepancy that arose between the two securities, we took the decision to sell our Fairfax position at close to our assessment of fair value, and used some of the proceeds to increase our weighting in the, we believe, more attractively priced Northbridge.

As for Pre-Paid (a company that we have previously held), its share price moved up strongly breaching our assessment of value, and we exited the position. We continue to monitor the company and would consider repurchasing should the margin of safety become attractive again.

Following is a brief summary of positions added during the year.

American Express

American Express is the world's largest issuer of credit cards as measured by purchase volume. (*VISA and MasterCard do not issue credit cards as they are networks*). American Express has established itself as the premium high end card. In the US, spending on American Express cards is about four times higher than Visa or MasterCard. The company currently has around 74 million cards outstanding and had \$484 billion spent on its cards in 2005.

American Express' business model focuses on earning a discount fee (*an average 2.6% fee charged to merchants on cardmember purchases*) on cardmember spending first, as opposed to its competitors whose primary focus is on finance charges and card fees. This model has produced higher returns and is less capital intensive.

The company's higher spending customers allow it to charge merchants premium discount fees. This gives the company the flexibility to offer more attractive rewards and other incentives to keep its customers spending more on their cards. This in turn drives more business to merchants who accept the card.

American Express is in an industry with very high barriers to entry due to the industry's reliance on extensive networks and large capital requirements. One major advantage American Express enjoys over its competitors is that it is the only company in the credit card industry to have a major presence in each segment. It is a network processor (competes with VISA and MasterCard), a card issuer (competes with major banks) and a merchant acquirer (competes with First Data Corp. and a few banks). By being involved in each step of the chain, the company has access to valuable information that can help it deliver its higher spending card members to desired merchants.

While the company won't be able to grow as quickly as it did in the past, it still has adequate growth prospects as more people switch from cash to cards around the globe. Also, as the company grows and issues more cards, more merchants will in turn be forced to accept the card. The company has also recently spun out its financial planning segment, which has allowed it to concentrate on its higher return and less capital intensive card business.

Asta Funding

Asta Funding is a US-based company that operates in the finance industry. Specifically, Asta purchases books of bad debts (typically from credit card companies and utilities). The model is simple: a company will end up with accounts that become seriously overdue. These companies often engage third party organisations to recover as much as possible on their bad debts. Such a process can take months and years, as often a bad debt can come good after lengthy legal procedures or continued attempts to collect. Rather than carry such uncertainty on its books, companies might simply sell an entire book of bad debts to a specialist collector such as Asta Funding. Doing so can realise 3 to 5c on the dollar and remove risk and uncertainty from the vendor's balance sheet. So, simply put, Asta purchases these bad debts and then goes to work on trying to generate as much cashflow from those debts as possible. Historically, recoveries have been enough to cover corporate overhead, recover the initial purchase price, and then generate an after-tax internal rate of return of between 20-30% pa.

Asta is unique as an investor in bad debts in that it typically out sources the majority of its collections function. This contrasts to other operators who conduct collections internally, creating significant fixed cost bases and requiring a continual flow of new business to justify the headcount. We believe Asta's model provides a greater level of flexibility, as it is not required to acquire new paper and can simply cash up and downsize its business in the event of an unfavourable market pricing environment.

Asta also enjoys considerable competitive advantages; it has operated in the market for a very long time and has strong established relationships that ensure a good flow of quality business. One of the major issues within the industry is that the returns being generated by firms such as Asta have attracted considerable capital, thus adversely affecting pricing. However, firms like Asta who are established operators with strong track records of lawful collecting on accounts, are preferred by major companies who need to ensure their customers will be appropriately treated. A major credit card company would rather trust its brand to a long-term business partner in Asta and receive 4c on the dollar, than risk embarrassing media attention that might follow selling that same debt to a fly-by-night hedge fund for 5c.

Finally, Asta has a long-term cornerstone shareholder in its CEO and his wider family, who founded the business many years ago. These people are focused on building the business for the long-term and do not concern themselves with short-term share price fluctuations that Asta is subjected to given the bumpy nature of its growth. They simply prefer a bigger long-term average performance over a smaller but more consistent short-term result.

Mohawk

Mohawk Industries is a leading producer and distributor of flooring products, which include carpets, rugs, hardwood, laminate, ceramic tile and vinyl flooring. Mohawk is the largest floor covering company and second largest carpet and rug company in the United States. It also has a strong position in the European laminate flooring market. The company was founded in 1878 and went public in 1992. It is forecasted to have around \$US 8 billion in revenue in 2006.

Mohawk has some of the industry's strongest brand names and enjoys a very strong market position in all of the segments it competes in. It enjoys a roughly 23% market position in the US flooring industry. It currently only has one serious competitor who enjoys a 21% market position, while the next largest competitors only have market positions of 8% and 5%. Mohawk's size thus allows the company meaningful economies of scale and a wide reaching distribution system that gives the company a significant advantage over its smaller competitors.

Mohawk's Chairman and CEO, Jeffery Lorberbaum, beneficially owns 19% of the company. He has been with the company since 1994, when his company Aladdin Mills merged with Mohawk. He has a relatively low key approach and at 51 years of age he should be at the helm of the company for a long time to come.

US Gypsum

USG is a manufacturer and distributor of building products primarily in the United States, but with a growing international division. USG filed for bankruptcy protection six years ago amidst substantial asbestos-related claims. It recently re-capitalised itself via a discounted rights issue to shareholders, provided for the substantial full settlement of asbestos claims, and emerged from bankruptcy.

The major line of business is its US gypsum wallboard division which contributes around half of the group's total sales and about 75% of its profits. Essentially, this is a commodity business, gypsum wallboard being a core supply to the building industry which is difficult to differentiate and thus add value to. The key, therefore, in this business lies in the ability to build a cost-leadership position – to produce and distribute the product for less than the average. In this respect, we believe a number of factors make USG an appealing opportunity.

Firstly, USG is the largest operator in its space, owning a 33% market share. Its sheer size and market breadth allows it to produce and distribute gypsum cheaper than its competitors. Gypsum wallboard is a very heavy product and thus expensive to transport. This dynamic helps insulate individual manufacturers from import competition – import from cheaper labour countries, but also import from other US regions. In a commodity business like this, and given the high transport costs, it simply does not make economic sense for a producer in one part of the country to offer its product in another. The offshoot of this is that market shares remain relatively constant through time, and we believe firms like USG who can produce cheaper than average but allow 'the industry' to price the product, can operate very profitably over time.

Another interesting dynamic with this company is the fact that it has operated in bankruptcy for so long. Operating in this way has forced them to focus intently on capital management and on achieving high return on investment growth. In the context of trying to salvage the firm after making substantial asbestos-related settlement provisions, USG has simply not had the luxury of being able to invest huge amounts of capital in to its business. This has led to a strong performance culture within the business which we believe will pay-off significantly for shareholders in the years ahead.

Today, the US housing industry is slowing down, with many industry-related companies having been sold off dramatically. USG is definitely exposed to the housing cycle and would be negatively impacted by both reduced sales volumes and lower gypsum prices. However, we believe the market has overreacted to the cyclical nature of this business and has discounted the shares too aggressively.

Wal-Mart

Wal-Mart is the world's largest retailer with \$US 312 billion in sales in 2005 and the second largest company in the world behind Exxon Mobil at \$US 371 billion in 2005. In 2005, 67% of the company's sales came from its US stores, 20% from its international stores, and 13% from its wholesale division with approximately 2,700 general merchandise discount stores, 2,400 Super centers that sell general merchandise and a full range of groceries, and around 700 Wholesale clubs.

There are several factors which make Wal-Mart an appealing investment. Wal-Mart's incredible economies of scale and razor thin, yet consistent net margins of around 3.5%, makes it very hard for the company's competitors to compete on a price basis. The company's superior prices and core product ranges also give the company a unique defensive characteristic if any protracted economic downturn were to occur. The company's founding family, the Walton's, still own 40% of the company. While they are not involved in the day to day operations, their presence on the board of directors should ensure that the company acts in the best long term interests of its shareholders.

The company's stock is currently trading at around the same levels it was seven years ago. While the stock may have gotten a little bit ahead of itself back then, the company's intrinsic value has increased tremendously over this time. The stock has been hurt due to macro economic concerns and worries about the company's future growth opportunities. We feel

the company's strong defensive characteristics will make any economic downturn irrelevant given a long term time horizon, and while the company won't be able to grow at its historical rates, given its sheer size, its superior economic moat still gives it adequate opportunities overseas and at home.

Western Union

Western Union is a leader in global money transfers, with almost 300,000 agents worldwide in more than 200 countries. The company is comprised of two divisions: the Consumer to Consumer division, enabling people to send money around the world; and the Consumer to Business division, providing consumers with the ability to make one time or recurring bill payments. In 2006, 84% of the company's revenue came from its Consumer to Consumer segment, 14% from its Consumer to Business segment and 2% from other sources.

Western Union has origins dating back to 1851 and has been in the money transfer business since 1871. The company was acquired by (separately listed) First Data in 1995, but was separated and spun-off from the parent company at the end of 2006 in a transaction designed to enhance business focus, provide more efficient stock-based compensation for employees of both companies, and eliminate conflicts of interest with First Data clients.

The company has developed a truly wonderful moat around its core business on two fronts. First, they have developed a large agent network & financial infrastructure that allows them to provide a fast, reliable and convenient service for global money transfers. Second, and critically, they have developed brand equity with consumers that is second to none. Trust is paramount in this industry, and when an immigrant needs to send hard earned money back to support family in their native country, they need 100% certainty and peace of mind with the transaction. If you're sending small sums of money your family absolutely rely on, a 2 or 3% transaction fee is a small price to pay to effectively 'insure' as well as 'execute' the transaction.

The opportunity for us to purchase into this premium company has come about due to a number of unique factors. First, the company is having some (we believe, short-term) operational problems within its Mexican division due to uncertainty with the political environment surrounding immigration. Second, on being spun-off from First Data, Western Union took on a large sum of debt to efficiently gear its balance sheet. The debt level, relative to cash generative abilities, is very conservative and there is no issue with its absolute level. Rather, the debt has resulted in a previously non-existent interest expense that is serving to make comparisons between its first year as a public company to its last year as a unit of First Data difficult, and thus understating the true underlying earnings growth of the business. Finally, and significantly, senior management have had their long-term stock-based compensation set at market prices that prevailed in the period after spin-off. It has been in their financial interest, during the initial listing period, to not talk the stock price up. Instead, their whole constitution has been geared toward simply focusing on the long-term value creation within the business and let the numbers do the talking over time.

In conclusion, we believe the difficulty for others to enter this industry and effectively replicate both the vast agent network *and* create the sense of trust required at a consumer level, is being ignored by the market in pricing Western Union at around 18-19 times current earnings. We believe this premium business franchise which has the ability to grow its earnings significantly in the years ahead without the need to provide any additional equity funding, deserves a multiple well in excess of market averages.

CONCLUSION

We remain cautious about the broad equity markets and although valuations are not stretched we still feel there is plenty of risk around. Accordingly, we are relaxed maintaining a modest cash position (currently around 15% of the portfolio). Not only does it provide a partial buffer against any short-term weakness but more importantly, it gives us the ability to capitalise on opportunities that are presented during such times.

We are very happy with the overall composition of the portfolio and are especially glad to have had the opportunity to put more capital to work this year. On the whole, our portfolio companies are well financed, have dominant market positions and are operated by capable, shareholder-oriented managers. We expect these businesses to grow their values substantially in the years ahead – irrespective of broad equity market movements or the economic environment – and we look forward to participating in this growth in business value.

Thank you for your support and trust again this year as we look forward to a bright future.

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

Important Information

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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 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 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

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- PMGF inception date September 2004