

Investment Manager Annual Report June 30 - 2008

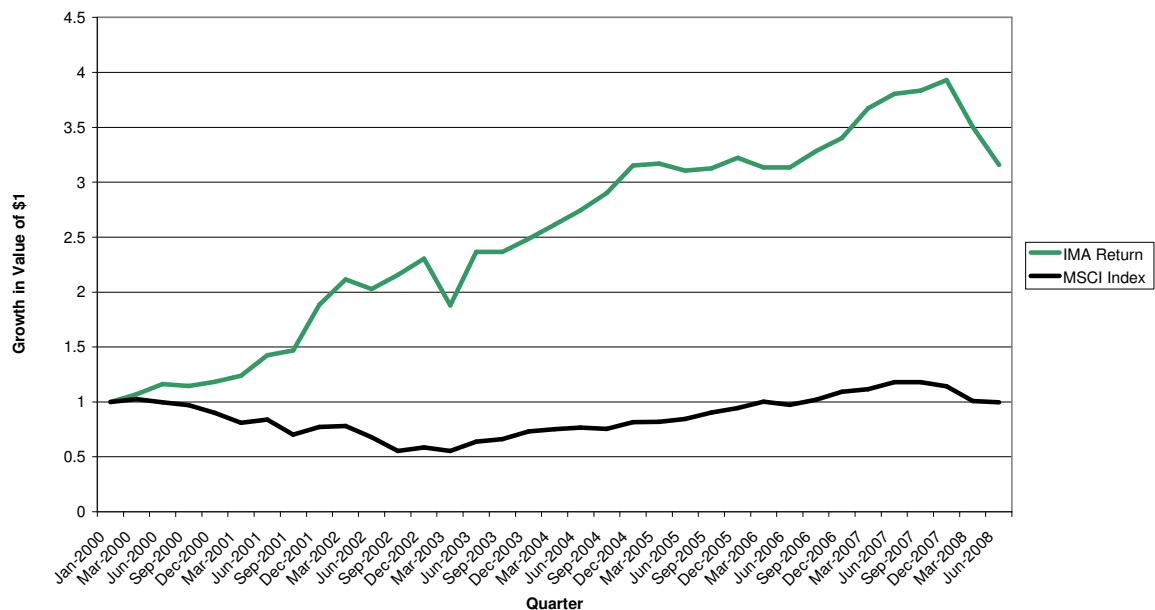
To our Partners,

The average net performance of our portfolios for the year ending June 30th was -15.03% compared to the MSCI World Index at -15.62%. 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 year we added three new holdings being Harvey Norman, Johnson & Johnson and Moody's Corporation. We sold out of Wal-Mart as its price increased to our assessed value and repurchased Iron Mountain after its price had fallen by a third since we sold it in the December quarter. The portfolio now holds twelve companies and cash finished at around 16%.

Jun 2008	gross return	net return	MSCI index	out performance
Rolling 12 months	-14.34%	-15.03%	-15.62%	0.59%
3 years	3.45%	1.34%	5.71%	-4.38%
5 years	9.28%	6.43%	9.35%	-2.92%
Since inception	19.33%	14.80%	-0.04%	14.84%

Net Compound Return Since IMA Inception



COMMENTARY

What an interesting year, to say the least! In our 2005 annual report we wrote:

“We spend no time trying to predict imminent movements in stock markets, interest rates, currency markets, the outcome of the next elections and so forth. We certainly have no expertise in this regard and believe few do. However, we do gain a sense from time to time when certain markets seem to be grossly out of kilt with appropriate values and the residential property market is a current example. .

The Economist (June 18th 2005 edition) had the house price bubble as its cover story and pronounced “The worldwide rise in house prices is the biggest bubble in history. Prepare for the economic pain when it pops.” It went on to say: “the Commonwealth Bank of Australia index shows that average house prices have actually fallen by 7% since 2003 and prices in once-hot Sydney have plunged by 16%.” Looking at the facts, it is not too difficult to believe that a severe fallout may have a good chance of occurring. But when, is impossible to predict. Clearly, if house prices on average fall below their outstanding mortgages than the scene will be set for some very interesting times.”

Well, “interesting times” are certainly with us now! The financial bubble continued to grow for another year or so and 2007 has seen the beginning of it deflating. Incentive caused bias has been the main culprit, as market participants gorged themselves on a buffet of low interest rates, additional layers of salespeople between borrower and lender, complex new financial instruments and the recent history of property price increases. This led to imprudent lending standards, especially in the US commercial and residential property markets, based on greed, corruption and false assumptions (property prices would not fall; interest rates would not go up; and low recent borrower default rates would remain the norm). What a recipe!

It appears as though Australian home owners aren't fairing as poorly as their American counterparts, but the numbers nevertheless do not paint a rosy picture. A Coredata survey at the end of 2007 found 13% of Australian mortgagees thought the value of their home was less than their mortgage while Princeton economist Paul Krugman expects by 2008 year end that 15 million Americans could have mortgages higher than the value of their homes. That is some 20% of U.S. homes with negative equity!

The re-pricing of risk, once these imprudent lending standards came to light, has caused significant volatility this year and we do not expect that to change over night.

Our performance has been poor in terms of the share price movement of our portfolio companies and we obtain no solace from the fact that the major indices were also down significantly. When we look at our current portfolio however, we are heartened by the quality of names and the overall discount implied in the prices compared to our assessment of intrinsic values. Most are significant global franchises and are at more attractive prices than we've seen in many years, boding well for our expected returns in the years ahead. No wonder we are thumping the table saying now represents a tremendous time to invest more.

Of our unrealized negative return in this past year, half of it or about 8% came from our position in Michael Hill International Ltd, the jewellery retailer. This is a company we've held for over 14 years and continues to hold all the key qualities we look for in an investment. Clearly retail is presently out of favour, but we believe the intrinsic value of this business has continued to appreciate in the past year and the sharp share price decline is unjustified. In any event, we are confident that over the next 14 years we will achieve a perfectly satisfactory return from our position in Michael Hill.

Highly leveraging share portfolios is never a good idea and some companies' share prices have been impacted negatively by margin lending calls and other forced selling adding to the level of volatility.

As we saw with the Opes Prime debacle, ANZ stepped in and indiscriminately sold holdings it held as security with the large caps first to go. This can and has produced buying opportunities for us in the past, but can also depress temporarily the quoted share price of one or more of our holdings.

In times of negative market returns and high volatility, it is very important to revisit your investment philosophy, strategy and results to ensure you are not being distracted by the volume of noise in the market place, remembering it is very easy to be distracted. When we look back over the past nine years, we have made 31 investment selections and to date, only one has been sold at a loss. This loss ratio is lower than we would expect and is even lower than is necessary to achieve our investment goals; it is however, our leading indicator and one we work towards maintaining low.

PORTFOLIO AT A GLANCE

American Express	Michael Hill International
Asta Funding	Mohawk Industries Inc.
Berkshire Hathaway	Moody's Corporation
Harvey Norman	Northbridge Financial
Iron Mountain	USG Corporation
Johnson & Johnson	Western Union

PORTFOLIO CHANGES

Berkshire Hathaway

Berkshire is the investment vehicle of Warren Buffett and has majority-controlled interests in dozens of outstanding 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 year 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 strong 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 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. The price has subsequently fallen to \$120,000 per share and we have again added slightly to our position.

Harvey Norman Holdings Ltd.

Harvey Norman Holdings is primarily a franchisor of the Harvey Norman retail chain, which sells home wares, furniture, electrical goods and computers. With revenue of over \$2.6 billion in 2007, it is one of Australia's largest retailers and owns a large property portfolio, comprised mostly of Harvey Norman franchisee stores.

The company has key advantages over other Australian retailers in that its franchise model reduces the company's fixed charges, giving it more flexibility through economic cycles. Also, franchisees are only allowed to own one store each and this ensures that every store has a franchisee whose livelihood is dependent on the success of that store. Furthermore, its property portfolio gives more flexibility in dealing with franchisees.

Gerald Harvey founded the company with Ian Norman in 1982. Harvey takes a modest salary and over 75% of his estimated \$1.6 billion fortune is in Harvey Norman, which aligns his interests with other shareholders. The company also avoids short-term and irrational institutional pressures, such as to spin-out or sell the company's property portfolio, in favour of adhering to its long-term vision and objectives.

We have owned Harvey Norman previously in the portfolio having purchased it at about \$2.50 in 2005 and selling it at about \$4.00 a year later. The company has again fallen out of favour with the market due to concerns about the current retail environment and uncertainties behind the company's future growth prospects as its home market becomes saturated. While we acknowledge there are risks to the company's international growth plans, we are comfortable with management's cautious approach and believe these risks are more than compensated for in the current share price. We have repurchased a position at about \$3.00 per share and expect to do well with this investment over time.

Iron Mountain

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.

As with Berkshire, Iron Mountain has been a long term holding for us and our decision to sell the position in the December quarter at \$37 was solely due to the fact that the shares had reached our assessment of full value. Fortunately, with the current market volatility, we have had the opportunity to repurchase a position at \$25.

Johnson & Johnson

Johnson & Johnson is a global health care products company which is expected to have around \$US 63 billion in revenue in 2008. 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.

It has very strong market leading positions in all of the segments that it operates and it 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.

Johnson & Johnson's background is particularly extraordinary. Robert Wood Johnson started J&J in 1886 from an abandoned wallpaper factory when he issued a small catalogue jam-packed with antiseptic dressings and medical plasters. By 1955 his son had built J&J into the 159th largest company on the Fortune 500 list. Today it stands at No.35 with 45 consecutive years of increasing its dividend. Maybe the company should have been called Johnson & Johnson's son!

The company is currently selling for around 14 times its 2008 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 which 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 and the company generates triple digit ROEs from 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 some 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

It was a volatile year in global share markets, resulting in negative returns across the major indices. With the MSCI falling -15.62%, we fared comparatively well but slipped by -15.03% in absolute terms. About half of this negative return was attributable to our Michael Hill holding. We believe the intrinsic value of this business has continued to appreciate in the past year and the sharp share price decline is unjustified.

Although we are disappointed with our negative performance during the year, we are very pleased with the overall composition of the portfolio. 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 are excited about the prospects for the portfolio.

CALL FOR NEW CAPITAL

"Try to be fearful when others are greedy and greedy when others are fearful." The discount of the portfolio to our assessed value is the greatest it has been for many years and this bodes well for our future expected returns. In the past quarter we have received additional capital contributions from numerous clients and would suggest you contact us should you wish to add to your current position.

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

Yours faithfully,



L.Wayne Peters
Chairman & Chief Investment Officer

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 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