

Investment Manager's Update - September 2008

PERFORMANCE

The average net performance of our portfolios for the September quarter was positive 4.13%, outperforming the MSCI World Index by 15.52% which returned negative 11.39%.

As usual, for individually managed account, portfolio returns 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 we sold part of our US holdings as the A\$ depreciated against the US\$. An increasing US\$ means that our weightings in A\$ increase which requires us to reduce our holdings accordingly. We sold out of Western Union completely as its price reached our valuation and repurchased Fairfax Financial (FFH), the Canadian property and casualty insurer. Cash finished at around 6%.

September 2008	net return	MSCI index	out performance
Rolling			
3 months	4.13%	-11.39%	15.52%
1 year	-12.21%	-25.09%	12.88%
3 years	2.50%	-0.81%	3.31%
5 years	7.32%	5.96%	1.36%
Since inception (January 2000)	14.87%	-1.72%	16.59%

COMMENTARY

With the MSCI World Index falling 11.39% in the quarter, we have done very well, outperforming the MSCI by 15.52% in the quarter and providing a positive return of 4.13%.

The imprudent lending practices by many banking institutions around the world during the current decade are now being recognised along with the associated losses. This in turn has seen many of these banking institutions lose most of their shareholders equity and set in train a massive deleveraging in the capital markets. Many governments have now stepped in to reduce the pain caused by this reduction in borrowings and to help stop the complete gumming up of the banking system. It is all front page news!

How long this will take to work through and how much pain will be endured is anyone's guess, but it is not likely to be short and sweet and we remain very cautious.

Share and currency markets have seen enormous swings. The Australian dollar alone has fallen 17% against the US dollar in the quarter. Given that we hedge the currency, the portfolio gleaned no benefit from this fall nor will it prove costly if rates reverse.

This is without doubt the most interesting time we have experienced in the market. As a value based investment house, the more that emotions drive share prices and we are seeing plenty of that at present, the more likely it is for us to find mispriced shares.

Will the market fall further? That clearly is the big question and with the level of pessimism prevailing at present, it is a real possibility. We will however, continue to purchase when we find value at a big discount and sell when that discount disappears. The discount in the price of our portfolio compared to our assessed valuation is the biggest it has been in over 6 years and the financial strength of each holding is first rate.

A good example is Berkshire Hathaway, our largest position at quarter end, which has seen its financial strength highlighted during this volatile period. It has been able to make attractive investments on very attractive terms in Goldman Sachs and General Electric in the order of \$5 Billion and \$3 Billion respectively. With its cash war chest north of \$20 Billion and growing, these market conditions should prove opportunistic and highly profitable for the company.

PORTFOLIO CHANGES

Portfolio at a glance	
American Express	Michael Hill International
ASTA Funding	Mohawk Industries Inc.
Berkshire Hathaway	Moody's Corporation
Fairfax Financial	Northbridge Financial
Iron Mountain	USG Corporation
Johnson & Johnson	

Fairfax Financial

We have owned Fairfax previously and with the share price falling significantly during the quarter to about 80% of book value, we once again took the opportunity to buy it. Prem Watsa and his team believe the current economic malaise will be long and painful and have structured their insurance businesses and their investment portfolio to profit from it with a very strong focus on protecting their capital base. We couldn't be happier to have such first rate management at one of our holdings and they typify the caliber of management we have at our other holdings.

CONCLUSION

Our portfolio has changed a little in the quarter, having sold Western Union as it reached our valuation and adding Fairfax Financial, which we have previously owned. This resulted in a net decrease in the cash position to approximately 6%.

It was another volatile quarter in global share markets, resulting in negative returns across the major indices. With the MSCI falling 11.39% and our positive return of 4.13%, we outperformed by 15.52%.

We are very pleased with the overall composition of the portfolio and 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.

Our recent performance and that over the past three years has earned us the top 5 star rating by Morningstar and places us around the top of the league tables for international fund managers here in Australia. We have also been recently rated Investment Grade by Aegis, one of Australia's top rating houses.

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 continued to receive additional capital contributions from clients and would suggest you contact us or your financial adviser 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.

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