

## Investment Manager's Update - March 2008

### PERFORMANCE

The average net performance of our portfolios for the March quarter was -10.85%, outperforming the MSCI World Index at -11.90%. The S&P 500 US Index was -9.45% and the ASX200 was -14.39%.

As usual, for individually managed accounts 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 added to six of our holdings as their prices fell, 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. Cash finished at around 20%.

Set out below is a snap shot of each product:

<b>IMA Portfolio Returns</b>			
March	returns net	MSCI	out performance
3 months	-10.85%	-11.90%	1.05%
1 year	-4.63%	-9.67%	5.04%
3 years	3.66%	7.09%	-3.43%
5 years	13.45%	12.72%	0.72%
Since inception (Jan 2000)	16.52%	0.08%	16.44%

<b>Peters MacGregor Global Fund</b>			
March	returns net	MSCI	out performance
3 months	-11.96%	-11.90%	-0.06%
1 year	-4.95%	-9.67%	4.72%
3 years	4.76%	7.09%	-2.33%
5 years	na	na	na
Since inception (Sept 2004)	4.84%	8.43%	-3.59%

<b>Peters MacGregor Investments Limited</b>			
March	returns net	MSCI	out performance
3 months	-8.66%	-11.90%	3.24%
1 year	-4.25%	-9.67%	5.42%
3 years	3.08%	7.09%	-4.02%
5 years	na	na	na
Since inception (Apr 2004)	3.58%	7.36%	-3.78%

## COMMENTARY

What an interesting quarter! We spoke last quarter about the re-emergence of volatility. Well, the show continues and we see no reason to expect that to change overnight. An extended period of low interest rates and lending practices which had become far too lax, especially in the US commercial and residential property markets, led to an over exuberant market place. Once the deterioration in these lending practices, based on many false assumptions and expectations, started to become more broadly understood, markets began to react quite fiercely. Of interest is how the Central Reserve Banks around the world are reacting to the long overdue re-pricing of risk.

Hardly a week goes by where some new “dirty laundry” by one financial institution or another isn’t placed on display. Of course, it has all been there for some time, but now we are slowly beginning to see the extent of the excesses. All caused by the team of greed, leverage and corruption, and supported primarily by what the psychologists call “incentive caused bias”. Read “what’s good for me must be good for you”.

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!

In any event, we expect this high volatility environment to prevail for some time and hopefully we’ll be presented with significant buying opportunities.

As with much of the recent volatility, some companies share prices have been impacted negatively by margin lending calls and other forced selling. Highly leveraging share portfolios is never a good idea and as we have seen recently with the Opes Prime debacle, ANZ stepped in and sold holdings it held as security indiscriminately 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.

## 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	Western Union
Michael Hill International	

### 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). This had 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 sentiment, we have had the opportunity to repurchase a position at \$25.

### **Wal-Mart stores Inc.**

Our position was sold during the quarter as its share price reached our assessed valuation range.

We also had the opportunity to add to our existing positions in American Express, Asta Funding, Moodys, Mohawk, Northbridge and USG.

### **CONCLUSION**

We sold Wal-Mart, repurchased Iron Mountain and also deployed more capital into six existing holdings resulting in a net decrease in the cash position to approximately 20%.

It was another volatile quarter in global share markets, resulting in negative returns across the major indices. With the MSCI falling -11.90%, we fared well comparatively but slipped by -10.85% in absolute terms.

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.

### **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](mailto: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:

- 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.
- The net returns for the IMA and Global Fund are net of management fees and before taxes.
- The net returns for the LIC are after all costs and taxes
- The MSCI figures are the MSCI World Total Return Index (net local).