PetersMacGregor
CAPITAL MANAGEMENT

Investment Manager's Update – March 2007

PERFORMANCE

The gross portfolio return was 11.80% on average over the March quarter, well ahead of the broader indices over the period (the MSCI World Index returning 2.11%, the ASX200 Index 6.89% and the S&P 500 US Index 0.64%), and very satisfactory in absolute terms.

While a number of our stocks performed well over the quarter, the primary contributor to performance was the 35% appreciation in our largest holding, Michael Hill International. Some of our smaller holdings also appreciated meaningfully, including Pre-Paid Legal Services which rose 27% over the quarter until we exited this position. Anheuser Busch was also exited during the quarter. Proceeds from these sales were useful in establishing a new position in Asta Funding and topping up our holdings in American Express & US Gypsum (their valuations have increased while their share prices fell slightly over the quarter thus implying better value). At quarter end the portfolios hold 9 companies and approx. 20% in cash.

Set out below is a snap shot of each product:

IMA Portfolio Returns				
		returns		out
March	gross	net	MSCI	performance
3 months	11.80%	9.44%	2.11%	7.33%
1 year	22.93%	18.75%	11.23%	7.52%
3 years	15.76%	12.53%	14.02%	-1.49%
5 years	15.00%	11.96%	7.39%	4.57%
Since inception	25.05%	19.88%	1.51%	18.37%

Peters MacGregor Global Fund			
March	net returns		$
1 month	3.00%	Quarterly distribution	0.006
3 months	8.24%		
1 year	16.79%	Application unit price	1.1671
		Withdrawal unit price	1.1607
Since inception	8.37%	NAV unit price	1.1639

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Peters MacGregor Investments Limited	
March	cents
NTA after tax on realised gains/losses	117.74
NTA after tax on realised and unrealised gains/losses	113.49
Share price	95.5
Discount to NTA	15.9%

COMMENTARY

We are pleased with the overall performance of the portfolio year-to-date (July 2006 to March 2007) with a gross return of 22.93% (compared with the MSCI at 14.71%). Equally pleasing, and as we have highlighted in previous updates, has been our ability to identify and purchase shares in high quality businesses at attractive prices.

As mentioned, the major contributor to performance has been the substantial appreciation in one of our largest holdings, Michael Hill, which benefited from a combination of factors. Firstly, the company announced a strong first half profit (up over 30% on the previous period). Secondly, its Canadian operations delivered a good profit contribution for the first time. Finally, the company announced a share buyback to repurchase up to around 4% of its shares. All of this good news was delivered in the context of most broker analysts expecting pedestrian performance. The result was a strong re-rating for the stock.

You may now wonder how we feel about the future prospects of Michael Hill given the substantial recent short-term performance. We remain confident in the prospects for strong long-term returns even from this higher base. We view the recent move as more of a 'catch-up' than an 'over-cooking' in the share price. Illustrating this, in the two years from January 2005 to December 2006 the shares fell 21% in price (from $8.20 to $6.80) while per-share sales and normalised profitability had increased somewhere in the order of 20-30%. On a price to sales or price to normalised earnings basis, the value proposition had moved favourably by some 30-50% over that two year period. At quarter end, the shares trade for around 17-18 times historical earnings and probably around 14-15 times forward earnings and provide a gross dividend yield of around 4%. For a company of Michael Hill's quality, and with the opportunity to continue growing at 8-12% annually for the foreseeable future at rates of return on equity in excess of 20%, we believe the shares continue to offer wonderful long-term value.

However, given the large size of this position within the portfolios in early April we sold a small portion of your holdings into the company buyback.

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	

Pre-Paid Legal & Bud

During the period we exited our positions in Pre-Paid Legal and Anheuser Busch (Bud). Pre-Paid rose strongly over the quarter surpassing our assessment of value and triggering our sell discipline. Bud on the other hand had two factors converging; (1) the price went up and (2) our valuation came down; together eliminating our margin of safety. Exiting investments (irrespective of short term price movements) when the fundamental story or one's perception changes is important in freeing up capital in order purchase attractive new investments as they arise. To that end, we are glad to report on the addition of a new portfolio holding, Asta Funding.

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.

At acquisition, the shares were trading for around 8 to 10 times our assessment of normalised earnings. We believe the market has underestimated the value of the franchise being created by the team at Asta, and has ignored the considerable growth trajectory this company is on. We look forward to partaking in the success of this relatively well-positioned business in this rapidly growing industry in the years ahead.

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CONCLUSION

A very strong quarter in absolute terms, achieved in the context of high volatility in international investment markets. Volatility creates opportunity and we have capitalized on it by making favourable changes in the portfolio.

The nature of concentrated portfolios leads itself to lumpy short term results. Whilst we expect that, it was pleasing this quarter to catch up and exceed our target investment returns again.

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 on 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