

Company Announcements Office
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

25th October 2006

Investment Managers Report

A report has been received from the company's investment managers, Peters MacGregor Capital Management Ltd, for the quarter ended 30 September 2006 outlining the performance achieved and the explaining the investments recently added to the portfolio.

That report is attached

Yours sincerely,



Lionel Cansdale
Company Secretary

Investment Manager's Update – September 2006

Performance

The gross portfolio return was 5.25% on average over the September quarter, broadly in-line with the strong appreciation of global markets during the period with the MSCI World Index returning 4.99%, the ASX200 Index 2.90% and the S&P 500 US Index 5.67%.

While the lift in our returns over the quarter was pleasing, even more so has been our ability to acquire three new positions – American Express, Mohawk Industries and Wal-Mart Stores – and to put more of your capital to work. Indeed, at quarter-end we held 10 companies across the portfolios and are holding just 16% in cash (versus 7 companies and 29% cash at the beginning of the quarter). For more information on these new holdings please review the summaries that follow.

Set out below is a snap shot of each product:

IMA Portfolio Returns				
September	gross	returns net	MSCI	out performance
3 months	5.25%	4.73%	4.99%	-0.26%
1 year	5.40%	3.99%	12.77%	-8.78%
3 years	14.34%	11.19%	15.56%	-4.37%
5 years	21.77%	17.22%	7.76%	9.46%
Since inception	24.14%	19.07%	0.30%	18.78%

Peters MacGregor Global Fund			
September	returns		\$
1 month	1.95%	Quarterly distribution	0.00
3 months	3.51%		
1 year	5.41%	Application unit price	1.0650
		Withdrawal unit price	1.0591
Since inception	4.93%	NAV unit price	1.0621

Peters MacGregor Investments Limited	
September	cents
NTA after tax on realised gains/losses	103.40
NTA after tax on realised and unrealised gains/losses	102.69
Note: both figures are net of a 1.5 cent dividend	
Share price	84.0
Discount to NTA	18%

Commentary

The major share markets continue to be very strong and trade at or near record highs. Generally, high broad market levels make it difficult for value investors like us to identify quality companies at attractive prices. However, we view the present environment as unusual and offering exciting opportunities for investors seeking quality assets. Over the past few years small and mid-sized companies have performed very strongly and have now reached multiples of earnings both well in excess of their own historical averages and greater than the current broad market multiples. At the same time, many of the world's largest companies and great business franchises have gone sideways or fallen while their businesses have continued to grow and prosper. The result is that in spite of broad equity markets trading at relatively high levels, we have found several quality companies to purchase for the portfolios and several more that are close to meeting our strict buy criteria.

We believe a good example of the opportunities presently available in the large cap space is recent portfolio addition, Wal-Mart. Over the past seven years, Wal-Mart has doubled its sales and more than doubled its earnings per share from \$1.28 per share in 1999 to a forecast of \$2.90 this year. The company has gained market share, further strengthened its dominance in the US retail segment and simultaneously developed their platform for international growth. In spite of the improvement in business economics and substantial growth in sales and earnings per share, the shares have fallen from a high of \$70 in 1999 to \$45 where we purchased them this past quarter. Now, a 36% decline in share price coupled with the more than doubling of per-share earnings doesn't automatically mean a company is attractively priced (in other words, they may have been so over-priced initially that they are still an unattractive proposition all these years later), but at 15 times earnings (implying a 6% plus earnings yield coupled with the opportunity for the company to continue investing for growth at high returns on capital) for this dominant business franchise we believe Wal-Mart is very attractively priced.

Looking at the situation from another perspective, when you compare the mid-teens earnings multiples of some of these dominant companies to the market valuations of their weaker competitors, the opportunity appears even more obvious. Wal-Mart for example, trades at a multiple of earnings in the mid-teens while the broader retail industry in the US trades in the late-teens. The value gap is accentuated if you subscribe to the view that Wal-Mart has stronger business economics than the average retailer, and we certainly do. Wal-Mart has lower operating costs, greater buying power and thus has a retail offer that has considerably more intrinsic value than that of their competitors. This relative-position perspective further supports our view that Wal-Mart is an attractive opportunity for client portfolios and provides an excellent example of why we believe considerable value presently lies amongst some of the largest companies.

Portfolio Changes

Portfolio at a glance	
American Express	Michael Hill International
Anheuser-Busch	Mohawk Industries Inc.
Berkshire Hathaway	Northbridge Financial
Fairfax Financial Holdings	Pre-Paid Legal
Iron Mountain	Wal-Mart Stores, Inc.

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 card member purchases) on card member 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.

Mohawk Industries Inc.

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.

Mohawk's shares have been hurt lately as a result of higher commodity prices for its manufacturing inputs and fears of slowing consumer spending in the U.S. While these are valid short term concerns, we feel that Mohawk's strong market position and capable management team in a core and easy to understand industry present a compelling long term investment opportunity.

Wal-Mart Stores Inc.

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 with Wal-Mart. 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 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.

Conclusion

We are very happy with the overall composition of the portfolio and are especially glad to have had the opportunity to put capital to work in outstanding businesses trading at significant discounts to our assessments of value. 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.

If you have any questions please contact James Craigie on (02) 9328 3666 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 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

Peters MacGregor Global Fund

- PMGF inception date September 2004