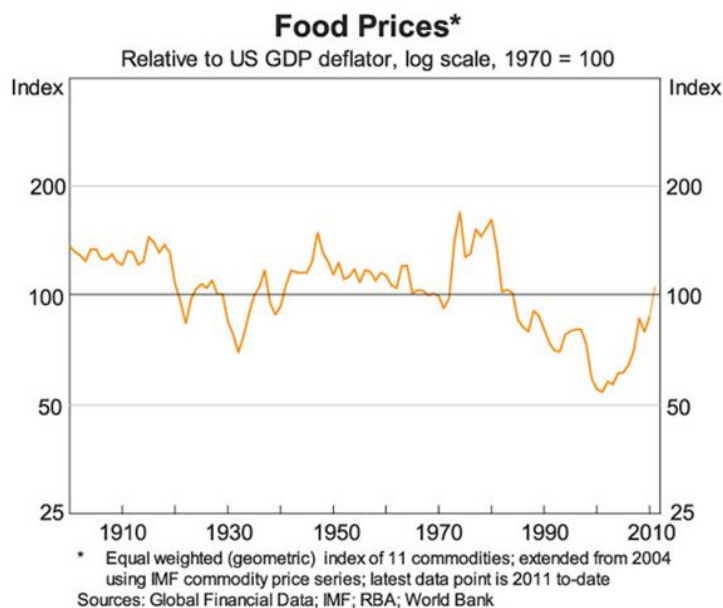


Economic Update March 2011 Quarter

Geopolitical turmoil in the emerging markets of the Middle East and North Africa and natural disasters, particularly in Christchurch and Japan were the dominant issues weighing on markets for the first quarter of 2011.

Markets seemed to hit a speed bump in early March when the world's 3rd largest economy was subjected to the after effects of a massive earthquake and subsequent tsunami. Most markets fell quite sharply and Japan's share market suffered the most – down by as much as 22% intra-month. Other global markets managed to claw back most of their mid month losses to end the month marginally up or marginally down. Overall the biggest positive for markets is the ongoing global recovery which appears to be gaining momentum. Certainly most commentators seem to agree that the worries of the previous year have not necessarily gone away; rather what is comforting them is the fact that things have not gotten any worse.

The ongoing unrest in the Middle East and North Africa continues to be cause for concern and is driving the price of oil higher. Strong economic growth from the developing world is also contributing to price increases in oil and in a number of other commodities, (metals, foodstuffs, etc). As Chris Caton (BT Financial Group) pointed out in March, food, as an example, has become much more expensive in the past decade:

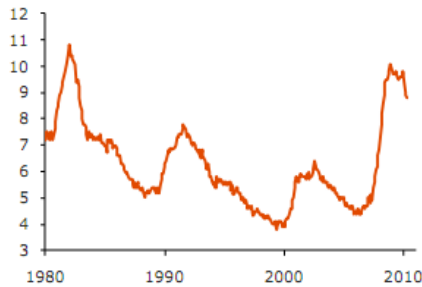


Source: Caton's Corner – March 2011

One of the by-products of a rising oil price is fears of rising global inflation. Most commentators agree that the market has been expecting higher inflation but recent data releases seem to indicate that inflation is rising faster than initially anticipated. This starts to increase the likelihood of early tightening by central banks with regards to global interest rates and could have longer term impacts on the global recovery. Markets have already seen Chinese and Indian central banks raise interest rates in an attempt to thwart inflationary pressures while both the European Central Bank (ECB) and the Bank of England (BoE) have indicated their desire to 'normalise official cash rates'. Most central banks have become more focused on ensuring inflation is kept in check.

In the United States (US) data releases were quite mixed over the course of the quarter. US employment improved during the March quarter with the unemployment rate falling below 9%. However most commentators believe that the reason for the fall in the unemployment rate is due in part to people who have stopped looking for work. Stronger jobs growth is needed to ensure the US recovery continues. The US housing market continues to remain depressed and is being blamed for weighing on consumer confidence. A stronger recovery in jobs will certainly aid the housing market.

US Unemployment rate (%)

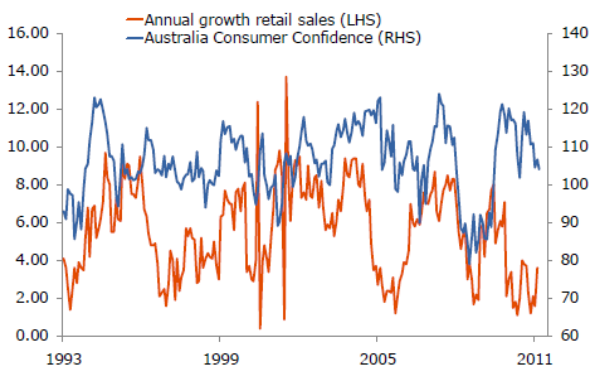


Source: Colonial First State Market Watch – March 2011

Despite the ongoing sovereign debt concerns plaguing Europe, economic releases during the quarter were generally positive. Unemployment has been falling since the start of the year while higher food and energy prices are stoking inflationary fears. The German economy, in particular, appears quite strong as the unemployment rate fell and industrial production increased more than expectations. Portugal also requested a bailout, becoming the 3rd European nation to do so.

In Australia it has been a quiet start to the year. The unemployment rate has been slowly falling and is now at its lowest level for 2 years while inflation is also relatively benign and well within the Reserve Bank of Australia's (RBA's) bands. In fact the RBA did not raise rates in either of February, March or April. Retail sales were slightly higher over the course of the quarter whilst building approvals fell quite sharply during the first few months of the year. Most of the debate and discussion during the quarter revolved around the impact the Queensland and Victorian floods might have on overall economic activity as well as the longer term impact of the Japanese earthquake / tsunami disaster.

Consumer confidence versus retail sales



Source: Colonial First State Market Watch – March 2011

	3mth	1yr	3yr
Australian Shares	3.12%	3.79%	1.13%
Australian Small Caps	-1.19%	13.49%	-0.92%
International Shares (hedged)	4.24%	9.70%	-1.32%
Australian Listed Property	3.73%	4.74%	-14.55%
International Listed Property (hedged to Australian dollars)	5.34%	21.23%	-2.82%
Australian Fixed Interest	2.04%	6.86%	7.37%
Australian Cash	1.22%	4.87%	5.03%
International Fixed Interest (hedged to Australian dollars)	0.96%	7.43%	8.22%

Source: Bloomberg, Morningstar, Perennial Investment Partners

Australian Shares - S&P/ASX300 Accumulation Index, Australian small caps – S&P/ASX Small Ordinaries TR, International Shares (hedged) - MSCI World Hdg AUD, Australian Listed Property - S&P/ASX200 Property Accumulation Index, International Listed Property (hedged to Australian dollars) - UBS Global Real Estate Investor Index (Hedged), Australian Fixed Interest - UBS Australia Composite Bond Index, Australian Cash - UBS Australia Bank Bill Index, International Fixed Interest (hedged to Australian dollars) - BarCap Global Aggregate TR Hdg AUD

Australian Shares

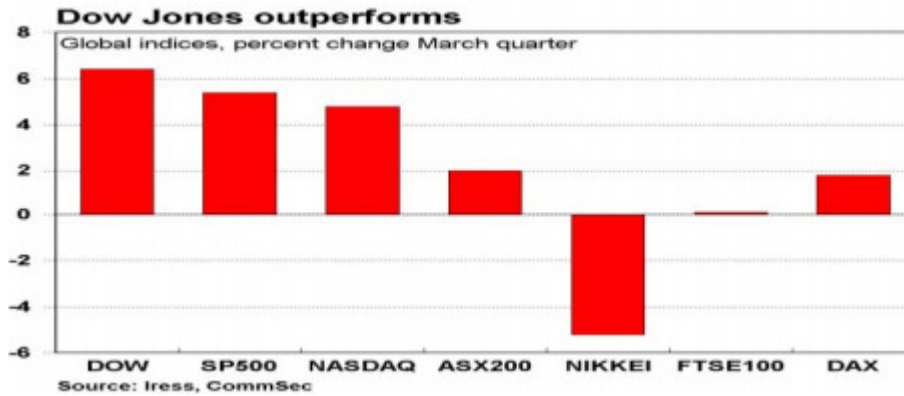
The Australian share market finished the first calendar quarter of 2011 in positive territory, with the S&P/ASX 300 Accumulation Index rising +3.12%. The Australian small caps sector, as measured by the S&P/ASX Small Ordinaries Accumulation Index fell -1.19% for the March 2011 quarter underperforming the large cap market. However, the Australian small cap market has outperformed the large cap market over the 12 months to the end of March generating a return of +13.49% versus +3.79% for the large cap dominated ASX300 Index. The best performing sectors over the quarter were Energy (+5.58%) reflecting rising global oil and energy prices, Telecoms (+4.83%) and Financials (+4.76%), while IT (-7.85%) and Utilities (-2.13%) both ended the March quarter down.

International Shares

International shares, as measured by the MSCI World Index (hedged), began 2011 in positive territory rising +4.2% for the March quarter. There was quite a wide range of returns across global share markets. US markets appeared the strongest in the first quarter with the US S&P500 rising +5.4%, while European markets were more mixed with the UK (+0.2%) and German (+1.8%) markets generating weaker returns relative to the French (+4.9%) and Italian (+7.7%) markets. The Japanese (-4.6%) market was one of the few to fall for the quarter, impacted by the earthquake and tsunami that struck Japan in the early part of March 2011.

For the 12 months ending March 2011 most markets were up quite strongly with the exception of both the Japanese and Chinese markets.

The chart below highlights the performance of some of the global share markets across the March quarter:



Property

The Australian listed property sector returned +3.7% for the quarter, outperforming the broader domestic share market in March 2011. Over the 12 months ending March, the Australian listed property sector also outperformed the broader domestic share market. The global property index was solid, returning +3.4% for the quarter (hedged to Australian dollars).

Fixed Interest

Australian 10 year Government bond yields fell marginally over the course of the quarter, opening the quarter at a yield of 5.55% and finishing the quarter at a yield of 5.49%. The broader Australian fixed interest market ended the month up +2.0%.

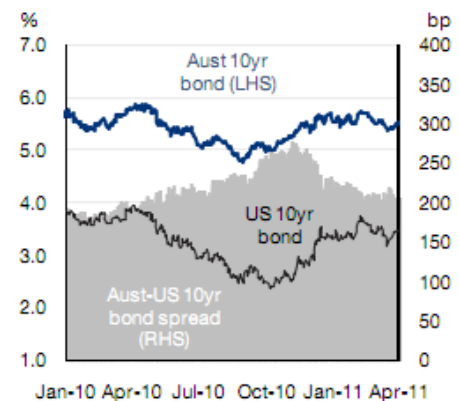
US 10 year Government bond yields rose over the course of the quarter, beginning the year at a yield of 3.29% and ending the first quarter up +18 basis points at a yield of 3.47%. The broader global fixed interest market ended the quarter up +1.0%.

Fixed interest markets began the quarter slightly weaker as global economic data showed signs of an improvement in activity. However, the mood changed dramatically and bonds began rallying in response to increasing civil unrest across the Middle East and North Africa along with natural disasters in New Zealand and particularly Japan, later in the quarter. This was the case even with reasonably positive economic data coming out of a number of markets across the quarter.

One particularly nasty result of the geopolitical turmoil engulfing the world is a rising oil price. WTI Oil was up approximately +16.5% for the quarter ending at US\$106 a barrel. This has meant an increase in concerns about rising inflation with the central banks of India and China already raising interest rates and other central banks flagging their intention to do the same.

The spread between Australian 10 year Government bond yields and US 10 year Government bond yields continued to contract, as shown in the adjacent graph:

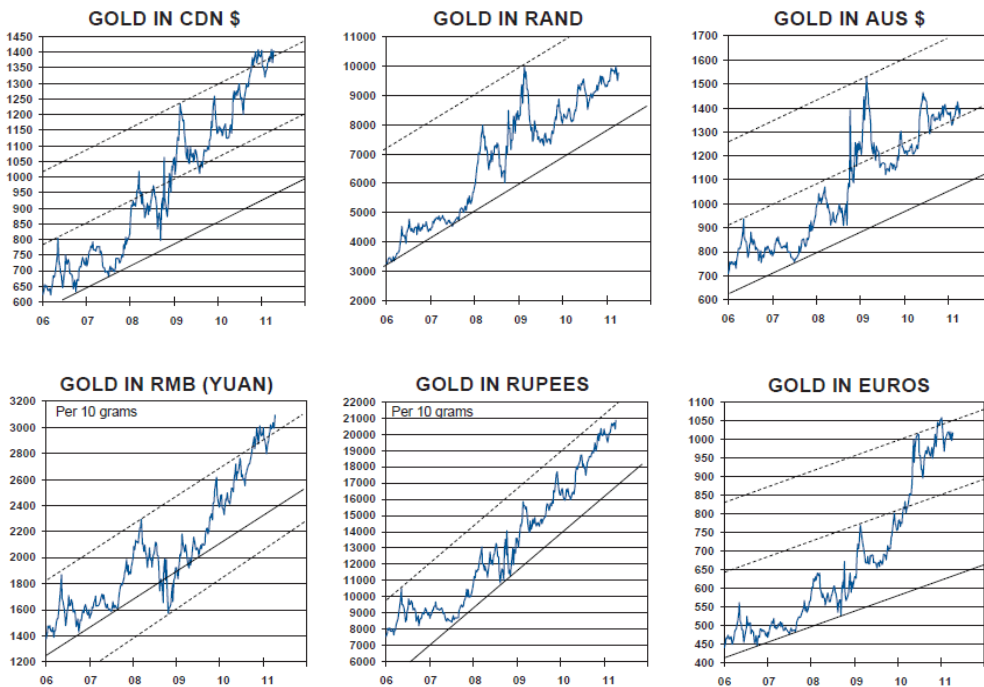
Australia / US 10Y Bonds



Source: Commonwealth Bank Research

Alternatives

As previously mentioned, oil was the big mover for the quarter, up approximately +16.5% and settling at above US\$106 a barrel. This was at odds with other commodities which were mostly flat for the quarter. Specifically the broader Dow Jones UBS Commodity index (US\$) ended the quarter higher, rising +4.5%. Gold bullion (+1.3% in US\$) was marginally up for the quarter and has also been rising in other currencies, as shown in the charts below:



Source: Dundee Wealth Economics Gold Monitor

Performance across the hedge fund universe was mixed during the quarter however given the overall volatility in markets most hedge fund strategies protected capital well. Strong performing areas during the quarter were event driven, most relative value strategies including convertible bond arbitrage, and long/short equity managers. Global macro and systematic trading managers (including trend-following/CTAs) generally struggled with choppy market conditions and trend-reversals.

HFRI INDICES

QTD

HFRI Fund Weighted Composite Index	1.44%
HFRI Equity Hedge Index	1.99%
HFRI Event-Driven Index	3.64%
HFRI Macro Index	-0.79%
HFRI Macro: Systematic Diversified Index	-1.16%
HFRI Relative Value Index	2.61%
HFRI RV: Fixed Income-Asset Backed	3.62%
HFRI RV: Fixed Income-Convertible Arbitrage Index	2.86%

Source: Hedge Fund Research Inc. Performance is stated in US dollar terms for the period 1 January to 31 March 2011.

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