

Dear Investor

The Coastal Magnum Diversified Performance Fund neither lost nor gained over the quarter ending March 31st 2001, finishing the quarter with a closing price of 97 cents per unit, the same price as at the end of December 2000. The Fund's return relative to the major indices is shown below:

*Comparison of performance over quarter ended March 31st, 2001*

Fund	MSCI	S&P	HFR
0.00%	-12.2%	-12.8%	+0.1%

As the table above suggests, world stock markets were no picnic in the three months to March, and the Fund's performance is comparable to that of the HFR Composite Hedge Fund Index (which measures the average performance of 1,500 hedge funds worldwide). In this environment, where the major market indices have recorded losses of such magnitude, we are actually quite grateful to have avoided losses. We regret, however, that the flat performance will mean that no distribution can be paid this quarter.

We share investor's disappointment with this result. Whilst at this time the Fund has not yet met the performance objective of 15%+ returns, we remain confident that this will be met in the medium term. Having said that, we note that the Fund has substantially met its objective of preserving capital in the face of the market difficulties and delivered significantly less volatility than both the MSCI and HFR composite indices - please refer to the statistical data contained in the attached *fund portrait* for details.

The ability to reduce or avoid losses when markets fall is one of the key reasons to invest in hedge funds. It is interesting to note that in the 9 months since the fund was established, world stock markets (as represented by the MSCI World Index) have risen in just 3 of those months, and have fallen in the other 6 months. Interestingly, the Fund has delivered around 80% of the positive performance in the MSCI index in the up months while delivering less than a third of the negative performance in the 6 down months. The result is that the fund is down 2.8% after fees since inception in July 2000 while over the same period the MSCI World Index has lost 22%, the S&P has lost 20.5%, Nasdaq has lost 53% and the HFR Composite Index (which does not reflect the fees we charge to operate the Fund) is down 1.4%.

Over the quarter, the best investment performance was recorded by those funds which focus on convertible bond arbitrage (impact on performance = up 0.75%) and various fixed income strategies (up 0.54%). The merger and event driven managers delivered fairly indifferent performance (up around 0.30%) and losses were recorded by the long-short managers (collectively, down 1.29%). The worst performing investment was the Fund's small (less than 2%) allocation to Aries Cayman Fund (biotechnology stocks) which, with the collapse of the biotechnology sector, recorded losses of 45% for the quarter. The net impact of Aries Fund on the Fund's performance was a loss of the order -1.0%. With this result, we have lost confidence in Aries' manager's ability to proactively manage downside risk and have accordingly lodged a redemption notice in respect of the Fund's entire investment. Up to date information on the mix of investments and the latest performance numbers is available on our web site [www.coastalfunds.com](http://www.coastalfunds.com).

We are pleased to be able to report that as at the date of this newsletter (30 April 2001) the Fund has gained approximately 1.7% in value since quarter end. With the recent and unexpected easing in monetary policy by the US Federal Reserve, more stable conditions in world financial markets have prevailed and we believe that this environment is conducive to better investment performance from our hedge fund managers (and consequently from the Fund) going forward. We take this opportunity to thank you for investing with us, for your continuing support and invite you to call or e-mail us if you have questions.

Yours sincerely

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## Coastal Magnum Diversified Performance Fund

Investments in global hedge funds

Fund of hedge funds  
Data as of the end of  
March 2001

### Fund portrait

- The Fund invests primarily in hedge funds
- Criteria used for determining relative weightings of underlying funds include: expected risk and return profile, exposure to market direction and liquidity risk, redemption terms and the short-term outlook for the investment strategy used
- Diversification is achieved via a mix of different investment strategies, styles, regions and managers
- The investment objective is to provide medium term returns of at least 15% per annum, positive performance under most market conditions with significantly less volatility than stock market indices

### Fund features

Fund type: Open-ended unit trust  
Domicile: Australia  
Fund manager: Coastal Capital Limited  
Investment adviser: Magnum Fund Management Limited  
Custodian: Bermuda Trust (Far East) Limited  
Registrar: Permanent Trustee Company Limited  
Auditor: Arthur Andersen  
Date of inception: 27 June 2000  
Currency of account: AUD (fully hedged)  
Close of financial year: 30 June  
Issue/redemption: Monthly (4 days notice)  
Distributions: Quarterly  
Next distribution: July  
Minimum MER: 1.00% pa  
Maximum MER: 2.40% pa

### Current data

Unit price 31/03/01 AUD 97.0 cents  
- High- last 12 months AUD 101.3 cents  
- Low- last 12 months AUD 96.0 cents  
Last distribution 29/09/00 AUD 0.2 cents

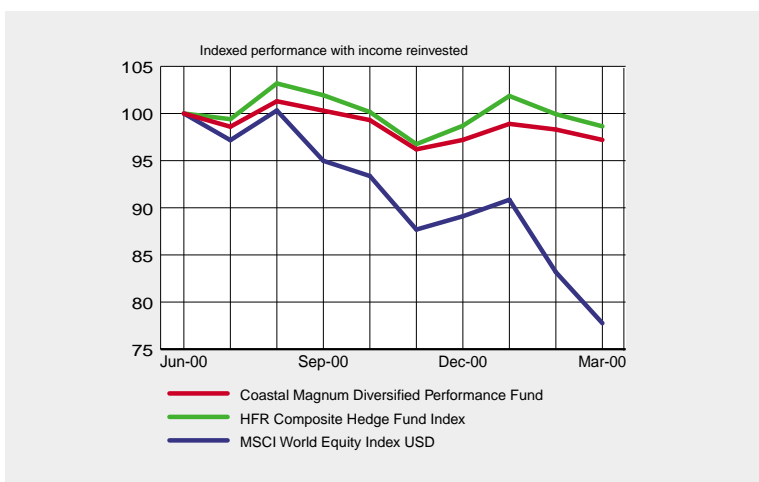
### Statistical data

	Fund	MSCI <sup>(1)</sup>
Since inception	-2.8%	-22.3%
Total return	6.26%	14.7%
Risk - annualised volatility	-0.8	-1.7
Sharpe Ratio	7.7%	0.0
Alpha - annualised	0.3	1.0
Beta		

<sup>1)</sup> MSCI World Equity Index in USD with income reinvested

ARSN: 092 397 987  
APIR Code: CCL001AU  
Morningstar Ticker: 6510

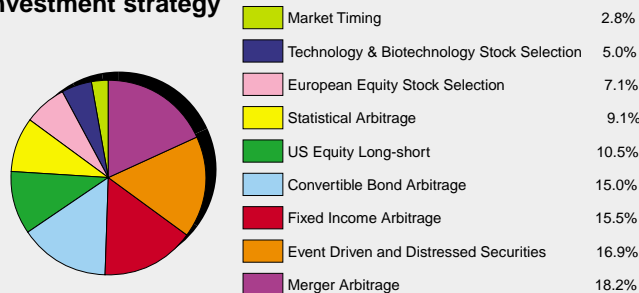
### Performance



Returns in %	1Q-00	2Q-00	Dec-00	Jan-01	Feb-01	Mar-01	Life of fund
Total return	+0.2	-3.1	+1.0	+1.8	-0.6	-1.1	-2.8

### Portfolio Structure

#### By investment strategy



#### Largest 10 investments

Paulson Partners (Merger arbitrage)	9.7%
Alpha Nova (Statistical arbitrage)	9.1%
Washburne International (Merger arbitrage)	8.5%
Footbridge Capital (Fixed income arbitrage)	8.3%
Shorewater International (Event driven)	8.1%
West Broadway Global Arbitrage (Convertible bond arbitrage)	7.7%
Alexandra Global (Convertible bond arbitrage)	7.3%
Bristol (Fixed income arbitrage)	7.2%
Castlestone Fund (Long & short value stocks)	4.5%
Park Place International (Long & short European equities)	4.5%
<b>Total</b>	<b>70.8%</b>

Total number of hedge fund investments 19