Advance Alternative Strategies Multi-Blend Fund

ADVANCE

MULTI-BLEND FUND

As at 31 March 2012

Wholesale performance*

	1 month % pa	3 months % pa	6 months % pa	1 year % pa	Since inception % pa
Growth return	-0.26%	1.94%	3.27%	–	0.12%
Distribution return	0.00%	0.00%	0.00%	–	0.00%
Total return	-0.26%	1.94%	3.27%	–	0.12%
Benchmark[1] return	0.39%	1.12%	2.35%	–	4.03%

*The Fund performance relates to wholesale investors only.
Inception date: 1 June 2011
[1] Benchmark: UBS Bank Bill Index

Fund update

Performance

The Fund generated a positive performance of 1.94% for the March quarter.

The Alpha, Replication & Rule Based Alternative Beta portfolio building blocks each produced positive contributions for the quarter. The Diversifier allocation was flat, while the structural equity hedge put in place to ensure low correlation with equities cost the Fund 1.51% as equity markets rose strongly.

The Alpha Managers were the top contributors during the period, mainly benefiting from the recovery of structured credit and special situation equity investments.

Alpha Allocation

Fundamentally driven strategies were rewarded by the drop in realised volatility and asset correlations. These conditions are generally consistent with an increased bias towards micro level fundamentals driving stock prices as compared to broader macro driven events.

Cevian, which adopts a concentrated and active approach to unlocking value in Europe, had one of its best quarters ever, significantly outperforming the European equity indices. Two positions returned in excess of 30% and an additional three positions between 20-30%. One of the biggest winners was Cookson Group, which was also the most recent addition to the portfolio. The London based industrial conglomerate returned 35.7% during the quarter, much of which was attributable to the announcement of Cevian's stake and to a lesser extent a strong quarterly earnings report.

Magnetar, an event driven manager, was another top contributor with strong performance from their merger arbitrage book. This has not been driven by an extended deal calendar but rather from pockets of opportunity from announced deals where spreads have recently been quite volatile.

One William Street, who focuses on the US structured credit market, rebounded from a difficult fourth quarter to return 5.4% for the quarter. The return was underpinned by a strong bid for RMBS paper as attractive valuations drove broad investor interest to the sector.

Regal was negatively impacted by the thematic of slower emerging market growth in contrast to stronger signs in the US. As such, sector rotation was a factor in the month with Basic Materials and Energy names underperforming and Financials outperforming the market. Within this context the Amazon Fund's small net positive exposure to the Basic Materials and Energy sectors and small net short exposure to Financials cost the Fund.

Replication

Customised hedge fund replication was a strong contributor during the quarter, adding nearly 1.0% to return. The primary driver of performance was a long position in US High Yield credit and to a lesser extent a long exposure in the US leveraged loan index. Equity exposure was well diversified on a regional basis but with a sector bias towards Consumer Discretionary and Technology, which were two of the three top performing sectors during the quarter, returning 21.1% and 15.4%, respectively.

Diversifiers

The beginning of the quarter proved difficult for shorter term managers as markets moved consistently higher with no reversals whilst March introduced some difficulty for trend followers as interest rate, commodity and some FX trends reversed.

The discretionary macro component was mixed. Positive drivers included long positions in EM FX positions and being short the Japanese yen, which responded to BOJ comments on further quantitative easing.

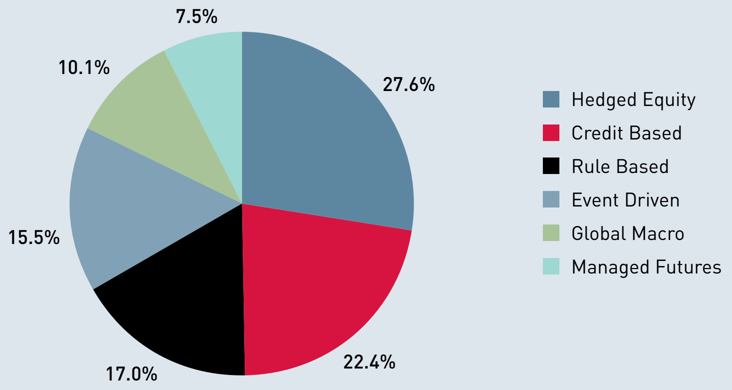
Fund update (continued)

Managers were hurt through short positions in US Treasuries with the expectation for a steeper yield curve. Another trade that hurt performance was a net short position in oil based upon forecasts for lower demand in a slower growth environment mixed with expectation for bloated inventories from OPEC driven supply growth. However oil prices were positive during the quarter.

Rule Based Alternative Beta

This allocation was a marginally positive contributor during the quarter, adding 0.1% to return. FX carry and Emerging Market currency orientated strategies performed strongly. In commodities, performance was mixed across various risk premia although the total contribution was positive. Certain calendar roll yield strategies suffered in February due to short front end positions while a basket of the most backwardated commodities versus the commodity index performed strongly.

Actual asset allocation by strategy



Market commentary

The first quarter was favourable for risk assets with economic surprises less of a driving force. Rather lower risk premia associated with asset price stability was the more dominant factor. The major contributor was the follow-on effects of the two ECB Long-Term Refinancing Operations (LTROs) done in December and February. These effectively removed refinancing risk for European banks for three years and thereby removed counterparty risk within the banking sector. This impact shouldn't be underestimated given the funding shortfalls that European banks were facing in the fourth quarter of 2011 and the significant amount of wholesale funding that was required to be rolled over in the first quarter of this year.

In the US, economic activity was an important driver of asset prices moving higher. There were mixed signals in terms of the business cycle with GDP data showing that inventory build was contributing in an increasingly significant manner. As a result, manufacturing expansion could be expected to slow if final aggregate demand isn't strong enough to clear this. Data toward the end of the first quarter suggested this would not be the case and a mini slow down in the traditional business cycle appeared to emerge likely as economic surprises began to turn into disappointments. This was compounded by softer data out of China as the economy moves to a lower growth rate and different mix of growth than prior years.

Against this backdrop, however, there were improvements in the more structural headwinds the US economy has faced over the past few years through housing, employment and private sector balance sheet contraction. Equity and credit markets focused on this dynamic more than any softness emulating from the business cycle for the quarter, while commodity, emerging market equity and FX markets took their lead more from the business cycle and ended the quarter on a weak note.

The environment clearly supported more directional investment styles across equity and credit based strategies. In addition where last year a recovery in markets was limited to liquid assets, the recovery in the first quarter of 2012 was broader and less liquid assets moved strongly higher benefiting structured credit and special situation event driven managers. Exposures generally moved higher throughout the quarter on both a gross and net basis reflecting the increased investor confidence.

Macro and CTA investment strategies were mixed over the quarter with CTA trend following strategies especially suffering from intra month reversals in fixed income markets and in March losses came from pro cyclical positions in both commodity and FX markets.

Investment objective

The Fund aims to generate absolute returns of cash plus 4-5% after fees with low correlation to equity and credit markets over a 3-year investment cycle.

Benefits of investing in the Fund

The Alternative Strategies Multi-Blend Fund is ideal for investors seeking added diversification through exposure to a mixture of alternative strategies. When used within an investment portfolio, investors should experience a more balanced portfolio and lower overall volatility.

Ranges of investment strategies

Strategy	Range
Alpha Managers	20%–40%
Diversifiers	15%–30%
Replication Overlay	15%–40%
Alternative Beta	10%–40%

Key features

	Wholesale
Pool size	$725 million
Date established	Jun-11
Distribution frequency	Annually
Minimum investment	$5,000 ($1,500 for *Regular Savings Plan*[1])
Minimum withdrawal	$1,500
Withdrawal period	5 days
Entry fee	Nil
Ongoing fee	0.98%pa[2,3]
Regular Savings Plan[1]	Yes
Regular Withdrawal Plan[1]	Yes
Distribution reinvestment	Yes
Buy/sell spread (%)	0.25/0.25
Exit fee	Nil
Pool size	725.0m

[1] Conditions apply.
[2] Includes effect of GST.
[3] Performance fee.