

16 August 2010

**Officium Diversified Funds
Investment Manager's Annual Letter 2010**

Dear Investor,

Although not as eventful as financial year 2009, the 2010 financial year was littered with noteworthy developments. The first quarter of the year saw both the United States and Japan announce that their economies had returned to growth in the June quarter of 2009 as government stimulus measures and monetary policy actions appeared to place the global economy on a recovery path. Corporate earnings also tended to rebound strongly in the first quarter, which led to improvements in investor sentiment. However in the following quarters, debt issues, firstly in Dubai and then in Greece and Southern Europe, saw hopes of a global economic recovery begin to wilt and investor risk aversion return to markets.

Despite this macro-economic environment, all major asset classes provided positive returns in financial year 2010. The domestic listed property market was the best performing major asset class, with the S&P/ASX 300 A-REIT Accumulation Index providing a 12 month return of 20.3%. This constituted a 7.3% outperformance of the domestic equity market, as measured by the S&P/ASX 300 Accumulation Index. International equity markets returned slightly less than the domestic equity market, with the MSCI World Index Hedged (A\$) providing a 12 month return of 11.7%. Fixed interest markets, as measured by the UBS Composite Bond Index, returned 7.9% for the year, while it is estimated that the Morningstar Unlisted and Direct Property Index provided a return of 3.2%, the lowest annualised rate of return of the major asset classes.

PORTFOLIO SUMMARY

The Officium Diversified Funds are well diversified across these asset classes and as is shown below, were able to generate 12 month returns ranging from 8.9% for the Officium Cautious Fund through to 14.3% for the Officium Aggressive Fund. These returns compare favourably to "multi-sector" peers where for example, the Morningstar Multi-sector Balanced Index returned approximately 11.5% in the corresponding period. Each of the five Diversified Funds have differing exposures to the major asset classes, with the different weightings depending on the target risk profiles of each Fund. The major holdings contributing to the performance of the Diversified Funds are discussed below.

OFFICIUM CAPITAL DIVERSIFIED FUNDS	1 YEAR RETURN
Officium Cautious Fund	8.92%
Officium Conservative Fund	10.27%
Officium Balanced Fund	12.57%
Officium Assertive Fund	13.83%
Officium Aggressive Fund	14.30%

DIVERSIFIED INVESTMENTS

Select Defensive and Growth Portfolios

The Select Defensive and Growth Portfolios form a core component of the Officium Diversified Funds, with the combined weightings to these Funds accounting for 39.0% of the Officium

Cautious Fund and 26.7% of the Officium Aggressive Fund. Both Portfolios are a diversified mix of assets across cash, fixed interest, alternatives, property and equities. For the 12 months to the end of June, the Select Defensive Portfolio returned 12.1% and the more aggressive Select Growth Portfolio returned 16.7%.

ALTERNATIVES

Select Alternatives Portfolio

As foreshadowed in last year's annual letter, we sold out of the Select Gottex Market Neutral Fund and Select Gottex Enhanced Market Neutral Fund during the financial year. The proceeds were invested in a more liquid alternatives fund, the Select Alternatives Portfolio. This Portfolio provides access to a mix of alternative assets ranging from trading funds and hedge funds to gold, private equity and infrastructure investments. The Select Alternatives Portfolio now forms the core alternatives exposure in the Officium Diversified Funds, with the Officium Assertive Fund having a 7.3% exposure to this holding, the largest percentage exposure to this holding of the five Diversified Funds. The Select Alternatives Portfolio returned 10.9% in the 12 months to the end of June 2010.

FIXED INTEREST

Officium Income Fund

The Officium Income Fund produced a solid return of 6.6% for the 12 months to 30 June 2010. Throughout the year bank bill yields rose as the Reserve Bank of Australia increased the cash rate six times from a low of 3.0% to a high of 4.5% at the end of June. The Fund continued to hold a high cash weighting during the year and benefited from these increases. In accordance with our stated intention in last year's Annual Letter, we have transitioned the Fund into a more conservative income fund with more traditional underlying investments. This transition is largely complete with approximately 56% of the fund in cash and term deposits, approximately 39% of the fund invested with fixed interest managers such as Schroders, Aberdeen, PIMCO and BT and approximately 5% in residual legacy investments.

SHARES

Australian Shares

The Diversified Funds obtain exposure to the domestic equity market via investments in the Ganes Value Growth Fund, Officium Special Situations Fund, Celeste Concentrated Fund and Officium Australian Shares Fund. For the 12 months to the end of June these Funds returned 23.3%, 23.0%, 14.2% and 6.4%, respectively. In comparison the All Ordinaries Accumulation Index returned 13.8% in the corresponding period.

The Ganes Value Growth Fund managed to outperform the domestic equity market by maintaining its investment strategy of seeking out companies with the ability to grow earnings without the need for major capital requirements, that have little or no debt, are easily understood and that can be purchased at a reasonable price. The fund started the year with a portfolio of 34 companies and 31% invested in cash and finished the year invested in 61 companies with close to 13% of the portfolio invested in cash.

The Officium Special Situations Fund managed to outperform the domestic equity market due primarily to the concentrated nature of the portfolio and its high weighting to gold equities. These gold equities benefited from the 34.1% increase in the USD gold price. The Celeste Concentrated Fund (formerly the Souls Concentrated Fund) managed to slightly outperform the domestic equity market as a result of operating a high conviction portfolio which had investments in outperforming stocks such as IOOF Holdings, SMS Management & Technology and ResMed.

The Officium Australian Shares Fund underperformed the broader market, as the portfolio continued to be transitioned from the former Leithner Value Fund, which was an Australian equities fund, into a fund of Australian share funds. The legacy holdings in the Coolangatta and Mahogany Notes were key detractors from Fund performance during the year following an adverse legal judgment by the US Bankruptcy Court that resulted in the carrying value of these assets being written down. The transition of the fund is nevertheless almost complete, with the

majority of the Fund now constituting a diversified mix of Australian share funds that are actively managed by leading investment professionals.

Global Shares

The Peters MacGregor Global Fund and the Officium Global Fund are the two core holdings that provide the Diversified Funds with exposure to international markets. The Peters MacGregor Global Fund had a great 12 months with a return of 34.2% being recorded. This equated to a 22.7% outperformance of the MSCI World Index Hedged (A\$). Throughout the year the fund benefited from good stock selection, with these stocks being held within a focused portfolio. The Officium Global Fund, which is not a traditional global equities fund, but a diversified mix of Funds that have a thematic overlay, returned 14.6% in the year to June.

PROPERTY

Officium Property Fund

The Officium Property Fund forms the core property exposure in the Diversified Funds. The Officium Property Fund is a diversified mix of Australian and international listed property and property related funds, direct and unlisted property funds and cash. The fund returned 13.8% in the 12 months to June 30, 2010, in between the 20.3% return provided by the S&P/ASX 300 A-REIT Accumulation Index and the 3.2% recorded by the Morningstar Unlisted and Direct Property Index. The Resolution Capital Global Property Securities Fund and the Colonial First State Global Listed Infrastructure Fund were two new investments added to the portfolio during the financial year.

MARKET OUTLOOK

As always, we are loathe to make concrete predictions as there are simply too many variables to know the future with any certainty. However, we can look at the current environment and speculate as to what possible flow on effects may be.

Since the troubles in Greece and the rest of Europe started to receive significant publicity, there has been a distinct increase in the level of nervousness amongst investors. The fear is not so much concerns about Greece itself, but the flow on implications and how far the trouble could spread. Whilst we expect the problems to be ongoing, and the solution to be drawn out and painful, we don't expect to see a repeat of late 2008 when it felt like the financial world was going to end. Having been through the experience, and not wanting to repeat it, the governments of the world will continue to do whatever they can to avoid a financial collapse. Many of these political decisions will be unpopular and we expect to see many changes in governments throughout the world. We have already seen this happen in the UK, and closer to home we have recently seen a change in the Prime Minister of Australia.

We do think we are in a period of more moderate returns for the foreseeable future. Over the last 28 and a half years bonds have generally been in a bull market as interest rates have worked their way lower. With rates not able to go below zero, it is hard to see huge returns from bonds looking forward, however we do think they continue to play a role as a defensive asset that can provide capital returns in the event of a deteriorating economic outlook.

We think shares are about fairly priced at the moment. We do not think that the market as a whole is a bargain, nor do we think it is dramatically overpriced. The stock market is still the best source of capital for business and will continue to provide this function.

The listed property sector has been through a particularly tumultuous time and we are pleased to see overall gearing levels at much more sensible levels, we are also pleased to see a much stronger emphasis on owning assets and collecting rent, rather than funds management and development. With this more conservative approach we expect the listed property sector to be a lot less volatile than it has been in recent times.

So that is what we are currently thinking, more volatility ahead, but also opportunities, and particularly opportunities for fund managers who are able to act swiftly and decisively when this

volatility occurs. If the next 12 months has the same net result as the last 12 months we will be more than happy, but the road could continue to be bumpy as it has been and as investors it is important to understand that a well diversified portfolio can help smooth out the bumps to a certain extent, and should provide some protection if unforeseen events occur.

We thank you for your continued support through what has been a volatile 12 months. If you have any questions regarding the Funds please do not hesitate to contact me at admin@officiumcapital.com.au or by phone on (07) 3876 4333. Also, please visit our website, www.officiumcapital.com.au to view the latest unit prices, performance data, product disclosure statements and monthly investment reports.

Yours sincerely



John Nunan

Important Information

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The product disclosure statement ("PDS") for the Officium Cautious Fund, Officium Conservative Fund, Officium Balanced Fund, Officium Assertive Fund and Officium Aggressive Fund is issued by Officium Capital. 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.