coastal capital limited

Fund Newsletter
June Quarter, 2001

Dear Investor

The Coastal Magnum Diversified Performance Fund gained 2.7% over the quarter ending June 30th 2001, finishing the quarter with a closing price of 99.5 after allowing for a final distribution of .001451 cents per unit. The Fund's return relative to the major indices is shown below:

Comparison of performance over quarter ended June 30th, 2001

Fund	MSCI US$	S&P	HFR	All-Ords Accum
+2.7%	+2.5%	+5.5%	+3.5%	+4.7%

As the table above suggests, world stockmarkets recovered somewhat in the second quarter, and the Fund's performance remains comparable to that of the HFR Composite Hedge Fund Index (which measures the average performance of over 1,000 hedge funds worldwide). For the calendar year, the Fund is up 2.7% and over this period has out performed both the MSCI and S&P indices, by 13.3% and 9.9% respectively.

Over the quarter, all strategies contributed more or less equally to the result. The best investment performance was recorded by those funds which focus on various arbitrage strategies such as convertible bond arbitrage (impact on performance = up 0.53%) and merger arbitrage (up 0.62%) as well as various fixed income strategies (up 0.79%). The opportunistic and long-short managers collectively contributed 1.27% to performance.

As at the date of this report, and with the increased size of the Fund, we are now invested with some 22 separate hedge fund managers, making Coastal Magnum Diversified Performance Fund one of the most diversified funds of hedge fund products available in Australia. Indeed, the Fund is exposed to almost three times as many hedge fund managers as some other funds of hedge funds in the market.

We have recently lodged redemption notices with four managers whose strategies and approach we felt were unlikely to deliver performance in the near future and have replaced them with two others. The funds we are redeeming from are: FLA International Fund, Galleon Technology Fund, MS Performance Fund and Park Place European Equities. These managers have all cost the Fund performance since we invested with them last July. And with one exception, all of the new hedge funds added during the last quarter have delivered us profits. These new funds include hedge funds that are active in areas such as convertible arbitrage, US equity long-short and biotechnology long-short.

We would like to take this opportunity to answer two of the questions we are occasionally asked by investors:

Q. Why does the final month-end unit price take 3 to 4 weeks to calculate ? And why has it taken so long to process the distribution ?

A. We apologise for the delay and for any inconvenience caused. The calculation of the Fund's unit price is dependent on the monthly net asset value of each hedge fund in which we invest. The underlying hedge funds are complicated to value, and "hard" net asset values as at month end are only calculated in the period after month end. This can take 2 to 3 weeks and in some cases as much as 4 weeks pass before we receive a valuation statement. With 22 separate hedge fund investments, we are very much at the mercy of the administrators of the underlying hedge funds, and their work schedules.

continued overleaf

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We will occasionally rely on an estimated net asset value to strike a unit price (as provided by the Fund's constitution) if one or two funds have not reported by the third or fourth week, but we were not able to do this for June, as it was the Fund's financial year end and the valuation is subject to audit. The final valuation is important to determine the final distribution to investors, and to confirm the tax position of the Fund. It would be inappropriate to rely on estimates at a financial year end. Generally, our independent Fund administrator is able to finalise a valuation within one business day of receiving the last net asset value from the administrators of the underlying funds. Again, we apologise for any inconvenience to investors.

Q. Why hasn't the Fund performed more strongly in the falling stock market ? Aren't hedge funds supposed to do even better when markets decline ?

A. This is a common misconception, and it is factually incorrect. While some hedge funds are able to profit from declining markets (unlike most traditional equity funds), this is not the same thing as saying that declining markets are the ideal "operating environment". Rapidly declining markets in fact actually hurt some hedge funds, particularly those managers that select stocks opportunistically. Over the last decade, hedge funds have performed strongly by *losing comparatively little* when markets go down and by delivering strong performance under more favourable conditions. Since January 1990, the period for which hedge fund index data is available, in months when world stock markets (as represented by the MSCI world index) fell, the (HFR Composite) hedge fund index also fell around 48% of the time. Over this period, the average loss experienced in hedge funds was 1.4% whereas for the MSCI world index, the average decline was 3.4 %. Please contact us if you would like a copy of the analysis.

The defensive properties of hedge funds, and of the Coastal Magnum Diversified Performance Fund are well illustrated by the way in which the fund has avoided the losses experienced in most international stock markets over the last 12 months.

We are pleased to advise that the Fund has recorded positive performance in July and in August, gaining .31% in July and approximately 0.30% according to the estimates we have in hand for August. You can check the Fund's latest performance by referring to our internet web site **www.coastalfunds.com** which is updated with the performance estimates we receive from the underlying hedge funds each week..

With a better diversified Fund and world equity markets on a somewhat more sure footing than this time last year, we believe that the Fund is well positioned to deliver better performance should market conditions prove reasonable and to avoid problems should conditions prove difficult.

We take this opportunity to thank you, particularly those who have been in the Fund for several months, for your ongoing support and for investing with us. Should you have questions, you are welcome to call (1-800-247776) or e-mail us at info@coastalfunds.com

Yours sincerely

COASTAL CAPITAL LIMITED

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COASTAL MAGNUM Diversified Performance Fund

Investments in Global Hedge Funds

Fund of hedge funds
Data as at the end of
July 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:	September
Minimum MER:	negotiable
Maximum MER:	2.40% pa

Current data

Unit price 31/07/01	AUD	99.8 cents
- High- last 12 months	AUD	101.3 cents
- Low- last 12 months	AUD	96.0 cents
Latest distribution 6/01	AUD	0.1451 cents

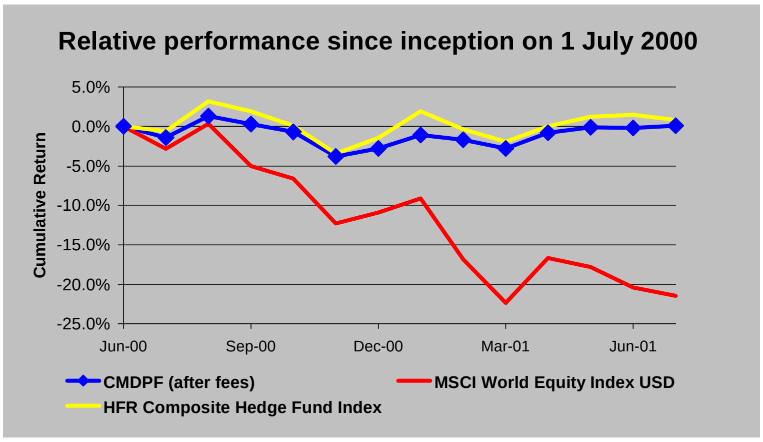
Statistical data

Since inception	Fund	MSCI*
Total return	+0.15%	-21.40%
Risk - annualised volatility	5.6%	15.4%
Sharpe Ratio	-0.5	-1.6
Alpha - annualised	7.7%	0.0
Beta	0.3	1.0

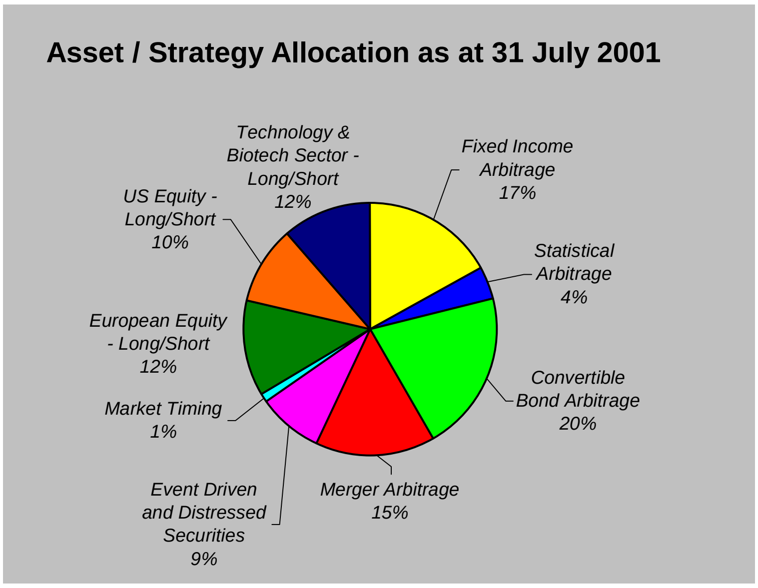
* MSCI World Equity Index in USD with income reinvested

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

Performance



Portfolio Structure



Largest 10 investments

Bristol (Fixed income arbitrage)	8.6%
Footbridge Capital (Fixed income arbitrage)	8.2%
Paulson Partners (Merger arbitrage)	7.8%
Shorewater International (Event driven)	6.8%
Alexandra Global (Convertible arbitrage)	6.6%
West Broadway Global Arbitrage (Convertible bond arbitrage)	6.2%
South Africa Omni (Arbitrage & value)	5.5%
Schachter Offshore Fund (Long & short technology stocks)	5.0%
Alpha Nova (Statitstical arbitrage)	4.4%
Ascendant Offshore Fund (Merger arbitrage)	4.2%

Monthly performance table

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2001	1.7%	-0.6%	-1.1%	2.1%	0.7%	-0.1%	0.3%						3.0%
2000							-1.4%	2.7%	-1.0%	-1.0%	-3.1%	1.0%	-2.8%