

# FAT UPDATE

## FAT PROPHETS MINING & RESOURCES MODEL PORTFOLIO – MARCH QUARTER 2011

### Investment Objective

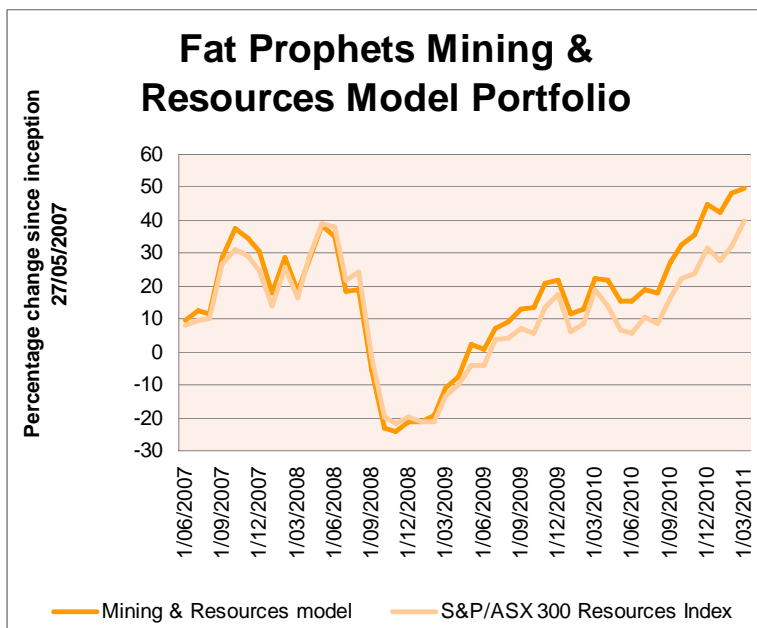
The Fat Prophets Mining & Resources Model Portfolio (the ‘Model’) seeks to outperform the total return (both income and capital growth) of the S&P/ASX 300 Resources Accumulation Index, before taking into account Model fees and expenses.

### Model Data

Performance as at 31/03/2011	Gross	S&P/ASX 300 Resources Accumulation Index	Outperformance*
1 Month	0.82%	1.93%	-1.11%
3 Months	3.29%	2.32%	0.97%
6 Months	17.33%	15.95%	1.38%
1 Year	21.84%	13.69%	8.15%
2 Year (%pa)	29.45%	24.97%	4.48%
3 Year (%pa)	7.99%	5.05%	2.94%
Since Inception (pa)^	10.97%	8.10%	2.87%

\*Shows the difference between Portfolio Gross Return and Benchmark Return

^Model Performance inception date 27/5/2007



### Top 10 Stocks as at 31/03/11

1. BHP Billiton
2. Woodside Petroleum
3. Rio Tinto
4. Newcrest Mining
5. Bathurst Resources
6. Catalpa Resources
7. Oil Search
8. Fortescue Metals Group
9. Paladin Energy
10. Equinox Minerals

## Fund Managers Report

Dear Investor

Equity markets across the globe have remained remarkably resilient despite the abundance of negative news over the period. Unrest in North Africa, the devastating earthquake and tsunami in Japan and further concerns about sovereign debt on the European periphery would be considered by any observer to be considerable challenges for markets to digest. Yet they did and rebounded with vigour. In March alone, the key ASX 200 index was down over 6% at its low but managed to close the month virtually unchanged.

Markets continued to gain confidence in the strength of the US recovery as the data suggests the momentum is to the upside. The key data point here is US unemployment. It is crucial for confidence in the US recovery story that this trend continue as it is still very early days.

In an Australian context, the ASX200 index on a Price Earnings basis has been trailing its long term average by approximately 15%. There are several reasons for this in our view. Firstly, the Aussie dollar reaching unprecedented highs versus the USD has created the perception it is overvalued. Secondly, the federal government has introduced an element of sovereign risk with the proposed mining tax, flood tax and now the carbon tax. Lastly, US equities have represented even better value relative to US bonds where the earnings yield/bond yield gap is more pronounced.

The main challenges ahead for equity markets remain two fold in our view. Massive global stimulus created by US Fed policy potentially winding down at the end of June is a key headwind for equities. The need for austerity programs in the US remains a critical requirement as deficit blowouts and debt levels reach unsustainable levels. We are seeing these austerity programs implemented across Europe as we speak. They are not popular and certainly not growth friendly. It is a fine balancing act that needs to be struck, to maintain what is still anaemic growth whilst dramatically reducing spending.

Lastly, a further challenge for local markets is the falling USD. If the Aussie dollar remains at current levels then the repercussions for many industrial companies will be significant in coming quarters, especially as many boards and CEO's have abandoned significant hedge programs some time ago.

## Mining and Resources Model Portfolio

Positive Influences			Negative Influences		
<i>Company</i>	<i>% Move</i>	<i>Position</i>	<i>Company</i>	<i>% Move</i>	<i>Position</i>
Bathurst	+66%	Overweight	Catalpa	-11%	Overweight
Zambezi	+127%	Overweight	Paladin	-27%	Overweight
South Boulder	+46%	Overweight	Santos	18%	Underweight
Mt. Isa Metals	+43%	Overweight	Orocobre	-22%	Overweight
Sims Metals	-19%	Underweight	Iluka	45%	Underweight

## FAT PROPHETS MINING AND RESOURCES MODEL PORTFOLIO

The portfolio continued to benefit over the quarter from its allocation to some smaller resource names which we have both taken profits along the way and in some instances sold out of completely. Our methodology remains to find under-researched quality projects that we can reliably value and are comfortable with the quality of management that will drive these projects forward. This has been the key to our outperformance over the past year.

With our bias toward precious metals still very much intact, we added silver play Cerro Resources. Cerro is primarily focused on its key asset the Cerro del Gallo prospect. The tenement covers some 253 square kilometres in what is a world class gold and silver belt in Mexico. A sizable resource already exists, however what we are more focused on is the exploration upside given its large landholding in this world class region. Furthermore exposure to the silver price is something we are happy to be leveraged to.

Another addition over the period was Hodges Resources in which we participated in a placement at 32 cents. Hodges is a compelling coal story in Botswana. Botswana is structurally short of base load power generation and as such the main coal fired power station is being expanded 6 fold. Hodges holds a large thermal coal resource adjacent to the power station. They have a resource of 414mt of domestic grade thermal coal with production expected to commence in 2013. In addition, there is an export grade coal project. Our assessment of the combined value of these projects at the placement price was very attractive relative to the market capitalisation of the company. We remain very keen on quality emerging coal companies, and will continue to look for more opportunities such as this one.

Angus Geddes and Steve O'Hanna

Mint Financial Group Pty Ltd

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## FAT PROPHETS MINING AND RESOURCES MODEL PORTFOLIO

<b>Model Portfolio name</b>	Fat Prophets Mining & Resources Share
<b>Code</b>	FP0002
<b>Model inception date</b>	25/5/07
<b>Principle investment objective</b>	To invest in a sample of mining and resources securities listed on the ASX
<b>Can derivatives be used?</b>	No
<b>Indicative number of stocks</b>	10-40
<b>Minimum Model investment</b>	\$20,000
<b>Model Provider fees*</b>	
<b>Investment fee</b>	0.75%
<b>Performance fee applicable?</b>	Yes
<b>Brief description</b>	10% of any outperformance of the benchmark index
<b>Benchmark Index</b>	S&P/ASX 300 Resources Accumulation Index

\*Please refer to the Fat Prophets Separately Managed Account Product Disclosure Statement for further details

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