



**TITANIUM**  
ASSET MANAGEMENT

# Titanium Asset Management Limited

Profile February 16 2009

**Titanium Asset Management Limited (TAM)** is the Investment Funds Management arm of the **Titanium Financial Services Group**. TAM is fully licensed with ASIC - Australian Financial Service License (AFSL) # 331088, and is the Responsible Entity, Trustee and Manager of the *TAM ASX200 All-Weather Fund (The Fund)*.

The Fund is unique in a number of key areas:

1. It is a "true" market-neutral fund, which means that market risk of the Fund is kept to a minimum at all times. This is in contrast to many superficially-similar funds that allow the taking of substantial market positions that represent substantial risk in volatile markets;
2. The Fund employs a unique stock valuation and selection process that has been developed over 20 years and is the subject of a doctoral thesis at a major Australian university, which has been shown to be highly effective in the consistent selection of both "long" and "short" portfolios that will outperform the market regardless of market conditions.
3. The Fund only invests in current constituents of the ASX200; the 200 largest, best-researched and highest-quality stocks listed on the Australian Stock Exchange (ASX). No other assets are invested in by the Fund (including derivatives of any form), and the Fund does not borrow cash to invest.

As a result of this process, we have been able to achieve extraordinary and consistent returns in the most difficult of market conditions, with the minimum of investment risk. The concept of the market-neutral fund has been around in the Australian market place for over a decade, but the ability to achieve sufficient consistency in stock portfolio selection to achieve acceptable returns has been missing. This is where the investment process is critical to the performance of the Fund to date.

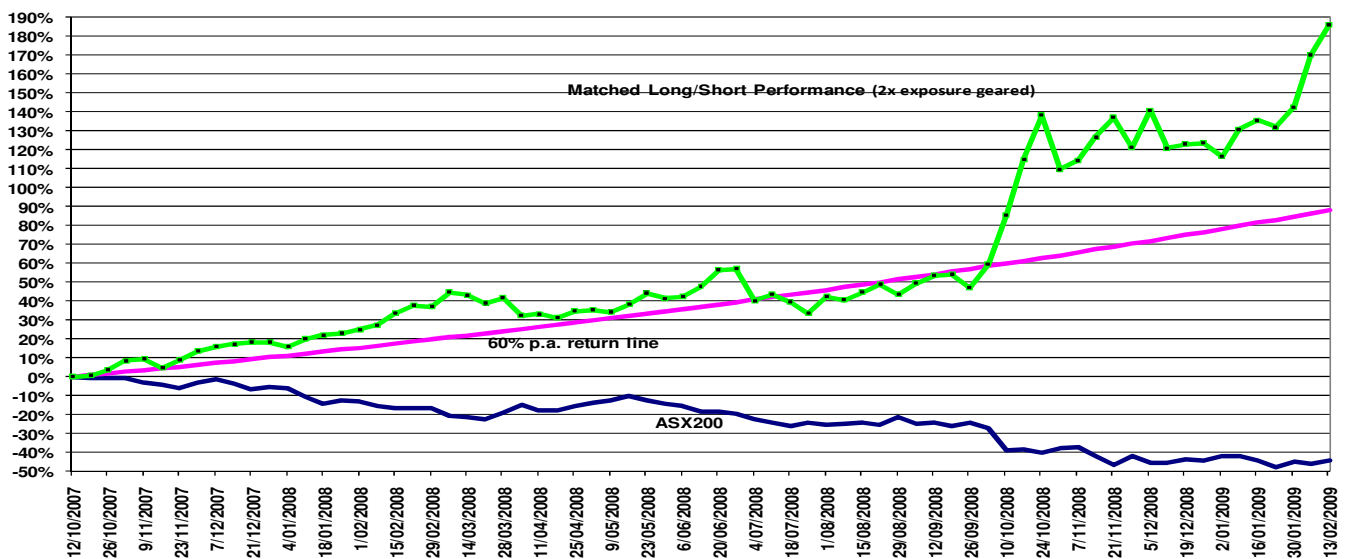
Table A

Percentage Returns	
1 month	21.4%
3 months	26.2%
6 months	98.1%
1 year	114.0%
2 year average	n/a
3 year average	n/a
Compounded monthly return since incep.	6.6%
Highest monthly return	40.2%
Negative Months in 1 year	None
Rolling average last 12 months p.a.	114.0%
Cumulative returns since inception	186.3%
Annualised volatility*	9.6%

\* Based on the standard deviation of monthly returns.

The Table A calculations have been based upon the application of the investment approach and strategies more particularly set out in our published document titled 'Volume and Momentum Monitor' and annexed to our PDS.

Performance History: % based on gross investment asset values (GAV, monthly)												
Class A: Retail (since inception October 2007, based on pre-distribution NAV, distributions exceeded earnings in select periods)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009	8.6%											
2008	4.0%	9.2%	0.4%	3.2%	3.8%	0.2%	0.6%	2.3%	3.8%	40.2%	2.8%	1.0%
2007	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.6%	12.2%



Declaration: **Titanium Asset Management Limited ASX 200 All-Weather Fund**. Whilst every care has been taken in the preparation of this document by Titanium Asset Management Limited ABN 60 132 768 382, AFSL 331088 and ARSN 134596302, the opinions expressed in this document are simply our opinions based on our observation of the market, which may not necessarily be shared by the reader. This information is supplied for the purposes of providing general advice only, and is not specific advice. It does not take into account your individual objectives, financial situation or needs. The offer to invest in the ASX200 All-Weather Fund ("The Fund") is made in the Product Disclosure Statement ("PDS"). Anyone who wishes to invest in the Fund should read the PDS carefully, and/or consult with your financial advisor. A copy of the PDS may be obtained from your adviser. The ASX200 All-Weather Fund is a registered investment scheme of Titanium Asset Management Limited, AFSL 331088.



### Performance Commentary

For the second week in a row, markets in the US and Australia were dominated by the political progress (or otherwise) of fiscal bailout packages, with only limited attention being paid to the reporting season in either market. The ASX200 rose by 2.6%, retracing the losses of last week, while the S&P500 fell by 4.8%. This effectively reversed the divergence between the markets seen last week. Both are now back to where they were on the 30<sup>th</sup> January.

Both of our portfolios performed well this week. The Long Portfolio was up by 3.7% (outperformance of 1.1%), while the Short portfolio gained 0.6%, giving outperformance of 3.2%. The result was an 8.6% gain  $((1.1\% + 3.2\%) \times 2)$  after the effect of 2x exposure gearing. Individual stock movements are detailed below.

The current situation with markets being predominantly focussed on stimulus/bailout packages is something of a concern in the middle of what is a critical reporting season for both the US and here. With both packages now passed, the focus will again switch to corporate profits. And with the reporting season in both markets poor (to say the least), ignoring that for too long just leaves both markets susceptible to another hit unless there is clear evidence that fiscal stimulus is going to have a major positive impact on listed companies.

While there is no doubt that the respective packages are a plus for the economies and business (and therefore the stock market) in both countries, the question that is still a long way from being answered is just how effective either package will be in the current economic mess. Monetary policy has already been stretched to its absolute limit in the US, with very little real impact evident at this stage despite the Fed funds rate being only 0.25% (imagine what a mess things would be in if the Fed funds rate was still at 5%!!).

For us, there is still room for further cuts, but after the last 100 basis point reduction in the RBA cash rate, even that tool is starting to appear to be becoming less useful as an effective stimulus.

What is interesting is that fiscal policy has been very quickly and dramatically pulled out of the economic tool box. For the past 20 years, most major world governments have effectively delegated macroeconomic management to central bankers, thanks largely to the success of Alan Greenspan in the US. His monetary economic management provided stability not seen since the early post World War II era. Fiscal policy was largely abandoned as a policy tool after the problems seen in the '70's and '80's with the funding difficulties associated with massive government debt. The War on Terror has seen the budget deficit in the US balloon, but the rationale for that has not been economic stimulus. Now, with monetary policy struggling to deal with the weight of economic gloom that is descending (has descended?) on major world economies, fiscal stimulus has again become a major economic tool for the simple reason that there is other alternative.

The issue is that economies have changed considerably since fiscal policy was last used actively as a macro management tool. No one is really sure how the US, Australia, Europe or any other major world economy (with the possible exception of China) will react to this kind of stimulus. Firstly, the magnitude of the wave of economic disaster that these moves are hoping to save us from is yet to be fully quantified. Secondly, despite the optimism of politicians, there is a major question mark over just how effective these programs will be in producing economic confidence under the conditions; already, monetary policy has had only a limited effect and governments must be extremely fearful that fiscal stimulus will prove to be just as ineffective.

Remember, it is only a very short while ago where the level of cuts in interest rates, and monetary pump-priming of economies seen over the past 12 months, was considered about all that was necessary to manage any economic management scenario. The ineffectiveness of monetary policy to save the world from recession will have far reaching effects on macroeconomics for years to come, as will the response of economies to the reintroduction of fiscal policy.

The real fear is that neither or both will be enough. It will take at least another 12 months before we know just how any major economy will respond to the combination of both aspects of macroeconomic policy. But even more concerning is that if both don't work, there is nothing else left to use. The economic toolbox only holds two items. What is also concerning is that it has generally been considered almost impossible to provide large scale stimulus using both approaches at the same time: fiscal stimulus = government borrowing, which doesn't fit with falling interest rates and monetary liquidity; at least, not for any real length of time. This is why some economists are now starting to warn of the re-emergence of stagflation as a real prospect.

We also had another reminder of the fact that the full impact of the global mess is still on its way to Australia, with the unemployment rate for January jumping to 4.8%, with the full impact of post-Xmas layoffs to come. Expect the February data to show a bigger increase than the 0.3% for January.

All-in-all, economic prospects continue to be extremely sobering, and there still appears to be some way to go before we really know what we have to look forward to for the next couple of years.

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If you would like further information please visit our website at [www.titaniumassetmanagement.com.au](http://www.titaniumassetmanagement.com.au) or by telephoning 1 300 785 276 or email your enquiry to Titanium Asset Management Limited at [investments@titaniumassetmanagement.com.au](mailto:investments@titaniumassetmanagement.com.au).

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