



Titanium Asset Management Limited (TAM) is a fully licensed Investment Manager with ASIC - Australian Financial Service License (AFSL) # 331088, and is the Responsible Entity and Trustee 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 to doctoral studies at an 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, and most extensively researched 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.

Our methodology has been proven to achieve consistent returns in the most difficult of market conditions, with minimum market risk. The market-neutral fund strategy has been used 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.

**Performance Table**

1 month	-2.0%
3 months	-1.3 %
6 months	-7.6%
1 year	-6.8%
2 year average	n/a
3 year average	n/a
Compounded monthly return since incep.	4.6%
Highest monthly return	40.2%
Negative Months in 1 year	4
Rolling average last 12 months p.a.	5.0%
Cumulative returns since inception	180.8%

The above returns are for rolling mths. Figures below are calendar mths.

(12 mth ave.) monthly volatility*	9.7%
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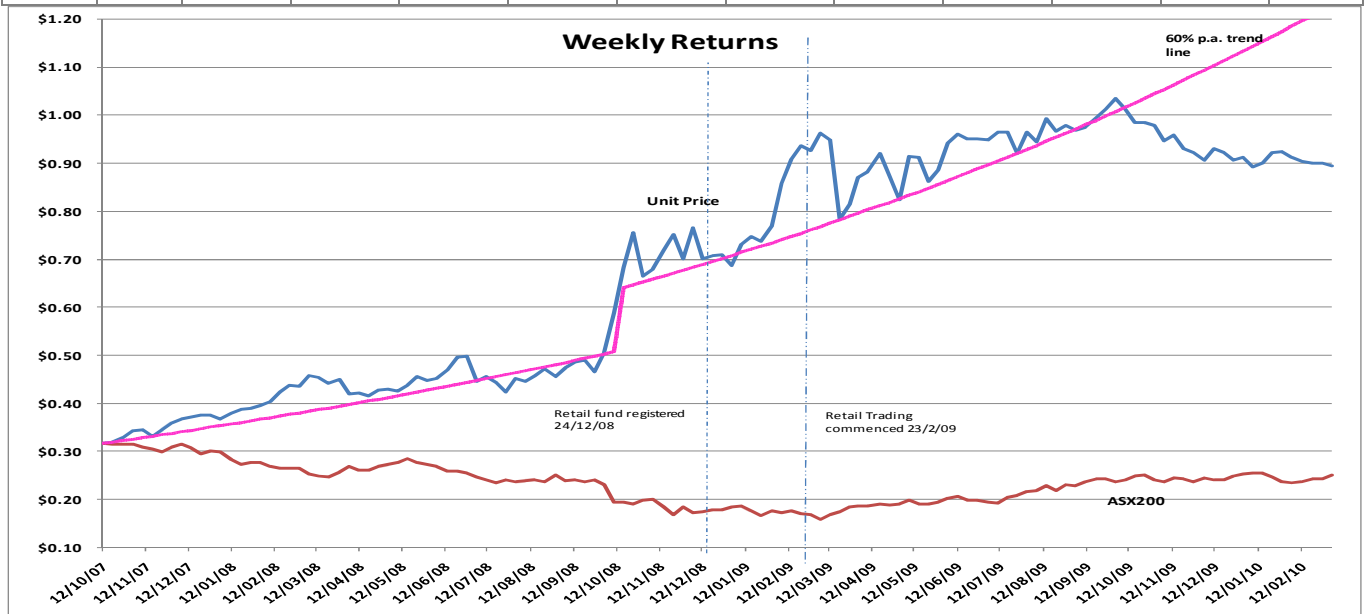
\* Based on the standard deviation of monthly returns. Calculations are based on Friday's published unit price as per the TAM website - [www.titaniumassetmanagement.com.au](http://www.titaniumassetmanagement.com.au)

Prior to 24<sup>th</sup> February 2009 the monthly investment returns detailed below (highlighted in grey) confirm the result of forward testing the TAM ASX200 All-Weather Fund's investment methodology. TAM ASX200 All Weather Fund was registered as a retail fund on 24<sup>th</sup> December 2008.

**Performance History: % based on gross investment asset values (GAV, monthly)**

**Class A: Retail (since inception October 2007, based on pre-distribution NAV) \*\* MTD return.**

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	1.2%	0.1%	-0.8%									
2009	8.6%	20.5%	-12.2%	1.1%	7.7%	7.8%	0.9%	2.6%	5.6%	-6.6%	-4.5%	-3.3%
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	-	-	-	-	-	-	-	-	-	-	4.6%	12.2%



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**Weekly Summary**

**Author – Peter Rice (C.I.O.)**

The pattern of a good week, followed by a not-so-good week has continued over the past fortnight, with sentiment becoming increasingly dodgy over the past week. Both the US and Australian markets were up about 1%, but that all came early in the week as a follow on from the previous week. From Tuesday onwards, neither market moved significantly, and uncertainty was a key feature. What is interesting is that there continues to be a divergence between the “bulls” versus the “bears” as far as the future direction of markets is concerned, and the argument is getting increasingly testy. The tug of war between the two views is getting increasingly confusing for the average investor. It is worth, therefore, looking at the fundamental issues that we face as managers of investor’s money in the current market environment.

The parallel that we have drawn between the weather and markets in calling then Fund the “All-Weather Fund” is not drawn lightly. There are significant direct parallels between forecasting the weather, and forecasting markets, that are not coincidental. The current market environment is a perfect example. We are increasingly seeing “storm clouds” appear on the horizon for equity markets. Europe, and the issue of sovereign debt, is a cloud that has appeared over markets recently. Greece is not the only issue: the same situation applies to other European markets, but Greece has been the most threatening. Other “clouds” are also starting to re-form: the reminder that the US residential property market, and associated loans, is far from resolved represents another major storm cloud that is drifting across the market landscape. Throw in the increasing worry that China is suffering a property and general asset bubble, and an increasing concern that specific monetary action will need to be taken by the Chinese government produces a number of threatening storm clouds on the horizon.

But at the same time, there continue to be patches of blue sky that the optimists continue to point to. Interest rates remain low, and the Federal Reserve shows little intent to change the low interest rate environment. Governments globally seem intent on continuing to spend extravagantly, while also maintaining low interest rates, while any efforts made to avoid writing down banking asset values are easily accepted in the interests of the economic “greater good” by all concerned.

So, in the current environment, both the optimists and the pessimists have something in the sky to point at to justify their current view of what they think will happen with the financial “weather”.

However, if you have your clothes hanging on the line, and you need to have them dry tomorrow morning, the situation is becoming somewhat more difficult when you have to go out for the afternoon. What are the real odds of rain? This is the kind of judgment that we are trying to make each day: it is a matter of trying to judge the odds. The simple fact is that, while there are definitely patches of blue sky still around, the number of rain (if not storm) clouds in the “sky” is such that the odds of a major downpour, before we get back, is now better than fifty percent. And that makes us want to take the clothes off of the line before we leave home. Why? On balance, the Big Black Clouds outweigh the Blue Sky Patches.

There is no doubt that, on the surface, there is reason to be positive. The overall economy continues to appear superficially good, and it is that perspective that is currently driving the market upwards, along with low interest rates. In the US, the big banks are suggesting that everything is good, and it was the banks that started this mess, so that must be a positive, right? Citi came out just over a week ago and said that everything is looking good. China appears to be buying commodities again, so that must be good, and interest rates are staying low, according to the Fed, so that must be good.

What is interesting is that holding rates artificially low between 2002 and 2004, in the aftermath of the Tech Wreck in 2000, has been clearly identified as the source of the current situation, and yet the Fed appears to remain determined to do the same thing again. Low rates are good for financial markets, and that has been a key factor in the performance of equity markets, but from an economic perspective, it is questionable as a strategy, as we have seen in the very-recent past.

So far, keeping rates artificially low hasn’t resulted in demand for loans, or a propensity for the banks to lend. It has therefore done little to help the property market so far, and has done little to help global sovereign debt, as we know. While the Greece debt crisis appears to have eased in the short term, the same situation exists amongst at least 10 other European countries, and a further 10-15 Latin American countries.

The circumstances are somewhat different from 2002-4, but the potential exists for a build up of similar distortions as a result of the Fed’s direct managing of rates, but the situation in many ways, is more dangerous and less likely to be successful.

Locally, the Australian consumer is buying, and unemployment appears to be falling, so that must be good. Right?

Well, kind of, but we know that if the US does regress, then we will fall too. If you look a little deeper at the US economy, things aren’t quite so good. Despite the fact that bad loan revaluations are no longer cutting quarterly bank profits, there is still a difference of almost US\$1trillion between the value of written loans, and the valuation of underlying property security. The question is, whose loss is it now? The toxic asset scheme has made that unclear as to whether it is banks or the government that must carry the cost, but SOMEONE still has that cost to bear eventually. Who is open to question right now, but the loss hasn’t gone away; it has just been made unclear as to whose it is.

The simple fact is that residential property prices remain approximately 25% above where banks are prepared to accept such properties as security for loans, and that is primarily why lending continues to contract, and why growth remains heavily constrained. This remains the biggest storm cloud.

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We have already mentioned the sovereign debt issue. Such a cloud remains very dark, and likely to prompt a downpour at any time. But the latest, and potentially biggest, threat has become China.

Until only a few years ago, China was important as a past-indicator of how the rest of the world was going, as its primary role was as a service provider to the developed world. In the past 2-3 years, however, China has become a global leader as a result of its position as the prime lender to the US in terms of global capital flows, and driver of commodity demand for its own infrastructure development. As a result, issues such as Chinese monetary policy, interest rates, inflation, and property prices have become big issues for global markets. This is despite the fact that few fully understand how the Chinese economy really works, and the huge margin for error that exists in the management of that economy.

The point is that there are an increasing number of storm clouds forming on the investment horizon. The hard call to make at present is if, and when, it is actually going to rain.

As many in the country have come to understand over the past few years in Australia, it is very possible for there to be plenty of big, black clouds without any rain. Similarly, it is more than possible to get heavy downpours and storms when there is still plenty of sun and blue sky. Predicting that outcome is largely one of probabilities. Based on our calls, the risk of rain (a significant market correction) has moved above 50% over the next 3 months, but what we don't know is what will prompt that.

The US property situation is probably the most threatening from a fundamental perspective, but it is China that markets will pay the greater attention to. Rising interest rates there is probably the single action that markets will react strongest to, based on current indications, but that can change.

In terms of the Fund, we were effectively unchanged, with a movement down of less than 0.1%.

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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 as per the details listed below:

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