



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	-2.2%
3 months	-1.4 %
6 months	-7.8%
1 year	-6.4%
2 year average	n/a
3 year average	n/a
Compounded monthly return since incep.	4.4%
Highest monthly return	40.2%
Negative Months in 1 year	4
Rolling average last 12 months p.a.	5.0%
Cumulative returns since inception	180.1%

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

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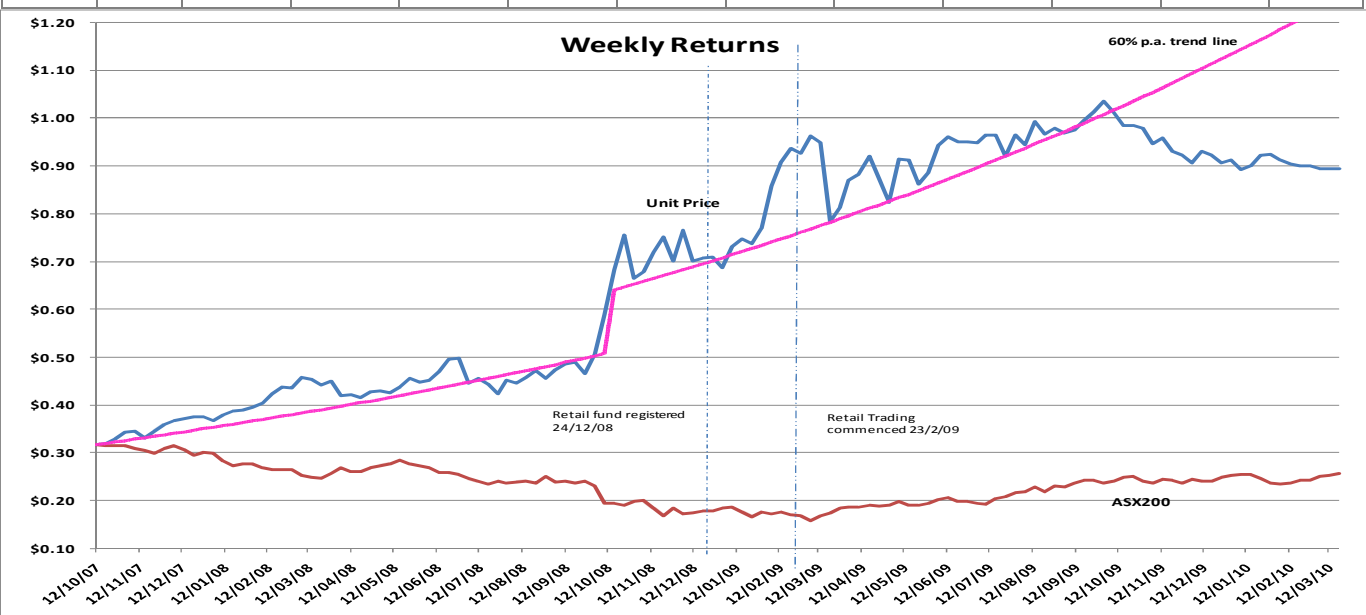
\* Based on the standard deviation of monthly returns. Calculations are based on Friday's published unit price as per the TAM website - [www.titaniumassetmanagement.com.au](http://www.titaniumassetmanagement.com.au)

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%	-0.9%									
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.)**

We had one of the quietest weeks in markets for some time last week, with little in the way of new economic or corporate data to move markets one way or the other. As a result, markets were relatively stable both in the US and locally. Wall Street rose by less than 0.8%, while our market moved up by just on 1%, largely due to a significant number of stocks going ex-div, and the market retracing those moves.

Europe also remained relatively quiet as the EU-Greece situation was managed on a public relations basis, but not much happened in reality. There has been much more horse-trading going on behind the scenes as the Union attempts to present a united front to the rest of the world, while trying to avoid the political and economic consequences associated with a direct bailout of Greece (or any other member state) by the only country with any resources to provide such support: Germany.

As anyone reading this document over the last few months is aware, we have been highly sceptical of the sustained optimism that equity markets have been keen to adopt, particularly since the end of September. We have continued to highlight issues such as the problems with sovereign debt in Europe and Latin America, and the risk associated with massive global debt increases with no corresponding increases in interest rates, the fact that there continues to be a massive gap between the value of loans outstanding and the value of property assets securing those loans in the US and Europe despite the write-downs to date (the “Toxic Asset” situation) that have still not been resolved, the contraction in bank lending in the US despite the spending of US\$1trillion+ on propping up the banking system. Unemployment has shown no signs of falling in the US, and retail sales levels remain effectively where they were a year ago, and government debt has ballooned to the point where many are starting to question whether the US will ever be able to repay the US\$13trillion that is now outstanding.

Throw in the fact that A\$ commodity prices are now lower than they were in March, 2009, at a time when stock prices in the sector have basically doubled.

And yet, stock markets continue to rise.

Are we missing something, or are markets just being nuts at present?

We have tried to flip our mentality from trying to point to what appears to be growing risk, and look at markets from a more positive perspective in order to see if we are missing something.

Before we do that, we went back and looked at notes taken before the GFC hit markets. The first record that we had of issues associated with the US residential property market and the values of loans outstanding was in early February, 2007. In that note, the figure mentioned for the difference between loans outstanding and the value of residential property security was US\$1 trillion; a figure that seemed unbelievable at the time.

The market did not really pay much attention to this until July; then it recovered, before finally collapsing in October. The gap was 8 months before markets started to reflect a threat that was massive, and clearly evident. The point is that our observance of the problems in the US residential market was not made by someone that was an expert in the area, but an “amateur” on the state of the US residential property market, looking in from 8,000 miles away.

However, if we ignore that precedent and look at current markets from the perspective of where we are now, and what has the potential to push them higher, it is isn't easy to come up with what is going to drive things higher, either in the US or locally.

Let's start with the US: There are two key industries most directly tied to the current situation: the residential property market, and the banking industry. The greatest positive for the residential property market is the Federal Reserve's efforts to keep interest rates low, but unlike the Australian market, the majority of US residential mortgages are priced off the 30 year bond yield, rather than short term rates, and those rates are around 5% above the almost-zero Fed funds rate. So far, after more than a year of keeping rates absurdly low, there has been no sign of a broad rebound in residential property prices, although there have been small pockets that have shown some signs of a recovery. Critically linked to both the Fed's interest rate policy, and the continued weakness in the property market, has been substantially negative loan growth: many would argue, the most critical impediment to a broad-based economic recovery. While the big banks have done OK by borrowing from the Fed at the short end for nothing, and lending it back to the Fed at the long end, and trading in their own stock, they aren't making any money by doing what banks are supposed to do: lend money to businesses and individuals, and that is a serious problem.

In addition, there has been little or no real recovery in consumer spending, and that represents 70+% of the US economy. And that is unlikely to occur when 17% of the US workforce is underemployed, and that figure shows little sign of a significant recovery in the next 3 years, according to many “serious” economists (not employed by finance houses). The technology sector remains weak overall, although a few companies have seen some pockets of recovery in specific areas, but this is likely to be linked to domestic consumption expenditure, which we have just said above.

The only real positive sector of the US economy has been the government sector and the export sector, which has only been driven by a weak US dollar, and therefore, seems to be largely opportunistic.

When we look at the economy that way, it is difficult to see what is driving the market higher, with the possible exception of continued low interest rates, but so far, they have done little to drive specific areas of the economy. Instead, there is a pure financial asset value story: read “potential bubble”.

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If we apply a similar analysis to the local economy, we get similar weak sectoral indicators. The resources sector, which has been one of the traditional drivers of economic bullishness, is doing OK on a volume basis, but prices remain stable in A\$ terms as we have repeatedly shown here. With costs of production per tonne largely fixed, price rises are critical to profitability and with a limited buying market (largely, the Chinese), the prospect of a major recovery in profits is limited in the medium term.

There has been some improvement in other sectors of the export sector, but these have been limited. In fact, the CRB Index in A\$ terms is lower now than it was a year ago at the low in the market. Retail spending has been essentially flat in real terms for over a year. Property prices are recovering, with strong demand in certain areas, but it has largely been demand for existing properties rather than new dwellings, which obviously contribute less to the economy as far as jobs and income are concerned. In addition, the Reserve bank is using interest rates to attempt to moderate property values.

Again, therefore, what we are seeing in the GDP numbers is that the main net contributor to growth is the government sector, and we know that such a contribution is limited. Unless we start to see a kick start to the private sector soon, as the government has hoped, that growth will slow

The simple fact is that, from an equity market point-of-view, we need the private sector to not only begin to expand, but to expand enough to take up the slack when government expenditure starts to slow. This recovery is on a knife edge - and that particularly becomes the case if the US does dip in the second half, as is looking increasingly likely.

Key point that we are trying to make here is that, apart from the boost provided by specific government spending, neither the US, Australia, or Europe for that matter, is showing specific growth that is driving equity markets in the traditional ways that we have seen in the past. So far, it is a government-spending led recovery, and most governments are showing the strain of that level of expenditure, which is a major concern.

The Fund has again held its own over the past two weeks, with little movement in the unit prices, and similar (and limited) contributions by both the long and short portfolios. This seems to reflect the uncertainty that exists at a stock level within the market. We remain largely focussed on the larger end of the market in the current environment, where the risk is likely to be less, with higher liquidity, and broader market holdings of the stocks. The Industrial sector continues to be the worst performing of the major sectors, which does not seem to reflect the apparent optimism for domestic GDP, as has the Property sector. On the other hand, there has been a significant improvement in the performance of a number of the Utility stocks. We have added several of these to our long portfolio.

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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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