



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	-0.4%
3 months	-2.0 %
6 months	-8.8%
1 year	-1.0%
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.	10.6%
Cumulative returns since inception	179.9%

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

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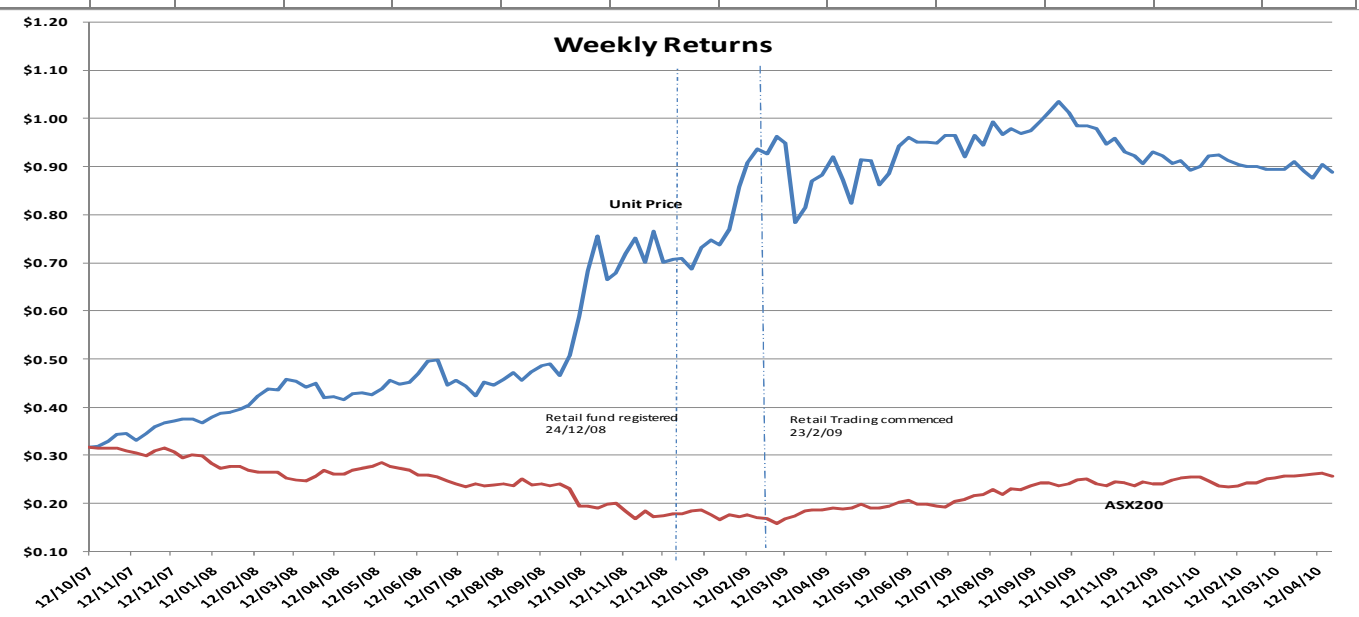
* Based on the standard deviation of monthly returns. Calculations are based on Friday's published unit price as per the TAM website - www.titaniumassetmanagement.com.au

Prior to 24th 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 24th 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%	1.1%	-2.2%**								
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.)

It was a bit of a strange week, and things have changed significantly since Friday. As a result, we are writing this report on Wednesday, rather than over the weekend as is usual.

The strange thing about last week was the fact that the US market continued to rise as the reporting season progressed, but it didn't help our market much. The S&P500 rose by 2.1% up until Friday. By comparison, the Australian market was weak, falling by just over 2% to the close of business on Friday. Such a divergence in performance has been unusual in the recent past, and while the reporting seasons in the US and Australia are out of sync at this time of the year, the level of differential in performance is a little unusual based on short term trends.

Over the week, the Fund has fallen by 1.6%, outperforming the market as of Friday's close. However, as of Wednesday's close, the market is down by 3.25%, and the Fund is down by 0.8%; outperforming by 2.45%.

As we have been suggesting for some time, there is a fundamental reason why the US and Australian markets should be diverging, and that is largely to do with the interest rate cycle, and a very different set of priorities for the RBA versus the Federal Reserve. Very simply, we are in a cycle where there is clear upward pressure on interest rates in our market as a result of the Australian economy performing better than that of the US. Over the past week, the RBA has affirmed that they are concerned about inflationary pressures emerging in the Australian economy (although, it is not altogether obvious to the man-in-the-street just where those pressures are, except in residential property prices), and are more than prepared to raise rates at this stage to avoid any increase in inflation.

The thing to remember here is that higher interest rates are the major tool used by central banks to reduce the demand for money, and to reduce the value of financial assets, such as stocks, and as such, may be starting to have a negative impact on the stock market.

To put the interest rate position here in a more global perspective, interest rate differentials have been a major factor in the strength of the A\$ versus the US\$, and also against the GBP. The A\$ has appreciated by 45% against the US\$ since January 2009, and a colossal 50% against the GBP since early 2007.

The continued strength in the stock market, and the surge in residential property prices over the past few months, is adding to the RBA's justification for higher rates, and that is not good for our equity market.

However, the big news was the announcement on Monday by Standard and Poor's that they would be downgrading the rating on government bonds issued by both Greece and Portugal, and this had a major impact on equity markets on both sides of the Atlantic. For those who have been readers of this report for any length of time may recall our view that the real issue with the sovereign debt position in Europe would become a major issue on a wider basis when S&P moved its ratings significantly after Fitch had moved first. The reason was that there tends to be little impact of a single agency moving its ratings, but a much greater one when two do. In the case of sovereign debt ratings, S&P tends to be the more important of the agencies to the markets as well, but it has been somewhat of a surprise that S&P did not move earlier. What is also interesting is that the latest move has come after the IMF has stated its intention to make low cost loans to Greece, which suggests that S&P feel as though the loans are "too little, too late".

The real issue, though, is not Greece and/or Portugal, but the fact that many of the Europeans are in a similar boat. The other members of the PIGS (Italy and Spain) are next, while Ireland is probably in a worse situation than any of the others. Austria and Poland are also not far behind. Therefore, if S&P is consistent, we should see further downgrades in several additional countries in the near future. If that occurs, there will be a crisis in the Euro, which has the potential to flow on elsewhere. There will be no alternative but to raise interest rates across the Euro zone in order to support the currency. This has the impact of raising the perceived risk associated with investing in Euro region equities, which will have a flow-on effect to other markets. And it won't be easy to solve.

The other significant change over last week and into the early part of this week has been increased odds that the banking regulation proposed by the Obama administration will ultimately be passed. Republicans in Congress have blocked the start of debate on the action for the past three days, but have now agreed to stop that and negotiate the bill further in the Senate. This is a major stand-down by the GOP, and appears to have been forced on them by strong voter opinion that is coming through from incumbents standing for re-election later in the year. In effect, the legislation, in a reasonably strong form, now looks likely to pass at some stage. When remains a debatable point, but there appears to be considerably more inevitability about it than there was a week ago. If that happens, it will substantially change the US banking sector, and few bankers paid bonuses or short term bank investors, will consider it for the better.

However, possibly the biggest potential change for the stock market is illustrated in the following web article:

<http://finance.yahoo.com/news/Obama-urges-bipartisan-effort-af-13936878.html?x=0&sec=topStories&pos=8&asset=&ccode=> Until now, the consequences of deficit spending have been kept largely away from the public consciousness. However, as the article suggests, the issue of reducing deficits by either cutting government spending or raising taxes is finally being talked about (as it needs to), which suggests that either or both are getting closer to becoming a reality. Not surprisingly, the Fed is involved.

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What is critical with this article is that the two factors that have so far protected the US economy have been government spending and artificially-low short term interest rates. If those factors are required to be reversed, then a secondary recession is a very strong prospect. There is far from sufficient momentum in the non-government sector (consumer spending) to keep the US in positive growth if left to its own devices. Very simply, as we have been suggesting for some time, both can't continue indefinitely. If the administration does persist with this, then there will be a sharp hit to the US economy, with a corresponding impact on the market.

If you would like further information please visit our website at www.titaniumassetmanagement.com.au or as per the details listed below:

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