



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	-1.7%
3 months	-1.8 %
6 months	-7.3%
1 year	-2.8%
2 year average	44.1%
3 year average	n/a
Compounded monthly return since incep.	4.2%
Highest monthly return	40.2%
Negative Months in 1 year	4
Rolling average last 12 months p.a.	-2.8%
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.

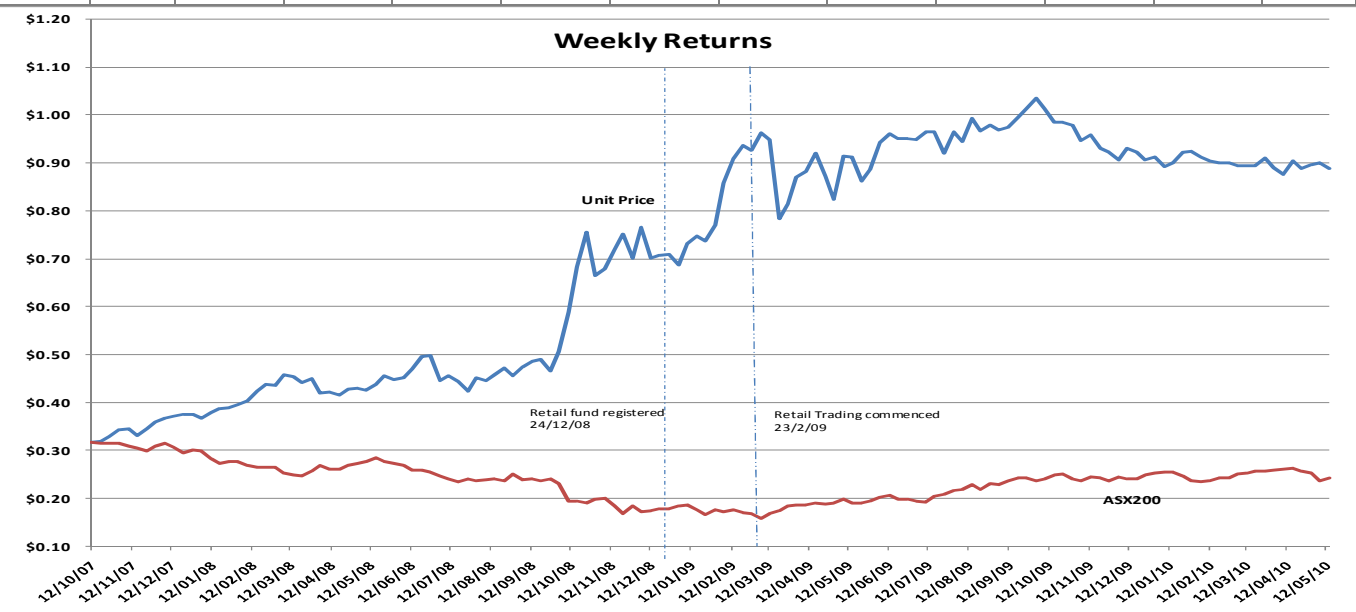
Calculations are based on Friday's published unit price as per the TAM website – [www.titaniumassetmanagement.com.au](http://www.titaniumassetmanagement.com.au)

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%	1.1%	-1.4%	-1.4%**							
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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*Covering the Fortnight from 3<sup>rd</sup> May to 17<sup>th</sup> May*

**Weekly Summary**

**Author – Peter Rice (C.I.O.)**

The nervousness in equity markets that we started to see come into markets a few weeks ago has continued over the past fortnight, and accelerated. Not surprisingly (from our point-of-view) issues in Europe have been at the centre of the problems, but it is the wider potential for those issues to global growth that are starting to feed through that are presenting the real issues for markets. Over the past two weeks, the S&P500 has fallen by 4.3%. Included in that period was a 4.4% rally last Monday after the announcement of a US\$1trillion bailout package for Greece and other European nations, put together by the IMF, various major global central banks, and the EU itself. Without that, the falls would have likely been considerably more, but we will discuss that further.

Over the same period, the Australian market has fallen by 4.1%, and is now down by nearly 8% from the peak seen on the 15<sup>th</sup> April (the US is down by 6.7% from its recent peak). The fall in commodity prices that has come with the fall in equity markets, plus the continued upward pressure on local interest rates, have been responsible for the slightly bigger correction in the local market.

Despite the dramatic shifts from pessimism, to optimism, and back again in markets over the past two weeks, the Fund has held up well. Such dramatic (almost) daily swings in sentiment make it very difficult for stock pickers such as our selves, but the absence of an overall market position for the Fund has meant that we have not been hurt at all by the current market conditions. Based on our valuation work, we continue to believe that there is more medium-term market downside than there is upside, which we continue to expect to be good for the Fund and investors. Regardless, the level of uncertainty and risk continues to rise, and is doing so substantially, which gives us a significant degree of confidence in performance for investors.

Europe continues to be the catalyst for the correction that we have seen so far, but it is potentially only the beginning. So far, all that is happening is that we have blown a little of the proverbial “froth” off of the top of markets. Depending on your perspective on global growth prospects, that is either a new buying opportunity, or we are simply looking at the start of a bigger correction.

Before making a judgement, let us analyse just what we are seeing in Europe, and what are the lessons for wider global growth. Firstly, let’s remember that the spending by the Europeans was not of their own choice: they were effectively forced into expenditure that went well beyond the discipline imposed when the Euro was set up as a currency. The only reason that the Europeans have gotten themselves into the current mess has been at the insistence of the US (and to a certain extent, the UK and Australia) following the G20 meeting over a year ago. All were reluctant to spend beyond the pre-agreed limits imposed on members of the Euro grouping that restricted budget deficits to 3% of GDP. The pressure to spend in order to save the global economy from recession imposed at that meeting has now left much of continental Europe looking at the prospect of a “double-dip” recession, along with substantial political unrest, if the current problems in Greece and Portugal do not spread across the continent.

And while the bailout package put forward a week ago eased some very short-term pain, it simply hasn’t (and can’t) solve the underlying problem; only delay it. This is why markets skipped over it so quickly. While it provides a number of nations with a potential pool of funds at a lower cost than current market rates, the debt remains. In addition, the spending that has caused much of the mess has largely caused the mess has gone into inflating already-inefficient civil services (because that was the quickest and easiest way to add jobs, but possibly the least productive use of the funds, and the most difficult to reverse). Unemployment has been kept lower than it would otherwise be, but it has produced a limited multiply effect on economic growth, and has done little to stimulate economic confidence, which was to be the main point.

In addition, the extent of the spending and the associated problems has raised real issues for the continuation of the Euro longer term, and that is not helping economic confidence at all.

However, potentially the biggest issue is yet to raise its head. The UK has the potential to be the biggest single problem country in Europe, and the change of government has created the potential for that to become an issue sooner rather than later. After 13 years of Labour rule, conventional political wisdom suggests a “clearing of the decks” economically, and doing that while the blame can still be placed on the previous administration. We have recently discussed the weakness of the Pound against the A\$ over the past 2 years or so, but it has also weakened substantially against other major currencies as debt levels have ballooned as a result of the GFC (and previous economic policies). This remains a major risk for the US and global markets.

In addition, the issues with European sovereign debt have reminded global markets of the economic and investment risks still inherent in the world economy at a time when equity markets seemed prepared to largely ignore investment risk, and that is a dangerous situation for any market.

However, the real threat to equity markets remains to the development of a more realistic estimation of global growth over the next 2-3 years. As we have mentioned here in the past, the current level of the US equity market is still projecting, in effect, a level of GDP growth that is almost twice current levels of around 3-3.5%. Part of that optimistic premise has been based on reasonable growth throughout Europe and the UK. Should that assumption become unrealistic, and Europe fall back into a recession, then growth assumptions in the US will have to be written back, and that will hurt equity markets hard.

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Profile 17th May, 2010

And that is without the sovereign debt contagion crossing the Atlantic (not to the same extent as in Europe, but raising the cost of US treasuries nevertheless).

The simple fact is that the risks are rising, and rising sharply. As an indicator, the price of oil has fallen by a massive 20% in just two weeks. We have seen even greater moves in base metals such as zinc, copper and lead. If commodities can do that, with the supposed underlying drivers of physical supply and demand, imagine the potential correction in equities where expectations are the dominant drivers. It is not difficult to see a major reversal in equities after a 60+% rally over the past 14 months.

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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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