



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	2.5%
3 months	1.0%
6 months	-2.3%
1 year	5.5%
2 year average	n/a
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.	5.5%

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

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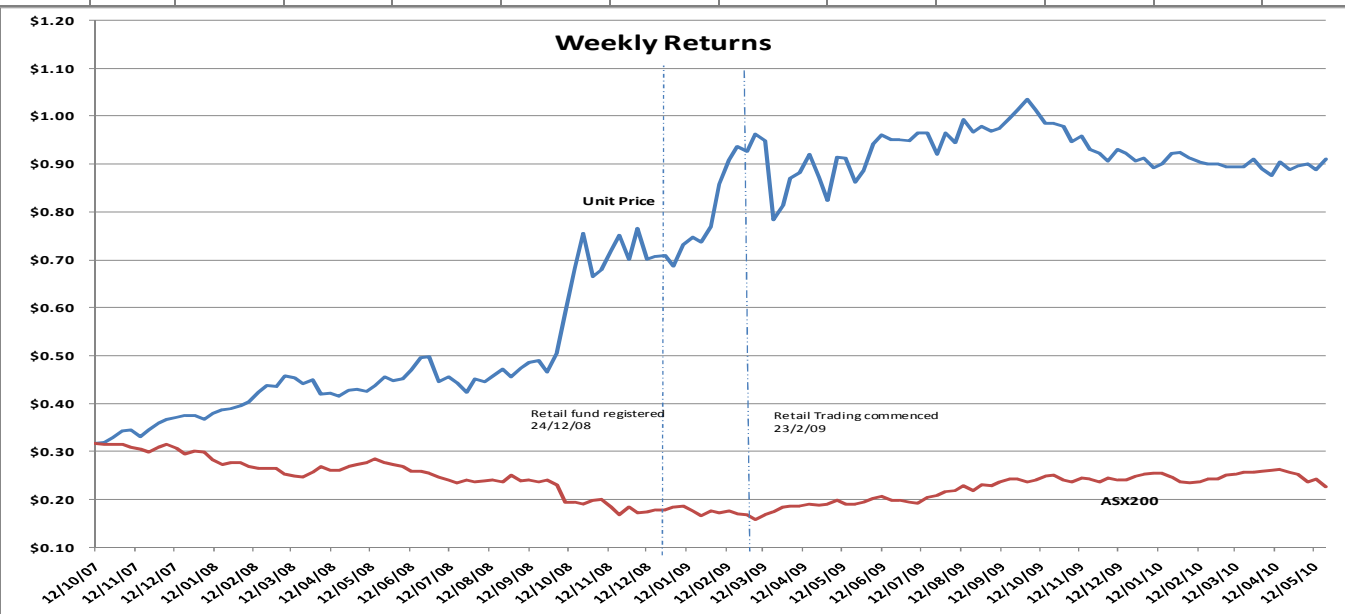
* Based on the standard deviation of monthly returns. Calculations are based on Friday's published unit price as per the TAM website - www.titaniumassetmanagement.com.au

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%	-1.4%	1.6%**							
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.)

If the past few weeks have seen equity markets get more and more nervous, they went into serious panic mode this week as the inevitable conclusions began to be drawn to the issues engulfing Europe. Wall Street fell by a further 4.2% for the week, bringing the fall over the past 4 weeks to almost 11%. Not surprisingly, the Australian market has more-than matched that, falling by 6.6% in the past week, and by 11.8% over the past 4 weeks. We are now down by 14% from the recent high of just over 5,000 points on the ASX200, while the US market is now 11% off of its recent high.

The issues in Europe have clearly been the primary cause of the problems facing markets, but it would be oversimplifying the situation to suggest that sovereign debt is little more than a nebulous source of nerves in a topy market, as has been suggested by some. To many, such issues have little direct relevance to the rest of the world's equity markets, and as such, the falls that we have seen so far are now presenting a reasonable buying opportunity.

Maybe. But there are potentially much bigger global implications of these issues than we have seen reflected in equity markets so far. This could simply be the start of a bigger and longer-lasting correction. The simple fact is that the Euro zone as a whole is almost as important to the global economy as is the US, and the mess that the PIIGS (Portugal, Italy, Ireland, Greece and Spain) are in is symptomatic of the whole of Europe. The UK, for example, is in as big a mess as is Greece, but the magnitude of the problem is ten times as great. No one wants to mention it, because the consequences are that much greater, but the same issues apply. Even amongst the PIIGS, Portugal is at least as big as Greece; Spain is five times as big as Portugal; Italy is bigger again by about 20%, etc, etc.

The simple fact is that Europe is in a mess that cannot be solved by any easy short term loan from the IMF, or anyone else. We have become so used to someone coming up with a "trillion dollars" from nowhere (as the IMF and EU announced earlier) that we just seem to believe that such sums come from nowhere and are almost insignificant.

If we look at the European situation on a commonsense basis, the facts are:

1. Replacing one form of debt with another does not solve the problem: it simply delays the consequences of a flawed policy. The markets have already come to that conclusion, and the IMF/EU approach has already been effectively dismissed as not-much-more than window-dressing;
2. The only real solution for Europe is a massive cut in government expenditure on a region-wide basis;
3. Such a solution is going to be extremely difficult to implement as much of the spending has been on public sector employment in areas where the public service is highly politicised and aggressive;
4. If cutbacks are achieved (and they have to be) the result will be a massive reduction in Euro-region GDP growth, and that will have a major impact on global growth. The only reason that the spending was implemented was to boost global growth, so the reversal of spending will have a correspondingly-negative impact on global growth. None of the Euro-group countries wanted to boost spending beyond the mandated 3% of GDP limit mandated for the Euro in the first place: it was only done at the insistence of the US. The need to reverse it will have a significant impact in the perceived risk of the Euro, and will reduce the ability of the US to impose its will on Europe in the future. Either the Euro will collapse, or the resolve of the Euro-region entities will strengthen to resist any external influence on their economic policies, regardless of the "bigger economic picture", as was sold to the, at the G20 meeting a year ago.

As we have mentioned in the past, one of the major influences of the issues in Europe is that they have substantially reduced the overly-optimistic expectations of growth that have been built into current global equity market levels. Prices have reflected grossly-inflated prospects for US economic growth of 7-8%, as has been documented in this report in the past: levels that were never realistic, but were being pushed by investment banks and brokers up until at least 3 months ago. The issues in Europe have reminded investors of just how ludicrous these expectations were. Even the Fed has suggested that there is little prospect of GDP growth in the US exceeding 3.5%, and that may prove optimistic given the unemployment situation.

But the big issue is a reminder of investment risk in equity markets that had been largely ignored until recently. When market investors become ignorant of significant risk factors, the time has generally come to lighten exposures, and this has clearly been the case over the past month or so. The correction that we have seen recently came at a time when the US was in a better-than-expected reporting season, which would normally have been a bullish period for the market. Instead, Wall Street is down by 11%, and the Australian market down by 13% over the same period, and more from the recent high. I am still to find anyone that was prepared to predict a fall in the market over that period, despite the fact that the market had clearly run ahead of where it should have been, and had ignored increasing risk factors. The corrections that we have seen have reminded investors of the risks associated with investing in equities, and that will result in a significant correction to valuations.

In order to keep a "holier-than-thou" attitude, we would ask regular readers of this report to look back at what we have been saying over the past few months. Based on our numbers, there is still more than 20% downside to markets despite the current correction.

The simple reality is that the more things appear to change, the more that they stay the same. Economic principles remain constant: there is no change in the basic fundamentals of economic theory, and governments can't spend indiscriminately to grow



economies without any economic consequences, whether they be fiscal or monetary. Equity markets seem to have forgotten this as indiscriminate spending has been the order-of-the-day over the Past 12 months.

Similarly, the determinants of equity markets remain realistic earnings and dividend forecasts, which are linked to economic growth prospects: we have had that principle proven repeatedly over the past 30 years, although markets continue to be determined to try and disprove the basic principle to their detriment.

What is also interesting is that it seems to take at least 2 hits before markets learn to be careful.

If we go back to 2008, the first hit to markets came in June/July before markets rallied to new highs, and then collapsed. The issues that hit markets first were the same ones that resulted in the ultimate collapse, but it took two goes before the market really fell.

In the current situation, we had a 10% fall in January/February before the market recovered to new highs in early April. The current correction is the second instalment of the same issues, and as such, seems much more potentially dangerous.

If we accept a semi-linear relationship between GDP growth and market returns (a gross over-simplification of the mathematics, but hopefully you will get my drift....), then a cut in expected GDP in the US from 7-8%, to 3-3.5%, has the potential to result in a retracing of almost half of the market gains seen since March '09.

Throw in the impact of a more realistic equity risk premium from here-on-in compared to where it has been since March, and there remains a considerable further downside to markets. In fact, it is highly unlikely, after a 70% rally in the past year, that the "correction" that we have seen so far is even close to fully reflecting the real value in markets. Look for significant further falls to come.

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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