



**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	2.3%
3 months	1.2 %
6 months	-2.1%
1 year	5.7%
2 year average	n/a
3 year average	n/a
Compounded monthly return since incep.	0.4%
Negative Months in 1 year	4
Rolling average last 12 months p.a.	5.5%
Cumulative returns since inception	-9.5%

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

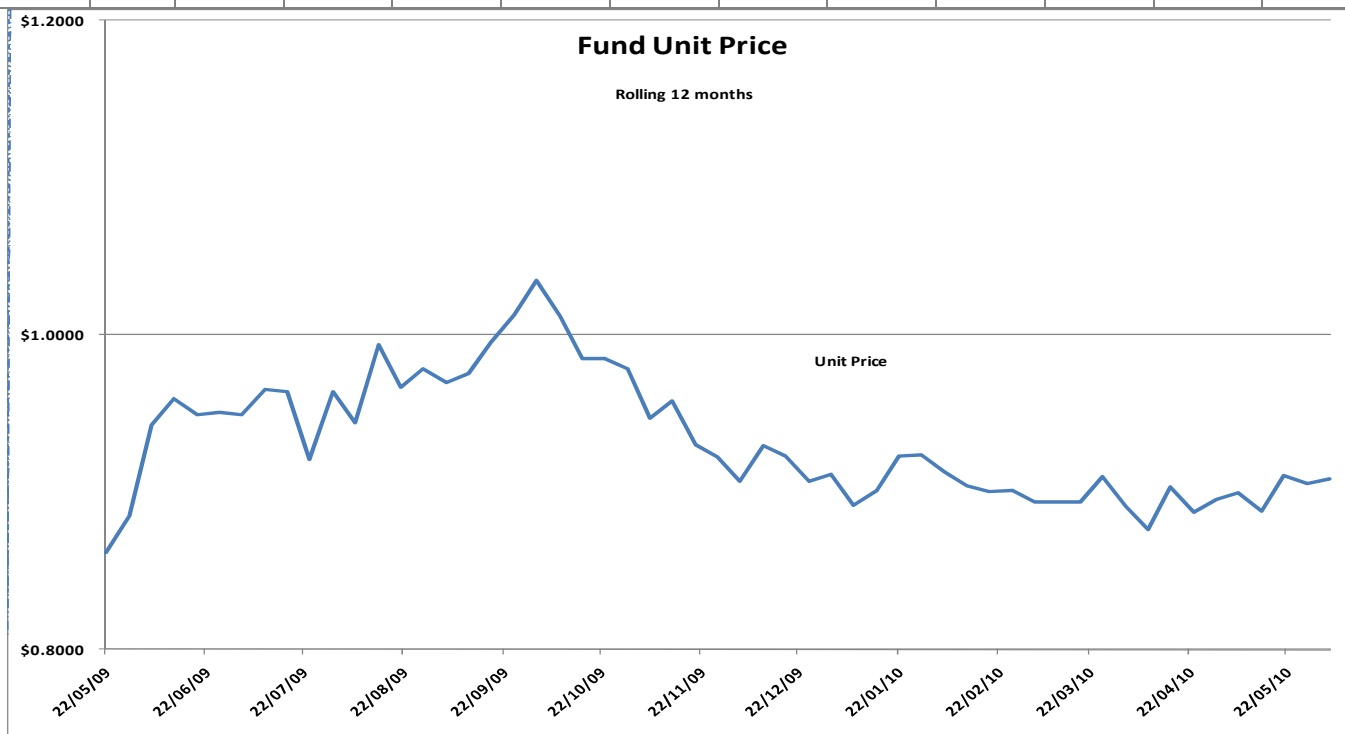
(12 mth ave.) monthly volatility*	1.8%
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\* Based on the standard deviation of monthly returns. Calculations are based on Friday's published unit price as per the TAM website – [www.titaniumassetmanagement.com.au](http://www.titaniumassetmanagement.com.au)

**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%	1.0%**							
2009			-12.2%	1.1%	7.7%	7.8%	0.9%	2.6%	5.6%	-6.6%	-4.5%	-3.3%



Declaration: Titanium Asset Management Limited ASX 200 All-Weather Fund. Whilst every care has been taken in the preparation of this document by Titanium Asset Management Limited ABN 60 132 768 382, AFSL 331088 and ARSN 134596302, the opinions expressed in this document are simply our opinions based on our observation of the market, which may not necessarily be shared by the reader. This information is supplied for the purposes of providing general advice only, and is not specific advice. It does not take into account your individual objectives, financial situation or needs. The offer to invest in the ASX200 All-Weather Fund ("The Fund") is made in the Product Disclosure Statement ("PDS"). Anyone who wishes to invest in the Fund should read the PDS carefully, and/or consult with your financial advisor. A copy of the PDS may be obtained from your adviser. The ASX200 All-Weather Fund is a registered investment scheme of Titanium Asset Management Limited, AFSL 331088.



**Weekly Summary**

**Author – Peter Rice (C.I.O.)**

We have been saying for the past couple of weeks that markets were getting nervous, but they took it to a whole new level over the past week. The S&P500 was effectively unchanged, but the average daily move was well in excess of 1%. The Australian market did better with a 3% gain, but a significant portion of that was given up on Monday following Wall Street's fall on Friday. The only description that can be given to market behaviour at the moment is "volatile", as the issues in Europe have raised serious questions over the prospects for global growth, and the success and/or wisdom of a global economic recovery policy that has largely been centred on government expenditure at the limits of what monetary policy has been able to achieve.

Just to put things in perspective, let's remember that we have a situation where global interest rates have been pushed about as low as they can go, thanks to the Fed. That has effectively established the limits of what monetary policy (on a global basis) can achieve, and it hasn't been enough to stimulate domestic demand in the key markets (US and Europe). If that doesn't work, then the only alternative has been to throw in extensive fiscal policy. Result: the US has record government debt, and an increasing number of European and Latin American countries are sailing very close to the wind in terms of the level of sovereign debt that they can effectively service. All very simple and basic economics.

The problem is that the assumption behind this approach from a global basis has been that such an approach would con the global consumer into believing that everything was much better than it might otherwise be, and that would boost confidence and stimulate consumer demand. Unfortunately, the global consumer is not quite that gullible.

Consumer spending in the two key world markets (US and Europe) has been sluggish to say the least as unemployment in both markets has remained stubbornly-close to 10%. Europe has tried to deflate true unemployment through a massive spend on public service expansion that has failed to either cut unemployment to below the crucial 10% level, nor stimulate domestic demand. The US has tried to be a little more sophisticated in their spending, but have been no more successful in boosting domestic consumption expenditure. Boosting the banking system by capital injection is good in theory, but the way that it has been done this time has done nothing to boost the key justification for propping up the sector (a growth in lending), and has only succeeded in creating an incentive for the opposite (negative lending growth to the general market, and boosted profits by borrowing from the Fed on a short-term basis and lending back to them on a long-term basis by buying long bonds). Net result: spending a huge amount of money, and benefitting only bank shareholders and management, and not the economy.

The simple fact is that TRILLIONS of dollars (I'd never heard of a "trillion" until just over two years ago; now, anything less on a macro basis is considered irrelevant) have been spent on both sides of the Atlantic, and it is difficult to see where the real benefit has been achieved. True, corporates have been buoyed by some of the stimulus packages, and that has helped, but the key factor, consumer confidence and spending, remains heavily depressed and the banks are doing very little to reverse that by continuing to restrain lending, despite the best efforts of governments. The reality is that government stimulus has been clearly flagged to the general populace as an artificial and limited fiscal injection, and therefore, of limited real encouragement to a positive economic outlook. As a result, the value for that spending is heavily restrained. It has predominantly been the stock market that has been boosted, and that increase is yet to match the underlying economy in most countries.

The key change over the past week was a downgrade in the rating of Spain's debt by Fitch. This came after S&P did the same a few weeks ago, and as we have said in the past, the key move comes when two agencies downgrade. Very simply, the same issue has continued to spread, as we suggested that it would late last year.

To put things into perspective, Spain has 5 times the level of sovereign debt that Greece and Portugal have, so a downgrade for Spain is 5 times as important as downgrades for the other two. Italy is 20% bigger again. If S&P start to focus on Italy (and they will), the threat of risk rating downgrades is high, and the problem will continue to spread; then there is Ireland and the UK.

It was interesting to hear a bond analyst argue that Spain's rating was still "pretty good". It is, but it is still a downgrade, which means an increased risk, and a corresponding downgrade in value for those holding Spanish bonds and equities. It doesn't matter what the absolute levels are: if value goes from \$10 to \$9 or from \$5 to \$4.50, you still lose the same percentage. Financial asset value is always relative.

Until there is a long term solution to the European debt problem, there will be a substantial overhang for global equities, for the simple reason that the level of European government spending has a substantial impact on global growth, and that has been a key assumption behind the level of global equity markets that has been reached over the past 12 months. If the level of spending is substantially reduced (as is expected), there is little alternative but a significant reduction in global growth, which means a substantial reduction in global equity values.

This could last for as long as two years, and prevent any sustained further rally. Markets have been effectively flat since October '09. And significant new highs are going to be difficult to achieve.

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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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