TITANIUM ASSET MANAGEMENT

Profile 14th June, 2010

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	3.5%
3 months	2.9 %
6 months	1.5%
1 year	-2.2%
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.	-2.2%
Cumulative returns since inception	-7.0%

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

(12 mth avge.) monthly volatility*	1.8%

* Based on the standard deviation of monthly returns.

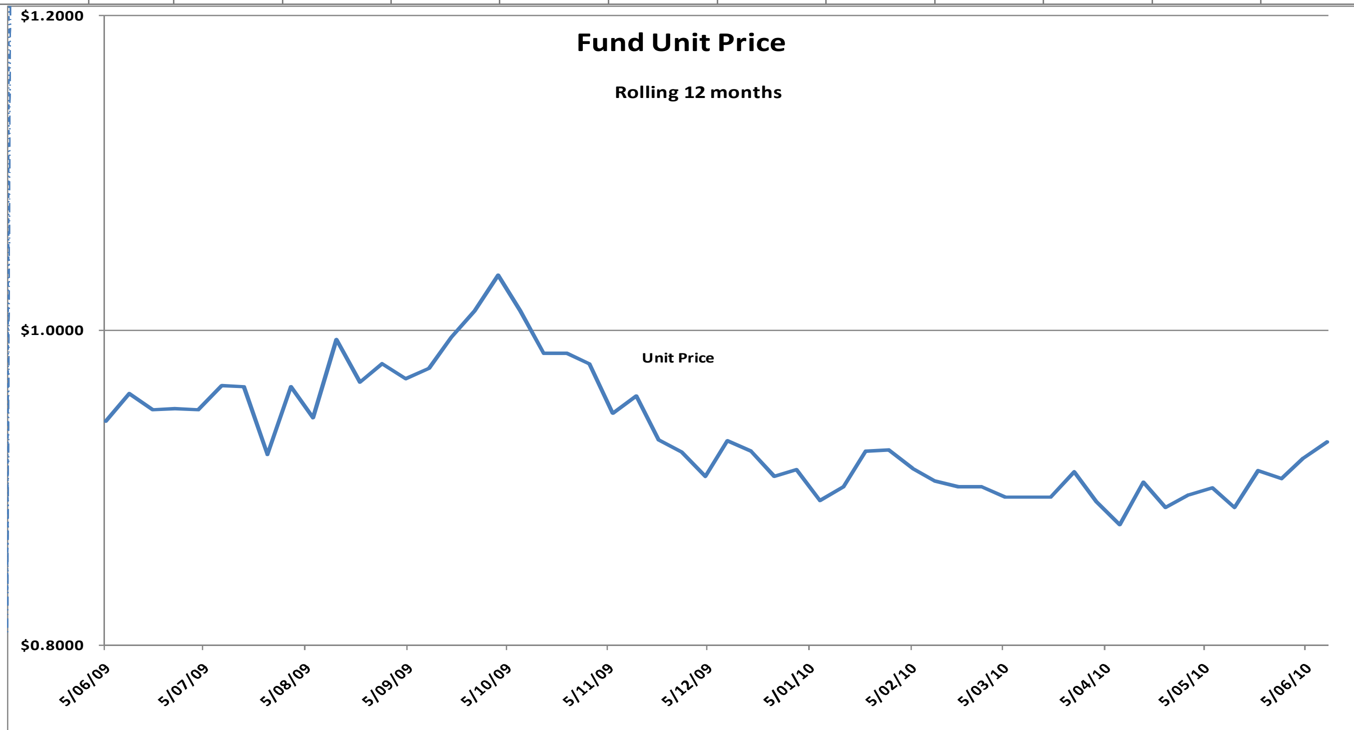
Calculations are based on Friday's published unit price as per the TAM website – www.titaniumassetmanagement.com.au

All returns are calculated net of all fees and charges.

***Performance History:** % based on gross **investment** asset values (GAV, monthly)*

Class A: Retail *** MTD return.*

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	1.2%	0.1%	1.1%	-1.4%	1.7%	2.1%**						
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.

© Copyright Titanium Asset Management Limited 2009. All rights reserved. Reproduction, adaptation, or translation without permission is prohibited except as allowed under the International copyright laws. All the text, graphics, design, content, and other works are the copyrighted works of Titanium Asset Management Limited.

Weekly Summary ***Author – Peter Rice (C.I.O.)***

With little new news, both the US and Australian markets did reasonably well this week. The S&P500 rose by 2.5%, while the ASX200 put on a more modest 0.8%. This has bought the 4 week performance of the 2 markets more closely together, with the S&P down by 3.8% and the ASX200 down by 2.3%, while both markets are now 10-11% below their year highs.

However, these figures are not the real story of markets at present. The big issue is economic data, and the interpretation of that data by both economists and markets.

From a fund perspective, it has been a reasonable week with the unit price up by 1% (that would have been significantly better had it not been for a 3:58pm announcement by GNS of a 5 times profit upgrade on Friday; we are short GNS....). Returns for the month so far are a reasonable 2.1%, and we have been much more stable than the market.

Never before (or, at least, in the 25 years that I have been professionally involved with equity markets) has the old joke that "if you put 20 economists in a room and ask them for their view on the same data, you will get 25 different opinions" been more true.

It is also possible to extend that by adding "if you take 25 stock analysts and ask them to interpret the implications of those 25 economic opinions on prospects for the stock market, they will all conclude "positive" in 25 different ways".

Let's look at the US over the past week or so. On Friday 4th, the US released the May employment data report that showed weak private sector employment growth, and the market fell 3.4%. Move forward by 6 days, and the market jumps by almost 3% because the weekly unemployment claims were less-than-expected, and China's exports were strong.

There are a couple of issues here:

1. Did the weekly unemployment data really have enough of an impact to partially reverse a market view on unemployment prospects that had been confirmed by a much-more comprehensive report only 6 days earlier? and;
2. China's export data is significantly retrospective: their data collection processes are about 1950 standards for the US, so how does this data become a key leading indicator for the world economy; particularly when Europe is their largest single market, followed by the US and Asia (mostly in the form of re-exports for those countries)?

In any sort of normal market, these numbers would be dismissed as irrelevant in any real economic terms. What is particularly interesting is that this is the first time that I can remember in the time that I have been involved in markets (including 11 years in HK) where China's export data has been quoted as being relevant in any significant way to the US market; either positively or negatively. And yet, the announcement of a single month's growth data in isolation was taken as a major influence on the market this week.

There was another quote during the week that also particularly tickled may fancy: a "senior currency trader" in NY was quoted as saying that "it was now time to buy the Euro". Why? "The worst is over. There has been no more bad news since Hungary". This came on Thursday, after greater concerns over Hungary had surfaced 6 days earlier. Had there been a mysterious economic fairy come by and wave her (or his) magic wand over Europe in the past 6 days that I had missed and solved all of the sovereign debt issues?

And they say that a week is a long time in politics!!

If anyone knows of such a marvellous being, and what he-or-she has actually done, please let me know.

While these observations are somewhat flippant, they highlight a few issues with markets at present, whether they be equity, currency or bond markets. The desire to continually be ahead of the market, plus the increased availability and publication of data from sources way beyond what they were 10-15 years ago has meant that markets are looking at any piece of data as a potential leading indicator. Throw into that situation an economic environment that is unprecedented since the 1930's, with an untested mix of both extreme monetary (interest rates) and fiscal (government spending) measures, and it simply means that markets don't seem able to determine what data is important and what is not.

Just to make things worse, there are now an unprecedented number of people globally who make a living from investing in markets, or getting others to invest, along with a need to be heard in the media. When you have an unprecedented economic situation (particularly on a global scale), an almost unlimited amount of data available on an almost-daily basis, and an almost unlimited number of potential commentators/analysts/interpreters for an almost unlimited number of news sources, it is not surprising that markets seem to be becoming more and more short term, and increasingly volatile.

There is another interesting feature of current markets. About a month ago, Citibank SSB's global strategy team published a paper based on global funds flows over the past three years (take these with a grain of salt, but there does appear to have been some reasonable work done in the area). The report suggests that:

1. In 2008, approximately 20% of global investment funds flowed from equities into cash (not much of a surprise there);
2. In 2009 and 2010, less than 2% of those cash funds have come back into equities, despite the bull run in equity markets. The movements out of cash were almost **entirely** into bonds;

What does that mean? Firstly, it means that a large portion of global funds have not "believed" the rally, or were caught by surprise when it happened and have missed it. Secondly, it means that we have different equity markets now than we had pre-

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.

© Copyright Titanium Asset Management Limited 2009. All rights reserved. Reproduction, adaptation, or translation without permission is prohibited except as allowed under the International copyright laws. All the text, graphics, design, content, and other works are the copyrighted works of Titanium Asset Management Limited.

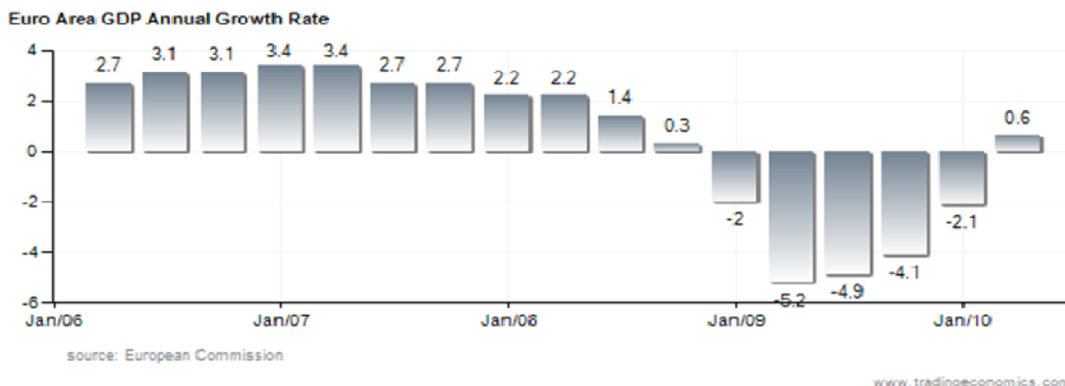
2008, with a significant portion of large scale, relatively-conservative, investment-oriented funds no longer in the market. This leaves markets with a greater proportion of shorter-term traders than previously, which possibly explains why volatility has increased the way that it has.

Does this mean that markets have changed fundamentally from what they were pre-2008?

The last time that we heard the "It's a Whole New World" mantra was in 1999-2000. Then, it was about "profits don't matter; it is about client numbers". That lasted until the bubble burst in 3rd quarter 2000.

So, if we look beyond that and view markets from a more "traditional" economic perspective (backed up by texts and established economic theory), let us look at what we currently know about the world economy:

1. According to the latest release from the Fed Reserve, the US economy is growing at a "solid 3-3.5% p.a." However, that rate of growth is currently being achieved with short term interest rates of 0.5% that have been there-or-thereabouts for over 12 months. In addition, the government has been running a budget deficit of about US$1 trillion over that period, and is being pressured to cut back that deficit by electoral influences. The reason for that deficit spending: stimulating economic growth (basic Keynesianism). While it is not easy to quantify the impact on growth if that deficit was halved, it seems likely that growth would be in the region of 2% or less;
2. Unemployment is close to 10%, and the Fed sees little prospect of that falling significantly in the medium future;
3. A significant portion of government expenditure has gone into spending stimulus measures, which is the key area of the US economy. However, as those plans are gradually being wound back, retail sales data is immediately weakening. Data released on Friday showed retail sales fell by 1.2% in May. In addition, despite the massive fund injections into the US banking system, lending growth remains effectively non-existent, suggesting either that the banks don't want to lend, or that businesses and individuals don't want to borrow. Either or both are poor indicators of prospects over the next year, as poor lending growth=poor economy; again, basic economics.
4. Europe as a whole has spent way beyond what it wanted to, but did so at the insistence of the US in an effort to stimulate global growth. Instead, without exception, the result at a country level has been massive increases in government debt and stagnant growth. Germany, the only major European economy showing a significant economic recovery (to a previously-estimated growth rate of 1.9% in 2010), has just begun to instigate a EUR80 billion austerity program. This pattern will be repeated across the continent over the next 2-4 years, and any gains in global growth as a result of spending to date (particularly in China, where Europe is their biggest market) will be consequently reversed. This will almost definitely mean that the Euro zone will go into negative growth in 2010-11. To put this into perspective, the following shows GDP growth in the Euro region before any cutbacks and sovereign debt issues:



5. Unemployment in Europe is marginally worse than the US (average of 10.1%), and that is AFTER the massive government spending boosts which have predominantly been in public service expansion. With government spending having to be cut back, unemployment MUST rise further, which means that there will be no boost to consumer spending for some time.
6. China is NOT a predominantly consumer market in its own right, as is the US or Europe; it is a service market for the rest of the global consumer world, and will remain so for years to come. At its current level of development, its growth remains dependent on its ability to service demand from the rest of the developing world (as with India). Maybe that will change in 20-30 years, but it is a long way from being a driver of global demand in its own right, except in limited, specific areas such as resources demand. As such, economic data from China will remain a lagging indicator of what is going on in the rest of the world: not the determinant of it. So a jump in equity markets because of what is going on in China, if it hasn't already been captured from data in Europe or the US, is more of a sell sign than a buy (except in Australia, or maybe Brazil);
7. With interest rates where they are on a global basis (Europe and the US), the only way that they can go is up. They cannot fall further than where they are (except in Australia), so further monetary stimulus replacing government

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.

© Copyright Titanium Asset Management Limited 2009. All rights reserved. Reproduction, adaptation, or translation without permission is prohibited except as allowed under the International copyright laws. All the text, graphics, design, content, and other works are the copyrighted works of Titanium Asset Management Limited.

spending in any major market is effectively impossible.

If we accept these issues as economic reality (and I believe that there is little to argue about in any of these statements based on simple economic theory and current data), it is difficult to argue that global equity markets are set for anything other than a bear market in the near future. Coming to a different conclusion involves only one of two things: either a justification for a totally new and as yet undefined basis of economic theory, or some as-yet unidentified economic miracle that no one yet wants to speak of.

If we specifically look at stock markets and their prospects, there remains a basic fundamental principle: markets are forward-looking, and when you get a bull run as we have seen over the past 15 months, the key issue is NOT about whether the economy is good or not, as many media analysts seem to think: it is a matter of what level of “good” that current prices have incorporated, and are those levels of priced expectations going to be realised. A look back at growth expectations during the period when the US market in particular was booming shows that the consensus was a growth rate of 7-8%; not the 3% minus that will result if US government spending is cutback, and Europe returns to recession. What does that mean?: correction/bear market after excessive optimism over the past 15 months that have pushed prices too high.

While there is no doubt that markets will continue to look for additional positive leading indicators, **only a massive and sustained improvement in consumer spending from here will significantly change the fundamental economic outlook in Europe and the US**, and that is likely to require the creation of private sector jobs on a massive basis, given the link between unemployment and consumer spending that is well documented.

If Europe does fall back into recession in the second half of this year, as now appears certain, the ability of global growth to boost US consumer confidence and spending becomes increasingly difficult, and is already struggling. The US cannot maintain government spending at sufficient levels to artificially boost consumer spending by enough to keep GDP growth at anything more than 3-3.5%. At that rate, unemployment is going to stay where it is, and consumer spending will remain sluggish at best. They are unlikely to fall back into recession, but there will be a struggle to boost growth above about 2.5% p.a. on a 4 quarter-or-longer basis.

There is no doubt that a recovery in employment will come, but it won’t be in the next 12 months by the look of things. At the moment, the market’s desire to be optimistic is going to remain misplaced, and a real recovery where unemployment falls and consumer spending recovers on a sustained basis is “highly unlikely” in the near future. Therefore trying to pick the first week of when that “real” recovery is going to start is a fool’s errand: it is still a significant way off, and that leaves markets vulnerable to significant corrections in the mean time, based on current prices.

Australia is different, and is fortunate enough to be in a far better position than the rest of the developed world, with unemployment at half the rate of the US and Europe (5.2% from the latest data), but upward pressure on interest rates as well. We are small enough that our resources sales are having a major impact on our overall economic growth, and despite statements to the contrary, our deficit is smaller than almost any other developed economy, and is set to return to surplus far quicker.

But the question is, will that be enough if global equity markets (particularly the US and Europe) sustain long term bear markets? It is difficult to see that such a scenario won’t happen, based on the above, but we will have to wait and see. Maybe miracles do happen. In the meantime, stay cautious, and try and ignore the (majority of) snake oil salesmen that you see, hear and read on the TV/radio/internet (except us)!!

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

Company: **Titanium Asset Management Limited**

Author: Peter Rice (CIO) Email: enquires@titaniumassetmanagement.com.au

Postal Address: P.O. Box 1110 Ph: 1300 785 276

Camden NSW 2570 Fax: (02) 4655 5275

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.

© Copyright Titanium Asset Management Limited 2009. All rights reserved. Reproduction, adaptation, or translation without permission is prohibited except as allowed under the International copyright laws. All the text, graphics, design, content, and other works are the copyrighted works of Titanium Asset Management Limited.