



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	2.0%
6 months	-1.2%
1 year	-4.0%
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.	-4.0%
Cumulative returns since inception	-8.6%

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

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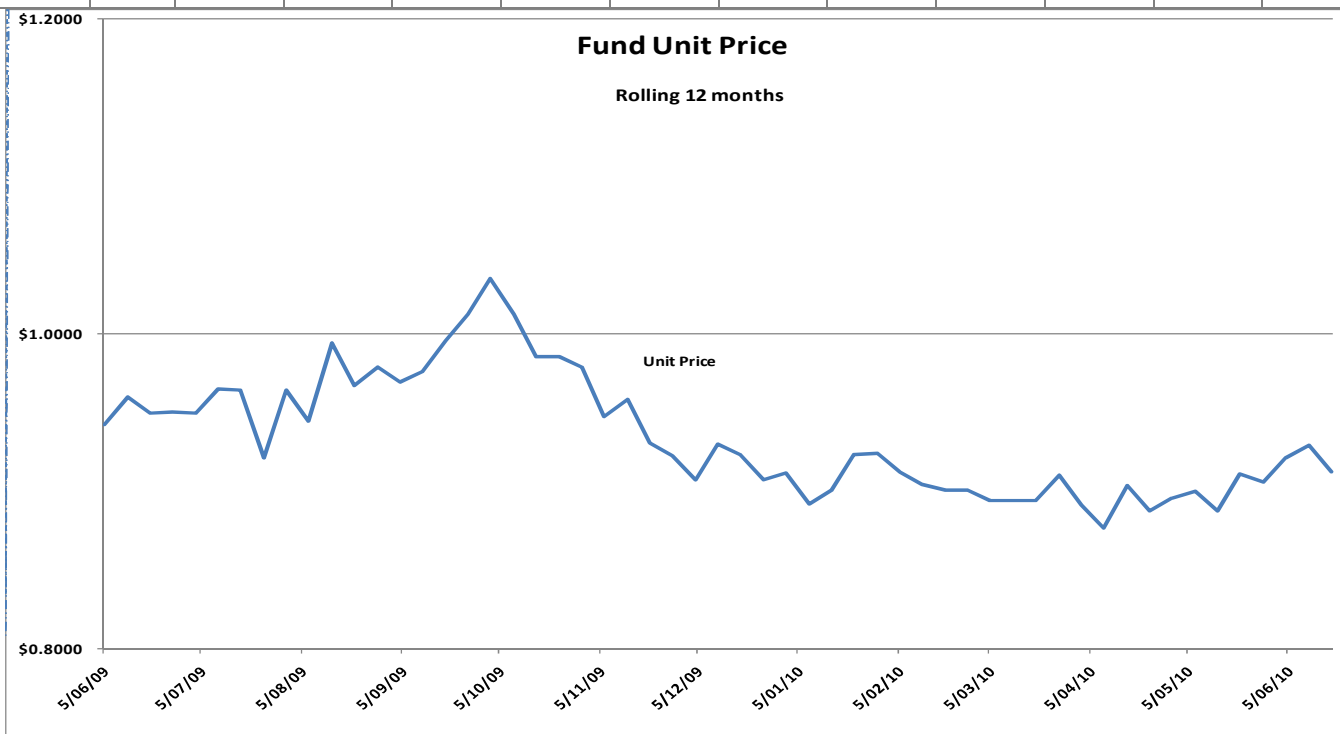
* Based on the standard deviation of monthly returns. Calculations are based on Friday's published unit price as per the TAM website – www.titaniumassetmanagement.com.au

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%	0.8%**						
2009			-12.2%	1.1%	7.7%	7.8%	0.9%	2.6%	5.6%	-6.6%	-4.5%	-3.3%



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Weekly Summary

Author – Peter Rice (C.I.O.)

Again, it has been a relatively quiet week as regards important market and/or economic news for both our market and the US, but both markets again showed gains. Wall Street was up by 2.3% (S&P500), while the ASX200 rose by a more modest 1.1%, but volatility remained very high in both markets.

The biggest story for the week has been the announcement over the weekend that China was to allow the Yuan to be more “actively traded” against other major currencies. Exactly what this means in practice is yet to be detailed, but the greatest likelihood is that the PRC will allow the trading range of the Yuan against the US\$ (and, therefore other currencies as well) to be wider. Ultimately, many in currency markets are hoping that this is a step towards a fully floating Chinese currency.

If anything, it is likely to mean the opposite. The Chinese have been pressured by major markets with a substantial trade deficit with China (which is the US, most of Europe, the UK and most developed economies) to allow the Yuan to appreciate, allowing the trade deficits to be more balanced. It has been widely argued (particularly by US manufacturers) that an undervalued Yuan has been the critical factor in the trade imbalance between China and most of the western world. Certainly, in the current global economic circumstances, if a greater range was allowed for the currency, there seems little doubt that it would rise to the top of that range very quickly, and stay there, but whether or not that means that it is truly “undervalued” is open to question, depending on your perspective.

The effect of such a move would be to immediately make the cost of goods produced in China more expensive, and the cost of goods denominated in currencies such as the US\$ cheaper. This is of particular value to Australia, Brazil and South Africa, who export substantial raw materials to China, and those materials are predominantly priced in US\$.

BUT, let us not forget that China’s prosperity has been founded on providing cheap manufactured goods to the West. A major factor in that export success has been a relatively stable currency relative to that of its major markets. The strength of the Euro since its inception has been one of the reasons why the EEC has become a bigger market than the US over the past few years, but China continues to see the US as the key market.

However, the volatility in the Euro over the past few months will have done little to convince China that a fully-floating currency is a good thing. The price competitiveness of Chinese goods exported to Europe has been hit hard by the depreciation in the Euro, and that will have an impact over the next few months.

There seems little doubt that the Chinese are doing all that they can to release some of the pressure from the US. A widening of the trading band against the Greenback is likely to have little real impact, except in the short term, as the currency will likely only be allowed to move marginally. Given the magnitude of the trade deficit with the US, and the reliance on China as one of the few areas of economic stability and major growth in global terms, It is unlikely that things will be pushed too far. They have already offered capital assistance to both Greece and Spain over the past two weeks in an effort to stabilise the Euro, and the simple fact is that the US also remains critically dependent upon Chinese capital flows to fund the Treasury.

So, what the PRC has done is make what will ultimately prove to be a very modest gesture, at a time when its protagonists are at their weakest in order to remove any more substantial pressure being applied at a time when the battle is somewhat more balanced.

While this may seem cynical an approach, there are a number of reasons why it appears to be a valid conclusion:

1. When the trade balance/Yuan-value issue between the US and China was at its height in the late ‘80’s and early ‘90’s, the Chinese did not budge despite substantial pressure from the US government and manufacturing firms. The Chinese have effectively won that war as more and more US firms have moved manufacturing operations to China, or bought from Chinese suppliers. The same has applied in Europe, with the introduction of the Euro, and its strength up until recently.
2. The link with the US has been the Goose that Laid the Golden Egg for China; they are not going to risk that being taken away from them. While it is a fruitless exercise to estimate exactly what a floating would have done against the US\$ and Euro over the past year, it is fairly safe to suggest that it would have appreciated substantially against virtually every other currency in the world if it had been allowed to. And that would have hurt China’s export competitiveness enormously.
3. China lacks the ability to manage its money supply sufficiently to enable it to manage a floating currency effectively. This is of particular importance when you consider the size of the economy and the population, and the ingenuity of the Chinese people and businesses at getting around controls.

The result: Don’t take too much from this announcement. At the end of the day, it will mean little.

What is also interesting is that there have been profit warnings by a number of US companies ahead of the July/August reporting season in the US. FedEx, several retailers, Nokia and others have suggesting that profits will be below forecasts. This is a concern, for obvious reasons, and is what we have been suggesting as a major threat to the markets as GDP growth has underperformed Wall Street’s expectations.

What was also interesting was comments attributed to a “senior equity trader” on Wall Street that lower profits were “good because it means that companies are spending on infrastructure for the next leg of growth”.

To those of us from an accounting background, this explains why many are cynical about the utterings of “senior traders”. Any



spending on future business infrastructure is capitalised, and as such, has no impact on profits. It may have an impact on cash flow, but not profits. As such, it is a rubbish statement. This is in line with our utterances last week in this report. The simple fact is that a number of major US companies have already indicated that earnings have not recovered as much as expected, and this has been reflected in the soft May retail sales data, and probably June's data as well. If this is widespread, then the upcoming US reporting season may see markets under significant pressure. We may see the same here, but it is likely to be masked by reasonable results from the resources and banking sectors. However, the problem with the resources sector results is that they are already more-than-in-the-price of most stocks, apart from BHP and RIO. BHP continues to underperform the market, which is a surprise: RIO has done better, but now has less upside, but we are holding it in our long portfolio.

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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