TITANIUM ASSET MANAGEMENT

Profile 19th July, 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	3.0%
3 months	3.9 %
6 months	4.2%
1 year	-2.6%
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.	-0.1%
Cumulative returns since inception	-5.9%

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

(12 mth avge.) monthly volatility*	1.7%

* Based on the standard deviation of monthly returns.

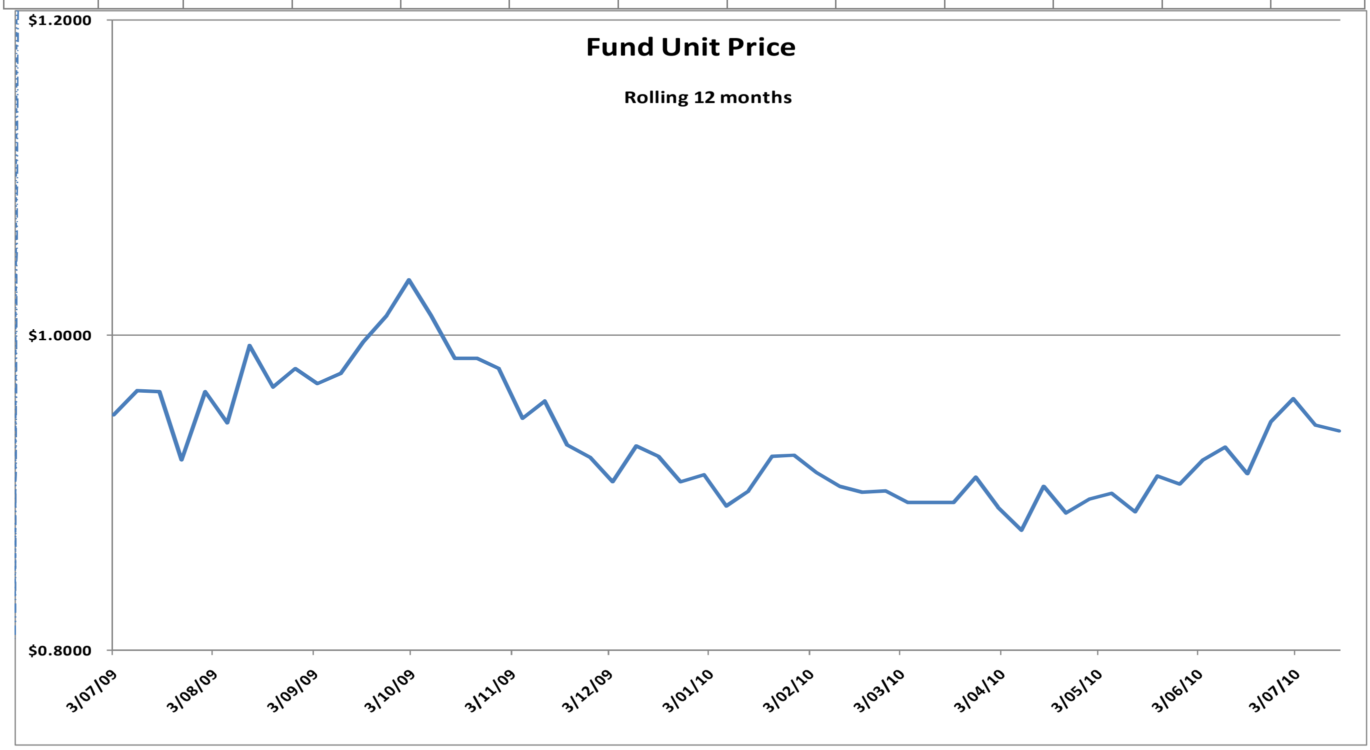
Calculations are based on Friday's published unit price as per the TAM website – www.titaniumassetmanagement.com.au

All returns are calculated net of all fees and charges.

***Performance History:** % based on net **investment** asset values (NAV, 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%	5.6%	-2.2%**					
2009			-12.2%	1.1%	7.7%	7.8%	0.9%	2.6%	5.6%	-6.6%	-4.5%	-3.3%



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

The volatile pattern of markets continues, but from our point-of-view, we saw the US market forced to accept a reality that was both obvious and inevitable. Less-than stellar results from Citigroup and Bank of America announced before the market opened on Friday saw the S&P500 fall by 1.2% for the week. Our market rose by 0.5% over the week, but it seems highly unlikely that such a performance will not be more-than reversed soon after the opening on Monday.

The Fund had a marginally average week, with a fall of 0.4%. However, we are likely to benefit significantly if we see a fall in the Australian market on Monday as expected.

What is interesting about the US market's reaction to both the results and outlook statements from Citi and BoA is that traders and/or investors didn't seem to see the results coming despite the fact that almost every aspect of the results of both companies had been well-and-truly flagged by obvious leading indicators. In fact, the surprise has been that markets have shown any significant optimism in the 3-4 weeks prior to the reporting season at all, given the macro data. If we look at the banks announcements specifically, this becomes fairly obvious. Key features from both announcements were:

A drop in trading income. Since the 1st quarter '09, it has been clear that all of the major US banks have been actively trading stocks (largely, their own and each other's). That has helped in a rising stock market, and was not hidden by the banks. However, the 2nd quarter of '10 has seen the first negative return quarter since the start of the "recovery" from the GFC. As such, it should have been extremely easy for the market to expect a reduction in trading profits, which was announced;

Lower loan revenue. Loan growth in the US has been poor at a macro level since the GFC began, and so it should not have been a shock to anyone that the banks were going to show poor growth in net interest income. Industry loan data is published monthly soon after the end of each month, so there should have been no surprise: and yet.....

Lower bad debt expense. With loan growth negative, then the greatest likelihood is that Q-o-Q bad debt charges will be lower: particularly given the fact that the sector has had almost 2 years to work on cleaning up the mess in their loan books that result in those charges. In addition, there has been some improvement in the economic position over a period of 12 months that should have resulted in bad debt expenses falling. Again, no surprise.....

Impact of new regulatory environment. Both banks made veiled suggestions of their profits being impacted by the new regulations, but details were lacking. Is that a surprise, given the magnitude of the legislation, and the fact that it has not yet been implemented? Of course, the whole aim of the regulation is to restrict the banks from doing things that they have done in the past, otherwise, there is no point. Again, hardly a surprise....

Outlook statements were 'conservative'. Of course they were, given the regulatory changes and the economic data that has been announced over the past 2 months. Any CEO that wasn't circumspect under those circumstances would be branded a fool.....

As such, there was nothing in either result that should have been a surprise to even the most junior of traders/investors or analysts, and yet the market fell almost 3%. To be fair, the fall was helped by a poor consumer confidence survey result that was also announced at the same time, but that survey in published bi-monthly, and has been highly volatile, as you may expect for something that is published so often.

The fundamental surprise, then, is that the market didn't seem to see this coming. In fact, it seemed that the market had been desperately ignoring the conventional leading indicators. This has been a trend for some time, and something that we have discussed repeatedly here, but mainly from an overall index perspective. For example, macroeconomic growth in the US was never going to meet the levels suggested by the rally in the market from March '09, and data has been indicating that since late '09. In addition, this reporting season and the next have been tagged by the macro data for disappointment for months, and yet the market seems to have been so short-term in its perspective that the issues have been skipped over.....until now (maybe). The reporting season has only just begun, so we have to be careful about trying to draw conclusions too early, but it seems to us that a correction was always likely to happen.

The point is that, given the macro data over the past few months, profit results for this quarter in the US should be largely irrelevant to markets unless there is disclosure of stock-specific influences that are not reflected in the macro data: always a fairly significant prospect, but not necessarily wide-spread; it clearly can't apply to the whole market, or even sector, and this is where there appears to have been a significant shift in market behaviour in the past 12-18 months. For the US market to have behaved the way that it has over the past month or so, up until Friday, there has to be a view that every stock is going to have a stock-specific story that will allow it to override the macro influences. All that the market has done is set itself up for disappointment.

Unfortunately, though, this doesn't seem to be restricted to the US market. The key positive for the Australian market has been a recovery in commodity prices, and assumptions of substantial shipments being made at those prices (given that the large miners have agreed to a greater % of sales being at spot pricing rather than fixed contract rates). Therefore, if that is holding up, we should continue to see sustained demand to ship large volumes to its major markets. The major measure of this is the Balkan Dry Bulk Index, which measures the rates being charged on major shipping routes for a variety of dry bulk commodities, such as iron ore, coal, bauxite, wheat and other grains, etc. The major measure of this is the Balkan Dry Bulk Index, which measures the rates being charged on major shipping routes for a variety of dry bulk commodities, such as iron ore, coal, bauxite, wheat and other grains, etc.

As the chart below shows, there has been a substantial fall in the rates being charged since the beginning of June: from an index level of 4200 to a current level of 1730. That represents a fall of almost 60%. The obvious conclusion to be drawn from that data is that demand for dry bulk shipping has collapsed over the past 6 weeks.

From Australia's perspective and for the resources sector in particular, this is a major concern and warning sign. The majority of our major export shipments fall into the dry bulk category. What is interesting is that the current level is not far away from the low seen at the height of the GFC.

With prices having fallen by 60% to be now back at levels pre the2006/8 resources boom, there is a strong suggestion that resource demand has dropped off sharply, and that expectations of near-future demand is also weak (as prices are generally set some weeks prior to shipping).

If that is the case, then there is the real prospect that our market's expectations of a resource-led recovery may well have been exaggerated. If this continues, then there may be a need to significantly reduce profit forecasts for resource sector stocks. If that is the case, it will not be good for our market or for the sector in particular.

Given the situation in the US, there is a clear warning: **ignore the macro data at your peril**.

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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