



**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	1.2%
3 months	7.7 %
6 months	3.6%
1 year	3.86%
2 year average	n/a
3 year average	n/a
Compounded monthly return since incep.	-0.3%
Negative Months in 1 year	4
Rolling average last 12 months p.a.	-0.1%
Cumulative returns since inception	-4.1%

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

(12 mth ave.) monthly volatility*	1.7%
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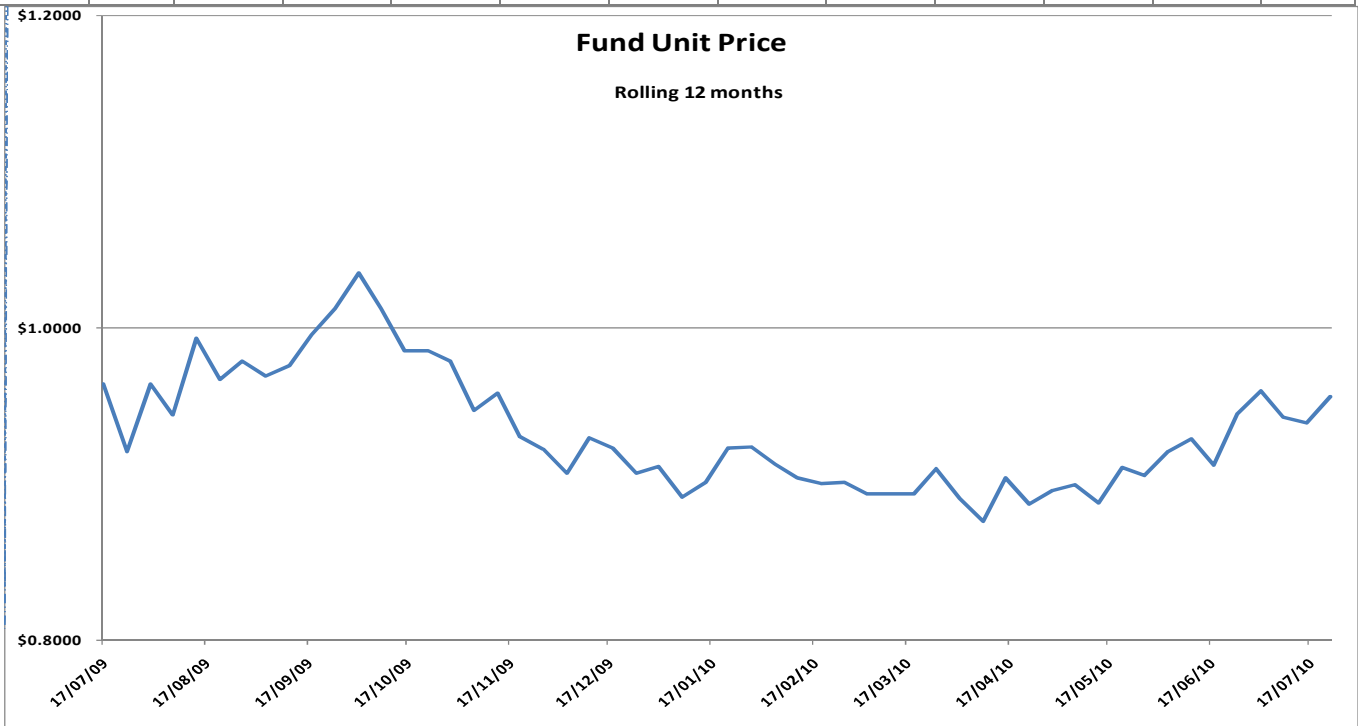
\* Based on the standard deviation of monthly returns. Calculations are based on Friday's published unit price as per the TAM website – [www.titaniumassetmanagement.com.au](http://www.titaniumassetmanagement.com.au)

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%	-0.4%**					
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.

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**Weekly Summary**

**Author – Peter Rice (C.I.O.)**

It was another one of those weeks where sentiment has swung from one extreme to the other in a very short period of time. As we suggested in last week's report, the US market had been hit hard on Friday after some poor results. Here we are a week later, and sentiment appears to have shifted dramatically the other way. As a result, the S&P500 was up by 2.3% for the week, and the ASX200 was up by 0.8%.

By comparison, the fund had a good week, with a gain of 1.8%. This is despite the extreme swings in sentiment that are making things difficult in terms of stock picking. However, we are encouraged by the fact that the fund has done well in an environment where the market's perception of our bread-and-butter (fundamental value of the stock) appears to be switching dramatically on a day-to-day basis.

The short-term nature of market sentiment in the current environment is not making life easy for any investors, and this has been reflected in a substantial drop off in market volumes. As volumes have dropped, volatility has increased, creating a "Catch-22" for markets. Volatility and uncertainty is keeping a significant number of traditional investors on the sideline, which is leaving the market increasingly influenced by short-term traders. Thinner trading volumes are attracting traders in to the market, as they are able to move more aggressively to take advantage of the market volatility. End result: a significantly different market balance than is normal.

If there is such a thing as normal.

To be fair to the US market, though, profit results announced during the week have been generally above expectations. However, that has been the case for the past three quarters, and was the case at the start of this reporting season, but the market remained unimpressed. There was good reason for this: bottom line profits can, and are, easily inflated by the cutting of costs. Obviously, profitability is the key gain for investors, but that needs to be longer term profit gains: not relatively short-term, unsustainable gains in the bottom line achieved by cutting productive capacity.

This is where the problem really exists for equity markets, and it has been the case since the GFC started. One of the key benefits to listed companies of economic problems hitting all economies and companies equally hard is that it has made it much easier to shed productive capacity much more easily than would be the case in a normal economic environment. Unions have little or no justification for attempting to block layoffs and/or plant closures when it has been happening on a global basis. We saw this phenomenon clearly in the 4<sup>th</sup> quarter of 2008, and the 1<sup>st</sup> quarter of 2009 in particular, but the trend has continued, and this continues to be a key trend in the results being announced.

There is, of course, a major downside to this. The simple fact is that the ability to cut costs and productive capacity now means that the economy is going to find it that much more difficult to benefit from the rebound in demand, if and when it comes. This applies to both manufacturing and services industries.

This is particularly the case with finding and retraining qualified staff. One of the key difficulties with the current unemployment situation in the US is that we are already seeing a major escalation in the number of long-term unemployed. This has been a major factor in the Obama administration pushing to extend the period over which unemployment benefits are paid. But the greater concern, beyond the social welfare issues, is the potential loss of qualified and experienced staff to the workforce. The longer that unemployment stays around the 9-10% level in the US, the greater the problem becomes.

And while better-than-expected short term profit results are encouraging, the real issue for markets means a return to growth in business volumes and revenues, which will ultimately have a geared impact on the bottom line.

This is why there was a shift to a focus on revenues rather than bottom line results in the early part of the reporting season, and why there should continue to be such a focus. Revenues are more a reflection of true business growth, and therefore, should be reflective of the economic environment for each company. Unfortunately, though, the reporting of such revenues is a lagging indicator relative to the more-regularly reported macroeconomic data.

And, even more unfortunately from a market perspective, those numbers don't look particularly good in the medium term. Without being too negative on things generally, there has been little from the reporting season that trumps the disappointing macro data for May and June that saw markets turn decidedly negative prior to the start of the reporting season. Results so far have been a distraction, and possibly a welcome one, but they have not provided any real justification for a change in market view from what the macro data suggested. Companies such as Microsoft beat expectations, but that was predominantly due to the product cycle thanks to the launch of Windows 7. Other companies such as Caterpillar and Intel have also seen company-specific factors result in reasonable results BUT those do not override the macro environment.

As such, the key issue at present is for investors to not allow the market's short-term reaction to lagging indicators swamp the leading indicators: it is still very tough out there.

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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:

<b>Company:</b>	Titanium Asset Management Limited	
<b>Author:</b>	Peter Rice (CIO)	Email: <a href="mailto:enquires@titaniumassetmanagement.com.au">enquires@titaniumassetmanagement.com.au</a>
<b>Postal Address:</b>	P.O. Box 1110	Ph: 1300 785 276
	Camden NSW 2570	Fax: (02) 4655 5275

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