



**TITANIUM**  
ASSET MANAGEMENT

# Titanium Asset Management Limited

Profile May 11 2009

**Titanium Asset Management Limited (TAM)** is the Investment Funds Management arm of the **Titanium Financial Services Group**. TAM is fully licensed with ASIC - Australian Financial Service License (AFSL) # 331088, and is the Responsible Entity, Trustee and Manager 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 of a doctoral thesis at a major 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, best-researched and highest-quality 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.

As a result of this process, we have been able to achieve extraordinary and consistent returns in the most difficult of market conditions, with the minimum of investment risk. The concept of the market-neutral fund has been around 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.

Table A

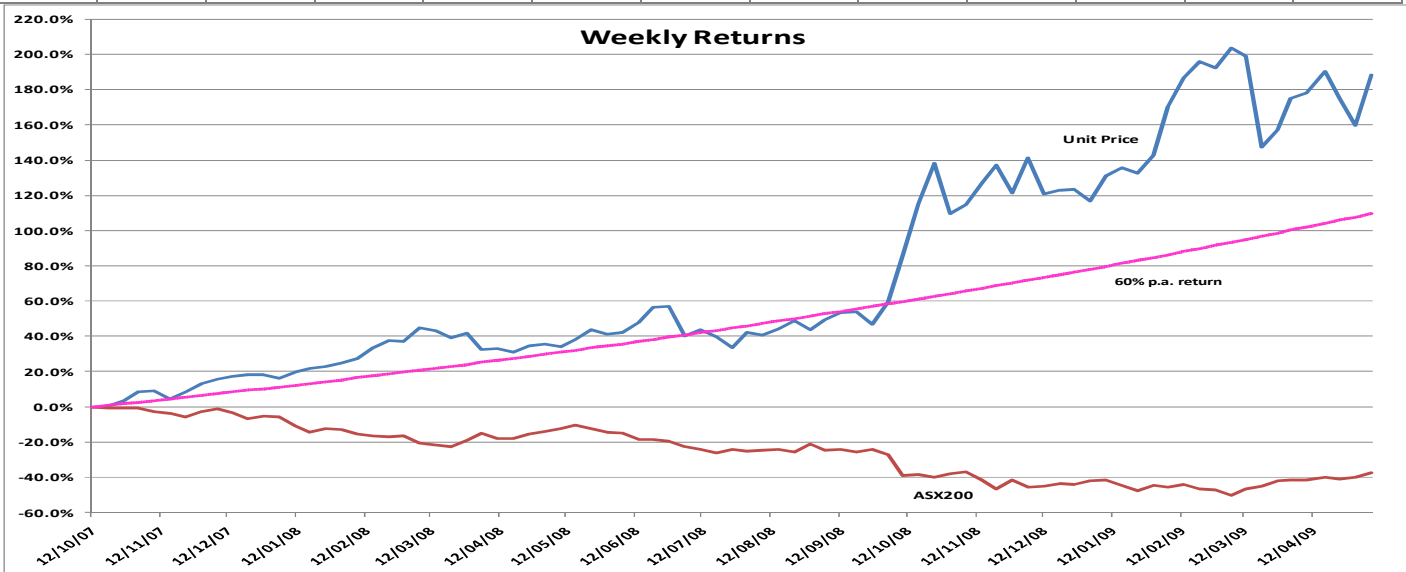
Percentage Returns	
1 month	3.65%
3 months	6.6%
6 months	34.4%
1 year	114.5%
2 year average	n/a
3 year average	n/a
Compounded monthly return since incep.	5.2%
Highest monthly return	42.7%
Negative Months in 1 year	1
Rolling average last 12 months p.a.	114.5%
Cumulative returns since inception	188.1%
Annualised volatility*	10.7%

\* Based on the standard deviation of monthly returns.

Calculations are based on Thursday's published unit price as per the TAM website.

The Table A calculations have been based upon the application of the investment approach and strategies more particularly set out in our published document titled 'Volume and Momentum Monitor'.

Performance History: % based on gross investment asset values (GAV, monthly)												
Class A: Retail (since inception October 2007, based on pre-distribution NAV)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009	8.6%	20.5%	-12.2%	1.1%								
2008	4.0%	9.2%	0.4%	3.2%	3.8%	0.2%	0.6%	2.3%	3.8%	40.2%	2.8%	1.0%
2007	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.6%	12.2%



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.



## Performance Commentary

Our prediction of a quiet few weeks, with little movement in markets over the next month or so, has proved wrong this week with the ASX200 up by a strong 4.5%, and the S&P500 up by a solid 5.9% thanks to a 2% jump on Friday. The reason? Any body's guess!! Positive comments from Bernake on the US economy (even though they were heavily conditional)? The results of the Fed's bank stress testing program (even though it showed that BoA required a massive US\$34bn in additional capital, and that 10 of the major 19 banks required significant additional capital)? Take your pick as a justification for why markets were able to rise significantly, but on my reading of each of those factors, a slightly more cynical interpretation could easily have come to the conclusion that the net effect could have been significantly negative rather than positive. However, from the point of view of the fund, it was a stormer of a week. The unit price rose by approximately 10.9% (based on an estimate of the unit price at Friday's close that is still to be confirmed by the Fund's administrator). Both the long and short portfolios made substantial contributions to the performance over the week, rather than the performance being dominated by the Long Portfolio, as has been the case over the past few weeks.

At the market level, the jump was a surprise; not only to us, but also to most of the brokers that we currently receive research from. Bernake's comments were taken quite positively, but he is a political animal, which makes his comments somewhat suspect. He is a traditional economist in many ways, and at present, there is a major vested interest in trying to create optimism, for the simple reason that the Federal Reserve's main tools for influencing the economy (monetary policy) are basically exhausted.

Thanks to the reputation of his predecessor, the head of the Federal Reserve has become the pre-eminent economic commentator in the US. As such, his comments have become far more important than those of any other commentator/operative in world economics. Given the fact that the Fed is stuck with little left to do thanks to interest rates of effectively zero, the one contribution that he has left to make is to boost confidence. He has clearly taken up that role wholeheartedly based on his comments over the past couple of months. He suggested this week that the US economy would start to recover by the end of the year, but he was surprisingly light on details over how he came to that conclusion. He continued to make the proviso that there was a requirement that the banks start to operate effectively and "normally", but that seems to have been skipped-over by markets (presumably, on the basis that he was in a position to make sure that banks were going to be in a position to do that).

This is where the stress-testing results come in. The market seems to be encouraged that "only" 10 of the top 19 banks need substantial additional capital, and where that was potentially going to come from. What has been poorly disclosed in what the "worst-case scenarios" used in the testing actually are. Obviously, the "worst-case" used will be different for each asset class: residential mortgages, commercial property and other commercial loans, treasury products, derivatives, etc. The definition of "worst case" is very subjective and dependent on a huge range of assumptions. For example, it is difficult to see that any worst case scenario on structured residential mortgage products 12 months ago would have included the possibility that the insurance provider (such as AIG) could have gone broke, and yet that was close to what has happened.

As such, these "stress tests" are highly subjective, and as a result, it is difficult to draw too much of a conclusion from the results, particularly when the head of the Fed Reserve is trying to talk up the economy. We can only hope that the process has been realistic in its process. Even still, the results don't seem all that great. We are looking at potential capital requirements across the Big 19 of well-over \$100bn. While that doesn't seem that much after throwing around "trillions" (does anyone recall having heard trillions being mentioned by anyone who mattered prior to the past 6 months?), it is still a hell of a lot of equity capital in one sector of the market.

As far as the Australian market in concerned, the surprising unemployment data released during the week (a drop from 5.7% to 5.4%, after almost-everyone was expecting an increase to 5.9+%) had limited impact, with even the Federal government suggesting that it was a statistical aberration. However, it does suggest that the stimulus package(s) possibly had more of an impact than even the Government was prepared for. This highlights the problem for economic commentators in an economy that has not seen fiscal pump-priming since the 1970's: we simply do not know exactly how the current Australian economy (or many others, for that matter) will react.

Treasury continues to expect that unemployment will peak at around 8% in about 18 months, but there doesn't appear to be a lot of confidence in that prediction. With The Federal budget out this week, we will get an indication of exactly what the official line will be from Canberra, but the reality is likely to be that there will be a fair amount of "suck-it-and-see" economics: not what the general populace/market wants to see/hear, but a realistic fact-of-life in the current environment. "Volatility", "uncertainty" and "surprise" will continue to be the closest thing to "reality" available for some time.

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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 by telephoning 1 300 785 276 or email your enquiry to Titanium Asset Management Limited at [investments@titaniumassetmanagement.com.au](mailto:investments@titaniumassetmanagement.com.au).

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