



**TITANIUM**  
ASSET MANAGEMENT

# Titanium Asset Management Limited

Profile May 18 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	0.6%
3 months	0.6%
6 months	27.0%
1 year	108.6%
2 year average	n/a
3 year average	n/a
Compounded monthly return since incep.	5.3%
Highest monthly return	42.7%
Negative Months in 1 year	1
Rolling average last 12 months p.a.	108.6%
Cumulative returns since inception	188.2%
Annualised volatility*	10.7%

\* Based on the standard deviation of monthly returns.

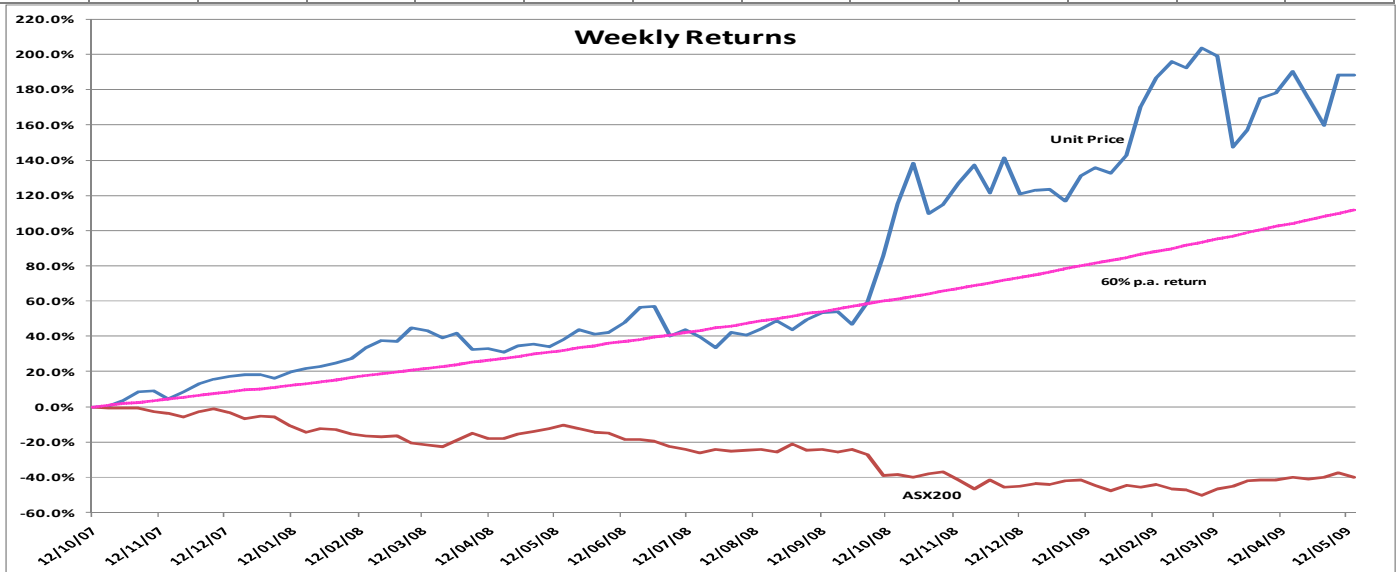
Calculations are based on Thursday's published unit price as per the TAM website.

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
<b>2009</b>	8.6%	20.5%	-12.2%	1.1%								
<b>2008</b>	4.0%	9.2%	0.4%	3.2%	3.8%	0.2%	0.6%	2.3%	3.8%	40.2%	2.8%	1.0%
<b>2007</b>	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

Last report, we thought that we were wrong, but we were mistaken. After suggesting a quiet few weeks, there was a significant jump in the week ending 8<sup>th</sup> May, both the US and Australian markets gave it all back. We are now (in both markets) back to where we were two weeks ago. Interestingly, there seems to have been little in the way of fundamental news to prompt either the run up two weeks ago, or last week's pull-back, apart from some less-than-stellar retail sales data released in the US on Wednesday (but it is difficult to say that it wasn't expected). We had slightly more of an excuse to give up gains after renewed softness in metal prices.

Regardless, it has been a good two weeks for the Fund. We have managed to hold our gains from last week despite the fall in the market. The unit price was effectively unchanged (up by 0.15%) against a 4.3% fall in the market. The result is that the unit price has risen by just over 11% against a 0.1% increase for the market over the fortnight. It did, unfortunately, come the after the fall of 6% in the week before thanks to the LNN takeover and ABB bid, but the process is continuing to work well in the current uncertain environment.

An issue of note this week was the speculation and volatility in trading of RIO. On Thursday, the market's second largest stock fell by a massive 11.7% after it was speculated that the company may well abandon the Chinalco deal in favour of a substantial rights issue. This came after it was reported that RIO had been looking at potential additional sources of funds in the UK and international markets. In this kind of market, that was obviously not good, even though business commonsense says that you always ensure to at least make sure that there is a Plan B in the event of Plan A not going as hoped (which, in this case given the cross-border political issues and global economic uncertainty, is always a possibility).

Even given the issues, the market move on Thursday was a surprise. An 11.7% drop is a \$9.6bn decrease in the total market value of the ASX200, and we were starting to wonder if our long position in RIO was in jeopardy.

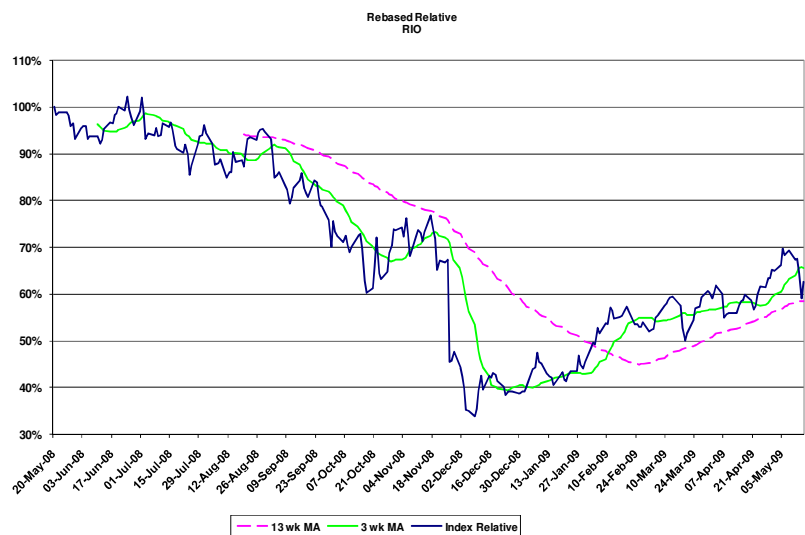
But in this market, 24 hours is a long time, and with the US Government confirming that they would not oppose the deal from a regulatory perspective, the stock rebounded by 7.5% on Friday (after having been up 9% at one stage).

What is interesting from the point of view of our process was the fact that the market relative price had run ahead of the trend line (the dashed pink line on the chart) which made it technically vulnerable to a trading correction. What is even more interesting is the fact that Thursday's close on a market-relative basis was right on the trend line, and that the stock rebounded off of that trend line quite sharply after it was given an excuse to.

Clearly, the market trading position, as illustrated by the chart, is not the only (or even dominant) issue involving the trading of the stock. However, it does appear to be an interesting coincidence that the trend line that we are using (which is a market-relative trend, rather than an absolute price trend) does appear to have held up. Additionally, during the run up in the market-relative price since breaking the trend line in late January, the short term corrections have tended to only bring the market-relative back to trend.

The primary difficulty with speculation over corporate transactions (or the failure of such transactions, as the case may be) is that quantifying the fundamental impact on market price in any justifiable way is impossible, and as such, we don't try. Our justification for buying RIO when we did (in late January) was based purely on the valuation process that we have used for the stock and the market-relative price trend chart. That rationale has held up independently of the corporate deal speculation. If it doesn't, we aren't interested in the stock.

As regards the market outlook, there is little new on the horizon, so we reiterate our expectations of a quiet few weeks; at least, from a fundamental perspective. It is, however, a traders market so there will be volatility. If anything, the risk is starting to feel greater on the down (rather than up) side, but we are not taking a view either way and remain neutral.



If you would like further information please visit our website at [www.titaniumassetmanagementsft.com.au](http://www.titaniumassetmanagementsft.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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