



**TITANIUM**  
ASSET MANAGEMENT

# Titanium Asset Management Limited

Profile 15th June, 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	4.0%
3 months	1.2%
6 months	37.0%
1 year	104.6%
2 year average	n/a
3 year average	n/a
Compounded monthly return since incep.	5.5%
Highest monthly return	40.2%
Negative Months in 1 year	1
Rolling average last 12 months p.a.	104.6%
Cumulative returns since inception	202.6%
Annualised volatility*	10.9%

\* Based on the standard deviation of monthly returns.

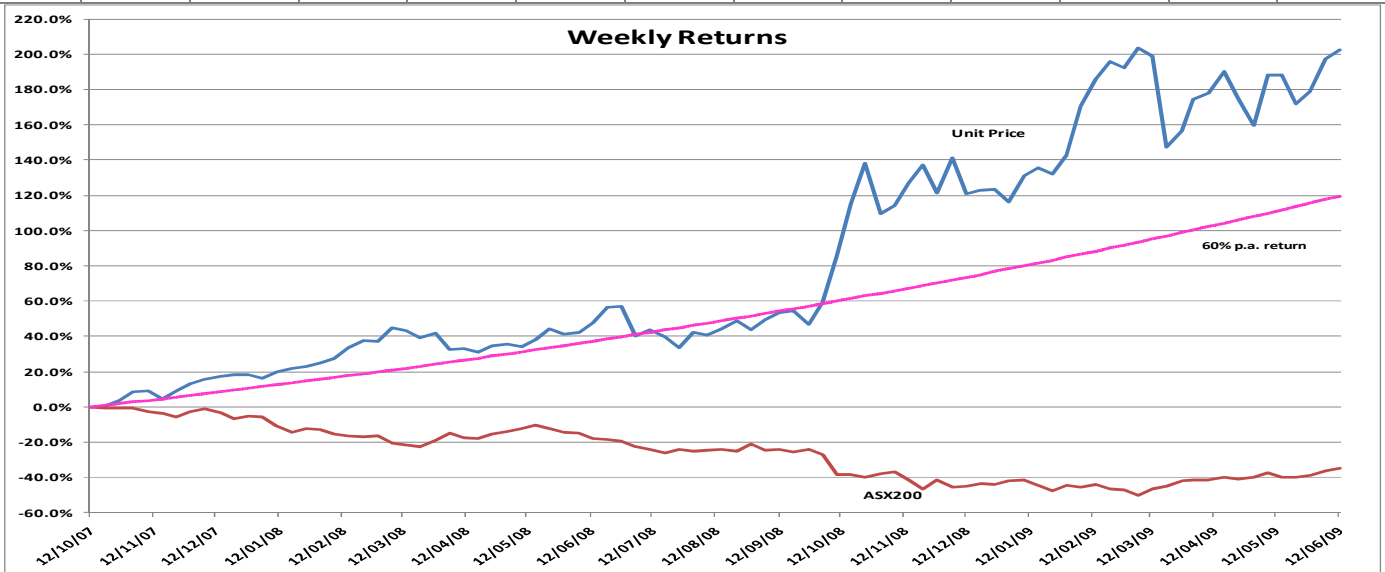
Calculations are based on Thursday's published unit price as per the TAM website.

The Table A calculations have been based upon the published unit price of the Fund and application of the investment approach and strategies set out in the appendix to the ASX200 All Weather Fund PDS. Refer to the website.

**Performance History:** % based on gross investment asset values (GAV, monthly)

**Class A: Retail** (since inception October 2007, based on pre-distribution NAV) \*\* MTD return.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>2009</b>	8.6%	20.5%	-12.2%	1.1%	7.7%	8.4%**						
<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%



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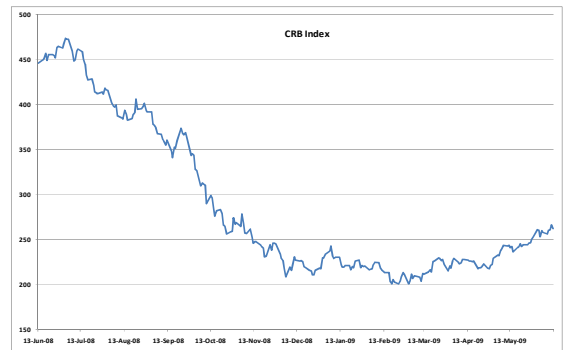
## Performance Commentary

It was a very quiet week by recent standards in global equity markets, with the S&P500 up by a modest 0.6%, when even the daily moves were modest. Rather than the recent jumps on one day, followed by significant retracements, the biggest move in the S&P for the week was 5 points on Thursday. Economic news was thin on the ground, and the active traders seemed reluctant to attempt to push the market one way or the other.

By comparison, the ASX200 was positively buoyant, rising by a reasonable 2.3% for the week. The reason for a stronger performance locally over that seen on Wall Street appears to predominantly be the boost in commodity prices over the past few weeks, and our much greater market exposure to that sector. That, along with the RIO/BHP iron ore joint venture, provided a modest spark to the local market beyond that offered by the US market. Whether that additional optimism is justified and can be maintained is open to question, which we will address below, but for now, it is a pleasant help for our market.

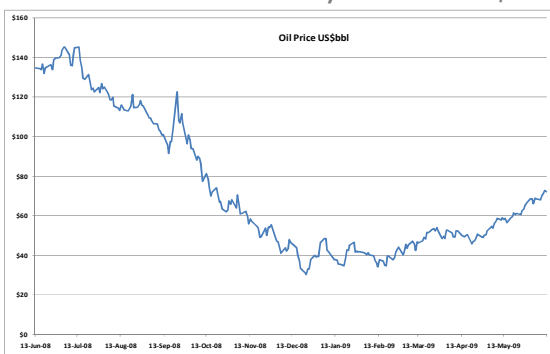
From the Fund's perspective, it was another good week, with the unit price increasing by 1.8% to just under \$0.96. That saw us under-perform the Index for the week, but it has boosted our return for the month to 8.4% against a 6.4% return for the ASX200.

The boost in the Australian market over the past week or so has been attributed to a boost in commodity prices. The Commodity Research Bureau (CRB) Spot Price Index (see Chart on right) bottomed in March, and this was seen as a significant factor in the sharp turn around that we saw in our market at the same time. The Index has continued to recover steadily, despite the fact that there remains little clear evidence that the worst is over for the World economy, and the availability of credit to finance mining operations remains in short supply. The question to ask is, are we simply seeing a recovery from an over-sold position in February/March that is likely to plateau shortly, or are spot commodity markets really seeing something that the rest of the World's economists are yet to identify?



One of the key issues here is that commodities are now as much of the speculative financial investment world as are equity and bond markets. In fact, it was recently suggested that as much as 80% of the total turnover on global spot and forward commodity markets is attributable to speculative demand rather than end user/supplier demand. For currencies, that figure is over 90%, and has been for over 20 years. As such, is there real demand for the underlying commodities, or is there simply demand from speculators betting on a recovery in demand at some stage in the future? At this stage, it is difficult to tell, but it is possible to get some feel by looking at possibly the most traded global commodity: oil.

Oil, like other commodities, was hit hard by the economic crisis. The price fell from over US\$140 bbl in July '08 (10 months after the Credit Crisis started) to a low of US\$30 bbl in late December '08: a fall of almost 80%. Since hitting that low, the current price of US\$72 bbl represents a 131% increase. Clearly, demand has not more than doubled since December '08, and supply certainly hasn't halved. The increase in the price is at least partly attributable to substantial speculative holdings, both before July '08 (and the probability that it was oversold in December) and since as the price has risen substantially.



The difficulty with commodities is that they have no intrinsic value, unlike financial assets such as stocks and bonds. Price is purely a function of supply and demand rather than valuation (as with stocks and bonds). With an increasing portion of demand volumes coming from speculative holdings rather than specific economic determinants of that demand, making a call on commodity prices is difficult. When the price goes up,

we can assume that there are more buyers than sellers, but predicting that additional demand is difficult with the speculators involved.

The Fund has been a beneficiary of both the sharp fall in commodity prices in the later part of last year, and the recovery in resources stocks since March. However the picture in this sector is becoming more uncertain. We have neutralised some of our positions of late as several of the stocks have moved ahead of their valuations, and many of the overvalued stocks have outperformed with little fundamental justification. Unless there are changes in earnings forecasts for the stocks, we are being very careful both on the long and short sides of our portfolios.

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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