

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.

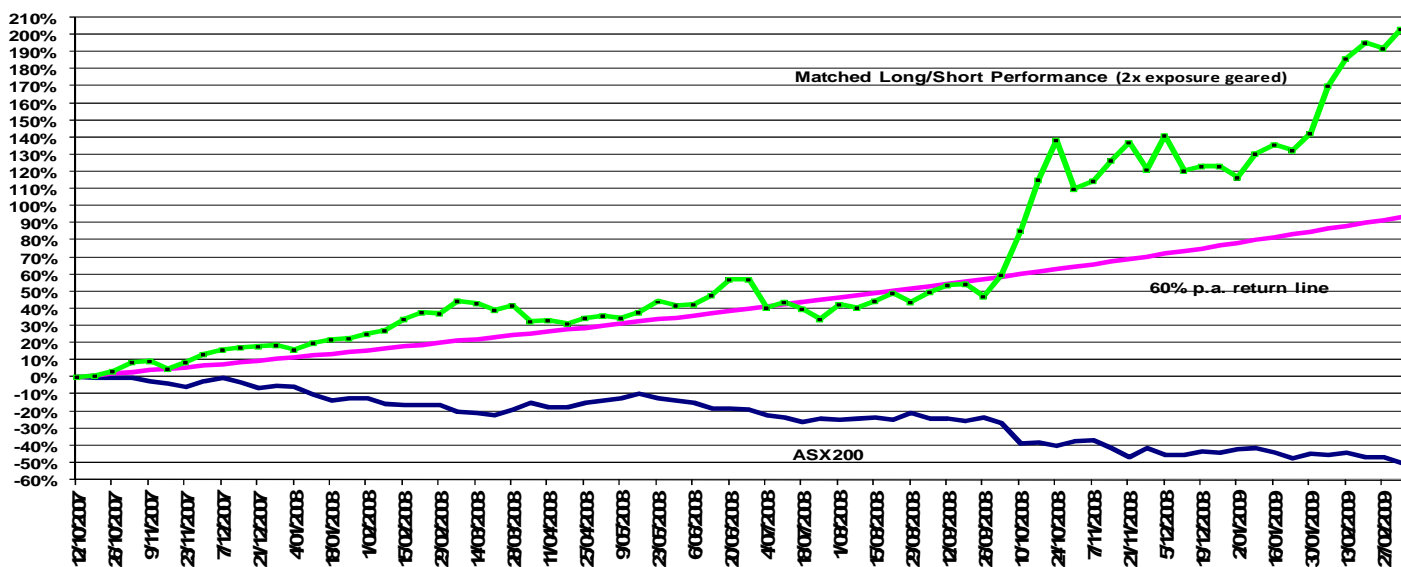
Table A

Percentage Returns	
1 month	12.9%
3 months	25.8%
6 months	103.0%
1 year	109.8%
2 year average	n/a
3 year average	n/a
Compounded monthly return since incep.	6.8%
Highest monthly return	40.2%
Negative Months in 1 year	None
Rolling average last 12 months p.a.	109.8%
Cumulative returns since inception	203.3%
Annualised volatility*	9.8%

\* Based on the standard deviation of monthly returns.

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' and annexed to our PDS.

Performance History: % based on gross investment asset values (GAV, monthly)												
Class A: Retail (since inception October 2007, based on pre-distribution NAV, distributions exceeded earnings in select periods)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009	8.6%	20.5%										
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%



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## Performance Commentary

After the poor performance of the US and Australian equity markets in the week to the 27<sup>th</sup> February, many were hoping that we may be getting close to some sort of bottom; at least, until that worse-than-expected revision to US 4<sup>th</sup> quarter GDP numbers that was released after the market closed. Unfortunately, as we speculated in this report last week, prospects were not good for that to happen; and so, it came to pass. The S&P500 fell by 7% this week to bring losses for the year to an astonishing 24.3% after just 9 weeks. The Australian market did not do much better, with the ASX200 down by 6%, bringing year-to-date losses to 15.5%.

The performance of the TAM All-Weather Fund was better after the poor second half of last week. The unit price rose by 3.8% for the week; from \$0.9268 to \$0.9620 est. (to be confirmed and published on Monday).

Key economic data in both markets continued to be poor: Friday's announcement that the unemployment rate in the US had skyrocketed to 8.1% in February (from estimates of 6.8%) reiterated the phenomena illustrated by last week's revision to GDP numbers: even those closest to what is going on, and with the best data, are unable to keep up with the rate of deterioration in the economic environment that equity markets are currently operating in. Unemployment data in the US is available weekly.

We faced a similar problem with the release of Australian December quarter GDP numbers showed a quarterly fall of 0.5%. Fortunately, no one was prepared to do the usual extrapolation of that quarterly data for the full year, which suggests that if the rate of slowing seen in the 3 months to December continues, Australia will be looking at a negative GDP growth rate approaching 4% for the year. The government and everyone else is hoping that the fiscal stimulus package (which will start to have some impact in this quarter, but more in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters) will slow that considerably, but the numbers in the US, Japan and Europe suggest that it is more than possible. We expect that the package will have more of an impact than has been evident elsewhere for the simple reason that we have been able to implement more effective monetary stimulus than some other economies, which means that the ability of fiscal policy to have an impact it is greater, but the rate of slowing is likely to be considerably worse than anyone is publically prepared to admit.

In addition, we are starting to see the phenomenon that we forecast in early January; that unemployment would start to escalate in the 1<sup>st</sup> quarter. Now, with the reporting of a quarter of negative GDP growth providing vindication for the cutting of more jobs, we expect to see those job losses begin to accelerate. The reality is that we are now looking at the February unemployment number showing a national unemployment rate of over 5%, with 6% by the end of the 2<sup>nd</sup> quarter a very strong prospect. When that happens, expect to see a further downward leg in overall economic numbers as consumers begin to really tighten their belts, and companies are forced to escalate provisions for asset write-offs and increased provisioning from the banks (in particular).

What has been highlighted this week is just how important macroeconomic data is to equity markets; something that has been underestimated by practitioners. Many commentators have often taken the view that macro data is a lagging indicator for markets, but it is difficult to take that view based on the evidence of what we are seeing at present. Current conditions make that more of an issue than it has been in the past due to the uncertainty at all levels of business and economics, and the fact that economic data is independent of the views of individual business managements that market analysts generally rely upon. And with economic data available more quickly and more consistently than corporate data, it is not difficult to understand why markets are much more sensitive to such data than they may have been in the past.

Many in the markets are continuing to look for some indication of a bottom, but we are now in increasingly new territory as historical low after historical low is set and reset. Part of the equation that is grossly underappreciated in the analysis of markets is the equity risk premium, the measurement of which (in any useful context) has been impossible to establish. This is a key component of the TAM Investment Process, and our market level analysis suggests that the market premium is now as high as it has been in the past 40 years; not only in Australia, but also in other major global markets. Our current estimate is that it is between 11% and 12% for the ASX200; the highest level in our recent history, and more than twice the level that it was in June '07. With earnings growth having gone from 17% p.a. in '07, to -6% for '09, some indication of why markets have fallen as far as they have can be at least partially understood.

The big question then becomes how much further will earnings fall, and how much more will the risk premium rise? Until there is a clear indication that the worst is over for both of these key variables, calling a market bottom is impossible. Equally as important is when there is going to be sufficient change for both factors to significantly improve, and that looks even further away. We look set to stay at-or-near the bottom for some time yet.

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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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