March 2009 NTA Release

1. Details of Performance and Net Asset Backing at Month end

The net asset backing ("**NTA**") of Fat Prophets Australia Fund Limited ("**Fat Fund**") as at 31 March 2009 was **$0.8244 per share** on a before tax basis, calculated in accordance with ASX Listing Rule 19:12, and represents an increase of 11.60% over the month. By comparison, the Fat Fund's benchmark, the S&P/ASX 300 Accumulation Index firmed 8.07% in March 2009.

After adjusting for the impact of taxation on both realised and unrealised gains, the Fat Fund's after tax NTA at the end of March 2009 was **$0.8977 per share**.

2. Performance Commentary

The major influences on the Fat Fund's performance versus the benchmark during the month of March 2009 were as follows (* denotes acquired during month):

Positive Influences			**Negative Influences**		
Company	***% move***	***Position***	***Company***	***% move***	***Position***
SP Telemedia	85%	Overweight	Macquarie Group	59%	Underweight
Telstra	-10%	Underweight	GPT Group	-7%	Overweight
W.H Soul Pattinson	26%	Overweight	Allco Equity Partners	-2.5%	Overweight
CSL Limited	-11%	Underweight	Beach Petroleum	2%	Overweight
Guinness Peat Group	33%	Overweight	QBE	1%	Overweight

The Fat Fund registered strong performance in both absolute and relative (to benchmark) terms, as global markets rallied in a powerful fashion from lows reached in the first week of March. Whilst the ferocity of the rally has shocked many commentators, it needs to be seen in the context of the extremely oversold levels of the market at that juncture. The major Australian indices were some 26-27% below their 200 day moving averages, whilst the widely followed Dow Jones Industrial Averages were some one third below this smoothed trend.

As this rally has developed, investors have increasingly looked to leverage what they believed to be the more positive influences which were starting to develop. In the main, three key themes have been propagated: economic statistics becoming "less worse", some pick-ups in the Chinese economy and a developing optimism that the US and global banking systems have seen their worst with Government and regulators finally coming up with practical solutions to the maelstrom of illiquid loans and assets.

As we have noted previously, in this type of environment, certain sectors will exhibit far greater "beta" (or leverage to the market's benchmark) than otherwise be perceived to be the case; moreover, sectors which might be traditionally inversely correlated (i.e. one underperforms as the other outperforms) are now working in tandem. The charts below show clearly that whilst resources shares (perversely) outperformed through the financial crisis, they have continued to do so as banking stocks have rallied 25% relative to the wider market.

S&P/ASX300 banks versus S&P/ASX300*

S&P/ASX300 materials versus S&P/ASX300*

** accumulation (i.e. price + dividends) basis over one year*

We are being careful to ensure we are not simply double (plus) leveraging the same factors within the portfolio; there is an admission that the positive restocking influences of China – directly impacting on resources – are feeding through, together with Government initiatives, to a greater "feel good" factor within the financial system. However, Australian banking shares do have a number of their own themes at present, dominated by the strong growth in profit before bad debt charge offs, and the clear domination the Big Four now have of the system. Ring Bendigo and Adelaide Bank if you disagree.

Whilst it's no surprise that the "long resources/long banks" strategy has worked very effectively over the past two or three months, this strategy has laid on top of a portfolio of very cheap "discount to asset" situations which have now started to be recognised, as investors start to accept a slightly higher risk profile than was the case a month or two ago. Moreover, a number of these asset situations were also owned by hedge funds, who have become forced sellers of such holdings; the joys of securing an exit into the newly found liquidity, have been tempered by the sky-rocketing share prices upon their departure.

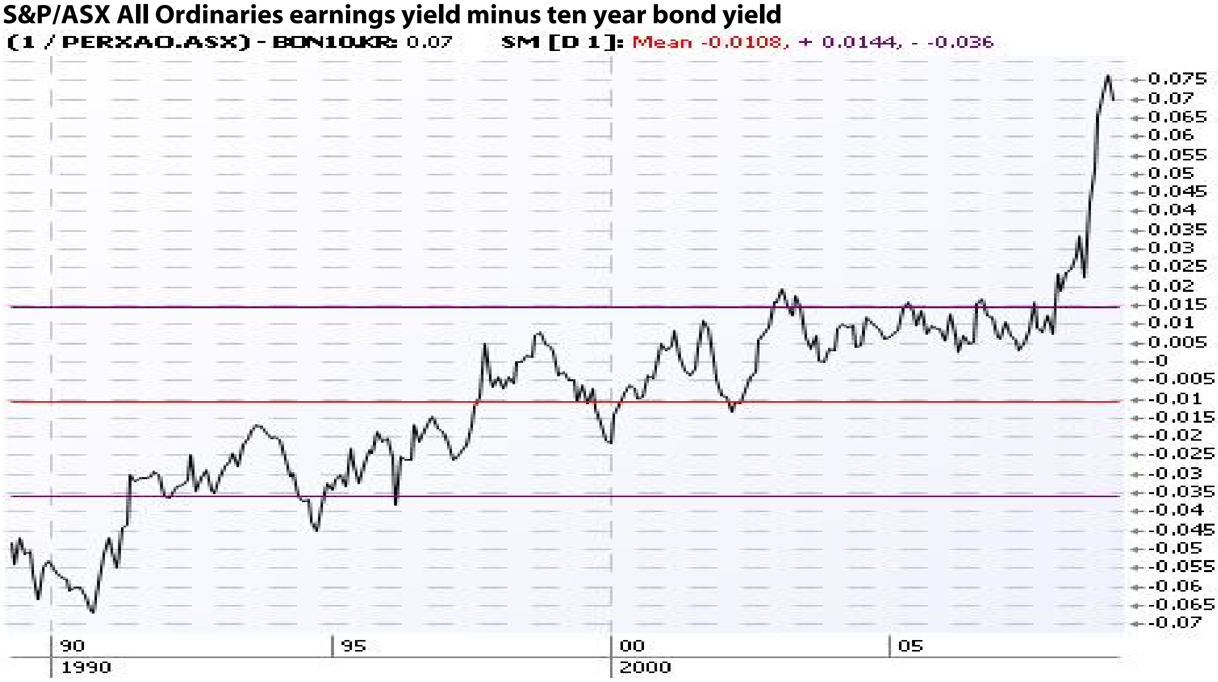
Our best performing asset play in recent weeks – where there are definitely no hedge funds – has been Washington H. Soul Pattinson, where the discount to "market value NTA" (i.e. where all of Soul's shares are valued at market price to place a notional value on the whole company) blew out to as high as 50% before moving in to a more palatable 20-25%. We have taken the top off our position, on these grounds and the fact the stock is increasingly a discounted proxy for New Hope Coal.

Where to from here? There are a number of signals that risk appetites have grown somewhat:

- the performance of smaller company shares, which have outperformed the wider market by around 10% from the March 2009 lows – something which is not just an Australian phenomenon;
- the reduction in levels of volatility indices, most notably the CBOE traded VIX which now resides at levels (36% or so) last seen immediately preceding the Lehman crisis of October 2008;
- stability of interbank-Treasury security spreads;

- partial retracement of junk bond yields against Treasuries, although these spreads remain extraordinary by historical standards; a number of Australian financial institutions, including Macquarie Bank and QBE Insurance – have repurchased lower rated paper at significant discounts to par value for the significant benefit of their equity owners. Macquarie's use of the Australian Government guarantee to effectively fund these manoeuvres has raised a few eyebrows but merely shows the degree of risk aversion which prevailed at the time;
- speculative appetite towards highly leveraged REIT's, low nominal priced securities, leveraged commodity producers and similar asset market linked securities on the ASX, where prices are now multiples of those prevailing at end February.

S&P/ASX All Ordinaries earnings yield minus ten year bond yield



The return of liquidity to the marketplace is certainly ensuring a transition from weak hands, but also suggests that equities could be susceptible to further systemic shocks in the form of major corporate delinquency or further disclosure surprises. This needs to be set against a backdrop of shares being ridiculously cheap in the long term against Government bonds, even if you were to adjust Government bonds for a notional risk premium at the present stage. With historic equity earnings yields (1/PE) some 7% above the ten year bond rate, it is clear we have VALUE on our side.

Despite this, we do continue to be wary of straight domestic cyclical exposures. Some of the traditional plays on eventual economic recovery are suffering from structural changes in their marketplaces (media most obviously, but also airlines, some elements of building products, auto components) or are already priced for eventual recovery and are smartly taking advantage of this by placing new equity. As a consequence, it is unlikely that our general strategy will change in the near term, and that new exposures are more likely to exhibit a globally cyclical or financial market bias.

3. Top 15 Holdings at 31 March 2009

Company	Symbol	% Weighting
BHP Billiton	BHP	15.56
Westpac	WBC	10.82
National Aust. Bank	NAB	8.35
Commonwealth Bank	CBA	7.53
ANZ Bank	ANZ	5.65
QBE Insurance	QBE	4.57
Wesfarmers	WES	3.93
Woolworths	WOW	3.81
Washington H Soul Pattinson & Co Ltd	SOL	3.29
Beach Petroleum	BPT	2.84
Rio Tinto	RIO	2.21
Lihir Gold	LGL	1.95
ALLCO Equity Partners	AEP	1.66
Westfield Group	WDC	1.62
Seven Network	SEV	1.60

Andrew Brown[a] & Steve O'Hanna[a] 14 April 2009

a: Andrew Brown and Steve O'Hanna are employees of Tidewater Investments Limited. A controlled entity of Tidewater Investments Limited, Tidewater Asset Management P/L (AFSL# 302802) currently manages the Fat Fund under a sub-contract agreement dated 24 May 2007 with fat Prophets Funds Management Australia P/L.