June 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 30 June 2009 was **$0.9144 per share** on a before tax basis, calculated in accordance with ASX Listing Rule 19:12, and represents an increase of 3.38% over the month. By comparison, the Fat Fund's benchmark, the S&P/ASX 300 Accumulation Index firmed 3.96% in June 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 June 2009 was **$0.9553 per share**.

2. Performance Commentary

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

Positive Influences			**Negative Influences**		
Company	***% move***	***Position***	***Company***	***% move***	***Position***
Lion Selection	27%	Overweight	Macquarie Grp	23.5%	Underweight
Westpac	7.3%	Overweight	Fortescue Metals	45%	Underweight
Oceana Capital	10%	Overweight	Telstra	9%	Underweight
APN News & Media	13.5%	Overweight	Altium	-17.5%	Overweight
Woodside Pet.	-0.3%	Underweight	Metgasco	-19.5%	Overweight

The month of June 2009 showed all the hallmarks of why we are currently cautious. Further capital raisings in significant quantum by a range of companies allied to outperformance by securities with modest quality of earnings, in our view, show a level of gay abandon amongst investors. We detected a sense of having to jump on the next train out of the station, only to find (in July) that it's a non-stop express to the seedier parts of town, rather than an "all-stations to nirvana" carriage. The unwinding of many share prices in early July, as volumes fall away, is symptomatic of the (legal) level of window dressing which permeated the last month of the financial year.

The biggest concerns we have at present relate not the overall index movements, for a sharp rally in stock prices can easily be justified by the cataclysmic falls of late 2008/early 2009, but the degree to which FEAR has dissipated, even in the US.

Our standard measures of equity and debt fear, whilst by no means back to overall "average" levels, have normalised to a far greater extent than we would have imagined over recent weeks. In the equity area, the VIX index, measuring implied volatility priced into near the money index options on the S&P500, has now settled in the mid 20's percent, having fallen sharply from the high 30's at the start of may 2009, and compares to a long term average of just above 20%. That this fear indicator has fallen from the 85% extremes

in November 2008 is not at issue; what is perplexing is the degree of normalisation, in a very abnormal environment which has taken place.

Similarly, there has been a massive rally in compressing the level of global high yield bond spreads over their Treasury counterparts; again, from never before seen levels of 22% in late 2008, the spread is now just above 12%, having tumbled sharply in May/June. In the long run, 12% spreads are still attractive, but appear a little overshot at this stage of the game, given the prevailing environment of sluggish, in-debt consumers, in-debt Governments trying to issue flaky paper and asset markets yet to show real signs of a clearing mechanism.

The Australian economy appears (ironically) almost hedonistic by comparison, with consumers being more confident, despite reining in spending to a degree that the consumers' proportion of GDP is at its lowest level in years.

The custodians of your money aren't buying the party line about rapid rebounds in company fortunes, despite some near term bonuses by very well run companies in cyclical industries. Most of these announcements in the retail sector are simply the strong taking business away from the weak – a particularly marked phenomenon in many industries at this stage of the cycle. We still see better and potentially safer opportunities in discounted asset markets and in a strategy which together with our gold/oil biased resources exposure provides some type of hedge against the after-effects of the excess liquidity swilling around the system. Just as we thought Armageddon wasn't around the corner at the turn of the New Year, neither do we think that untold riches are on the doorstep =- they need to be sought out over time.

In the past month, our higher quality portfolio underperformed the market benchmarks mainly as a result of the push to cyclicals; ten trading days into July, this has unwound completely. During the month of June, we restructured our property exposures to provide a more diverse approach to a now cheap and de-geared sector – previously, it was just cheap. We have built holdings in Dexus and Mirvac, whilst reducing GPT and Tishman Speyer; we retain a sizeable position in the geared but very cheap Macquarie Office Fund together with a couple of "option stubs". We have also added the de-geared Asciano – a quality set of businesses and assets with a better balance sheet.

The above commentary clearly suggests we expect markets to consolidate through the reporting season which will be qualitatively, rather than quantitatively fascinating

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3. Top 15 Holdings at 30 June 2009

Company	Symbol	% Weighting
BHP Billiton	BHP	13.4
Westpac	WBC	10.45
Commonwealth Bank	CBA	7.70
National Aust. Bank	NAB	7.50
ANZ Bank	ANZ	5.33
Wesfarmers	WES	4.31
QBE Insurance	QBE	4.30
Woolworths	WOW	3.66
CSL Limited	CSL	3.26
Beach Petroleum	BPT	2.32
Newcrest	NCM	1.86
Rio Tinto	RIO	1.86
Lihir Gold	LGL	1.71
Westfield	WDC	1.68
Oceana Capital (formely Allco Eq. Partners)	OCP	1.66

Andrew Brown[a] & Steve O'Hanna[a] 14 July 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.

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