February 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 27 February 2009 was **$0.7387 per share** on a before tax basis, calculated in accordance with ASX Listing Rule 19:12, and represents a decrease of 1.93% over the month. By comparison, the Fat Fund's benchmark, the S&P/ASX 300 Accumulation Index declined by 4.56% in February 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 February 2009 was **$0.8353 per share**.

2. Performance Commentary

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

Positive Influences			**Negative Influences**		
Company	***% move***	***Position***	***Company***	***% move***	***Position***
Westpac	8%	Overweight	GPT Group	-38%	Overweight
Beach Petroleum	11%	Overweight	QBE	-21%	Overweight
Kingsgate Consolid.	28%	Overweight	Guinness Peat Group	-28%	Overweight
Lion Selection	37%	Overweight	Fortescue Metals	49%	Underweight
Coffey	22%	Overweight	Alt. Investment Trust	-26%	Overweight

February 2009 showed conclusively that equities – and analysts - love certainty and delivery; what they received last month was the exact opposite. The result was an amazing level of dispersion of return amongst even the largest securities; around 40 of the Top 100 shares fell by over 10% during the month and nearly 30 stocks in this universe fell by over 20%. These declines were mainly in response to interim earnings announcements, which contained obvious comments regarding the opaque nature of forecasting in the prevailing environment, and withdrawing previous guidance which had been given. The good news for the Fat Fund was that we owned only two of these 40 securities at the relevant time – QBE Insurance and GPT. When added to strong performances from our gold exposure, and the major banks, this provided for an extremely strong relative performance during the month.

Our strategy in the past eighteen months or so has mainly been to supplement the "bar-bell" banking/resources overweight in the Top 100 shares with some appropriate smaller companies and "discount to asset" situations. This has had variable results – the non property "discount" plays have worked very well; the property ones obviously have not. In the main, our Top 100 stock picking has been very good. In February, arguably it reached a short term zenith with a multitude of large securities which we don't own, and which we have regarded as being overpriced, fell precipitously. These securities have mainly been in (non financial) services, manufacturing and domestic cyclicals. We are very gradually starting to reduce these underweight positions and now have in excess of 70% of the portfolio in Top 100 securities – indeed mainly Top 50 stocks.

There are some very tentative signs that sentiment is reaching a nadir which might provide hopes of a trading rally. Aside from a number of technical indicators which have reached very oversold levels in the short term – virtually guaranteeing a rally irrespective of fundamentals – there are other more psychological signs. Commentary has been very non specific but extremely bearish in tone, with analysts taking extreme positions, looking for the bearish angle on even well run companies. In our portfolio, the best case in point is **QBE Insurance**, where the depth of analysis is so detailed, that it has become "trees" – missing the wood. The basics are that this company's insurance business is now available at a taxed P/E of about 6.4x. At the current market capitalisation of $16.5billion or so, this implies "goodwill" of about $10.9billion over the $5.7billion of tangible equity. This "goodwill" is the value of a $13billion earned premium insurance and reinsurance business, which without any help from shareholders equity, should generate around $2.15billion of pre tax profit in calendar 2009. Based on various overseas tax shields, at a tax rate of 20%, this is about $1.7billion of notional net profit, which you pay less than $11billion to own. Yet the analysis has all focused on minutiae of percentages of reserve releases, and the fact that in an amazingly volatile environment both for claims, currencies and interest rates, the company revised down its forecast insurance margin – arguably, mainly due to the low returns on its reserves or "float". We remain massively overweight these type of financials which have pricing power, access to capital, impressive management and weakened competitors. Not much different to Australian banks, with newly lowered, but still attractive dividend rates.

During the month we sold our **IAG** shares prior to the major claims and capital raising events; we have acquired a new position in another quality company, **Westfield Group**, after the major price decline.

3. Top 15 Holdings at 27 February 2009

Company	Symbol	% Weighting
BHP Billiton	BHP	15.58
Westpac	WBC	10.60
National Aust. Bank	NAB	8.23
Commonwealth Bank	CBA	7.15
Woolworths	WOW	5.35
ANZ Bank	ANZ	5.29
QBE Insurance	QBE	5.00
Wesfarmers	WES	4.07
Beach Petroleum	BPT	3.27
Washington H Soul Pattinson & Co LT	SOL	2.88
Rio Tinto	RIO	2.04
Westfield Group	WDC	1.91
ALLCO Equity Partners	AEP	1.89
Lihir Gold	LGL	1.81
Seven Network	SEV	1.67

Andrew Brown[a] & Steve O'Hanna[a] 13 March 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.