March 2010 NTA Release

Dear Shareholders,

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 the end of March 2010 was **$1.1871 per share**, before tax basis, calculated in accordance with ASX Listing Rule 19:12, and represents a **increase of 5.78**% over the month. By comparison, the Fat Fund's benchmark, the S&P/ASX 300 Accumulation **Index firmed 5.74%** over the same period.

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 2010 was **$1.1256 per share**.

2. Performance Commentary

The major influences on the Fat Fund's performance versus its benchmark during the month of March were as follows;

Positive Influences			**Negative Influences**		
Company	***% move***	***Position***	***Company***	***% move***	***Position***
Magellan Financial	19%	Overweight	Premier Invest	-7%	Overweight
Lihir Gold	14%	Overweight	Oceania Capital	-6%	Overweight
Atlas Iron	21%	Overweight	BT Investment Mgt	-5%	Overweight
Nkwe Platinum	18%	Overweight	Kingsgate Gold	-3%	Overweight
Origin Energy	-2%	Underweight	QBE Insurance	-3%	Overweight

The Global Financial Crisis or GFC, now one year on, will cast a long shadow. In the year to date we have started to witness emerging signs of 'sovereign stress', as government balance sheets continue to expand in an effort to reflate their respective economies. There has been much press over the last few months on the crisis in Greece. The Greek example is in our view a microcosm of what is playing out in the US, UK and indeed other European member states. One feature of the Greek crisis that is becoming more prevalent amongst major indebted nations is that yields are forcibly on the rise as confidence in their respective economies falls.

Bonds, which have been one of the better performing asset classes in the past two decades, have enjoyed a secular bull market. However we are of the view that best days for longer dated fixed interest investments are behind us, and that the bond market will be characterised by a lengthy bear market over the next five to ten years. Greek government bonds are then perhaps omnisciently the 'canary in the coalmine" with yields already double that of Germany.

Higher interest rates have more severe repercussions for indebted nations. As interest rates rise, an increasing proportion of GDP has to be allocated towards servicing debt. News that the stronger European nations such as Germany and the IMF may step in is scarily reminiscent of Argentina in 2001. That comparison is even more worrisome when one considers that Greece's debt to GDP is 114% versus

Argentina's which was 62% at the time. Like Argentina, Greece is will be unable to print currency or inflate the money supply to repay creditors. Only a lowering of spending and overall living standards will succeed for Greece, but given the political ramifications, this is much easier said than done. We continue to believe that Greece and certain other nations, run a high risk of defaulting on debt obligations at some point in the future.

At the other end of the economic spectrum, rising yields are also a feature of the US bond market, where purchasers of bonds issued by the US Treasury are demanding a higher return. This can have potentially serious implications for equity markets. Most equity market corrections in the past few decades (1987, 1994, 1998, 2000, 2007 and 2008) were preceded by what turned out to be a brief but significant spike in yields. The more overvalued the stock market, the greater the downside risks if the interest cycle shifts to the upside and rising fixed income returns become more attractive.

Notwithstanding the threat of rising interest rates in Australia and abroad, the domestic equity market appears reasonably priced overall. What does concern us however is the uneven nature of the domestic economic recovery and how the RBA appears intent on choking the life out of non- resources related sectors. The services sector, the largest sector of the Australian economy, is underperforming for the 3rd consecutive month, with the PSI index[1] reading below 50 indicating a contraction is underway. The last time the RBA lifted rates to more than 8% back in 2008, a sharp contrast emerged in the economic performance of NSW and Victoria which dramatically struggled alongside the more fortunate resource endowed states.

The level of complacency concerns us. This complacency is reflected in the low level of the VIX index currently falling below the 20 year median, and below the pre-GFC levels in 2008 – in itself, a very telling sign. All that said we remain cautious and have been building our cash levels and taking profits in anticipation of better value emerging in the near term. We have identified a number of interesting prospects but valuations presently are a little too stretched.

In terms of the portfolio we continued to build our exposure in precious metals, adding Coeur D'Alene, a silver producer along with adding to existing positions in Kingsgate and Lihir. This proved to be very timely given the opportunistic takeover offer from Newcrest. Lihir is now closer to a level we consider to be fairly valued. The first shot is seldom the last in any takeover battle! We believe there is further to go in Lihir's case with a world class asset now effectively in play. We do believe however a Newcrest / Lihir merger is in shareholders best interests and will create a world class gold producer that will be one of Australia's largest companies.

In terms of raising cash, we sold our position in Seven Network following the merger announcement with Westrac. Seven appealed to us as a cheap asset play with vast cash reserves. This will effectively be cancelled out by the merger as Westrac brings with it considerable debt. We have exited this position at a profit.

[1] The Australian Industry Group – Commonwealth Bank Australian Performance of Services Index ®

3. Top 15 Holdings at 31st March 2010

Company	Symbol	% Weighting
BHP Billiton	BHP	15.0
Westpac Bank	WBC	9.0
Commonwealth Bank	CBA	7.6
ANZ Bank	ANZ	6.7
National Australia Bank	NAB	6.2
Rio Tinto	RIO	4.0
QBE Insurance	QBE	3.7
Wesfarmers	WES	3.4
Woolworths	WOW	3.2
CSL Limted	CSL	3.0
Telstra	TLS	2.9
Lihir Gold	LGL	2.6
Woodside Petroleum	WPL	2.1
Santos	STO	2.0
Magellan Financial Group	MFG	1.8

Angus Geddes & Steve O'Hanna
Fat Prophets Funds Management Australia

15 April 2010

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