



fatPROPHETS™

January 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 January 2010 was **\$1.1314 per share** on a before tax basis, calculated in accordance with ASX Listing Rule 19:12, and represents a decline of **5.73%** over the month. By comparison, the Fat Fund's benchmark, the S&P/ASX 300 Accumulation Index declined **6.17%** 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 January 2010 was **\$1.1006 per share**.

2. Performance Commentary

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

Positive Influences			Negative Influences		
<i>Company</i>	<i>% move</i>	<i>Position</i>	<i>Company</i>	<i>% move</i>	<i>Position</i>
Oceania Capital	0.7%	Overweight	Lihir Gold	-15%	Overweight
Kingsgate	0.5%	Overweight	Macquarie Group	3.6%	Underweight
BT Investment Mgt	0.3%	Overweight	QBE Insurance	-10%	Overweight
WorleyParsons	-18%	Underweight	Suncorp	2.4%	Underweight
Coffey	0.9%	Overweight	Westfield	0.8%	Underweight

Equity markets started the year very nervously experiencing the greatest fall (6.2%) since the height of the financial crisis in November 2008. The local market underperformed global peers falling some 2% more than the S&P 500 and the MSCI global index. We mentioned last month that an overheating Chinese economy is a clear risk to commodity prices and the Australian economy and it comes as no surprise then that the resources sector significantly (-9.5%) underperformed the All Industrials sector (-4.8%) in January.

We see tightening monetary policy in China and related measures such as lifting banks capital ratios as a stabilising influence and therefore extremely positive over the longer term. We have all collectively experienced first hand over the past 2 years, the dangers of Central Banks keeping monetary policy settings too loose for too long.

Chinese credit growth on the back of massive stimulus has seen domestic asset prices rise steeply and thus become unstable. We don't have to point out that asset price bubbles are potentially very dangerous and we all know what happened in the US with lax regulation around residential mortgages. China is attempting to control the quality of loans as well as quantity, which is very encouraging. Equally, we have also been heartened by the actions of the RBA, one of the few central banks in the world to actually increase interest rates to counter the inflationary effects of the stimulus.

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We continue to believe the gold sector offers value having underperformed relative to the gold price. Since taking over the management of the fund in November last year, we have steadily increased our position in the precious metals sector to nearly 7.5% of the portfolio. The latest concerns over Greece and other countries in Europe are very real in our opinion, with current account deficits rising to an alarming proportion of GDP. Sovereign risk is likely to continue rising this year as some countries have to continue rapidly borrowing to fund stimulus efforts. It is probable in our view the balance sheets of central banks will continue to expand over the medium term with the ongoing attempts to reflate. This will have a negative impact at some point on bond valuations, and we see interest rates rising as the market prices in a greater risk premium and also the potential for future inflation. Gold should perform well in this environment.

There has been very little activity in the portfolio since the last NTA update. We have exited a small position in Norton Goldfields the same day the company announced its MD and CFO had left the company. We saw this as an ominous sign that would likely weigh heavily on the share price, which it did. The position was exited at a small loss, with the shares now significantly lower. We switched from Norton into Ramelius Resources which owns 100% of the very high grade, low cost Wattle Dam mine in WA. Ramelius has a market cap of approx \$180m, has no debt, approximately \$26m in cash and bullion and owns a 37.5% stake in Dioro which is worth approximately \$41m. Forecast to produce 6000 ounces last quarter they produced 20k oz at a total cost of \$420 oz (including capital expenditure and royalties). The company has been very conservative with their mine modelling and have underestimated the grade and most probably the width of the ore body. Ramelius is expected to post pre-tax profit for the half year of \$15m. We expect very strong cash flows to continue as underground development progresses. If we back out Ramelius' cash position and their stake in Dioro (now being sold to Avoca), the shares are priced on a very low single digit free cash flow multiple, which we believe is compelling.

The other addition to the portfolio was Atlas Iron limited. This is an emerging West Australian based iron ore producer. We see a robust demand environment for iron ore continuing over the next couple of years and we are drawn to Atlas because it has near term production growth, a healthy discount to our valuation, low capital expenditure requirements and perhaps most importantly, a 6 million TPA port allocation at Port Hedland. Iron re prices should firm over the coming period which bodes well for Atlas during its ramp up phase.

We will be releasing our half yearly report this month and will take that opportunity to update shareholders further.

We thank you for your continued support.



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3. Top 15 Holdings at 31st January 2010

Company	Symbol	% Weighting
BHP Billiton	BHP	14.0
Commonwealth Bank	CBA	8.9
Westpac Bank	WBC	8.1
National Australia Bank	NAB	6.2
ANZ Bank	ANZ	6.0
Telstra	TLS	4.5
QBE Insurance	QBE	4.2
Rio Tinto	RIO	3.6
Wesfarmers	WES	3.0
Woolworths	WOW	3.0
CSL Limited	CSL	2.7
Lihir Gold	LGL	2.2
Woodside Petroleum	WPL	1.8
Santos Ltd	STO	1.8
Oceania Capital Ltd	OCP	1.8

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

15 February 2010

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