February 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 February 2010 was **$1.1222 per share ex-dividend or $1.1522 on a cum-dividend basis**, before tax basis, calculated in accordance with ASX Listing Rule 19:12, and represents a increase of 1.84**%** over the month. By comparison, the Fat Fund's benchmark, the S&P/ASX 300 Accumulation **Index firmed 2.05%** 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 February 2010 was **$1.0844 per share on an ex-dividend basis**.

2. Performance Commentary

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

Positive Influences			**Negative Influences**		
Company	***% move***	***Position***	***Company***	***% move***	***Position***
Westpac	10%	Overweight	QBE Insurance	-7%	Overweight
Macquarie Group	-10%	Underweight	Coffey Inter.	-15%	Overweight
Seven Network	10%	Overweight	Healthscope	-9%	Overweight
Toll Holdings	-21%	Underweight	Lihir Gold	-4%	Overweight
CSL	10%	Overweight	Kingsgate	-5%	Overweight

Whereto from here? Many market commentators are currently asking this very question given the recent market action, which appears 'range-bound'. The share market seems torn between the two dominating themes of sovereign debt issues and resurgent commodity markets & the China growth story!

Shareholders will know that we are increasingly concerned with ever expanding budget deficits, principally in the northern hemisphere group of countries such as Greece, Spain, Italy, Japan, UK and of course the US. Last week, Bill Gross, the manager of Pimco – the world's largest bond fund manager– aptly described the UK gilt market as lying on a "bed of nitro-glycerine". We share his thinking. At some point, yields on sovereign debt must increase to compensate investors for the massive increase in supply and overall lowering of credit quality that has occurred, especially in recent years since the global financial crisis (GFC).

As most recently played out in the Greek bond market with credit default swap rates blowing out significantly, this is perhaps the canary in the proverbial coalmine and will serve as a precedent of what may happen to other countries in the future, namely the UK, US and elsewhere in the Euro zone. Nations cannot spend beyond their means indefinitely and at some point credit markets will snap. Just as the GFC was ignited by years of reckless lending and the mis-pricing of risk by the private banking sector, we now see this "policy misalignment" being transferred to the public sector, in the form of Government spending and borrowing beyond any level that could be considered prudent.

We believe these polices now pose a key risk to equity markets. Upward pressure is highly probable for bond market yields with a major top for bond prices now likely in place. Of course this will act as a headwind for equity markets globally, not to mention the economy as governments struggle to balance the withdrawal of recent stimulus measures and higher taxes against growth. Some countries, such as Australia and Canada, enjoy the comparative advantage of being able to move early on reducing fiscal stimulus and raising rates, but others – including most countries in the northern hemisphere – are not so fortunate.
As always, the risk of financial imbalances escalates proportionately the longer the "punch bowl" is left on the table. We sleep well at night knowing these risks with the portfolio strongly overweight gold and precious metals.

Since the half yearly investment management report released on the 24th of February, there have been few changes to the portfolio apart from an increase in exposure to precious metals and positions such as Kingsgate and Lihir and a reduction in our position in Telstra back to index. A lack of clarity around the implications of NBN and structural separation coupled with an alarming decline in the fixed line business does not bode well for the share price coming into their full year results.

The spotlight certainly moved back to the healthcare sector in recent weeks with analysts questioning how government reforms will effect earnings growth. Pathology funding cuts and major public hospital reform are all overhanging the sector at the moment. Markets do not like uncertainty, especially when government regulation is involved. These have overshadowed a sector that has very positive macro fundamentals with an aging demographic, high private healthcare membership and strong government funding, not to mention the defensive nature of earnings given the high barriers to entry. We believe there is long term value here and that whilst governments may propose and debate a variety of reforms, this could be years away and in our view will not negatively affect the growth profile which we believe we have not paid for.

We remind investors that the 3 cents per share dividend declared on the 24th of February will be paid on the 26th of March.

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3. Top 15 Holdings at 28th February 2010

Company	Symbol	% Weighting
BHP Billiton	BHP	14.0
Westpac Bank	WBC	8.8
Commonwealth Bank	CBA	7.4
ANZ Bank	ANZ	6.3
National Australia Bank	NAB	5.9
Telstra	TLS	4.0
QBE Insurance	QBE	4.0
Rio Tinto	RIO	3.7
Wesfarmers	WES	3.4
Woolworths	WOW	3.1
CSL Limted	CSL	3.0
Lihir Gold	LGL	2.1
Woodside Petroleum	WPL	2.0
Oceania Capital Ltd	OCP	1.8
Premier Investments	PMV	1.8

Angus Geddes & Steve O'Hanna 15 March 2010
Fat Prophets Funds Management Australia

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