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FAT UPDATE

FAT PROPHETS AUSTRALIAN SHARE INCOME MODEL PORTFOLIO – DECEMBER QUARTER 2009

Investment Objective

The Fat Prophets Concentrated Australian Share Model Portfolio (the 'Model) seeks to outperform the total return (both income and capital growth) of the S&P/ASX 200 Accumulation Index, before taking into account Model fees and expenses.

Performance

Performance as at 31/12/09	Gross	S&P/ASX 200 Accumulation Index	Outperformance*
1 Month	3.40%	3.79%	-0.39%
3 Months	0.60%	0.95%	0.35%
6 Months	27.01%	27.26%	-0.25%
1 Year	34.31%	33.76%	0.56%
Since Inception (% p.a)^	-2.45%	-1.05%	-1.40%

*Shows the difference between Portfolio Gross Return and Benchmark Return
^Model Performance inception date 01/04/2008

Top 10 Stocks as at 31/12/09

1. Westpac Banking
2. Commonwealth Bank of Australia
3. ANZ Banking Group
4. National Australia Group
5. Telstra Corporation
6. QBE Insurance
7. Wesfarmers
8. Westfield Group
9. Suncorp Metway
10. Axa Asia Pacific

Fund Managers Report

2009 will go down in history as one of the most tumultuous years for financial markets with the recovery rally in equity indices off the March lows through to calendar year end proving spectacular by pretty much any measure. Financials, which were 'ground zero' of the global financial crisis, led the way up with the local four major banks all posting substantial gains. That Australian banks now account for four of only eight banks globally rated AA, is testament to the high quality and resilience of their underlying businesses when compared to many of the more aggressive banks offshore, particularly those in the US and Europe. This has attracted foreign investment onto the share registers of the Australian banks. We continue to expect the favourable competitive environment for banks will likely continue in 2010. Domestic competition has been reduced by the GFC and the bad debt cycle has reached a turning point.

Renewed investor interest within the resources sector throughout the fourth quarter was also instrumental in driving the Resources Index up 42%, leaving it well ahead of the broader index.

After a very strong bounce in the previous quarter income shares moved largely sideways in the fourth quarter with the model's benchmark, the S&P/ASX 200 Industrial accumulation index, rising by just 0.95%. Over the same period the Australian Share Income model rose by only 0.60%, thereby giving up a part of the outperformance achieved during the first nine months of the year.

As indicated already, sector wise the place to be in the fourth quarter was in mining, which is excluded from the models benchmark. As a result the latter lagged the market as a whole over this period. Once again the area of the market to avoid was property, where the prospect of rising interest rates took its toll on investor sentiment.

In terms of individual stocks AXA (pending takeover by either AMP or National Australia Bank), Transurban (offer to acquire assets by two Canadian pension funds coupled with traffic growth above expectations) and Wesfarmers (early signs of a long overdue turnaround at Coles) all outperformed strongly over the quarter. Stocks that disappointed were Westfield (sector weakness), GPT (sector weakness), NAB (possible UK acquisition and concern over price offered for AXA) and Telecom NZ (negative sentiment with regard to urban fibre initiative).

Activity within the model was focussed largely on enhancing its income return, resulting in switches from Macquarie Infrastructure and Asciano, both of which have cut their distributions sharply, into Australian Infrastructure Fund and Coffey International. Having been bought for its attractive income yield earlier in the year Tatts Group was sold due to growing concern over its ability to sustain that level of return once it loses its Victorian gaming licences in 2012. APA was purchased in its place on a forecast yield for 2010 of over 10%.

As to the immediate outlook, the economic recovery appears to be gaining traction both here and abroad. In the US many indicators have improved markedly, however it is yet to be seen whether these will be sufficient to result in meaningful employment growth, despite manufacturing, which accounts for about 12 percent of the US economy and a key driver of the recovery, likely to continue expanding. Despite the improving economic performance indicators, we believe there remains a risk of a "double dip recession" in the US this year.

We see tightening monetary policy in China and related measures such as lifting bank capital ratios as a stabilising influence and therefore extremely positive over the longer term. We have all collectively experienced firsthand 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 in 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 effects of stimulus.

We continue to believe the gold sector offers value having underperformed relative to the gold price. 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 do well in this environment.

Overall, we believe the global economy will gather momentum in 2010. Not only will the unprecedented mix of near-zero interest rates and high budget deficits engineer an economic recovery that is real and sustainable but the strong bounce already seen in economic activity across much of Asia will help to offset the inevitable deleveraging within developed economies such as the US and UK. Asian economies and countries such as Brazil, India and China (and Australia) will therefore likely outperform Europe and the US for quite some time.

We aren't expecting a swift return to robust growth (as alluded to above regarding US unemployment). In fact, the recovery will likely lag behind those of previous recessions, but we believe that the world economy will perform far better than the economic consensus would indicate. The benefit of lax policy settings and other direct measures such as quantitative easing have yet to fully impact on the global economy.

Domestically, the bulk of the Rudd governments deficits are also still to be felt as only a portion were in the form of cash handouts. Hence we expect local growth to be strong, this is however against a backdrop which will likely exhibit the following challenges;

- Rising interest rates - November retail sales numbers were four times consensus and will likely put upward pressure on rates in addition to strong employment numbers
- Overheating Chinese economy- the property market has risen 57% over the course of 2009 and will be subject to continuous Government intervention to engineer a slowdown
- Capacity constraints - due to long lead times to expand infrastructure such as ports, processing plants etc
- Rising Australian dollar - a potential headwind for the resources space and other exporters.

Corporate balance sheets have undergone a significant amount of repair over the last 12 months, with gearing reduced back toward long term averages. Earnings per share growth will be hampered by all the additional shares on issue as debt has been switched to equity. ASX listed companies raised a record $100bn in new equity in 2009. Notwithstanding these challenges, on balance we remain optimistic that equities will deliver in 2010, albeit in a challenging environment.

FAT PROPHETS CONCENTRATED AUSTRALIAN SHARE MODEL PORTFOLIO

Model Portfolio name	Fat Prophets Concentrated Australian Share
Code	FP0001
Model inception date	31/5/07
Principle investment objective	To invest in a small sample of securities taken from within and outside the S&P/ASX 200 Accumulation Index ('Index')
Can derivatives be used?	No
Indicative number of stocks	10-30
Minimum Model investment	$20,000
Model Provider fees* Investment fee Performance fee applicable? Brief description	 0.50% Yes 15% of any outperformance of the benchmark index
Benchmark Index	S&P/ASX 200 Accumulation Index

*Please refer to the Fat Prophets Separately Managed Account Product Disclosure Statement for further details

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